Will Carter say yes to dollar support?

Schmidt, Giscard offer dollar link to EMS

The U.S. dollar rallied strongly on world foreign exchange markets in the three trading days following the four-power summit in Guadeloupe. Rumors were flying that a secret agreement had been reached to inaugurate major new dollar-support measures. European observers say that West German Chancellor Helmut Schmidt and French President Valery Giscard d'Estaing issued a formal proposal to U.S. President Jimmy Carter calling for linking the dollar parity to the European Monetary System (EMS) established by the two European leaders on Jan. 2.

A tight lid has been placed on all but the most trivial news concerning the Jan. 6-7 summit. A State Department source has confirmed that Schmidt and Giscard did indeed make a proposal on the dollar, but he could give no details.

A significant leak may have occurred with the Jan. 5 publication of an article headlined "U.S.-Europe-Japan Agreement on Parities?" in the Italian daily *Corriere della Sera*. *Corriere* reported on a recent public statement by French Prime Minister Raymond Barre. Barre said he hoped that the summit would result in U.S.-European Community cooperation "for a better management of the world monetary system." Barre reiterated that the EMS is not directed against the dollar, as the Anglophile media are saying, and that the dollar must be maintained as "the means par excellence of exchange on the international financial market."

Corriere noted the similarity between Barre's remarks and a Japanese government proposal, reported by the Japanese newspaper *Yomiuri Shimbun*, to create a "zone of stability" in the dollar-yen parity. The Japanese plan, originally intended to be presented at a Tokyo summit this summer, would allow the dollar-yen parity to fluctuate by some 5 to 10 percent above or below a central parity to be reviewed every six months.

Both the Barre statement and the Japanese proposal reflect the growing determination of European and Japanese leading circles to reestablish fixed exchange rates, or at least, narrowly fluctuating rates, as a necessary prerequisite for expanded world trade.

A bull market for the dollar

Giscard and Schmidt's dollar-support plan cannot be properly understood in isolation from their Third World industrialization policies and their overall policy for world peace and economic development which has been documented in previous issues of *Executive Intelligence Review*. The Franco-German plan would kick off a long-term dollar "bull market" by opening up new export markets for the U.S. economy.

This plan should not be confused with the British plan, as reflected in the London *Economist*, to "save" the dollar by imposing further austerity measures, such as interest rate hikes and energy consumption cutbacks, on the U.S. economy. As even the Bank of England admits in its internal memoranda, austerity will only force a recession on the United States and prevent new investment in productive plant and equipment — ensuring that, in the long term, the dollar will have little chance of recovery.

Although Schmidt and Giscard probably proposed an entire package of short-term measures to support the dollar, including expanded credit facilities for intervention, the central point of their message to President Carter must have been that all of these measures have only limited usefulness as long as the U.S. government remains uncommitted to the "Grand Design" policy of the European Monetary System.

Odd man out

Carter's response to the dollar-support offer from Schmidt and Giscard is not yet known. What is known is that Britain no longer wields the power it once did in international monetary policy-making. A quite ludicrous effort by the *New York Times* to boost Callaghan's role at the Guadeloupe summit served to point out Britain's increasing international isolation.

In an editorial entitled "The New Agenda at Guadeloupe," the *Times* on Jan. 5 protested that "there is growing sentiment in Europe expressed most strongly by Prime Minister Callaghan of Britain, that the EMS cannot survive unless the dollar is stabilized." The editorial added that Callaghan was heading up an international initiative to move from the present chaotic system of floating rates to "a system of joint management" of the monetary system.

However, even the most hard-core of Anglo-American intelligence operatives have dismissed the *Times* editorial as "ridiculous." According to the Brookings Institution's Robert Solomon, if anyone were to launch an initiative to save the dollar, "it would be Giscard . . . Callaghan can't make a pitch to Carter or anybody at the moment . . . . Giscard is really on the offensive against the British inside the European Community," Solomon added.

"Giscard is now number two in Europe. He has kicked Callaghan down to number three."

EMS already functioning

Not waiting for a U.S. commitment, the European Monetary System, the model for the new world economic order which Giscard and Schmidt intend to establish, has been functioning unofficially since Jan. 2. A British-engineered dispute over agricultural pricing which generated a lot of heat for the French government from peasant layers, forced the European governments to delay the formal launching of the new monetary system.

Since Jan. 2, European central banks have been working closely together so that EMS member currencies have been fluctuating against each other within the 2.25 percent bands (or 6 percent in the case of Italy) stipulated by the Brussels agreement on the EMS.

European press reports indicate that Schmidt and Giscard worked out an agreement at Guadeloupe to get the EMS in full operation by the end of January. Giscard told reporters on Jan. 8 that he expected the EMS to be operational by Jan. 31. Schmidt announced at a Jan. 9 press conference in the Bahamas that roadblocks to the formal inauguration of the EMS could be removed within two weeks.

—*Alice Sheppard*

HongShang-Midland merger in trouble

Reports are circulating in the New York financial community that the Hongkong and Shanghai Banking Corporation's proposed acquisition of 51 percent of the shares of Marine Midland Banks, Inc., will fail under a U.S. Labor Party challenge. The Labor Party, in testimony before Federal Reserve Board of Governors staff Oct. 18, 1978, argued that the HongShang and other British banks acted as "launderers" for billions of dollars deriving from international heroin traffic concentrated in Hong Kong and that the HongShang, in particular, was the central bank of the dope traffic.

Earlier published reports and informal briefings from the merging banks suggested that a judgment was expected before the end of the year, and the Fed's failure to adjudicate the issue immediately provoked suspicion that the merger was in trouble.

Extracts from the Labor Party brief alleging HongShang involvement in financing the narcotics traffic were first published in the *Executive Intelligence Review* on Oct. 31, 1978 and have since been expanded into a paperback book entitled, *Dope, Inc.** According to a Labor Party spokesman, the Labor Party has already submitted a protest against the proposed acquisition of the Union Bank of California by the Standard and Chartered Bank on similar grounds, and will file a full evidentiary brief supporting the objection later in January.

According to sources intimately connected to the HongShang case, the Federal Reserve, which has regulatory jurisdiction over takeovers of American banks by foreign financial institutions, may throw the case open to the public. The HongShang's position is especially weak because of the so-called hidden reserves issue. Under British (and Hong Kong) banking practice, income accruing from sale of fixed assets, foreign exchange activities, and investments is either contributed to or deducted from internal reserves, which are not made public. In a letter dated Aug. 29, made public in the sheaf of documents that the HongShang provided to the Fed in support of the proposed merger, the HongShang's accountants refused to certify the bank's financial data because of the secrecy problem. The accountants, Peat, Marwick, Mitchell and Price Waterhouse, noted that the Hong Kong government had intervened to ensure that no such information would be released.

However, the Fed requested additional data pertaining to the hidden reserves and the bank's list of subsidiaries, on the condition that it be kept confidential. Since the Labor Party's allegation is that the HongShang keeps two sets of books, and it is a matter of public record that the bank keeps a second, secret set of books, refutation of the Labor Party's exhaustively documented charges is difficult.

The same sources report that the Board of Governors of the Federal Reserve may find itself "out of its depth on the narcotics issue," and unwilling to make a judgment either way. In order to diminish its own responsibility, the sources continued, the Board of Governors may decide to act on a Labor Party request, and throw the issue open to public hearings. The HongShang has strenuously opposed such hearings.

It is expected that the New York State Banking Authority, which has jurisdiction over HongShang's ability to vote any shares it buys in a New York State bank holding company, will follow whatever lead the Fed provides.

**Dope, Inc.*, by Konstandinos Kalimtgis, David Goldman, and Jeffrey Steinberg (New York: New Benjamin Franklin House, 1978).