

British Press Dollar Crisis To Wreck Bremen Agreement

"The Bremen and Bonn Summits were flops and this is why the dollar is falling." With the notable exceptions of the West German financial daily *Handelsblatt* and the French journal *Les Echos*, this has been the line taken by virtually the entire international press following one of

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the most severe speculative attacks on the U.S. dollar in recent weeks. On July 26, the Japanese yen soared to 193 yen to the dollar, its highest level since World War II.

Business readers beware: it would appear that newspaper editorialists have dubbed Bonn-Bremen "bad for the dollar" because of the currency crisis. In reality, British financial institutions in London, New York, Hong Kong and Singapore orchestrated the speculative assault so that such editorials could be credibly written.

Their objective: to prevent implementation of the historic Bremen agreement, whereby EEC leaders agreed to establish a European Monetary System as the seed crystal of a new worldwide monetary order which will replace the International Monetary Fund.

As this publication has documented at length, the European Monetary System, which was piloted through the Bremen meeting by West German Chancellor Helmut Schmidt and French President Giscard, is designed precisely to strengthen the dollar in the following ways.

First, the EMS will soak up tens of billions of idle dollars currently overhanging the international markets and pool them together with gold and European currencies in a centralized European Monetary Fund, initially totaling \$50 billion.

These dollars will then be recycled as credits for the financing of large-scale North-South and East-West trade and development projects. The "demand" for dollars will be bolstered by the currency's linkage to hard-commodity trade and the de facto return to a gold-reserve system.

Press analyses which see in Bremen an attempt to create a rival European currency which will supplant the dollar have no basis, except in the fantasies of London bankers whose power over the world financial system has been mortally threatened.

Last week's panicky run on the dollar was spurred on by the report that an OPEC committee, headed by Kuwaiti Oil Minister Sheik Al-Sabah, had recommended

that the oil producers peg their oil prices to a basket of currencies rather than the dollar. The Kuwaiti government is known to be heavily influenced by its British financial advisors. The importance of this report was exaggerated out of all proportion, since the move must still be approved formally by OPEC and the Saudis remain strongly opposed.

U.S. Treasury Secretary Michael Blumenthal and Treasury Undersecretary Anthony Solomon, the hidden spokesmen for British interests within the Carter Administration, also contributed to the run on the dollar. Both told a Senate subcommittee July 24 that they would not object to the yen, deutschemark, and International Monetary Fund's Special Drawing Right increasingly supplementing the dollar as international reserve currencies. Said Solomon, it is not in the U.S. interest to "maintain a particular international role for the dollar if that does not correspond to the needs of a liberal, efficient system of international trade and investment."

This same line was reflected in a July 26 *Baltimore Sun* editorial, entitled "Downer for the Dollar," which argued that the Bonn Summit was not only bad for the dollar but that it suggested "a shrinkage in U.S. primacy that is probably irreversible and need not be deleterious if it is managed right."

Among the few journals seeking to puncture this myth, both *Handelsblatt* and *Les Echos* reported on July 25 that the Bremen agreement was *not* antidollar, that it was aimed at establishing a common strategy for economic recovery. *Handelsblatt* added that the agreement implied a remonetization of gold.

Playing on European Heteronomy

A variant to the "Bremen is antidollar" line is the argument that the EMS will force undue hardships "adjustment" on particular European economies and is therefore "technically" unworkable. Both the *Financial Times* and *Times* of London emphasized this theme last week: West Germany would have to reflate, either by printing new deutschemarks to intervene in support of weaker European currencies or through expanded fiscal stimulus, while the weaker European economies would have to deflate. This would weaken the deutschemark's parity against other European currencies.

The scenario received such wide credibility that foreign exchange traders reported large-scale shifting of funds by investors out of deutschemarks and DM-denominated bonds into the pound sterling, French franc, and Italian lira. As a result, the deutschemark increased only slightly against the dollar during last

week's speculative bout while the pound rose to an unheard-of \$1.9385, compared to \$1.85 at the end of June.

According to the *Financial Times'* gloating coverage, the run on DM-denominated bonds was so severe that German domestic bond prices dropped sharply. The Bundesbank was forced to inject an estimated DM250 million to DM400 million daily into the market during the week immediately following the Bonn Summit.

At the July 24 meeting in Brussels, where EEC Finance Ministers and central bankers met to work out the details of the EMS, U.K. Treasury Secretary Denis Healey attempted to divide the European nations along these profiled "strong" and "weak" economy lines. Healey said, in effect, that Britain favors the Bremen Agreement, but would like to impose the following conditions . . . West German reflation, redistribution of resources, etc., etc.

The London *Times* notes that Healey can expect Dutch backing for his wrecking expedition. What the *Times* ignores is that the European Monetary System is no mere technical scheme for linking together European currencies, but a plan to generate a recovery in world trade so that *all* European economies can expand together.

The Gold Angle

One important feature of last week's market developments was the run-up in the gold price, which reached \$195.50 an ounce at the morning fixing in London

on July 24 — rapidly approaching the \$197.50 record high of 1974. The soaring gold price may have reflected, in part, a panicky flight out of the dollar, but, in the main, the market has been responding to *steady* European stockpiling of gold in preparation for the metal's re-monetization. The big British bullion dealers, like N.M. Rothschild's, chose to join the gold rush only when they realized they could not stop it. On July 20, when the gold price broke \$190, Reuters reported that the gold-buying surge began in the British colony of Hong Kong and spread to Europe based on reports that gold would play a monetary role in the EMS.

French banking sources expect the gold price to be pegged at about \$240 — within the framework of the EMS. At present, however, officials estimate gold transactions to be only about one-third of what is required to push the price up to this level, and expect that central banks will begin to play a more active role in the market.

One further note: until investors become better informed as to the actual significance of the Bremen agreement — that it implies a *simultaneous* increase in the price of gold and the dollar's exchange rate with other currencies — the dollar will continue to be highly vulnerable to speculative pressure. On July 26, the release of U.S. trade figures for June, showing a deficit of \$1.6 billion, the smallest in over a year, allowed the dollar to recover some of its losses against European currencies but not against the yen.

— Alice Shepard

Press Talks Down the Dollar

Aiding British attacks on the dollar-supporting new European Monetary System, formulated at Bremen, is a press-lie campaign. Here, two samples:

Baltimore *Sun*, "Downer for the Dollar" Editorial, July 26:

World financial markets finally have returned their verdict on the Bonn economic summit, a verdict that is strictly a downer for the dollar. . . .

. . . General skepticism about the ability of the industrial democracies (and especially the United States) to carry out their Bonn pledges; Congress's continuing disdain for President Carter's energy and tax programs—these and other developments are causing speculators to trade in their dollars for yen or marks in volumes that central banks can hardly contain. . . .

This does not mean America is the sick man of the free world, far from it. But it does suggest a shrinkage in U.S. primacy that is probably irreversible and need not be deleterious if it is managed right.

London *Times*, "Ministers Tackle Bremen Resolutions" by Peter Norman, July 24:

Finance ministers from the nine member states of the European Community face a difficult meeting in Brussels tomorrow as they start turning the Bremen proposals for a new European monetary system into a workable plan.

The Bremen document was agreed by all nine

leaders at the EEC summit on July 7. Since then European policymakers have become acutely aware of its ambiguity and vagueness in key parts.

Britain, Holland, Italy and the West German Federal Bank have very different reservations about the document. Even outside the Community, the United States and Japanese Governments are wary of the plan.

An indication of the lack of specifics in the Bremen proposals is given by American uncertainty as to whether they would prove inflationary by expanding international liquidity, or deflationary by forcing participants into restrictive policies to harmonize with Germany's low inflation rate of 3.5 per cent. . . .

It is thought probable that Mr. Denis Healey, the Chancellor, will dwell tomorrow on the need to specify the criteria against which any scheme for greater monetary cooperation should be measured.

He outlined these in Luxembourg in June at the last meeting of EEC finance ministers, but they were barely touched upon in the Bremen document.

Mr. Healey's criteria are of a fairly fundamental nature. Among other things he wants any scheme to involve symmetry, or the placing of equal obligations on surplus as well as deficit countries.

The British also want to make sure that any new scheme will remove constraints on growth rather than increase them, and that it will not prevent exchange rate adjustments insofar as these are necessary to reflect real differences in economic performance.