Int'l Currency Reform To Be Wielded As Development Instrument

The EEC-Japan-OPEC "Financial Grand Design" mobilization of the world dollar surplus for global industrial development — to be the topic of both the July 6-7 Bremen Common Market meeting and the July 16-17 Bonn heads of state Economic Summit — has the potential to reorient the entire postwar monetary structure of the West along American System Hamiltonian lines.

As reported in part above, the basic elements of this Financial Grand Design include:

*Transfer of Japanese, West German, French, and Saudi Arabian public and private dollar resources out of London and Singapore and into Frankfurt and Luxembourg.

*The deployment of these funds under relevant governments' guarantee into export projects in the East Bloc and Third World.

*The negotiation on this basis by West Germany and France at Bremen of a European monetary system based on reintegrating the French franc and the Italian lira into the Deutschemark-dominated European snake through the only sound means — dirigist industrial credit programs in France and Italy with East German backing that will strengthen the "fundamentals" of those economies to put their currencies in league with the mark.

*The negotiation then of a stable link between the continental European deutschemark bloc, the robust Japanese yen, and a U.S. dollar, thoroughly revitalized by the huge export flows generated by the East-West, North-South development projects.

*The restructuring on this basis of Third World debt, as proposed by Herman Abs of the Deutsche Bank, to provide a sound international financial market based on long-term loans practically repayable by virtue of the surplus-creating power of the high-technology industrial programs in underdeveloped countries.

As Bundesbank Chairman Otmar Emminger said June 20, this type of monetary stability "is essential for stable relationships with the East bloc," and forms the only basis for world peace.

It is also, as Alain Vernay points out below in *Le Figaro*, in total opposition to the City of London form of profit by "disorderly currency fluctuations" and programs for petrodollar recycling through the London Eurodollar markets now widely circulated through the Organization for Economic Cooperation and Development. The OECD's Development Advisory Committee, so far the official US-EEC-Japan government body on the LDCs, is presently circulating a plan for a $10 billion fund to be solicited by the OECD from the Arabs for "labor-intensive agricultural projects modeled on those of the World Bank," as a source close to London's Henry Kissinger put it after the OECD's June 12 meeting. Outside of picks and shovels, such a plan would neither step up U.S. or European exports, nor stabilize any currency, nor promote any East-West relations except confrontation in the Third World over limited raw material resources.

The Financial Grand Design, however — largely modeled upon the 1976 Private International Development Bank proposals made by U.S. Labor Party Chairman Lyndon H. LaRouche — would, with the political backing of some of the West's strongest governments make the proposed East-West and North-South high-technology development projects into the most high-profit areas of the world economy, sucking in more and more of the world dollar surplus. In this way, the East Bloc and developing sector will receive such capital transfusions that their level of industrial productivity would far and away produce surpluses — and consumer power to buy even more from the OECD. This plan thus has the ability to put the entire world back on a sound payment basis.

London at Rope's End

Vernay also writes at some length that if anyone has a stake in sabotaging the new integration, it is the British, as they did to early 1970s proposals along these lines by Georges Pompidou of France. It should be noted that those proposals were elaborated in cooperation with Nixon Administration elements in the U.S. to save the dollar from London-based market attacks by redeploying the "dollar overhang" into Third World, Mideastern, and Comecon energy and industrial development.

As a financial-political entity, the U.K. is worse off than it was seven-odd years ago, having played all its cards of North Sea bluff, petrodollar grab attempts,and so forth. Its current battle plan for outright leeching of the U.S. banking system is openly described as a function of terminal weakness, not strength, in London itself. The financial pounding surveyed in detail in the last issue of ***Executive Intelligence Review*** (June 20-26, No. 24, Vol. V) continued this past week, as the ***Sunday Telegraph*** projected June 18 that the government will force the British banks to absorb public "gilts" securities now that foreign demand has vanished. As of June 22, the gilts' prices were steadily falling, the pound sterling weaker at $1.85, and equities down another 18 points from the depressed June 16 level. This is not a function of a sudden improvement in the nasal capacities of international market forces vis-à-vis a decaying economy; specific continental traders and investors are pulling a specific, calibrated bear raid against Britain.

Monetary Strategy

Several developments illustrate the direction of the Franco-German plans for the July meetings.

First, Schmidt and Bundesbank president Otmar Emminger once more flatly rejected reflation — Schmidt most recently in a June 21 speech to his Social Democratic Party caucus, attacking not only the group of five federal economic advisors who had called for a tax-cut supplement to their other reflationary suggestions, but also his coalition partner, the Free Democrats, for igniting policy "brushfires" — referring to the FDP's organizing a fullblown tax revolt which they hope will appeal to the substantial number of blockheads in the opposition Christian Democracy.

Emminger confirmed the refusal in a June 20 speech to a top-level gathering of national leaders commemorating the anniversary of the 1948 currency reform. Emminger focused on the need for West German international leadership to promote genuine growth — a government-led, that is to say dirigistic, initiative. Foreign Minister Hans-Dietrich Genscher had fleshed this out June 15 when he shocked the Fabian-led session of the Organization for Cooperation and Development in Paris by announcing that the OECD's proposed $10 billion aid fund for the Third World is fine with the Schmidt government — provided it is used for "an overall expansion of the world economy." He called for "manufacturing industry in the Third World," with "government guarantees" to actively guide private investment there, and "Comecon contribution to this process."

"Jap-Bashing" Continues

Foreign exchange news, however, has been dominated by near-daily reports of the Japanese yen reaching another postwar record high in relation to the dollar — on June 21, it was 208 to the dollar, almost a 50 percent appreciation since 1971. This is an operation against the Japanese, who nevertheless continue to run giant trade surpluses despite the upvaluation, testifying to the advantages of high-technology, modern operations. And the means which the Japanese Ministry of Trade and Industry has chosen to offset the surplus will further expand this capacity, namely a special import program, composed not only of oil and industrial raw materials stockpiles but 3-4,000 tons of enriched uranium.

Meanwhile, the central bank has intervened only moderately, to smooth outright chaos in the markets; its chief, Morinaga, cryptically predicted an end to the yen's skyrocketing in the near future. Supposedly, the Japanese do want to appear in Bonn with the double onus — in Treasury Secretary Blumenthal's eyes — of running what is expected to be their biggest export surplus ever *and* having defended the dollar.

At present, however, the British-led foreign-bank rush to trade in dollars and buy yen is compelling Japanese bank and traders to dump some of their own dollar holdings as a speculative hedge, further fueling the process and mucking up trade. Most important in terms of the European monetary proposals for the summit is the effort by West German bank leaders to relax current West German restrictions on yen operations which currently obstruct Arabs and other large yen holders from using these reserves to buy West German goods and obstructs the Japanese, as noted above, from full co-financing through Frankfurt of joint development lending.

Bundesbank: Reflation Would Jeopardize East-West Deals

Journal of Commerce, June 21:

FRANKFURT—West Germany celebrated on Tuesday the 30th anniversary of the deutsche mark and its remarkable ascent to one of the hardest currencies in the world with an impressive demonstration against all and any short-run measures that would stimulate growth at the price of higher inflation. . . . the policy of price stability and free market principles were extolled by all speakers as the only success-promising approach towards worldwide economic recovery. . . . Dr. Otmar Emminger, the Bundesbank president, pointed out that "our goal is a sustained and sound growth and the methods advocated abroad are not compatible with achieving it." Since West Germany also has an international responsibility for stability, it must resist any efforts which would shake the European currency zone into an inflationary community. The success of the West European currency zone depends on and must be based on the policy of economic stability, Dr. Emminger said.

Dow-Jones wire service, June 20:

FRANKFURT—If West Germany makes economic compromises as supposed concessions to other nations they could lead the Western economy "slowly but surely into an inflationary swamp," Otmar Emminger, President of the Bundesbank, said.

"That could also lead to conflicts with the Eastern economic system," Emminger said at a ceremony commemorating the 30th anniversary of the currency reform which brought the deutsche mark into existence.

"The Franc, the Mark, and the Snake"

The following are excerpts of an article by Le Figaro *economic specialist Alain Vernay, which appeared June 21, and refers to the meeting West German Chancellor Schmidt and French President Giscard d'Estaing scheduled for June 23.*

...If the talks between Valéry Giscard d'Estaing and Schmidt in Hambourg are fruitful, the Bremen (European Council — ed.) meeting could be that where the Nine will manage to agree on the choice of a mechanism to ensure more monetary stability in Europe, in conformity with the double goal of the European Councils which is, as the President of the Republic said in Copenhagen, "to reach a confederal organization of Europe as well as to bring a European contribution to the solution of world problems."

...Does this optimism seem imprudent?...Let's admit that Great Britain will do everything possible to prevent or delay a European monetary accord, for several reasons. Thanks to the remarkable cleverness of the City, England draws a good part of its invisible earnings from disorderly currency fluctuations. Jim Callaghan is also thinking of reestablishing a special relationship with the United States even if America is not encouraging it; nothing pays off more for the party in power than to act brutal and if possible 'beastly' towards Europe, three months from the elections.

...But this doesn't mean one should fixate on the English obstacle: in the European monetary framework, there is no obstacle that could stand up to a full accord between Germany, France and the (EC) Commission...

The fundamental analysis of Giscard and the Chancellor is that Europe's delay in growth in relation to the U.S. and Japan, comes in great part from the disequilibrium of balance of payments and Community trade distortions resulting from the drop of the dollar which has pushed the mark upward, thus increasing the gap between it and numerous other currencies of the Community.

...A combination involving the weakest European currencies with the strongest in the snake zone would converge to brake the harmful appreciation of the DM and would be less costly, no matter what the price, than the direct and vain interventions to support the dollar.

For his part, Giscard would like the franc to as quickly as possible enter the path of a more constricting monetary cooperation...

(There are several models — ed.) The first consists of extending the Community system of restricted variations in exchange rates, beyond the currencies of the snake which vary by a maximum 2.5 percent such that the others — francs firstly — vary in a coherent fashion with the snake, while having a greater margin of fluctuation.

Whatever form it takes on, this two-tier system has the inconvenience of eventually bringing into full light the vulnerability of the weaker currencies, and even providing a barometer for speculation.

The second model would extend the use of the European unit of account — based on a basket of currencies excluding the dollar — in such a way that it would serve for settlements among the central banks of the EEC. This would limit the destabilizing impact of dollar fluctuations. In addition, it would have a distinct effect of getting Europe into gear: having a possible need for units of account at any time, the central banks of the EEC would come to maintain some in their reserves or place them within European cooperation funds — like the FECOM, whose means, in any case, should be increased.

It is possible that the President and the Chancellor would want to mix the two systems without reinforcing too much the role of the unit of account. This is what would bother the United States the most, by making possible on the far horizon the flourishing of a European currency....

Senate Banking Hearings

A forum for Euromarketization of U.S. banking

BANKING

The June 21 Senate Banking Committee McIntyre subcommittee hearings on the International Banking Act of 1978 (HR-10899) provided a public forum for Federal Reserve Chairman G.W. Miller, Controller of the Currency John Heimann, Senators Thomas McIntyre (D-NH) and William Proxmire (D-Wisc) and the British banks led by Barclays International Ltd., to demand full deregulation of the U.S. banking system. In effect, they argued that not only should British banks taking over American banks be allowed the run of the U.S. without regulation, but an entire set of new expediting legislation is needed to put U.S. banking on a London free-for-all standard.

The deregulation drive was vigorously opposed, however, by Senator Adlai Stevenson II (D-Ill) and the Bankers Association for Foreign Trade (BAFT), representing a broad cross-section of U.S. industry and banking. The recent takeover of U.S. banks worth $20 billion in assets by the British banks could spur "great concern in Congress," blocking the deregulation debate altogether, the financial press further noted June 19-21.

The Real Issues Behind IBA

The International Banking Act (IBA) itself is the 1978 version of a bill first introduced by the late Congressman Wright Patman at the request of the Nixon Federal Reserve in December 1974, the purpose of which was — and still should be — to subject foreign banks operating in the United States to the same regulations imposed on U.S. banks. U.S. banks are currently prohibited under the McFadden Act from interstate banking — taking deposits in more than one state or "across state lines" — in order to protect the full development of regional banking and industry; prohibited from acquiring other large U.S. banks; and "national banks," effectively any large bank, must be chartered, insured, regulated by, and hold non-interest bearing reserves at the Federal Reserve.

Foreign banks at present can and do operate free of any such regulations, and the 1974 International Banking Act proposed to regulate them on "equal footing" with U.S. banks — that is, to integrate them into the properly and safely structured American banking system.

Since his appointment as Federal Reserve Chairman, however, G.W. Miller has moved to turn the IBA into a legalization of the current state of total nonregulation of foreign banks — in effect encouraging U.S. banks to clamor for deregulation. When the 1978 IBA went to the House last April, Miller collaborated with House Banking Committee Chairman Reuss to water down the bill. They removed the crucial Section 5 prohibition on foreign banks interstate branch deposit-taking, as well as the requirement that large foreign banks' subsidiaries — such as Marine Midland will become of Hong Kong Shanghai Bank — need not be regulated by, or hold