Carter Statement: U.S. Finally Takes Responsibility For Dollar

The impact of President Carter's Dec. 21 press statement on Administration concern for the value of the U.S. dollar is much broader than the wording of the statement itself, or even the immediate positive reaction on the foreign exchange markets, would imply. Speaking on the subject for the first time (see excerpts, appended), the President re-stated the standing U.S. position that the United States would intervene to prevent disorderly market conditions on the foreign exchange market, and selected out elements of Administration policy beneficial to the dollar — energy production, imports conservation, export stimulation — as a package.

What is most significant, as a Federal Reserve Bank of New York officer noted, is that it was "the first display of Presidential concern" on the subject. European official reactions accurately noted the significance of Carter's statement, e.g., West German Finance Minister Hans Apel's remark that "the United States has acknowledged its responsibility to its currency and to the world economy." Shortly before deadline, parallel statements by Belgian Finance Minister Geenes and Swiss National Bank director Languetin were circulating on the newswires. According to senior Federal Reserve officials, Fed Chairman Arthur Burns had a direct role in prompting Carter to make the statement. Burns has acted as a transmission belt between the European central bankers at the White House, meeting the President frequently, these officials said. "It's astounding that the market seems to believe that the President lives up in the clouds, unconcerned about what happens to exchange rate policy," said one official. In fact, Burns talks to him all the time."

In addition, State Department officials report that their department also had an input into the White House on this score. "There are a lot of people at State who are upset about the way the dollar is being handled," said one official in a background briefing. State is concerned that American international prestige has been damaged by the dollar's collapse on the international markets.

In suddenly hectic trading, the dollar rose today from DM 2.13 to DM 2.15, scoring similar gains against other leading currencies. Although traders at several leading commercial banks expressed confusion as to what direction Administration policy might take, "there is no doubt that it was affirmative for the dollar," one trader said. More importantly, short sellers of dollars got burned, and burned badly, for the first time in months. Savoring the victory, a fed official said, "At least they won't be able to short the dollar for a while. They'll have to sit back and wait for the dust to settle."

Time has been bought for the dollar; earlier in the week, in extremely thin pre-holiday trading, the dollar had drifted down to daily record lows, in a seller's-only market. Within the time frame the Carter statement provides, there is the prospect that a powerful array of international forces might regroup to forcibly swing Administration policy around. Among other things, the move, and the Fed Chairman's role in it, indicate somewhat better prospects for the reappointment of dollar-defender Arthur Burns to another term as Federal Reserve chairman.

Several different inputs into the White House view of the dollar must be put in perspective to understand what is at work.

First, the Saudis, who have excellent reasons to be concerned about the value of the dollar, won the day at last week's OPEC meeting in Caracas, forcing a six-month postponement of any decision to increase prices. Some bankers attributed part of the dollar's rise Wednesday to this fact alone. The Saudis are engaged on a number of fronts to pull a financial package together capable of stabilizing world markets, maintaining direct contact with some of the key European central banks, most emphatically the Swiss National Bank. There are strong indications of close Saudi collaboration with West German and French bankers to realize the so-called "Luxembourg option," i.e., the creation of a Luxembourg-based capital and gold markets able to push London out of business (see *Luxembourg*).

Secondly, the purchase of a large portion of Bert Lance's shares in the National Bank of Georgia by a leading Saudi businessman is an event of some political significance, as most press accounts have emphasized. The investor, who agreed to the purchase last week, Ghaith Pharaon, is not only a good businessman, but an international political operative for the Saudi Royal family of some standing. The purchase undoubtedly will improve Saudi input into the White House, which is in any case present already, through such intermediaries as Pharaon's friend and regular business partner John Connally.

Third, there are strong movements towards a labor-industry agreement to push the Administration towards a high-technology export policy and a strong support stance for the dollar, coming from the elite of Midwestern business and key sections of the labor movement (see *National Report*).

Apart from State and the Federal Reserve, *Executive Intelligence Review* is aware of many telephone calls between the Mideast and Atlanta, and between Atlanta and Washington, which undoubtedly are having an impact on the President — who needs all the support he can get. How these various inputs shape together is still difficult to say. But what is clear — and what the Carter statement on the dollar reflects — is that a shift in the world correlation of political forces is in the works which might very well change the rules of the economic game.

London's Plans

The signal from the White House has come not a moment too soon. Indeed, various City of London sources, notably Evelyn de Rothschild's personal sheet, the London *Economist*, have suggested that the dollar has fallen to the point that foreigners can neatly purchase most of U.S. equity. Various pro-British installations, e.g., senior staff at the International Monetary Fund, are already confident that the dollar has bottomed out, precisely because the dollar is so undervalued that large foreign dollar-holders, e.g., the British, will start to buy out the U.S. economy. Professor Robert Mundell of Columbia University, who believes that "it would be a very good thing for the British to run the world for a little while and have a new Pax Britannica," expects a dollar-deutschemark peg at DM 2.00 per dollar.

Whether the dollar is at a ratchet-level that could hold for the time being, or whether the fall of the dollar might lead to Swiss francs 1.80, as some senior Swiss financial people fear, is a moot point. The dollar's slide has reached the point where there is action, or the currency will cease to function as a world reserve unit.

Empire loyalists Denis Healey and Roy Jenkins have managed to obtain some international credibility for a plan to tie the U.S. economy to a world central bank that would create limitless amounts of funny-money. Keynes called this funny-money "Bancors." Referring to his own proposals, Keynes unabashedly declared, "We're going to repeat Schacht (the Nazi Finance Minister) on a world scale, except without his mistakes." The Roosevelt Administration had, at very least, sufficient presence of mind to send the British packing, making some sort of postwar economic recovery possible.

Now, London's would-be world currency is called "Special Drawing Rights," and the Trilateral Commission (dominated by British-Polish emigré Zbigniew Brzezinski) proposes to convert the nearly defunct International Monetary Fund into a "world central bank" to issue SDR's. Two Trilateral Commissioners, former Yale economist Richard Cooper and West German think-tanker Karl Kaiser, issued this proposal last week, with featured coverage in the Lazard Freres family newspaper, the Washington Post. After 33 years of scheming, the City of London feels prepared to push forward their plan that died at the 1944 Bretton Woods monetary negotiations.

Their strength is wholly negative. If the United States dollar continues to lose several percent of its value measured against the other leading currencies every week, no international trade, long-term contracts, or investments can be made in dollars. Already, the New York commercial banks and the business press are mooting the possibility of conducting trade, especially the $120 billion annual trade in oil, in the form of Special Drawing Rights, whose "value" is set by averaging out the relative values of 20 other currencies.

Forcing the World to Eat SDR's

London's ability to force the United States to accept the old Keynes swindle depends on panic among American bankers. Precisely such panic emerged from the Dec. 16 issues of Business Week and the Journal of Commerce. Writing in the Journal, Bankers Trust senior economist Gary Gray argued that Arab oil-producing countries should peg the price of their oil to the Special Drawing Rights, valued by a "basket of currencies," rather than the dollar. First off, Gray argues, the Arabs do not trust the dollar, whose decline also reduces their oil payments; SDR pricing would compensate them. The international oil companies, who must buy oil with dollars and sell it for other currencies, face huge foreign exchange risks, as do oil-consuming countries who purchase oil, and banks who do finance in dollars. Gray proposes the creation of an SDR "futures market" among the commercial banks. Instead of doing business in dollars, banks would lend in a grab-bag of different currencies to balance out their tumbling values!

What makes the SDR appear to make sense to the same U.S. banks who stand or fall with the U.S. dollar? With the Administration, and Blumenthal's Treasury in particular, committed to undermining the dollar, the banks are forced to take positions against the dollar in the foreign exchange market themselves, and conduct their operations in a wide variety of currencies. Doing business in SDRs, a slapped-together combination of different currencies, is only one step away. Once American business accepts that the dollar cannot be revived — and the last few weeks of spiral have left small hope to the short-sighted — the SDR appears to offer a mirage of stability.

Besides, as Business Week mopes in its current issue, the oil producers will not stand for continuous devaluation of their oil revenues, and SDR pricing of oil appears less onerous than a straight-out oil price increase.

If the U.S. banks' stampede to take positions against the dollar turns into acceptance of the SDR, the butchery of the dollar on international markets this month will seem mild by comparison with what will follow. Seventy percent of world trade is now conducted in dollars; but the dollar's "weighting" in the make-up of the SDR is less than 40 percent. If banks and multinational companies shift their actual use of currencies to correspond to the "valuation" of the SDR, the dollar will lose a further huge portion of its value. The sticker on the London Economist's shopping list will be changed from "25 percent off" to "50 percent off."

That is precisely what the City of London is planning. One year ago, economist Robert Triffin, one of the "inventors" of the SDR, predicted in an interview that "private sector" introduction of the SDR would be the way to force its adoption on the official level!

What Carter Said

*The following is the text of President **Carter's** Dec. 21 statement to the press.*

The U.S. balance of payments has moved this year to a large deficit position. The two main causes appear to be large oil imports and relatively slow economic growth in Japan, West Germany, and other nations.

These deficits have contributed to some disorder in the exchange markets and rapid movements in the exchange rates. Heightened uncertainty and increased exchange market pressure in recent weeks have coincided with the delay in congressional action on our energy legislation. A mistaken belief that the U.S. is not prepared to adopt an effective energy program has been partly responsible for recent unsettled conditions in the exchange markets. We have a responsibility to protect the integrity of the dollar. Prompt action is needed in energy and other fields to reduce our deficits.

Last April, I submitted to the Congress a comprehensive conservation and conversion program to reduce our dependence on foreign oil. I am confident that the Congress will not allow this situation to continue to deteriorate through inaction.

I am equally confident that the American people will fully support this critically important program. When enacted, the measures now under consideration will have increasingly beneficial effects in coming years and exert their main impact by 1985.

The United States is currently importing petroleum at a cost of about $45 billion a year in 1978. Taking account of our planned production of Alaskan oil, our oil imports will be stable despite substantial purchases for our strategic petroleum reserve. Nevertheless, it is essential that we take further steps to curb these imports in order to reduce both our excessive dependence on imported oil and the burden on our balance of payments. The energy measures I am now proposing are designed to serve those ends.

I have instructed the Department of Energy to pursue efforts to:

• Expand production of oil at the Elk Hills petroleum reserve;

• Encourage an expansion of production of Prudhoe Bay (Alaska —ed.) above the 1.2 million barrels a day planned for early 1978;

•Maintain production of California crude at a high level;

• Work with appropriate government and private interests in expediting provision of adequate pipeline capacity for transport of Alaskan and California oil east of the Rocky Mountains.

Combined with conservation measures, these efforts offer good promise.

The new measures will take effect in the period immediately ahead, and serve as a bridge until the implementation of the more comprehensive legislative program begins to exert fundamental changes in our energy balance in the years ahead.

I have also instituted measures to expand U.S. exports:

We have doubled Commodity Credit Corporation credits to support agricultural exports;

In 1978 we will increase sharply lending activity by the Export-Import Bank to support exports generally.

We will not engage in unfair competition for export markets; we will fully respect our understandings with other governments regarding export credit terms. But within these understandings there is room for a more active effort to expand our exports. Through such an effort, I believe we can achieve substantial increases in exports in 1978 as well as in subsequent years.

With these measures, the prospect for an improvement in our trade position will be good. Some of these measures will begin to take effect in 1978. When fully implemented, these measures, energy and nonenergy, should produce an annual improvement in our trade position of several billion dollars and will improve the U.S. balance of payments.

There has been a great deal of public discussion in recent weeks about the large U.S. trade and payments deficits, and in the movement of rates in the exchange markets, mainly between the dollar and the European market and the Japanese yen. The American economy and the dollar are fundamentally sound; U.S. products on the whole are competitive. While some exchange rate adjustment has been understandable in light of economic developments underway in Japan and the U.S., recent exchange market disorders are not justified.

The new energy measures strike directly at a key part of the balance of trade problem. The export measures will enable us to respond effectively to expanding export opportunities. Together, the energy and export measures represent action to strengthen our balance of payments and deal with our trade deficit in a substantial way, by improving the underlying conditions upon which the value of the dollar fundamentally depends.

Furthermore, next month I shall be presenting to the Congress a comprehensive economic program designed to ensure a healthy and growing economy, to increase business capital investment, to expand industrial capacity and productivity, and to maintain prudent budgetary policies, while counteracting inflationary pressures. These and related measures will promote economic progress and underscore our commitment to a strong and sound U.S. economy.

In the discharge of our responsibilities, we will, in close consultation with our friends abroad, intervene to the extent necessary to counter disorderly conditions in the exchange markets. The measures I have enunciated will deal with the root cause of these market disturbances in a more direct and fundamental way.