Saving the dollar — without

Carter's dollar package is an EMS coup

The $32.5 billion emergency package for international dollar support announced Nov. 1 in Washington is an extraordinary deployment. It signals that U.S. allies in Western Europe and Japan, along with a cluster of American business leaders looking toward the emerging European Monetary System (EMS), have now seized substantial control of U.S. economic policy, with all that that implies for policy in general.

"Carter's move today was a 180-degree policy turn forced from the outside. It was a coup by Schmidt and Giscard," said a senior investment banker at Lazard Freres investment house in New York. "The EMS is calling the shots for the U.S.," an International Economic Policy Association analyst concluded happily the afternoon of Carter's move. West German Chancellor Helmut Schmidt himself stated Nov. 1 that his government had played an active role in shaping the new U.S. policy.

Credit lines of over $30 billion represent a formidable armamentarium against speculators. But the package's bad elements — a humiliating resort to the deathdealing International Monetary Fund (IMF), which everyone knows is run by Great Britain, and a further increase in interest rates — allow asset-strippers G. William Miller at the Federal Reserve and Michael Blumenthal at Treasury to maintain a foothold in the policy arena. The dangers of the "buy America cheap" scenario are still very real.

Carter's package is no mere bureaucratic compromise between positive dollar support internationally and recessionary strangulation at home. The package is more than the sum of its parts. As the French Economics Ministry put it, this means a return to the concerted strategy mapped out during last summer's Bonn summit to ensure economic recovery and stability — the July summit at which President Carter endorsed the EMS.

To cast the potentialities in terms of Carter's own position: having made the strongest move of his Presidency in acting on the principle that a weak dollar is not good for the country, he now has what West German Finance Minister Hans Matthoefer called Nov. 1 "vast financial resources" to deal with the essential task of upvaluing the dollar."

As active dollar defense shows self-feeding success, Carter can triumphantly lay aside the current shut-down "anti-inflation" policy, and pursue the next steps laid out on CBS networks Nov. 1 by the chairman of the First National Chicago Bank, Robert Abboud. Just back from a tour of the technology-hungry Mideast, Democratic Party supporter Abboud stated that the followup to the dollar package must be serious capital formation and an aggressive export policy — "U.S. business has to learn that it's export or die." This emphatically does not mean trade war: as Schmidt's deputy Dieter Hiss has explained, the EMS sees a U.S. export drive as strengthening the dollar's reserve role and thus serving Europe's self-interest. (For details, see below.)

How it happened

Executive Intelligence Review readers will remember our reports late this summer that a joint "bull" operation was in the works between the EMS founders and certain U.S. multinationals. According to Midwestern industrial sources, the operation was set up at the end of September, and hammered through the Administration during October.

Various oil-company executives, whose quarterly profits have been devastated by dollar depreciation, were involved on the American end. Also represented was Chase Manhattan Chairman David Rockefeller, whose recent statement to the American Bankers Association convention that the main U.S. need is investment for technological modernization was accompanied by personal pressures on Blumenthal. Sources close to Chancellor Schmidt told this news service's West German bureau Nov. 2 that David Rockefeller has a positive plan for the U.S. economy which he is now in a position to push for.

The Treasury Secretary and other IMF adherents had anticipated full well that the "anti-inflation program" would wreck the dollar and the securities markets — but evidently not that this crash would provide the final opening for their opponents, including elements at the State Department, to push through a real recovery policy.

The essential development is the fact that U.S. businessmen are in the middle of gaining a grasp on

a recession

what a real recovery policy *is*. The senior economist for one of the Big Three auto companies was sent to Europe by the chairman to see if something as big as the EMS could really be on track, with so much U.S. ignorance about it. He returned at the end of October and told both his corporation and his regional U.S. Labor Party contacts that USLP Chairman Lyndon LaRouche's account of the EMS as a full-speed credit generator for world development was a "thousand percent confirmed" by his lengthy briefings from the heads of the Bundesbank. Briefings from the Bank of England, he added, spelled out Britain's alignment with the IMF against the EMS — and also London bankers' "crazy" preoccupation with paper instead of output. The Administration has to address the EMS, he said, and get rid of its wage-price control mode as "immoral, unconstitutional madness."

The credit-crunch question

The response to the dollar package from the U.S. advocates of "a British policy" of economic self-cannibalization was to play up the Fed's biggest discount-rate increase since 1933, by 1 percent, to 9.5 percent and the $300 million drained from banking liquidity through higher reserve requirements on large time deposits, as (1) the core of the new program and (2) a further step toward the industrial deep-freeze allegedly needed to cure inflation.

The Wall Street Journal headlined Nov. 2, "Dollar Dilemma: Bold Currency Support Announcement by U.S. Raises Recession Risk;" the *New York Post* devoted its entire news lead Nov. 1 to the interest rate hikes alone, in a rather ham-handed effort to queer the markets.

The same view came from European Commission President Roy Jenkins's headquarters in Brussels, where an official told the wire services: "I would stress that these new measures are technical. There still must be continuing strong measures to cut inflation in the U.S. and especially to reduce its enormous energy consumption, which is unconscionable." The Brookings Institution's Philip Tresize, damp with pity for trapped antidollar bears, hoped that recessionary potentials will outweigh the

What's in the support package?

$15 billion
Swap lines: Available U.S. government borrowings of deutschemarks, Swiss francs, and yen increase from $7.6 billion total, to $6 billion from the Bundesbank, $4 billion from the Swiss National Bank, and the rest from the Bank of Japan.

$10 billion
Foreign-denominated Treasury Securities: Treasury notes expressed in Swiss francs and deutschemarks, as a surety to lenders against further dollar depreciation, to be marketed, according to the Treasury, to foreign private holders. The notes provide U.S. authorities with additional foreign exchange reserves. Before the first Nixon Administration's "benign neglect" dollar policy was introduced, this support measure was used successfully.

$2 billion
Sales of Special Drawing Rights: Divesting SDRs held for the U.S. at the IMF will bring in further foreign exchange.

$2.5 billion
Sales of Treasury gold: The increase in the Treasury's monthly sales of gold from 300,000 ounces per sale to 1.5 million can be expected to earn this range of funds.

$2 billion
Drawings on IMF reserves: This is a withdrawal of yen and marks from U.S. reserve assets deposited with the IMF, not a loan. It has no conditions attached.

$1 billion
IMF withdrawal under the General Agreement to Borrow: Should the U.S. draw another $1 billion in reserves from the IMF, the advanced-sector "rich countries' " General Agreement to Borrow would have to be activated to provide the cash from West Germany, Switzerland, Japan and others. Note that if these General Agreement to Borrow countries then decline to replenish their standby credits, the IMF's lack of ready cash could become acute.

"enormous" intervention credit package. And House Banking Committee chairman Henry Reuss, an open opponent of any significant market interventions whatever, said, "Even if it works for a while, it's just a bandaid to cover an inadequate anti-inflation program."

However, the strong upward response to the package Nov. 1 from markets that had previously plunged with each new credit-tightening announcement indicates that investors — especially U.S. banks reportedly filling their portfolios with corporate stocks — had at least as much horse sense as the "shorts." The latter (also largely American) ran for cover, and could sniff the international breakthrough achieved in Washington.

Lazard's expects Europe and Japan to press lowered interest rates on the U.S. very soon, once the dollar is preliminarily straightened out. This is undoubtedly the intention, since, as within Europe itself, they view currency stabilization not as a standstill goal but as a prerequisite for the trade and investment — through suitably low-interest financing — which the EMS is designed to expand worldwide.

—Susan Johnson

The responses to Carter's move

President of the Bank of Japan, Teiichiro Morinaga:
We are sure that joint intervention by the Japanese, U.S. and other governments will help stabilize the international monetary situation.

Deutsche Bundesbank press release:
These measures underscore in an impressive way the determination of the American partners to fight inflation, to strengthen the position of the dollar, and to consolidate the situation on the foreign exchange market.

Swiss National Bank
(We note) with great satisfaction the impressive package of the measures taken by the U.S. . . . We are convinced that the action program will achieve the intended effect.

French Premier Raymond Barre:
Courageous measures (by President Carter) have every chance of contributing to the restoration of the U.S. currency (which) will allow a return to monetary stability and security, which are indispensable for the improvement of world economic activity and employment.

"Schmidt-Giscard coup in Washington"

The chief Lazard Frères economist had this reaction to the $30 billion dollar-support package announced by President Carter Nov. 1:

Q: Do you think this was a European-run plan?
A: Yes, absolutely, it's a Schmidt-Giscard coup in Washington. It's a 180-degree policy turn in Washington, forced from the outside. Thirty billion dollars is enough to scare the pants off the speculators, all of whom lost their shirts today.

Q: What about the high interest rate problem? Aren't Schmidt and Giscard unwilling to see a U.S. recession?
A: Yes; it's like the 1976 UK drawing at the IMF, with one difference. Here, the price for the $30 billion is high rates in the very short term; but it is hoped that the size of the loans and the interest rate shock will be so effective at jacking up the dollar that rates will be able to be lowered in the short term — and there need be no recession.

Q: So the EMS is considered the new boy on the block?
A: Yes, there is a new boy on the block who wants the dollar as the world currency and is arguing to do it by minimizing the possibility of recession.

Brookings: "Many people will be caught"

Made available to Executive Intelligence Review *is this Nov. 1 interview with Philip Tresize, fellow of the Brookings Institution in Washington, D.C.*

Q: What do you think of the Administration's new economic proposal?
A: I would be very surprised if it did not strengthen the dollar. It sounds very powerful; the numbers they said are enormous; this is an enormous intervention. The people who have played the dollar short will have to cover very quickly. The decision to raise the discount rate shows that America is willing to risk a recession to strengthen the dollar. . . . I don't think Carter will implement it (the credit package) all — such a large amount — it's just for show.

Q: Who in the Administration was responsible for this and why now?
A: Blumenthal, Miller and their staffs. . . but actually it was the President directly. He was given the various options and said let's do them all — it was a political decision, because Carter looked bad.

Q: Do you agree with the package? What would you have done?
A: Had I been asked I would have suggested something like it. My only surprise was at how large it was. I would have done the gold sales, the discount rate hike, the funds rate — that would have been enough. I was surprised that the Treasury will sell issues for foreign currency. A good many people will be caught badly on this. . . .