Not only did the West German and French finance ministers intentionally lie to the Annual Meeting that the European Monetary Fund would remain subservient to the IMF's powers of currency surveillance; old contacts in the West German delegation scrupulously avoided talking with their American friends. Evidently, the aversive environment in Washington, where British thinking rules the roost, convinced the West Germans and their friends that discussion was futile. Even the American President, in what was expected to be pro forma greetings to the conference, inserted a demand that the Europeans respect the "continued central role of the IMF" in all that they did to create the new monetary system!

The *Executive Intelligence Review*, however, obtained a straightforward statement from Mr. Erik Hoffmeyer, the Governor of Denmark's central bank, explaining that the European Monetary System could be put into place virtually overnight, through technical arrangements already agreed to, including the full range of credit activities formally scheduled to come on line two years from now! Only outside the meeting, under social circumstances, would West German officials corroborate — off the record — that if the dollar was hit in a fashion that would threaten its reserve status, the European Monetary System would purchase tens of billions of dollars, if necessary. That scale of massive intervention would only accelerate the basic West German-French program, to use the new European institutions to rechannel the flow of Eurodollar market liquidity out of the City of London and back into world trade and development.

The attack on the dollar

A multi-tiered psychological warfare operation was employed to prevent the Americans present from lifting a finger in their own defense.

First, the general atmosphere in Washington drew on the Camp David manic-euphoria at the White House.

Second, the Americans had been led to believe — and some usually well-informed bank board chairmen continued to believe — that the French-West German effort was directed against the dollar, and even against basic American strategic interests. That was largely due to the intensive efforts of Henry Kissinger's Georgetown seminars and the Atlantic Council, whose recent report and leading members were much in evidence at the meeting.

Third, the content of the Annual Meeting itself, which resembles a week-long convention of salesmen with continuous luncheons and receptions keeping most of the visiting bankers in a high state of inebriation most of the time.

It must be emphasized that few of the American financial elite really believe that an austerity program will stabilize the dollar. If anyone did, Morgan Guaranty Trust's Sept. 25 *World Financial Markets*

I. Healey, de Larosière issue the line

Following are excerpts from the Sept. 24 joint press conference of Denis Healey, British Chancellor of the Exchequer and Chairman of the Interim Committee of the IMF Board of Governors, and IMF Managing Director Jacques de Larosière. The two top IMF officials spelled out the IMF's goal of using a U.S. recession as the lever to replace the U.S. dollar as the world's reserve currency with the IMF's "Special Drawing Rights," and expressed their hope that the European Monetary System would not supplant the IMF.

Note that Healey and de Larosière stuck to the British "public" line that the process of replacing the dollar will extend over several years; the actual British timetable for dumping the dollar to head off the EMS is no more than months.

Mr. Healey: . . .The United States will be growing more slowly, most of the other industrial countries a good deal faster than last year; and that will have a substantial consequence in the fall in the U.S. balance of payments deficit, which we hope will be further fortified by the actions which Congress may take in the coming weeks on the President's energy bill and by the President's forthcoming policy for dealing with inflation and for promoting U.S. export growth. . . .

Total Fund resources and allocated SDRs will rise from about 6 percent of annual world trade to over 9 percent; and, as a percentage of official global reserves, these Fund resources will rise from about 18 percent to 27 percent. This goes some way toward restoring the ratios which have been eroded by the growth of the world economy and by inflation over past years. . . .

There is a second more fundamental and economic consideration. The present world is characterized by a form of reserve creation — the deficit in the United States balance of payments and the easiness of the Euromarkets — that is not necessarily the best way to provide for world needs — and I stress the word "needs."...

Question: It had been expected in anticipation of the Fund meeting that there might be some confrontation between some of the European countries and the Fund staff of other countries on the issue of the European Monetary System, since it was perceived that the EMS might threaten the Fund's status on three issues, namely, surveillance of currency rates, loan conditionality, and, the monetary status of SDRs.

My question is: Did the

newsletter eliminated doubts. It answered the question that the London *Guardian*'s Hamish McRae asked Healey with infinite malice at the Interim Committee press conference: if there is an American recession, what will the U.S. balance of trade deficit be next year? Morgan argued, contrary to the prevailing pablum, that a mere slowdown of economic activity would not by itself reduce imports. The American trade balance depends on the direction of American productivity, not on gross levels of economic activity, Morgan said (see below).

Healey, IMF Managing Director de Larosiere, and the British press were pretty explicit about the dollar's lack of future. As the attached excerpts from the transcript of their press conference Sept. 24 indicate, the entire point of expanding the issuance of SDR's, in Healey's stated view, was to begin the process of eliminating the dollar as a reserve currency. In response to a British reporter's question about the desirability of throwing the dollar out as a reserve currency, Healey cited the IMF's decision to issue 12 billion new Special Drawing Rights over the next three years as the first step in that process. The reason to expand the IMF's resources — the Interim Committee proposed a 50 percent increase in members' quotas during the next, Seventh Review — was to permit the IMF to take on the burden of world leadership that the United States could no longer carry (see below).

The cover story designed for more sophisticated American bankers — as opposed to the peanut gallery of business reporters — is that the process of removing the dollar as a reserve currency is already underway, but is a matter of years, and no cause for alarm. The current issue of *Euromoney* (see below), copies of which were distributed for delegates' use during the conference, featured a front-page cartoon showing central bankers rolling a huge dollar sign over a cliff. But the text of the article, reprinted in part below, cited a one or two decade time-frame. That general view was also supported by a senior American official in the delegation to the Annual Meeting in off-record remarks.

What attracts some American financiers to this perspective, e.g., Merrill Lynch's Chairman Donald Regan and Chase Merchant Banking Group head Otto Schoeppler, is the chance to get in on the disintegration of the dollar. Regan told a luncheon meeting that his economists forecast a recession in the United States, such that the main action would be on the London Eurodollar markets. Merrill's own merchant banking subsidiary in London wants to get in on the lucrative business of "diversifying" central banks' reserves out of the dollar, according to a senior Merrill Lynch official in an off-record discussion. The business of persuading central banks, mostly LDC's who bring in foreign advisors, is now dominated by J. Henry Schroeder and Wagg, N.M. Rothschild's, and

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European Monetary System issue come up during the Interim Committee meeting and was there any conflict to be resolved?...

Mr. de Larosière:...One thing which could have worried the Fund management could have been that the European countries would have shown less interest in world financial arrangements. But today I think we have an absolutely spectacular proof of the support which the European countries have unanimously given to an extremely important increase in the Fund's resources.

Mr. Healey: If I can speak for a moment as a member of the Financial Council of the European Communities, we have already taken a decision to keep closely in touch with the Managing Director of the Fund right through the negotiations, and he is being kept fully informed of the way in which things are moving. . . .

Question: I would like to go back to the question of currency and stability.

Do you see an inconsistency between the role of the dollar as a reserve asset, and as a tool for adjustment for the United States?

Mr. Healey: Well, I obviously accept that the responsibilities which go with the currency which is used as a major international reserve sometimes conflict with the interests of the economy of which that currency is the currency. This is one reason, of course, why we in Britain have tried to phase out sterling as a major international reserve currency.

Question: Would you then advise that the dollar should be phased out too? Is this an advisable suggestion?

Mr. Healey: I wouldn't advise that at all.

I think the important thing is that is difficult to operate an international monetary system unless there is a reserve currency, sometimes more than one; and one doesn't want to get rid of a currency which does exist unless there is some other medium to put in its place. At the moment, there isn't a long queue of governments offering their countries' currencies as an international reserve currency. But I hope that to some extent even the decisions we have taken today will help the SDR to share some of the burden.

Question: Wouldn't it perhaps have been an idea to move forward the idea of substitution or substitution accounting in the IMF?

Mr. Healey: You will see in the communiqué this is still under study and we shall revert to it in our next meeting.

Question: You haven't made any decision?

Mr. Healey: No, we haven't done badly, you know, for one day's meeting.

Baring Brothers, according to *Euromoney* magazine.

Even those American bankers who are emotionally committed to a strong dollar fraternize with the enemy, and have few suggestions to maintain a strong dollar. "I'd spend $100 billion in a minute to support the dollar, and I'm speaking as an old foreign exchange trader," said First National Bank of Chicago Chairman Robert Abboud. In an interview in the current issue of *Institutional Investor*, Citibank Chairman Walter Wriston calls for a national export program as a means of strengthening the dollar and the American economy. However, Wriston's great proposal is to spread the Eurodollar market back to the United States through a banking "free port" in New York City — a proposal the British financial press and bankers love, since it would give them unrestricted entrée into the American market (see, for example, the survey in the October issue of *The Banker*, the *Financial Times* monthly).

The European counter-coup

There is an ironic measure of truth in John Loudon's allegation that the "real conspirators" are the West German and French leaders. That the Europeans are in position to foil any British move against the dollar is at least broadly recognized, even by the British themselves (see below). The following exchange took place between IMF Managing Director de Larosière and an American reporter:

Q: Does it not seem likely that the Europeans will kick Denis Healey's teeth down his throat?

A: That's an interesting idea. How will they do that?

Q: By full activation of the European Monetary Fund, including all the credit facilities, virtually immediately.

A: Ah, but will they do it through a numeraire, or a parity grid?

De Laroisière, a man with a characteristically French sense of dry humor, is referring to the so-called technical issues of the European Monetary System, which Danish central bank governor Hoffmeyer argued were of secondary importance; the reference is an inside joke.

However, the fact that to some extent the Europeans opted to act in a conspiratorial manner is a more serious issue. Not that Schmidt or Giscard have disguised their intentions; the entire European Monetary Fund plan for peace and development has been laid out in repeated public addresses, which neither American officials nor private bankers generally read. In the enemy's camp, nonetheless, the West Germans and French — burning with resentment at the British — chose to dissemble, and prepare their counter-moves in secret. That is a good index of West German disgust with the American political scene.

II. Joint discussion: reason breaks through antidollar broadside

Healey, de Larosière, et al. continued their anti-growth, antidollar attacks in the so-called "Joint Annual Discussion" of the IMF, Sept. 25 and 26. But despite the high-powered Healey machine, voices of sanity among European and the Japanese delegations made themselves heard.

Healey (Sept. 26 speech to the Joint Annual Discussion). "...it is obvious that however great the imperfections of the floating regime we cannot go back to the old system, which depended so excessively on the readiness of the United States immediately after the war to assume a role and responsibility which no country can be asked to carry in the modern world. . . .

". . .That is why my Government is so concerned to succeed in the discussions with our partners in the European Community to establish a monetary system in Europe. . . . For it is important that the search for greater stability and closer cooperation at the regional level should go hand in hand with a new drive to strengthen the two central institutions of economic cooperation in the world as a whole — the IMF and the World Bank. . . ."

De Larosière (speech Sept. 25). ". . .Still, let me stress that a pattern of growth rates differing significantly from the one we have seen in recent years is needed to make a sizable contribution to the desired evolution of current account balances. . . .

"Let me be a little more specific. In the case of the United States, a growth rate well below that of 4.5-5 percent experienced in recent years is clearly suitable in light of the prospects for domestic prices and the current high level of resource utilization.

"....to continue to place reliance on the accumulation of reserve currencies (overwhelmingly, U.S. dollars) for needed reserve increases would mean to relegate the SDR to an ever-decreasing share in international reserves. That would hardly be compatible with the objectivity of the amended Articles of making the SDR the principal reserve asset in the international monetary system. . . ."

Rene Monory, French Minister of Economy, blasts slow growth (statement, Sept. 25). ". . . Every

Evidently, the West Germans and French believe that their American friends are so heavily under British influence that only actions, not words will have an impact. There is an even more dismal undercurrent. At the Annual Meeting, West German circles were aware of a secret agreement between National Security Council director Zbigniew Brzezinski and West German opposition leader Helmut Kohl, to use the ongoing "Bonn spy scandal" in an attempt to destabilize the government of Federal Chancellor Helmut Schmidt. Since the European Monetary Fund has been slandered as a preparation for a West German military break with the United States (see the extracts from the *International Currency Review* below, for example), certain features of the preparations for EMF implementation have been put behind a national security screen.

We understand why the West Germans think they must proceed in this fashion — and hope that our friends in the West German government will understand why we must present the case exactly as it is.

—David Goldman

Trapped in an elevator with N.M. Rothschild's chief executive

N.M. Rothschild's Managing Director John Loudon was among a group of bankers and a reporter for this publication that became stuck in an elevator on the third floor of Washington's Sheraton-Park Hotel, the site of the IMF Annual Meeting. The doors failed to open on the overloaded elevator car, and the hapless elevator operator punched the buttons at random on the wall-panel without effect.

John Loudon — a British-accented Dutchman who cultivates an ultra-suave image — began to jump up and down, shaking the elevator car. The other bankers in the car looked at Loudon with indescribable horror. Loudon stopped jumping briefly. The elevator operator resumed pushing his buttons, but the doors still failed to open.

Loudon again started jumping, and other occupants of the car begged him to consider the possible condition of the elevator cable. Loudon stopped. The doors slid open a few moments later.

"There's only one way to deal with mechanical devices that misbehave," Loudon explained as he stepped out, "and that is to kick them."

Mr. Loudon is also a former Chairman of Royal Dutch Shell, a partner at Lazard Brothers, a member of Chase Manhattan Bank's International Advisory Board, and a director of the World Wildlife Fund.

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effort must therefore be made to bring our economies out of the slow-growth stage they have been in since the energy crisis. The need for broad concerted action has been recognized. Specific commitments have been made to this end; their implementation must be pursued until the desired results are achieved.

"This concerted action should on as wide a scale as possible and geared to the situation of each participant. It seems to me essential that the developing countries be able to join forces with the industrial countries in the endeavor. The industrial countries must help the less developed nations to shake off the constraints that would hinder them from sharing in accelerated growth. . . ."

Tatsuo Murayama, Japanese Minister of Finance (statement, Sept. 25). ". . . we should strengthen business confidence and revitalize the private sector. For this purpose, we should enhance our efforts to solve energy problems, expand our activities to develop new technology, and expedite structural changes of our economies. . . . I highly appreciate a series of actions recently taken by the U.S. government for the defense of the dollar. I sincerely hope and believe that there will be further cooperative efforts along this line. . . .

"It is vitally important for developing countries to start raising funds by themselves in the world capital markets. The Tokyo market's recent contributions in this field are remarkable. Especially this year, partly helped by favorable market conditions, the yen-denominated bond issues by developing countries have rapidly increased. They have already recorded about $1.1 billion, more than twice last year's figures. . . ."

Hans Matthoefer, West German Finance Minister (statement, Sept. 25). ". . . Before turning directly to matters of our annual discussion I would like to make one short remark concerning the basic condition for an solution of the economic problems we face: the preservation of peace and the diminishment of the risks of war in all parts of the world. . . .

". . . With integration between the countries of the European Communities becoming closer, the interrelationship between internal stability and the situation in exchange markets is increasingly felt. In July the Community therefore discussed a scheme for tightening monetary cooperation. This scheme — the 'European Monetary System' — is to provide for a zone of greater stability in Europe, contributing to greater stability worldwide. . . ."

Danish central banker: EMF is ready to go

Danish Central Bank Governor Erik Hoffmeyer revealed that interim European Monetary Fund lending arrangements could be activated almost immediately — well ahead of the official two-year timetable for the establishment of the Fund. Hoffmeyer's comments together with his perceptions of other aspects of the EMF, expressed in an exclusive interview at the IMF's Annual Meeting, are reported below:

Q: Will Denmark join the European Monetary System?
A: Yes.

Q: How do you view the debates inside the European Community on the EMS?
A: There are two major problems that have come under discussion. One is the technical setup and the rules for intervention. The other is the obligations of members concerning economic policy. Both are important. A convergence of economic performance is deemed to be extremely necessary, if one can expect the system to be stable. The technical setup itself is much less important than the differences and difficulties in the way of the necessary economic performance.

Q: Both Chancellor Schmidt and President Giscard have emphasized world development as the basis for dealing with economic issues. How do you see European development policy in relation to the European Monetary System and European Monetary Fund?
A: That is a different field. We are talking about monetary cooperation now; trade and development is a different issue. However, in a broader sense, the issues are linked. If they achieve their aim of establishing a zone of monetary stability — that is the catchword for the process — this may have an important impact on world monetary stability. The very erratic movement of exchange rates is not helpful for world trade.

Q: Are the trade and monetary issues part of a Grand Design?
A: No, not in any case in the sense of the Werner Plan. There was a grand design in the Werner Plan, which was behind the monetary system set up in 1972 (the snake — ed.). Experience shows that you have to set up a system without having a grand design. That is a more realistic approach than to suddenly jump to fixed rates, despite divergent economic performance.

III. Big lie propaganda blitz

Special "IMF" issues of the top international economic publications, the majority from London, were shipped into Washington, D.C. in bulk, to saturate conference participants with glossy editions of the chief economic lies and political slanders on which the Healey operation against the dollar rested. Some examples:

"Euromoney" Cover Story: "How Central Banks are Ditching the Dollar." "This IMF cover story is an investigation into whether the world's most conservative holders of dollars, the central banks, are being forced to take a long-term view and commit themselves to sharply cutting back on the proportion of dollars held. If that is the case, then the chances of the dollar making anything approaching a permanent recovery are increasingly slight. Instead, the dollar would be entering a period of decline that could last for decades. . . .

"Of the cental bank governors that we contacted directly, a significant number indicated that they were deeply concerned over the long-term future of the dollar and highly conscious of how that other reserve currency, sterling, had entered a period of long-term decline that had reduced it to a fraction of its former value and importance. . . .

"As major dollar holders, the central banks are confronted with a classic dilemma," mused Bank of America President A.W. Clausen. "On the one hand it's appropriate for them to diversify their foreign exchange holdings further. On the other hand, a massive shift out of dollars will lead to another depreciation of the dollar and thereby erode the value of their remaining dollar assets. For that reason central banks may choose not to reduce their aggregate dollar holdings further. However, I expect that central banks will strongly diversify any addition to their reserve currency holdings.

"...The views of Schroeder Wagg's Henry Blackie: The decline of the dollar should be seen in a 20-year framework. It took that long for sterling to be reduced in portfolios to a normal proportion of the total. Very few people have a portfolio background in this business. Once you have, you realize that it is not wild speculation that's taking place against the dollar: it's very prudent people making very prudent decisions.

"Roman Malesa, president of Poland's Bank Handlowy,: It's not the aim of our bank to speculate on possible changes in the rates of exchange versus the U.S. dollar.

Q: Is it a Grand Design in the sense of the encyclical, Progressio Populorum*?*
A: I can't say what the historical development of the Schmidt-Giscard plan is. The background to the plan involves two aspects. One is that the Germans have felt that the Deutschemark-dollar rate was so unstable that they would do quite a lot to create a zone of stability. The other is that the two presidents feared the disintegration of Europe. They felt that a step forward was necessary from a political point of view.

Q: Is the political factor the reason for the IMF's hostility to the EMF?
A: Well, your president was positive towards the EMF in his speech.

Q: Isn't the intention of the EMF to use the huge volume of dollars absorbed in foreign-exchange intervention as an international lending fund — as the Japanese are doing with their reserves?
A: Yes, yes, that's right.

Q: Doesn't that threaten the IMF's ability to impose conditions on loans?
A: Yes, that is true. But it should be clear that for some time there have been schemes that have had an element of mutual support, such as the West German loan to Italy in 1974.

Q: But the proposed scale of operations is incomparably greater now.
A: The scale of operations will be much larger, that is true. The large scale is necessary to try to convince the markets that stability will be maintained.

Q: Should it prove necessary, can the Europeans accelerate the timetable for establishment of the credit facilities of the EMS, before the European Monetary Fund is formally established two years from now?
A: Certainly. There is the possibility that an intermediary system can be established very quickly. The European Monetary Fund may take time, because it must be approved according to the laws of various countries. But we could operate on an intermediate basis. We might use the FECOM (European Fund for Monetary Cooperation). Reserves could be deposited in the FECOM, and credit operations could begin immediately.

Q: Would this have to go through Roy Jenkins and the European Commission, or could it be done directly by the governments?
A: It would be done directly by the governments, of course, and the central banks. The Commission would not necessarily be involved at all. In any case the FECOM board is made up of the central bank governors.

However, to safeguard against any unfavorable development on the foreign exchange market, we try to diversify our holdings, which as a result has brought a decline in the dollar proportion of these holdings.

"International Currency Review," "Some Thoughts on European Monetary Union," by Londoner Christopher Story: . . .Operating from a position of financial and economic strength, and without an inferiority complex, Herr Schmidt's government is ready to use the European monetary campaign for its own purposes, if necessary. As it happens, the time for such an initiative is ripe, because of West Germany's increasingly close links with France — which has not signed the Nuclear Nonproliferation Treaty. It is significant, too that West Germany's military preparedness on its own territory has become conspicuous.

IV. Healey's triumph clouded

During British Chancellor of the Exchequer Denis Healey's apparent domination of the Washington IMF meeting, the British press was openly wondering if Healey could put across his program. In the fears that the EMS will end the hegemony of Britain and its puppet International Monetary Fund are openly expressed.

"The Observer," Sept. 24, "Why U.K. Fears the Snake": "The proposed European Monetary System (EMS) will dominate the thinking of European delegates assembling here today for the annual meeting of the International Monetary Fund.

. . .So far the British government has been completely outflanked in discussions about EMS. Although official sources emphasize that discussions have a long way to go, one cannot help but notice that they seem to be going a long way in a very short time, and they are not going the way the British would like. . . .

The uncomfortable truth is that . . . the British are dithering, have no clear policy, and merely want to delay those who will not be delayed. It is the classic preparation for being routed.

. . . it is conceivable that the EEC could evolve an EMS which did not damage the IMF . . . Of course, we don't really know what the impact of EMS will be, and Britain has to make its decision before we possibly can know.

At this week's IMF meeting we still appear as a power in many lands, with considerable voting rights. But it is largely an illusion. Britain's voting rights in the IMF stem from former days of glorious economic power. . . ."