Q: One person I recently spoke with indicated that he thought there will be only moderate layoffs, in the order of 20,000. What do you think?

A: There will have to be very heavy layoffs, I don't know exactly who or from what areas, but it has to be large. The budget is going to be completely out of whack with the wage settlements. Koch had projected that the budget would be $1 billion in deficit by 1981, and that assumed no wage increases; more federal, state, and local revenues; and an expanding economy. We are sure to have a recession this year or next, federal and state money will not be forthcoming, and corporations are liable to start running from the city. In addition, the current budget is probably going to be a billion or a billion and a half out of kilter just on these wage settlements, and Koch hasn't even figured the police and firemen — that'll bring the total wage settlement to $1.5 billion or so. The only way the city can get out of this is either by a debt forgiveness by creditors or a 25-year stretch-out — neither of which are going to happen.

Q: How do you think Koch will deal with the police and fire unions?

A: Almost for sure he'll take a strike. Once he gets things squared away with the feds, whatever it is, he doesn't have to settle right away with anyone else. There may be a lot of chaos, but he can — and has to, to keep things intact with the other unions — stand firm.

Q: Do you think the banks will have to absorb city and MAC paper?

A: They will absorb at least $2 billion, there's no way around this. Sure, it'll endanger their equity, but it has to be done, and they'll feel the heat. They can't let the city go down and they know it.

Is Schmidt Readying Gold Option For July Summit?

FOREIGN EXCHANGE

Chancellor Helmut Schmidt has now taken active charge of West German strategy for the July 6-7 economic conference of Western heads of state in Bonn. According to preliminarily confirmed reports in the daily *Frankfurter Allgemeine Zeitung* June 8, Schmidt has frozen out both central bank officials and finance ministry civil servants from monetary policymaking, and put together a private task force of trusted associates under his own guidance.

Both the *Frankfurter Allgemeine Zeitung* and other West German sources say that "reflation" is ruled out; a reserve role for the deutschmark to partially supplant the dollar is ruled out; and an expansion of West German-led joint-float currency "snake" is ruled out.

Schmidt's *positive* proposals remain to be specified. But two principal directions became clearer during the week of June 2-9. First, on trade: according to Economics Undersecretary Rohwedder, the Chancellor will press at the summit for the establishment of an international consultative forum for sustaining and expanding world trade, and urge that the Geneva talks on the General Trade and Tariff Agreement (GATT) must reach a prompt, growth-oriented conclusion.

Since Schmidt's multibillion-dollar 25-year trade and investment accord with the USSR gives the most concrete notion of what Schmidt means by "sustaining and expanding trade," this proposal seems to betoken a forward policy push beyond the complaints against European protectionist tendencies that have dominated West German statements.Rohwedder added in his June 2 speech that Schmidt had discussed the trade question with President Carter at the recent NATO meeting in Washington.

The second, still shadowy direction of positive initiative is currency policy. If Schmidt rules out the various London proposals for dollar demotion and the creation of anti-U.S. currency blocs, what does he suggest be done about dollar instability? It should be recalled that the Schmidt's talk with French President Valéry Giscard d'Estaing in April were reliably reported to include serious deliberation on the possibility of restoring some sort of gold backing for the dollar-reserve system. The *Frankfurter Allgemeine Zeitung's* June 8 report of the new Schmidt strategy explicitly refers to this option.

In the face of resistance to a restored role for gold from at least one group at the West German Bundesbank, the central bank, it was Schmidt who said at the time of his discussions with Giscard that his chief disappointment in the Nixon Administration was in its decision to sever gold from the dollar.

The gold question has resurfaced elsewhere. At a June 5 Conference Board gathering, former Federal Reserve foreign-exchange vice-president Charles Coombs, a veteran of the pre-August 1971 dollar blow-outs, proposed U.S. gold sales to the Swiss and West German central banks, a proposal originally made at the end of 1977 by Swiss central bank chief Fritz Leutwiler.

The "swaps" idea is regarded by both its advocates and opponents as a foot-in-the-door for remonetization of gold; it was rejected as such in so many words by Treasury Undersecretary C. Fred Bergsten at his June 5 press conference, when the West German press corps slyly baited him by raising the possibility.

Most significant is the recent public support for a goldpegged monetary system voiced by West Germany's senior financial statesman, Hermann Abs. Abs has not simply invoked the stabilizing power of gold, but laid out principles of a sound world credit system — amounting to an overall policy outline.

Whether the gold angle develops as a defensive European-centered move or part of a global growth policy along the lines of the late Jürgen Ponto's plan depends on the United States.

Scanning the public statements coming from West Germany, one would get little sense of this potential for a new, healthy credit arrangement. Schmidt himself threw out a smokescreen of sorts in a June 6 interview with the *DPA* press agency, murmuring about "better equilibrium in international energy flows" and European currency coordination as among his principal points for the Bonn summit, while refusing West German reflation once more. These are points which, on the face of it, cohere with the British government's agenda for the meeting, where, to use the West German veto on reflation as another harbinger of dollar collapse.

But a *Financial Times* editorial June 7 complains in effect that Schmidt himself is playing this game — that he knows Carter will not accept the summit orders to impose an oil import tax, and he knows Callaghan won't accept West German conditions for European monetary "coordination." London planners are manifestly worried about Schmidt's breaking out of profile on the energy-tightening, fiscal and monetary hold-the-line formulas he has stuck to this far.

Meanwhile, the head of the national federation of Chambers of Commerce, Otto Wolff von Amerongen, warned June 7 against those who intend to turn the Bonn summit discussion into a *Wunderwaffe* — a miracle weapon. Amerongen is making a scathing reference to the British mentality which attempts to introduce the same "utopian" ideology behind confrontationist military strategy into military policy formation.

The West German press has begun to get in a few malicious licks at the spectacle of the British government madly tightening credit, raising taxes and trying to deflate its money supply. As the June 9 *Die Welt* pointed out for the naive and forgetful, it is the same British government which has been pressing for "convoy" self-stimulation of advanced sector nations under the "concerted reflation action program" (CRAP) rubric.

Now Britian's summit options are narrowed: Prime Minister Callaghan can, of course, point to these new measures as evidence of Britian's responsible coordination of economic policy and thus the ripeness of the time for European monetary union, and other "coordination."

Bundesbank Into Line

There are also indications, beyond the *Frankfurter Allgemeine Zeitung* report that Schmidt is exerting a proper influence on the Bundesbank. Its president, Otmar Emminger, has made a number of recent statements tending to weaken the dollar and bolster anti-dollar policy formulas, as when he proposed in a June 5 speech that the deutschemark serve as a reserve currency in a "European zone of monetary stability," backing up a greater use of the European Community's clearing-unit of account. Such a move "might eventually lead to a parallel currency," he said — parallel, that is, to a shrunken dollar.

Coupled with his endorsement of expanded intra-EEC credits to promote "stabilization," Emminger's speech reproduced every plank in Denis Healey's coffin for European-American relations, the "mini-International Monetary Fund" outlined by the Chancellor of the Exchequer last month.

The Bundesbank further issued a recommendation in its latest monthly report that West Germany accept a permanent reduction in its exports and devolve from an industrial power into a "service"-geared economy!

Feet were put down, and the bundesbank's supervisory committee ruled June 5 that the Deutsche Genossenschaftsbank would not be allowed to raise funds in the U.S. markets through a planned issue, managed by Wall Street's Salomon Brothers, of deutschemark-dominated certificates of deposit — because, said the committee, this would foster international holdings of mark reserves. Sources in the Bonn economic ministry simultaneously relayed Schmidt's indignation at the Bundesbank "post-industrial" report.

A further instance of deck-clearing for a growth policy has been a series of unusually frank attacks — from von Amerongen June 8 and Rohwedder a week earlier — on West German steel producers who are more or less covertly cooperating with Viscount Etienne Davignon's plan for Western production quotas, "capacity rationalization," etc.

The markets have been twitching in suspense, meanwhile. Swiss authorities were expected to intensify exchange controls June 6, and when they didn't the dollar dropped somewhat to 2.08 marks. Rumors (spurred by Bergsten's public insistence on joint European reflation) that Bonn had agreed to stimulate the West German economy pushed it up again; dissipation of the rumors brought it back down.

More interesting than any market development was the report from sources in both Washington and Frankfurt that West German business leaders have finally decided that U.S. Federal Reserve chairman G.W. Miller is their enemy and the enemy of every upholder of national interests. Why this judgement was reached so long after this journal supplied many of them with Miller's dossier and intentions, yet before his June 7 announcement of the latter, is not quite clear. But, it probably reflects, and will further encourage financial and industrial opposition to the chairman in the U.S. itself.

—Susan Johnson