Europe Fights 'Dollar Collapse' Scenario

New monetary fund policy could stabilize U.S. currency

European, U.S. and Japanese financial forces moved onto the Tokyo and New York foreign exchange markets July 6 to buy dollars, pushing the dollar-yen rate to 202, and cutting off the precipitous decline of the dollar which had taken on a dangerous momentum starting late in June.

FOREIGN EXCHANGE

The shift of international forces into an effective "dollar support" operation is the direct outcome of a growing perception among key financial circles that the Franco-German program for a "European Monetary Fund," conceived by French President Giscard and West German Chancellor Schmidt, is indeed a credible policy to stabilize the U.S. dollar.

The Schmidt-Giscard EMF proposal is a key step toward implementation of an international Grand Design to finance East-West trade, and infrastructural exports to the Third World, and is supported by the key dollar-surplus holders, Saudi Arabia, and Japan.

The shift in dollar trading was signaled on July 5, when the Dow Jones financial wire reported that a French merchant bank in Tokyo was selling off yen-denominated bonds for dollars. On July 6, private purchases of dollars were heavy enough to stabilize the rate in Frankfurt at 2.05 deutschemarks, and effectively swing the dollar away from the dangerous 200 yen level on all markets, without any central bank intervention.

Commenting on these events, one New York commercial bank trader stated: "There is a shift in market sentiment" since last week, when it was widely assumed that the two key meetings this month where Western economic policy will be discussed — the July 6 European Economic Community meeting in Bremen, West Germany, and the July 16 Bonn Economic Summit — would be failures. "We are buying dollars," the source emphasized, "on the proposition that there will be good news out of Bremen and Bonn. . . that a French franc-deutschemark parity stabilization will help the dollar."

British Defeat

It is a matter of open discussion in Europe's major press that Great Britain is the chief opponent of the Franco-German currency stabilization proposal. If the huge surplus of dollars held by West Germany, Japan, and Saudi Arabia is channeled in the coming months into industrial development programs in the developing world, and into financing of East-West trade, then the entirety of London-held debt, including Britain's own massive government debt, will be effectively depreciated as the remains of a politically and economically decayed sorespot in the world economy.

It was London's press, and the London-controlled press in the United States, which was responsible for kicking off the late June round of dollar instability. Not only did London's still-too-influential conduits assert that the Bonn and Bremen meetings would just be another round of meaningless "talk sessions," but went so far as to assert that the Franco-German European Monetary program was conceived as an "anti-dollar" front.

Directly hitting this rumor, West Germany's government press spokesman Armin Gruenwald released a statement early July 6 "strongly disclaiming that the French-German plan was in any form anti-American." Similarly, the Paris daily *Le Monde* emphasized in coverage of Giscard's program July 6: "the powerful means at the disposal" of a European Monetary Fund would include "European currencies, the dollar, and perhaps gold."

Britain Can't Smash Dollar Alone

In contrast to January-Febuary 1978, London's banks and internationally connected financial networks do not at this point have the financial muscle to rig a collapse of the dollar with their own resources. At that time, London banks themselves went into massive short positions against the dollar to give "market credibility" to the public statements by their agent of influence W. Michael Blumenthal, U.S. Treasury Secretary, that the dollar would have to be depreciated to protect the U.S. balance of payments.

Since that time, British banks have been engulfed by the outbreak of a national debt crisis only paralleled by Britain's complete destitution after World War II. In recent weeks, British banks have been forced to digest more than $2 billion in government "gilt-edged" paper — long-term securities which they have been unable to remarket to any international buyers on the secondary market.

Stuffed to the gills with government debt, the only hope left to London's chief spokesmen is that a decline in U.S. interest rates — a policy which London does not especially support, but which it cannot prevent if the dollar firms up on international markets — will permit the Exchequer to lower short-term borrowing rates for sterling. At this time, short-term rates in London are so high that funds borrowed to finance the long-term "gilt" papers are being invested at virtually no profit.

In an interview with the *Journal of Commerce* today, Harold Lever, member of the British Parliament and occasional economic advisor to the government, admitted that high U.S. interest rates were creating an unbearable squeeze around the British national debt. Lever lamely added that the U.S. must not be allowed nevertheless to redress its balance of payments deficit too quickly — an ironic admission that if a sudden U.S. dollar recovery were to occur, accompanied by a real pickup in U.S. exports, British paper would topple into a depression.

Indeed, as a direct result of the dollar purchases in New York and Tokyo, a noticeable shift in dollar interest rates began both domestically and on the Euromarkets July 5 and 6. The Euromarket rates slipped downward as major U.S. and international banks began trading forward dollars at lower and lower discounts, with customers getting out of their short positions. Domestically, federal funds traded July 6 at below the 7.75 "official intervention point," a development interpreted by New York sources as a "change in policy" by the U.S. Federal Reserve.

It is of secondary significance that easing of interest rates around a stronger dollar may temporarily take the heat off British banks, who are presently marketing discounted purchases of "gilts" at a loss of 6-8 £ per hundred £ lot. London knows that if it can't trigger a major monetary crisis by July 16, there is little they can do to prevent Schmidt and Giscard from using the $150 billion surplus held by foreign central banks as the foundation of a new monetary system.

Well-informed sources in Europe reveal that London's allies in Belgium and Holland have been unsuccessful thus far in threatening that the Low Countries will ally with Britain in a voting bloc against the Franco-German monetary fund at the July 6 Bremen meeting. These sources indicate that a very high level French official has just completed a visit to the Benelux nations to transmit the warning that the gentlemen in the Low Countries had better behave — or they may find themselves in the midst of a Belgian franc or Dutch guilder collapse.

Will America Retain Its Alliance With Japan?

Unless America responds positively to Japan's Grand Design offers, such as that of Mitsubishi, then this country is in danger of throwing away its greatest ally in Asia — with even more disastrous consequences than when it made a similar mistake in the 1930s.

INTERNATIONAL OUTLOOK

Two recent items in the Japanese press should have triggered a sense of alarm among American political and business leaders who know the real story of the 1930s. In a poll of 400 top Japanese businessmen, 300 saw Japan settling down to a 5-6 percent growth rate from its current 13-14 percent rate within 10 years. Simultaneously, the Ministry of International Trade and Industry (MITI) announced it was shifting its economic strategy from the 1970s emphasis on promoting "knowledge-intensive industry" (fusion power, computers, and so on) to a 1980s orientation of "insuring national economic security and promoting international harmony."

The danger is not that Japan would renounce its alliance with the U.S. and launch economic warfare. Japan would never do that. The danger is that "in the interests of international harmony," Japan would slow down its growth rate and lessen its catalytic role in the development of Asia. The future of the U.S. as an industrial power, and the balance of forces within the U.S. between industrial tendencies and pro-British monetarists, is largely determined by whether the world is in a growth or a stagnation dynamic. A Carter Administration riddled with low-growth advocates could come to power only because of the stagnation the world experienced since Aug. 15, 1971. Progrowth forces in the U.S. retain strength in large part due to the fact that Japan and West Germany have continued to act as nuclei of world growth despite the problems in the U.S.

The failure of the U.S. to accept then-Premier Takeo Miki's economic development proposals at the fall 1975 Rambouillet summit set the stage for economic dislocation and increase in U.S.-Soviet tension in the succeeding years. This must not be repeated in 1978.

U.S. Treasury Secretary Blumenthal and friends are working furiously to sever America's partnership with Japan and West Germany. If world trade is stagnating, but a trade-dependant Japan continues its growth pattern, Japan will have a large trade surplus. Japanese leaders such as Economic Planning Agency head Kichi Miyazawa have proposed using the trade surplus to fund capital investment projects in the developing countries, a process that would nurture markets for U.S. manufactured products. Blumenthal, determined to slow down capital formation worldwide, has rejected this offer. Instead, he warns that unless Japan cuts its trade surplus there will be conflict with the U.S. Through rigged yen rises and protectionism here, Blumenthal himself creates the conflict of which he warns.

Japan will not consciously adopt a policy of low growth. It will continue to promote international cooperation ventures such as the Mitsubishi offer or Premier Fukuda's proposal this spring of U.S.-Soviet-Japan cooperation in developing nuclear fusion power. If, however, these offers are not taken up, then de facto low-growth will be implemented in the form of decisions by individual corporations to lower capital investment and even more drastically lower overseas investment. A