Fed, Europeans Refuse To Stabilize Dollar; London Moves Into Breach

The situation on the international money markets last week can be, and frequently was, best described as a mess.

FOREIGN EXCHANGE

Under conditions of acute dollar instability, the Bank of England and City of London maneuvered to prop up the pound sterling and disrupt the Western European joint currency float. Elsewhere, financial policymakers showed as little sense as courage; the Carter Administration tried to shore up the dollar and its domestic constituencies by proclaiming its affectionate confidence in Federal Reserve Chairman Arthur Burns, who in turn uttered knee-jerk pledges to control the expansion of U.S. monetary aggregates and fend off "talking down" of the dollar.

Worse yet, at a special Nov. 7 meeting of the Bank for International Settlements — the clearinghouse organization of central banks — Fed Governor Henry Wallich, on behalf of the U.S., made a culpable if impotent pledge to push for severe petroleum import cuts, which, by a Laputan logic shared by no observer who relates currency value to industrial health, are supposed to reverse the dollar's depreciation through trimming the national trade deficit.

At the meeting, Japanese financial authorities proposed concerted central bank intervention to support the dollar in the markets, an action which would leave certain banks holding a glut of unwanted dollars à la 1971 unless broad monetary restructuring were simultaneously undertaken. The howls of Japan's BIS opponents, however, centered around the assertion that Japan itself should spend more abroad and cut its own trade surplus; after the Japanese delegates humbly agreed to buy $3 billion of extra imports, the others agreed to joint support of the dollar — support which, however, failed to effectively occur later in the week.

At the same time, London, with some smugness promised to set a target for sterling crossrates, rather than letting the pound "float" up; in fact, the pound strength of the week before was already being eroded Nov. 7-8, owing partly to labor disputes and partly to the sheer fact that the float removed the speculative incentive to hold pounds, namely, the expectation that sterling was being artificially undervalued by the Bank of England and would later appreciate. The British stock market sagged, and not only did Swiss investors dump half a billion pounds, but German holders were visibly selling off their British Treasury "gilts."

Openings for London Warfare

In the wake of the BIS's refusal to take any potent steps, the City of London tried a further ploy on Nov. 8, which succeeded in temporarily bolstering the pound. A Paris-based weekly, *Al Nahar*, released to the Associated Press wire service the rumor that Saudi Arabia is seriously discussing making the pound, not the dollar, a significant medium of its oil payments, as it was until two years ago. "The market believed the report because it is logical," smirked the *Wall Street Journal*; in fact, the report briefly pushed the pound up only two cents, but most to the point is the nature of *Al Nahar*, which is controlled by the special-operations, MI-6 faction around Lord Harmsworth and Robert Swann, the dirty-tricks specialist who serves as British delegate to the European-Arab Conference.

The dollar, meanwhile, reached record lows against the West German and Swiss currencies on Nov. 7, and no impressive recovery has since occurred. On Nov. 9, Burns told the Senate Banking Committee that monetary growth rate targets will have to be tightened, and the dollar could not be allowed to fall further or the U.S. economy would suffer. Not only did Burns fail to stabilize the dollar with this verbal magic, it appeared to reflect the BIS-level pact to impose austerity and oil import cutbacks on the U.S.

Shortly after Burns's statement, the French franc started to plummet to alltime lows, and the French central bank had to make heavy franc purchases to hold up the rates, at an official clip of $50 billion a day at the first part of the week, and, according to the French daily *Le Monde*, a good deal more unofficially. Eurofranc rates for short-term holdings were zooming up as dealers prepared to take short positions against the currency. The explanation for the franc's weakness was supposedly the weakness in French interest rates and political uncertainty around the 1978 elections, but neither factor is a new one; it appears that certain New York commercial banks decided to put a scare into French policymaking circles, and started a selling wave.

"Snake" In Jeopardy

At the same time, the weaker currencies in the continental "snake" — which keeps the members' rates within a narrow limit vis-à-vis each other — also started sinking for the first time since the Scandinavian devaluations. Despite persistent denials by Belgian authorities, rumors persist that the Belgian franc will leave the snake, along with the Danish and Norwegian crowns. This would, of course, effectively dissolve the West German-dominated snake, a move persistently advocated in the U.S. by Chase Manhattan and Bankers Trust in particular. The arch-oponents of the snake are, though, the City of London controllers of Roy Jenkins, European Community Commission footpad, who has proposed to undermine Franco-German monetary and industrial cooperation by introducing a "monetary integration" of the Common Market that would share out British-style inflation while wrecking national control of investment.

In short, despite the refusal of a pro-pound craze to materialize once the *Al Nahar* rumor was discredited, London is still out to cannibalize the production portion of dollar-sector assets and gain control of world speculative capital flows, as trumpeted in the Nov. 9 *Guardian* by columnist Hamish Macrae under the headline, "Demise of the Dollar." Macrae outlines a future run against the dollar precipitated by "a switch of OPEC countries' revenues out of the dollar" à la *Al Nahar*, and concludes by bragging that for the first time since 1972, an internationally marketed medium-term bond has been denominated in sterling (by S.G. Warburg for the European Coal and Steel Community).

British demolition of the "snake" — which would also have immediate disruptive effects on European trade payments — might, of course, backfire, and force the French and West Germans to replace what is, at this point, merely a defensive instrument with new channels of coordination, speeding up their timetable for international development bank arrangements. Until this occurs, the currency front will remain a very weak flank indeed for progrowth forces in Europe as well as the U.S. and Japan.

The Basel Washerwoman's Cartel

The following statement was issued on Nov. 4 by U.S. Labor Party chairman Lyndon H. LaRouche, Jr.

The recent meeting of the powerful Bank of International Settlements (BIS) at Basel, Switzerland turned out like an economics debate among drunken adolescents in an El Paso, Texas pool and snooker hall. The net result of the BIS meeting was the establishment of an international washerwoman's cartel.

The image of the drunken snooker-session is morally no exaggeration. The incompetence of the BIS staggers the professional imagination as much as the meeting's results are already staggering the U.S. dollar and economy.

In brief, it was agreed in effect that the USA should balance its foreign trade by increasing its exports while decreasing its imports. Given the present situation in the world market as a whole, what is being proposed by the BIS meeting's outcome is that all nations simultaneously increase total world exports, while reducing total world imports.

Among economists and management consultants in the USA such harebrained schemes are traditionally identified as "taking in each other's laundry." It used to be said of a chill, rainy season in Miami, that the hotels attempted to survive a collapse of the tourist trade by such means. Now, the world's principal central bankers have, on balance, come up with the same derisable schemes as a proposed band-aid cure for the present depression. The BIS meeting turned the world's principal central bankers into an international washerwoman's cartel.

It is a fact that the majority of the world's leading bankers are hopelessly incompetent in economics, but most of them are not usually fools in monetary matters. The newsworthy feature of their performance during the Basel fiasco is that the BIS behaved on balance as a gang of cretins on the monetary side.

The general reasons for this astonishing cretinism by the BIS ought to be well known.

The general cause for the falling USA trade-balance is the slashing of the Third World nations' hard-commodity capital inflows. Under drastic pressures from Henry Kissinger and his allies, the August 1976 Colombo, Sri Lanka resolution was crushed by combinations of goonery and Kissinger's role on the political side. The IMF, World Bank and key New York, London, Chicago and Swiss banks forced developing nations to make savage cuts in imports and to stop capital development programs. So, during Kissinger's tenure, beginning with the Kissinger-directed bloody horror-show of September 1973 in Chile, the trend has been for looting Third World production levels, in order to concentrate all international capital flows of these nations into support of a Eurodollar financial bubble in international debt refinancing. This Kissinger-spearheaded loansharking orgy has dried up USA export markets both directly, as in Latin America most notably, and indirectly, in respect to USA exports to other OECD nations which themselves have suffered the effects of a spiralling contraction in Third World export markets.

Until Kissinger's lunatic policies are repudiated and reversed, this situation must worsen, and the present world depression must accelerate on its downward course. The present collapse of the USA's dollar is primarily a heritage of Henry Kissinger's tenure at the State Department, and a result of the continuation of the same foolish basic policies by the Fabians, like Blumenthal and Schlesinger, presently controlling U.S. economic and monetary policies.

The Alternative

The only way to stop this collapse is to effect a general reorganization of the Third World and related debt, which means to "freeze" all sections of the Eurodollar market but those elements which are either in hard-commodity form or immediately convertible to hard-commodity forms. A new, gold-based international monetary system must be established, bringing in Third World nations one-by-one, on condition that those nations convert their banking system to national banking along the lines exemplified by Alexander Hamilton's policies and