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EMS dollar policy put to the test

As the dollar continued to sink the week ending June 28, Britain and its networks within West Germany positioned themselves to reshape the European Monetary System (EMS) over the next five months. A deutschemark revaluation is being urged by the London press and battled over among EMS members; what this "internal realignment" of EMS parities would essentially involve is extending the Thatcher government's policies to the continent and turning a new Anglo-European bloc against the U.S. and the dollar.

FOREIGN EXCHANGE

At week's start, the dollar had already lost 3 percent of its value vis-à-vis all currencies compared with end-of-May rates, and 4.5 percent vis-à-vis the mark. The news of a worsened May U.S. trade deficit pushed the dollar further June 27; it lost two West German pfennigs, two Swiss centimes, and one yen.

Reports persist that "Far East and Middle East" dollar sales have precipitated the dollar slide, and that European authorities are not unhappy about it, since it will cheapen the dollars they have to buy to meet their oil bills. The situation is more complicated.

British-advised Arabs, along with British satellites in Hong Kong and Singapore who traditionally fuel offensives against the dollar, are indeed moving extra funds into sterling and other nondollar assets. But New York traders said June 27 that, with the outcomes of the OPEC and Tokyo conferences still pending, there was "not a selling wave but a lack of buyers" for the dollar in a "very hesitant market." The West German and Swiss central banks, along with the Federal Reserve, have intervened substantially—$1 billion was reportedly bought by the Swiss National Bank alone in little more than a week—but their action has been perceived as a smoothing and braking move. The Fed will "really be tested in July," traders say, after Secretary Blumenthal's June 26 pledge not to let the dollar return to its pre-November lows and his forecast of large U.S. import cuts failed to halt the dollar's slide.

The line that Europe and Japan want a weaker dollar to offset oil-price increases undoubtedly expresses a widespread sentiment. The question is what policymakers will do. Bankers and treasury officials are fed up with supporting the dollar, given the New York banks' role since 1977 in helping depreciate the dollar for trade-war purposes, and the U.S.-based oil majors' efforts to shut down their economies. Many highly-placed West Germans say they intend to win the nuclear-energy campaign for themselves and let the U.S. spin into hyperinflation, depression, or both.

Yet the understanding that animated the creation of the European Monetary System one year ago has not disappeared. The EMS was officially established to stabilize European and Japanese parities vis-à-vis the dollar as a first step. The second step, soft pedaled because of U.S. and International Monetary Fund threats that it would "breach the Atlantic Alliance," was designed to fulfill that alliance, by absorbing dollars from the Euromarkets, Arab sources, and so forth into the European Monetary Fund, and reissuing them, backed by the pooled gold reserves of the EMS members, as long-term, low-interest credits to developing nations.

In good part the dollars would flow back to the U.S. in the form of export orders, reversing the trade deficit, and putting the U.S. economy onto an unprecedented peacetime growth track.

With EMS founders Giscard of France and Schmidt of West Germany refraining from any direct, public recommendation that the U.S. embark on such a high-technology export policy, there is nevertheless evidence that the EMF approach is being accelerated to deal with the new dollar turmoil.

"Support the Third World"

First are the Strasbourg European Community conference insistence on launching the "producer-consumer energy dialogue" that would focus on recycling petrodollars into Third World development, and the insistence by Arab bankers reported in this review last week that Mideast OPEC members will work with European banks to "support the Third World" with their dollars

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instead of dumping them. Beyond this, the evidence comes from the anti-EMF side: the London opinion-makers who blacked out the EMS initiative until it succeeded, are now trying to torpedo it and take over its remains.

This week the London *Financial Times* and London *Economist* fell into a depth of hysteria not witnessed since Schmidt and Giscard's initial success. They insisted on (1) the impossibility of currency interventions to aid the dollar or the weaker European currencies, and (2) the necessity of a deutschemark revaluation.

"The experience of recent years gives no grounds for supposing that official intervention guided simply by supposedly superior guesswork is any cure for the [exchange-rate] disease," intoned the *Financial Times* lead editorial June 27. "It can easily make it worse ... better co-ordination of domestic policies is essential." The June 23 *Economist*, claiming that intervention within the EMS on behalf of the Belgian and Danish currencies simply "increases pressure" against them, signaled its real concern: "All the pre-EMS talk of coordinated dollar policy has been found to be so much hogwash. Now, EMS central bankers are talking busily about it again; but with so many individual volte-faces over the past year it is not easy to see a stable dollar policy emerging."

The June 23 business lead was titled "Realism now: European monetary parities are not sacred." It also calls for "sufficient coordination of economic policies," smirks about the "competitive interest rate scramble" triggered by the Bundesbank's tight-money policies. It ends with a dramatic prediction that the French franc will be in serious trouble if the mark is not revalued. Two other articles foresee strong revaluation of the mark against the dollar as well "before the end of the year," and sterling entry into the EMS currency grid at close to the pound's present exchange rate—which combined with a mark upvaluation would mean an upward adjustment of the grid's European Currency Unit metric, and something like 15 percent devaluation for the weaker currencies.

What all this adds up to is the British plan for joining the EMS in the fall—Margaret Thatcher pledged $4 billion of U.K. gold and dollar reserves to the EMS at the Strasbourg summit meeting as a step toward membership—in the expectation that Britain, with its North Sea revenue and sterling renaissance, will introduce the "two-tiered" EMS the British advocated last year before they were excluded. A Thatcherized Britain and an anglicized West Germany would run the show; an economically humiliated France would be in the "lower tier." If it were all so easy, however, the British would sound shrill on the EMS subject.

—Susan Johnson

INTERNATIONAL CREDIT

British: hand OPEC's 'big potato' to IMF

In a June 27 editorial entitled "Capital on the Move," the *Financial Times* of London spelled out more explicitly than ever the monetary program which the British financial elite hope will emerge from the Tokyo summit. According to the *Financial Times*, the recent turmoil on world currency markets, which has sent the dollar tumbling against the West German mark and the British pound sterling, is an anticipation of even greater upheavals which are likely to occur in "the next stage of the oil crisis."

The solution? The *Financial Times* states that the Tokyo summit must find a way to persuade the OPEC countries to place their expanding petrodollar surpluses directly with the International Monetary Fund (IMF). The IMF will have control over the petrodollar-recycling process and will impose harsh austerity conditions on all deficit countries. The so-called "dollar overhang program will be solved, because the oil-producing countries will place the bulk of their "excess" dollars with the IMF, which will simply take them out of circulation and replace them with the IMF's own IOU—the Special Drawing Right.

Sterling "regaining old status"? World capital markets, unfortunately, are behaving somewhat as if this retire-the-dollar scenario were in effect. During the past week, for example, there has been a sudden surge of interest in deutschemark-denominated Eurobonds at the expense of the dollar sector of the market. Market analysts attribute this shift not only to tight primary-market D-mark offerings compared with a large new Eurodollar bond supply, but to widespread belief among investors that the deutschemark will soon be revalued against both the dollar and the other members of the European Monetary System. The attractiveness of D-mark bonds has been enhanced by the tight money policies of anglophile Bundesbank chief Otmar Emminger.

Bank of England statistics show that foreign official and private holdings of sterling now stand at 8.5 billion pounds, or $18 billion, the highest level in 10 years. "Sterling has regained much of its old status as an important medium for foreign and governmental investment," crows the *Financial Times*.

—Alice Roth