any more control than an array of powerful interest groups worldwide.

The present U.S. administration is fully complicit in this pending "dethroning" of the U.S. dollar. How did this happen?

The three developments conditioning the fate of the dollar were the following: 1) the inability of the International Monetary Fund during its late September 1979 annual conference to secure tangible progress on its dollar-substitution Special Drawing Right reserve proposal, and the unprecedented attacks on its policy of imposting austerity "conditionalities" on the developing sector in exchange for loans; 2) the announcement of a credit-restraint policy by U.S. Federal Reserve chairman Paul Volcker over the Columbus Day holiday weekend, guaranteeing major political and/or economic disruptions in the U.S. in the coming weeks, 3) Great Britain's decision to end 30-year-long exchange controls over the pound sterling on Oct. 30 to allow the expanded use of sterling in international transactions.

Immediately following the late-September IMF meeting, a committee of pro-IMF international bankers and monetary officials called the "Group of 30" called an emergency meeting on the site of the IMF conference in Belgrade, Yugoslavia. Chaired by former IMF Executive Director Johannes Witteveen, the group was initially formed last February with a grant from the Rockefeller Foundation, to defend the IMF's power and reputation. The IMF's power had been called into question by the January, 1979 announcement by France and West Germany that they had successfully pulled continental Europe and Ireland into a European Monetary System (EMS) and pooled 20 percent of their gold and dollar reserves. Although for several months in early 1979, French and West German spokesmen diplomatically denied that the EMS could "challenge" the role of the IMF, European financial newspapers openly debated the EMS versus IMF issue.

At the September IMF meeting, French officials made clear that the EMS was indeed irreconcilable with

Solomon demands Europe follow U.S. into shutdown

The following are excerpts from the address of U.S. Treasury Secretary Anthony M. Solomon to the Ebert Foundation Conference in Port Chester, New York, Oct. 27:

... 3. All principal elements of U.S. economic policy are directed at containing inflation....

4. The Federal Reserve is moving aggressively to reduce the rate of growth of money and credit. The steps announced by the Fed earlier this month are strong and will be effective. They have already had a very noticeable effect on public attitudes and expectations. They were needed and appropriate....

6. The ten-fold increase in world oil prices has been a principal contributor to acceleration of inflation in this decade, in the United States as elsewhere. The U.S. objective of securing energy independence has obvious national security motivations. But it is also an important element of our effort to contain inflation and strengthen the U.S. external position....

11. With respect to the international economic situation the picture is once again dominated by the impact of OPEC oil price increases....

13. ...We do not expect a generalized financing problem. There probably will be some individual problem cases, and we need to anticipate increased demands on the IMF for balance of payments financing. The Fund is in a very strong position to meet larger demands, and its resources will be expanded significantly through a 50 percent quota increase late next year. The U.S. will be submitting legislation for the increase in its quota very shortly....

15. We need also to continue to press for longer term improvement in the international economic and monetary system. Three main lines of effort are under way.

- IMF surveillance over the balance of payments adjustment process.
- Discussions of a possible substitution account,

the existence of the IMF, by publicly criticizing IMF policies toward the Third World. Instead of retiring dollar reserves, the EMS "Phase Two" potential is to mobilize them, "inflation-proof" them with gold backing, and generate hundreds of billions of dollars in financing for advanced sector exports, investment, and technology transfer to the underdeveloped nations.

During a recent review at National Security Council level of world developments, the U.S. Secretary of State, National Security Advisor and Secretary of Defense, decided that as a result of the emergence of the European Monetary System, their objectives are about to fail. These spokesmen are attempting to generate a modicum of public acceptance to a policy which was promulgated by Messrs. Cyrus Vance, Zbigniew Brzezinski and Harold Brown during 1975 under the title "Project 1980s" under the auspices of New York's Council on Foreign Relations. That program stipulated that the basic objective of the next American administration should be to prevent an international alliance of industrial forces from Europe, Japan and North America with political groups of the Third World that seek industrialization and modernization. On the basis of this estimation of the EMS, during the week of Oct. 6, the decision was made to launch an all out offensive internationally to wreck the EMS before the upcoming NATO annual meeting in mid-December.

'Group of 30'

Witteveen's "Group of 30" convened to design a scheme whereby they could essentially bully Western Europe to "merge" the EMS with the IMF. From the start, Witteveen's group assumed that crushing the EMS in this way could only succeed by finishing off the U.S. dollar's world reserve role, quickly.

Other members of Witteveen's group include: West German Central Bank chief Otmar Emminger, an open adversary of Chancellor Schmidt; economist and Belgian banker Robert Triffin; Robert Roosa of Brown Brothers Harriman; and U.S. Fed chairman Volcker.

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to promote the role of the SDRs in the international monetary system.

• Discussions on surveillance over, and possible steps for better management of, the Eurocurrency market....

U.S. and Europe

17. This brings me to what I regard as the central policy issue for the 1980s. That is whether the world will learn to strengthen its processes of international economic policy coordination—managing interdependence—or slip back toward a nationalistic approach to dealing with specific problems....

18. The U.S.-European relationship, and our joint relationships with other major countries, are central to how this question is to be answered. If we can't lead the way, through meaningful policy coordination between the U.S. and Western Europe, there is little reason to expect broader success....

19. ... Close U.S.-European cooperation dominates the post-war record. But there are also irritants and sources of tension—some small, but other larger and potentially important—that need to be aired and understood....

20. First, I see a problem of tone and attitude in the overall U.S.-European economic relationship, an ambiguity in European views about the nature of that relationship. ... Raymond Aron, in a recent article, said "Europeans no longer put their trust in NATO or in the American nuclear umbrella. What they trust now-a-days is the caution of the Bolsheviks, aware as they must be of the incalculable danger of an attack on Western Europe." The point, of course, is that the caution is dictated by the existence of NATO and the nuclear umbrella, but the point is lost in this particular European perspective of the U.S.-European relationship.

21. There is a similar ambiguity over questions of initiative and leadership in the economic area. The U.S. continually hears European calls for stronger U.S. leadership in the economic area, and specifically in the monetary area. And we hear repeated European criticism of U.S. failure to exercise leadership, U.S. failure to properly meet its world responsibilities. Yet when the U.S. does attempt to exercise leadership, there is frequently a notable absence of European willingness to follow.

22. This is not a recent phenomenon. It characterized the discussions in the late 1960's on the exchange rate system, compelling the U.S., very reluctantly, to resort to unilateral action to bring about a change which ultimately became unavoidable. And it domi-

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Witteveen himself, a member of a highly secretive religious "Sufi" sect, is a leader among Dutch and British banking circles which have also recently created the Thatcher government in Britain as a conservative "counterpole" to the Schmidt-Giscard alliance in continental Europe.

It was in conjunction with these deliberations that Volcker cracked down on U.S. bank lending over Columbus Day weekend. Volcker used what turned out to be a suspicious "computer error" in the U.S. money supply figures, apparently a $3.7 billion miscount in data reported by Manufacturers Hanover to the New York Federal Reserve, as the excuse for tightening the U.S. money supply. The spiralling U.S. unemployment and production cutbacks which this credit cutoff will produce in coming weeks, and Volcker's continuing threat that he will take more drastic action, such as impose credit controls, are aimed at forcing the EMS countries to either immediately break with the dollar in favor of a "deal" with the IMF, or be faced with the prospect of having European industries crushed by collapsing, dollar-denominated export orders and general financial chaos. Volcker's threat has been accompanied by warnings from House Banking Committee Chairman Henry Reuss at the Oct. 29 Joint Economic Committee hearings that economic cooperation between Europe and the Arab world must cease.

Late last week, Emminger concluded an emergency deal with his Swiss counterpart, Central Bank head Fritz Leutwiller. The Swiss and West Germans are to stop selling dollars to defend the mark-franc parity, implying that the franc and mark will now be freely printed up for a "reserve currency" function. This development, as well as Emminger's announcement of two interest rate increases in West Germany over the past week—moves which support Volcker's tight-credit regime—have produced some euphoria in the pro-IMF camp. On Nov. 1, for example, Robert Triffin addressed the World Affairs Council of Philadelphia, and reported that a "breakthrough" had occurred around the EMS. The EMS, he insisted, is a "regional effort" to assist the IMF in gaining "surveillance" over international credit.

Solomon. . .

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nated the negotiations on monetary reform earlier in this decade.

23. It is understandable if there are differences of view over the substance of such questions. There inevitably will be. The substance can be debated. But Europe itself has and should acknowledge a growing responsibility to exercise leadership, not only in the expression of its views, but in contributing to the solution of common problems. The responsibility cannot be one-sided, and Europe collectively has major potential for leadership of its own. What is not constructive—and can even be poisonous to the relationship and exacerbate specific problems—is for Europe to cloak its substantive disagreements, and avoid accepting its own responsibilities, by resting on accusations of failure of U.S. will and leadership....

25. There is a wide variety of multilateral issues on which we attempt to coordinate with the EC—for example, issues arising in UNCTAD or other U.N. forums, issues arising in the IMF or World Bank, and so forth. What we frequently seem to find is one of three things. In some cases, the EC countries have already taken an internal decision, and there is no scope for negotiation of a position that is more broadly acceptable to the U.S. and other industrial countries. In some cases, the EC countries are unable to agree among themselves, and there is basically no EC view to try to work with. In still other cases, EC efforts to reach an internal view tend toward the least common denominator—or in some cases a view that moves too far—and produce results that are only marginally acceptable to the majority of EC countries themselves and unacceptable to the U.S. and others.

'Inflexibility'

26. In essence, there is at times an inflexibility in European decision-making that is not only difficult to work with, but makes it difficult for Europe to exercise the responsibility and leadership that its own collective economic position warrants. Hopefully this problem will evaporate as the unification process evolves—it is generally least evident in the trade area, where the EC has formal competence—but it does represent a real impediment to meaningful policy coordination on a global scale....

28. The dollar continues to play an extremely large role in official reserves and private international transactions. To an extent, this role for the dollar may be a contributing factor in exchange market problems, and it is certainly a target of European criticism at times. At the same time, there is a great European reluctance to see or facilitate a change in that role for the dollar

The EMS's accounting unit, the ECU, he described as "real money," namely a suitable replacement for the U.S. dollar.

Triffin and the Group of 30's design is that, as the dollar goes under due to Volcker's scheme, it should be replaced by "numerous" other currencies.

Britain hopes to gain special benefit from a "multi-currency" replacement for the dollar, since internationalization of the pound would allow Tory-run City of London interests to carve out of the dollar "empire" those areas of world finance the British know best: commodity speculation, and specialized trade financing with former British colonies, on top of equity grabs in North America.

As Triffin's Philadelphia speech also made clear, however, the multi-currency "compromise" depends on *subordinating* the EMS to the IMF. Just as Solomon demands in the speech cited below, the plan would involve leaving the IMF the task of global coordination of how to dispose of the huge surplus of dollars held internationally. With such powers, the IMF could then withhold liquidity region by region, on the Turkey model.

Triffin's recent appointment as an official consultant on the EMS to the European Community is also an indication that the Volcker moves have partly served the "Group of 30"/Friedrich Ebert forces in wrecking the EMS.

Hit Volcker

However, important European financial outlets have begun to issue harsh attacks against Volcker's credit-tightening measures. For example, on Nov. 1, Handelsblatt derided Volcker's use of the "computer error" as his excuse for cracking down on U.S. money supply growth in two biting articles. One, which continuously refers to him by his full name, Paul Adolph Volcker, states, "The sorcerer Volcker still has a very powerful gold lobby [pro-EMS lobby—ed.] to face—to take away the magic of the yellow metal he will have to pull some more rabbits out of the hat."

—Renée Sigerson

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through greater willingness to provide international credit themselves; to permit greater use of their own currencies in reserves; to seriously consider steps toward evolution of a larger role for the SDR. I readily acknowledge responsibility for the United States to maintain reasonable balance in its account. But I cannot accept the idea, which I think is implicit in much of the criticism of the international role of the dollar, that the provision of international credit should be sharply curtailed and that it is up to the United States to do it. There is a real need for credit to maintain a functioning world economy. It is reasonable to expect a larger European role in supplying that credit.

29. Second, the United States continues to bear large foreign exchange costs—on the order of $2.5 billion net annually—in the area of European defense. I don't for a moment deny that this is in our common interest, and I am not suggesting a renewal of offset negotiations. But I am suggesting that this should be borne in mind in formulating European assessments of, and advice on, the U.S. external position.

30. Third, in the energy area, I again acknowledge the large responsibility of the United States for getting its own energy situation under control and reducing its claims on world oil supplies. We intend to meet this responsibility. At the same time, the U.S. has expended a great deal of effort to encourage OPEC price moderation—and maintenance and expansion of production levels. This is vital to all oil importing countries—certainly in Europe's interest as much as our own. But in significant respects, the U.S. has been alone in this effort. We hope that Europe will soon agree to country-specific targets which limit oil imports in 1980, by adopting positive mechanisms to this end and by resisting the temptation to dilute this effort. And we are concerned over reports that some European governments have sought special preference among producing countries for assurance of their own oil supplies, with little apparent concern for the global problem. From OPEC's perspective, they are dealing with an uncoordinated and weak group of customers.

31. Fourth, Europe has been unwilling to do in the areas of trade finance and investment what it was willing to do in the area of trade—limit subsidies. I think there is little intellectual disagreement with the U.S. view that subsidized export credit competition is wasteful and costly to all of us, and benefits none of us in the end. But the consensus rule in the EC has frustrated progress in agreeing on limitations on competition on export credits, despite years of effort. And in the case of incentives for international investment, Europe has not even accepted the basic proposition—which is unexceptional in our view—that this kind of competition can be just as harmful as in the trade area....