these economies is large enough to sustain the burden of massive international circulation of their currencies, inviting the prospect that once London has reduced the U.S. to ruins, it will target the West German and Japanese economies for the same treatment.

In both countries, there is the widest support for any move by the U.S. to "collaborate with them to support the dollar and stabilize the international monetary system," as one New York banker admitted this week. Ironically, if West Germany and Japan were to confront the emergency by Central Bank agreements to introduce gold reserve backing for their currencies in the intermediate term, this would permit them to fulfill the dollar's role pending a U.S. commitment to introduce a gold-backed monetary system.

The U.S. will not make any such commitment unless Schlesinger and Blumenthal are removed from office. The urgency of this action was underlined this week by reports that Kuwait has begun to stop accepting dollars as payment for oil, and is "diversifying" its reserves. Moves out of the dollar in the Gulf region not only further weaken the dollar, but encourage cliques in that region which favor a London-guided course of setting up Kuwait as a new financial bubble center for squandering Arab investment funds.

Some U.S. Forces Wake Up

In a speech delivered Feb. 23 before the National Energy Resources Organization, U.S. Senator James McClure (R-Idaho) indicated that an important layer of U.S. spokesman may be preparing a concerted political move to force the Administration to take action in support of the dollar. Concentrating on the impact of U.S. negligence abroad, McClure stated: "I have the impression that most dollar-surplus foreign nations are searching desperately for alternative investments. It is our good fortune that, so far, they have failed to find any. But, I believe it would be a serious mistake to assume that they will continue to fail. A far wiser and more responsible approach would be to restore confidence in the dollar."

He added: "The Administration has...committed a major international blunder by deliberately working for a devalued dollar. I am amazed that so-called economic experts would still believe that devaluing our currency helps the economy. You would think that England's example would have been sufficient."

There is no evidence at this time that McClure's statements were coordinated with the Administraiton group which is pushing for immediate settlement of the coal strike. Nor is there evidence that the Swiss Central Bank impositon of controls on the Swiss was undertaken in consultation with the U.S, Federal Reserve. However, this grouping outlines the forces which need to adopt a common policy, including introduction of gold as a recognized reserve, to pull the rug out from under London's bears.

Correcting Mr. Connally:
Gold Is The Best Support For The Dollar

Speaking before a Harvard University audience last week, former Treasury Secretary John B. Connally warned — in response to a question from NSIPS — that reintroducing gold into the world monetary system would threaten the dollar's role as a world reserve currency.

GOLD

Not only is Mr. Connally dead wrong, but gold is fast becoming the single chance the dollar has to remain a reserve currency. That sounds paradoxical to men like Connally who took the dollar off the gold standard in 1971, thereby falling into a trap rigged by the Edward Heath government in Britain and the London-controlled Willy Brandt government of West Germany. Both Nixon and Ford Administrations devoted great effort towards keeping gold in a monetary deep freeze, and Republican officials react badly to the word's mention.

The Color of Our Money

Apparently, these people — who had no idea what hit them in 1971 — don't understand what kind of mess we have run into. The dollar going off gold meant only one thing: instead of balancing the U.S. payments deficit with shipments of real goods in the form of exports or transfers of monetary gold, the U.S. would pay off in paper IOU's — to be precise, $150 billion of them, — in the form of Treasury securities or other dollar obligations held by foreign governments.

Even though it stuffed the world with dollar paper, that arrangement could hold only as long as our trading partners, now our creditors, could expect that the mighty U.S. economy would pay up in the form of exports at some future point. But two things brought the problem to a head. First, accumulating debt choked off U.S. export expansion to the developing sector, to the point of putting us in deficit with the world's poorest countries during 1977. Much worse, British agent-of-influence U.S. Treasury Secretary Michael Blumenthal's public posture of dumping the dollar has queered the deal.

Blumenthal's sabotage has made foreign government's dollar holdings the international equivalent of a rubber check rather than a claim on anticipated future U.S. production. To prevent the waves of dollar-dumping from bidding up the price of their currencies, foreign governments have had to buy up these dollars. The West Germans alone bought an amazing $10 billion during the last quarter of 1977 alone. Japanese purchases including the last couple of weeks, are probably comparable.

That cannot and will not go on much longer. Every corporate treasurer who does international business knows that. Unless there is a dramatic change in American policy, *the dollar is through* as an international currency, because the unspoken post-1971 agreement to support it has been shattered.

Currency Shifts, Monetary Chaos

At this writing, already major indicators are that the dollar has stopped functioning as a reserve currency, that is a currency in which foreigners finance trade and settle their accounts. West German banks are already preparing to take over the financing of West German trade in German marks, which would effectively put continental Europe on a Deutschmark standard. At a somewhat slower pace, Japanese banks are planning to do the same. A major market in international long-term funds, the so-called Eurobond market, has shifted operations almost entirely out of the dollar, and into marks and yen. That is, $20 billion a year of the most stable type of international lending can no longer be done in dollars, because the dollar is too untrustworthy to borrow or lend out for more than a few months.

Speaking almost literally, the dollar is now collapsing of its own weight. The huge international reserve position in dollars, now unwinding, has become a limitless fund for new attacks on the dollar. The unevenness of the shift out of the dollar makes it all the messier. The closest allies of the U.S. monetary heavyweights like West Germany and Saudi Arabia, continue to support the dollar officially, but the vast inflows of dollars into West Germany, for example, create equivalent amounts of new deutschmark liquidity — and enable hosts of corporations and smaller central banks to get out of dollars and into marks. As the West Germans gradually yield ground to the successive attacks against the dollar, more and more players in the game abandon the dollar.

The momentum of these developments points in the general direction London wants: a welter of competing international currencies, the deutschmark and yen puffed beyond their means into international currencies, an inflationary spiral benefitting no one — except the London manipulators.

The Role of Gold

Gold is the potential storm-anchor in the situation. That is urgently the case not because a gold reserve base exerts some magical monetary power, or because gold is "real" and paper reserves shaky. The dollar can no longer be supported by the old monetary means. The patchwork arrangements of the early 1970s are finished for good.

Remonetization of gold, on the contrary, would be the instrument of a political agreement among central banks to take control of international capital movements and shutdown the speculative operations in any number of currencies. The dollar is not functioning as a reserve asset. But the world still holds dollars as a reserve. Cashing in of these dollars for "more stable currencies" — which has only just begun — produces a speculative hurricane the likes of which the world has never seen, and, in the process, destabilizes the mark, yen, and so forth.

Central bank gold operations would bring on line a new, universally acceptable monetary reserve, and put international liquidity firmly in the hands of the central banks. At present, liquidity is the plaything of a London-directed financial rabble. First, the Western European and Japanese central banks would be in position to direct available international funds towards trade expansion. Activation of gold reserves would apply the dirigism Alexander Hamilton brought to the U.S. economy, to the international markets, sweeping privately held funds out of currency speculation and into hard-commodity trade and investment. Secondly, the immediate pressure would be off the dollar, for the elementary reason that governments, private banks, and other participants in gold reserve transactions would no longer have to "hedge" against their holdings of dollars. Effectively, a huge portion of world dollar reserves would be *frozen*, pending the sorting out of the U.S. internal situation. Third, and much more than a side benefit, London would immediately collapse.

The West Germans — in the person of central bank chief Otmar Emminger — have already suggested in public that the U.S. employ its gold reserves to support the dollar, following a proposal originally raised by Swiss National Bank President Fritz Leutwiler. As usual, there are two ways to go about this — an American way and a British way. Various British-prompted commentators, such as Alain Vernay in the Paris daily Le Figaro, have already leaked the London side: get the U.S. Treasury to sell gold on the public market to raise funds in order to support the dollar. Under present circumstances, that would be pure insantiy. Tossing gold to the panicky rabble in order to raise marginal amounts of support-funds would only add to the chaos, and drain the Treasury's gold stock.

The key is *political control* of liquidity. Due to the sabotage of Blumenthal and others, central banks have lost control of dollar liquidity; but they can regain control, over and against London, by activating their gold reserves. Backed by a strong export and energy production program, the United States can link up with a European gold system. It is to the advantage of the U.S. and the dollar if Europe move first. In that sense, the Germans have a right to ask to see the color of our money.

—by David Goldman