Dollar Fight For Control Of The White House

The City of London launched a "bear raid" against the United States dollar and the currencies of the U.S.'s allies in continental Europe this week, and the U.S. currency plummeted to new lows in turbulent dealing. London's express purpose, European sources say, is to force a political coup in the White House de facto or de jure which would either force President Carter out or force his capitulation to Treasury Secretary W. Michael Blumenthal's destruction of the credit of the United States.

Blumenthal's plan, acted out with a vengeance at this week's "Big Five" European economic summit, is to so pressure West Germany and Japan to reflate—print money—until their economies and currencies are in as much trouble as to rupture U.S.-German and U.S.-Japanese relations, cause a run on the dollar and other currencies, and blame it all on President Carter. Already, according to one highly placed West German banking source *(see page 2)*, West German Chancellor Helmut Schmidt said to Blumenthal: "If you want to let the dollar go, let it go!...We are not going to play kitty games with you anymore....Carter...won't hold out for long" in that situation.

Feeding this bear market scare are the latest real figures on U.S. industrial and retail sales, which in January fell 0.7 percent and 3.1 percent in the sharpest slide since 1964. These figures are in part due to the heavy snows but more importantly reflect the decline of the U.S. economy under Blumenthal's attacks on the dollar, which hit U.S. trade and business confidence right where it hurt. The financial world knows well that the continuing disastrous U.S. coal strike, manipulated by British cohort James Schlesinger to force through his energy austerity programs, will make the January figures look good when compared with February's.

The details of the British bear market scenario are contained in the accompanying proposal by U.S. Labor Party Chairman Lyndon H. LaRouche, Jr., "How to Promptly Bankrupt the British." They include London plans for an outright financial attack on the dollar—in which British banks have already taken over $6 billion in short positions, according to European sources—plus runs on the French, Belgian, Dutch, and Scandinavian currencies (see *Foreign Exchange*). More ominous, the British are grabbing for the entire world lending market by competing to pull U.S. banks' depositors and investors away to London, forcing the U.S. banks to deal in London and risk capital controls and British outright expropriation.

The U.S. Labor Party is calling upon corporations, bankers, security brokers, and political leaders to counter by building a bull market in America.

However, the fight is still on in Europe as to whether Blumenthal's intended provocation to what the same West German banker called "trade war" will succeed. At this writing, the Agence France Presse confirmed in New York their wire report—blacked out thus far by British and British-influenced U.S. wire services—that the West German central bank had "announced support for the U.S. dollar at the 2.05 deutschemark per dollar level," and, along with the Japanese and Swiss authorities, "conducted massive dollar support" today. This, along with demands from around the United States (including the Federal Reserve and State Department) that Blumenthal explain himself, was prompted in part by mass circulation in advance notices of the British plans by the U.S. Labor Party and its cothinker organization, the European Labor Party.

The price of gold soared this week to a three-year high of $180 per ounce, an indication that European-Japanese coordination on re-introducing gold into the monetary system may be continuing behind the scenes.

Blumenthal Bears Watching

This week's worldwide activities by the ostensible U.S. Treasury Secretary were enough to flabbergast all but the most knowledgeable (British) world financial experts. Flying to Paris over the weekend of February 11-12 for a secret, emergency meeting of the finance ministers of the Big Five (U.S., Germany, France, Japan, and Britain) at Versailles, Blumenthal first leaked word of the diplomatically confidential meeting to the press. He then announced he was energetically renewing expanded demands upon Germany and Japan to slash their industrial exports and instead print money to pay for make-work government leaf-raking jobs at home, so that their own currencies would depreciate in line with the dollar. For this purpose he waved to reporters the latest world economic forecast by British economists at NATO's thinktank, the Organization for Economic Cooperation and Development (OECD), published just in time for the Versailles meeting, which warned ominously that if the West Germans and Japanese did not reflate, in force and immediately, the dollar would be headed for "major declines."

Blumenthal was renewing pressure personally on Helmut Schmidt, the West German and other press pointed out incredulously, only days after West German Economics Minister Otto Lambsdorff told Blumenthal in Washington that reflation is a dead letter.

Following Blumenthal's activities by one day, Johannes Witteveen, outgoing Managing Director of the International Monetary Fund and a well-known Anglo-Dutch econometrist, announced to the New York Conference Board, a pro-British business group, that reflation for West Germany and Japan is "more urgent" than ever. Witteveen also urged upon the U.S. the issuance of "Roosa Bonds," or foreign currency U.S. debt to raise marks and yen in order to intervene to support the dollar, thus forcing Germany and Japan to accept more worthless U.S. IOUs—named for Robert Roosa of Brown Brothers Harriman, one of the foremost architects of the reflation program.

The response on the world currency markets was rapid and direct. Promptly on Monday morning, as if to fulfill the OECD promise, the dollar plummeted from 2.12 to 2.08 marks and from 1.97 to 1.93 Swiss francs.

The provocations continued even so; on Feb. 16, Blumenthal's Undersecretary, Anthony Solomon, in an unprecedented leak of normally well-guarded U.S. Federal Reserve policy, told reporters in Paris for no apparent reason that the Fed had "not intervened to support the dollar for three weeks." Market reaction was swift—"Confusion Reigns as Traders Sell Dollars in Reaction to Remarks by Treasury Aide," led the financial headlines as, the *Wall Street Jounral* reported, "Mr. Solomon sent the dollar reeling." By the end of the week, the U.S. currency hit another record of 2.05 marks, 1.88 Swiss francs, and fell against other currencies as well. Solomon's weak retraction later in the day only served to heighten the markets' sense of chaos.

Europe in Turmoil

The Western Europeans and Japanese were thrown into turmoil by the Blumenthal offensive but the results are still unclear. A chronology of the week's European statements gives the battle atmosphere:

*On Feb. European commentators were reporting that Blumenthal had been totally rebuffed; he had "come in like a bear and gone out like a pussycat," as one West German source told the Dow Jones. High-level European and Japanese banking sources report that the Versailles meetings turned into a "square off," as Germany's *Die Welt* put it, between Blumenthal and Britain's Chancellor of the Exchequer Dennis Healey on one side, and the West Germans, French, and Japanese on the other.

*Leaving the Versailles meeting, Japan's finance minister
sisted, Japan would have no choice but to form a public bloc with the West Germans—something which they and Germany have been negotiating for weeks in any case, Japanese officials told *EIR*.

*By Feb. 15, however, the Solomon destabilization of the markets seemed to have brought Blumenthal's mission to success: the European press and financial community was furious enough to begin open talk about letting the dollar collapse *(see page 3)*. More dangerous, according to these same sources and the European press, was European willingness to blame it all on President Carter—which is precisely what Blumenthal wants. Such mislocated international outrage could force Carter out and London's own Fritz Mondale in, or at least force Carter to fearfully move quicker toward the energy-slashing and trade protectionism policies which he and Congress have resisted thus far. Alain Vernay, writing in *Le Figaro* Feb. 14, termed Blumenthal's renewed offensive a "coup de theatre" which could easily be used to turn the entire American population against its European allies, blaming Europe and Japan for the slide of the dollar, and igniting an ugly popular mood for trade war and isolationism in this country. Vernay, quoting "British sources," noted that Blumenthal may have actually "provoked a postponement under these conditions of the Western economic summit scheduled for July in Bonn," which if true would be a serious deterioration of U.S.-German relations.

*By Feb. 17, several signs appeared that the West Germans may not have been totally taken in by the Blumenthal provocation. The AFP report on West German central bank intervention to support the dollar, if true, is a major political statement by Germany that she will support her American ally inspite of her rotten economic leadership.

Through Feb. 17, reports also came in from Paris that the Germans are strongly supporting the French franc, despite a major run on the franc last week. Significantly, the Saudi Arabians are reported to have put their money *into* France with renewed confidence recently, indicating knowledge of intended European political solidarity to halt the British scenario. And the Saudi Finance Minister reportedly told Blumenthal himself in Paris this week that the Saudis will not abandon the dollar.

Perhaps most significiant is the potential for an anti-Blumenthal and increasing anti-British backlash in the U.S. itself. Furious career officers at the State Department, Treasury, and Federal Reserve forced Blumenthal to call an emergency meeting to explain the dollar collapse and take countermeasures, according to Washington sources. U.S. industrialists and bankers reached by the Labor Party mobilization had responses in many cases typified by that of a mid-West oil company executive: "So it really was the British who had Jürgen Ponto (the prodevelopment president of Dresdner Bank, murdered by terrorists last year—ed.) killed? They're crazy if they think we'll let them get away with this....But then, it doesn't look as if Carter knows how to handle the thing and we can't count on Blumenthal at all, can we?....But wouldn't you agree that that they can really get burned in this if we move with all the other countries you mentioned?"

—K. Brown

'We Can't Support the Dollar Anymore'

An official of the West German banking community explained why his country could no longer defend the beleaguered dollar:

The Bundesbank is not doing anything to support the dollar. We are sitting down for a real clash—for trade war. We are not going to play kitty games with Blumenthal any more. Last year the Bundesbank had to write off 7.3 BNDM because of dollar depreciation, which were funds that could have been invested in the economy.

Schmidt said to Blumenthal: We reject any of your demands. If you want to let the dollar go, let it go. The Organization of Petroleum Exporting Countries will switch out of the dollar. That will raise oil prices, and do things to your economy and to our economy. But we are more able to withstand it.

The Bundesbank is exhausted. I know there are American patriots, but what are they doing at the moment? We're set for an escalation. We are looking for a different kind of presidency in the United States. Our people over there say that Carter is directly attacking the oil and the auto lobby too much, and that he won't hold out for long. Yeah, we know that Mondale is just as bad. We don't like what we see over there. We want to change the fiscal and economic policy of the United States, and so do the people in Japan.

Witteveen Tells West Germany, Japan: Reflate

New York Times, *"Witteveen Presses Germany and Japan to Spur Economies," Feb. 16.*

The managing director of the International Monetary Fund, H. Johannes Witteveen, yesterday issued a strong appeal that West Germany and Japan further stimulate their domestic economies.

Mr.Witteveen's remarks followed by a day the return to the United States of Treasury Secretary W. Michael Blumenthal amid reports that he had tried, and failed, to persuade West Germany to take more stimulative action.

Although Mr. Blumenthal denied the reports, the United States has been urging West Germany and Japan to take steps to reduce their big balance-of-trade surpluses deficit and relieve pressure on the dollar....

Mr. Witteveen, speaking before a meeting in New York of the Conference Board, a business research group, said:

"The expansionary impetus provided by oil-importing countries in relatively strong (trade) positions has been quite disappointing. Contrary to expectations, it has not been sufficient to ensure achievement of a satisfactory rate growth in world trade—one that would support and facilitate adjustment efforts by deficit countries."

Mr. Witteveen, in his previous major speech last September, had called for similar economy-boosting actions by the two nations, although their policies were characterized then as insufficient rather than as "quite disappointing." The situation has worsened since then, he said yesterday.

"For surplus countries, notably Germany and Japan, stronger expansion of domestic demand has been rendered even more urgent because of the substantial appreciations in the external value of their currencies over the past half year or so," Mr. Witteveen said....

Mr. Witteveen also raised the question of whether the United States would sell securities denominated in foreign currencies, which would be used to pay for the trade deficit.

"Without such financing, the extent of any depreciation of the dollar would be determined mainly by the intervention policies of surplus countries—which are often limited by undesired internal monetary effects—and by the expectations of those responsbile for private capital movements," he said.

Solomon Sparks Dollar Dumping

The Wall Street Journal, *"Confusion Reigns as Traders Sell Dollars In Reaction to Remarks by Treasury Aide," Feb. 17:*

Confusion reigned on international currency markets as traders sold off U.S. dollars in reaction to a series of remarks by Treasury Under Secretary Anthony Solomon.

Mr. Solomon sent the dollar reeling when he told reporters in Paris that the Federal Reserve hadn't intervened on foreign-exchange markets to support the dollar during the past three weeks. Some dealers interpreted this to mean that the U.S. was resuming its policy of "benign neglect" toward the dollar, and they started selling hectically.

Later in the European day, Mr. Solomon issued a statement asserting his earlier words had been misinterpreted. He said that because of quiet conditions on money marts over the past three weeks there wasn't a need for the U.S. to support the dollar. "However," he added, "in the last two or three days, the market has been disorderly and we have intervened. There has been no change in our policy whereby we will intervene vigorously to counteract disorderly markets."

The explanatory statement, along with some European central bank support, helped the dollar recover a bit from its overseas intraday lows, but later in New York, it resumed its slide.