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Eyewitness Report:

Basel BIS Meet Puts Burns Against The Golden Wall

Exclusive to Executive Intelligence Review

Meeting at Basel, Switzerland this week, Western central bankers at the Bank for International Settlements (BIS) led by Switzerland, West Germany, Japan, and France, served notice on U.S. Federal Reserve Chairman Arthur Burns and the rest of the U.S. delegation that the U.S. must institute a firm commitment to support the dollar — or face a unilateral move by its allies to force the U.S. into a gold monetary system. NSIPS correspondents on the scene report the outlook of the Europeans, in the face of the havoc being wrought upon their enemies by the dollar's decline, is grim.

Furthermore, signs emerged that U.S. allies are tying the dollar crisis directly to new European demands for expansion of all nations' Export-Import trade funding at a simultaneous Paris meeting of the Organization for Economic Cooperation and Development.

The successful result on the foreign exchange market this week was a significant rise of the dollar against the West German mark and other major currencies. Gold, however, rose from $169 to $174 per ounce on the week to date (Jan. 12) in response to the general gold negotiations.

Leading European gold dealers said further that the result of the meeting, which ended officially Jan. 10 but in fact is dragging on at this moment, is likely to be a U.S. agreement to swap American gold — at *market prices* — with West Germany and Switzerland for marks and francs to defend the dollar. This is to avoid having the U.S. run up a swap debt in deutschemarks and Swiss francs which would have to be paid later with emergency shipments of U.S. gold at the official price of $42 per ounce. Such trading by the U.S. government of gold at market price would mean that the U.S. is "effectively revaluing its gold at the market price and remonetizing gold," European traders said. If true, U.S. reserves would rise from $11 billion to over $50 billion and the dollar will be stabilized amid a general return to a gold-oriented world monetary system.

According to Swiss and other official sources, Chairman Burns was told that the U.S. must be saved from itself. "We're demanding emergency means to defend the dollar," they said, expressing their fears that "the world is on the eve of a catastrophe, and it could occur tomorrow morning," that is, currency turmoil generating Herstatt-style commercial bank collapses and similar phenomena.

Worried European commercial bankers, interviewed around Basel during the meeting, expressed rage at what the U.S. has done to its own currency. "Jimmy Carter is the lowest ebb ever of the U.S. presidency," said one West German economist. "And you speak of Brzezinski — he's a dangerous maniac. Walter Mondale is completely untrustworthy." One Swiss was moved to comment, "James Schlesinger (now traveling the Mideast to coerce the Arab World into demanding cutbacks in U.S. energy consumption) is a criminal idiot trying to surrender the industrialized West to the Marxists."

Specific action being taken by the Europeans — of which the U.S. authorities were pointedly made aware — include intense pressure on the U.S. Federal Reserve contacts to maintain firm daily market support for the dollar. Otherwise, more extensive discussions are being held with progold Americans, including in Congress, on the gold option and more importantly on dealing directly with the U.S. trade deficit on a real economic level — the promotion of U.S. exports through the Eximbank and all other available channels. In fact, a Paris meeting of the OECD Group of 20 industrial nations on the Rambouillet "Gentlemen's Agreement" limiting "competition" — i.e. expansion — of the various national export-import bank programs broke up Jan. 10 in disarray as the European governments demanded greatly stepped-up export financing agreements.

In other official actions, Swiss monetary officials told the EIR that they are "in full support of the Luxembourg gold market plan," developed by assassinated Dresdner Bank chief Jürgen Ponto, to join expanded commercial banking operations in gold to new expansion of credits for Third World and East-West trade development. "This is a matter of more than petty national interests," said the overseers of Zurich, the world's largest gold market — who would love to see the speculators knocked out of the entire international gold market and control of the market by the German central bank in conjunction with Luxembourg authorities. Swiss Central Bank Chairman Fritz Leutwiler meanwhile flew to Tokyo to brief Japanese officials on the BIS meeting.

European private bankers vowed to mobilize especially their Mideast contacts — including those in the Saudi Arabian Monetary Agency — and on Jan. 11, Saudi Arabian Oil Minister Zaki Yamani gave a joint press conference in Riyadh with French Industry Minister Monory which was right on target, demanding more support for the dollar. West German commercial banks interested in the Luxembourg plan are briefing their

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American contacts on the result of the BIS meeting, and again tying Luxembourg to expansion of U.S. exports.

U.S. Reaction and Dollar Developments

U.S. Federal Reserve Chairman Arthur Burns reacted to the pressure in two significant ways. First, as noted by the wire services, he pointedly refrained from pressing West Germany and Japan on the noxious issue of reflation; U.S. Secretary of the Treasury W. Michael Blumenthal has repeatedly stated he is prepared to let the dollar fall where it will until the Europeans blow their own currencies equally full of hot air.

Second, the U.S. delegation has decided not to ask for the renewal of the "Basel Agreement" between the Group of 10 central banks plus the International Monetary Fund, Switzerland, and Portugal, limiting central bank gold trading. If the agreement, which limits the group as a totality from acquiring more than the 31,351 metric tons of gold they held on August 31, 1975, expires, central banks will be free to stabilize the gold markets as required under the Luxembourg plan. Even if the agreement is extended, central bank intervention is still possible, since IMF gold sales etc. have depleted the current joint holdings to 422 tons below the ceiling — or close to 30 percent of the world's annual new gold supply.

What It Looked Like

The dollar fluctuated erratically this week during any given day as a direct political response to the latest wire story out of Basel. But on the week as a whole as of Friday, coordinated Bundesbank and Federal Reserve intervention pulled the U.S. fund up from 2.10 Deutschmark at the close Friday, Jan. 6 to 2.13 DM at today's close, Jan. 12.

A typical day on the politicized markets ran something like this. Early this morning in Europe, the dollar hit a low for the week of 2.0975 DM as London-based rumors of the "collapse" of the Basel meeting spread through the markets. Basel "failed to come to grips with the dollar, failed to satisfy the markets," London traders were quoted as saying. Rather than coming docilely right at the New York market opening as expected, the Fed waited until later trading — and came in so hard that the dollar was pushed up above the 2.13 DM rate. Similarly, yesterday the Bundesbank waited for European speculators to go out on a limb and then hit them with a $250 million intervention.

It will take a real U.S. *export* policy, however, to stop the dollar crunch for more than a few weeks.

—*Kathy Burdman*

Europeans Speak Up For Dollar

Dow Jones, *Jan. 11:*

Swiss National Bank president Fritz Leutwiler who met with other central bankers in Basel Monday and yesterday said "The discussions were harmonious, very constructive, and showed progress."

Leutwiler said the fall of the dollar cannot be "rationally explained," and contradicts the view held by central bankers that among all industrial countries, "the U.S. has the most favorable economic development and also the best prospects for the near and long-term."

Leutwiler said the participants welcomed the "already introduced" measures of the U.S. to support its currency. He added that statements by the U.S. team led by Federal Reserve Board Chairman Arthur Burns showed that the U.S. had realized the seriousness of the foreign exchange situation.

Journal of Commerce, *Jan. 12:*

Reports that the meeting in Basel of central bankers failed to agree on anything substantive to stem the sharp decline of the dollar are patently false, Fritz Leutwiler, president of the Swiss National Bank declared here Wednesday...

"Under the leadership of Arthur Burns, the American delegation showed that it takes the fall of the U.S. currency as a very serious matter and that they do not want to see the dollar weaken any further on world money markets," Mr. Leutwiler declared....

The latest decline in the dollar has no fundamental reason behind it, he added. He also cited the declaration by the Bank for International Settlements that growth outlook for the U.S. economy is among the best in the industrialized world, while the situation in the countries with hard currencies has deteriorated.

"If the dollar continues to behave the way it has in foreign exchange markets I shudder to think of where the industrial nations will be six months from now," Dr. Mast (Dr. Hans Mast, economist of the Swiss Credit Bank) said. "And Switzerland, of course, is so dependent on what happens internationally."

Barrons, *Jan 9:*

Much of the bullishness in gold this new year stems from the thought that fabricators and investors will be joined by a new class of buyers during 1978, namely, central banks (*Barron's,* Oct. 10, 1977). For most of the past decade, central banks have been out of the market, because they were pledged to deal in gold only at the fictional "official price" of $42 an ounce. Besides, the central banks of the so-called Group of Ten (the leading capitalist nations) had agreed not to increase their net holdings of bullion. That agreement expires next month and might not be renewed. As for the pledge to trade at the official price, an amendment of the IMF rules, which is expected to be ratified in coming months, will once again allow central banks to deal in the free market....

However, all but the poorest central banks today are flush with dollar balances that they do not want, because the world is being flooded with greenbacks churned out by U.S. inflation and the U.S. trade deficit. In these circumstances, central bankers are not likely to sell bullion to acquire still more dollars. They are likelier to use the surfeit of dollars to buy gold. After all, they can always revalue their gold holdings and borrow against them.

Nations which have immense dollar balances and would like to increase the gold content of their reserves include Japan, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. None is likely to dump dollars to the point of incurring Washington's displeasure, but they could argue that it was simple prudence to do what all

other central banks do, namely, hold some reserves in bullion. London bullion dealers, while conceding that it is impossible to predict how 100 central banks will use their new freedom, forecast that, as a group, they will not be net sellers. They are more likely to provide steady support for a rising gold price....

Treasury's Sour Grapes

The following is an interview with a U.S. State Department official last week:

Q: What is the status of the Basel Agreement negotiated two years ago in which the major central banks limited their gold operations?
A: The agreement expires Jan. 31 and if it is to be renewed must be renewed at this week's Bank for International Settlements meeting. The U.S. is not pushing for renewal.

Q: But the U.S. imposed the agreement in the first place. Does this reflect pressure by European governments who want to trade freely in gold?
A: Maybe we don't want to rock the boat.

Q: If the agreement is not renewed, will central banks stabilize the gold market?
A: They will trade more freely at market prices and it should have that effect.

Yamani Suggests Tying Oil To Basket of Currencies

Saudi Arabia's Oil Minister Yamani granted an interview to the French business daily Les Echos, *Jan. 11 at the conclusion of French Industry Minister Monory's visit to Saudi Arabia, excerpts of which appear below:*

Q: Is the fall of the dollar having a baneful effect?
A: We do suffer from the fall of the dollar. It means heavy financial losses for us. We are deeply concerned about it. We raised that problem in the OPEC Economic Commission. At one point we thought of determining oil prices based on a basket of currencies rather than to the dollar. It is not excluded that we implement such a formula in the future. Our study of the question will be completed by the next OPEC conference which takes place in Lagos, Nigeria, in June.

London Rumor Mill

Dow Jones, Jan. 11:

The dollar fell sharply against the main trading currencies in hectic dealings indicating that central banks in Europe and the New York Federal Reserve Bank have failed to come to grips with the dollar crisis.

The New York Federal Reserve Bank in particular is being strongly criticized by European foreign exchange dealers about its handling of the new U.S. policy of more active intervention. Dealers in Europe said the Fed hasn't satisfied the market's desire for forceful and aggressive action. "This isn't the time to be discreet" as one dealer put it.... The Swiss National Bank became particularly concerned and hastily issued a rebuttal.

Swiss National Bank President Fritz Leutwiler said the report of a "failure" was "completely inaccurate."...

However, according to an informed U.S. source in Europe, Leutwiler's comments overlooked a split in opinion among banking authorities over West Germany's reflationary efforts. It was stressed that the Carter Administration continues to believe the West German efforts have been "inadequate."

New York Times, *Jan. 9:*

Renewed selling put the American curency on the defensive again last week. It was apparently related to a belief that the intervention measures announced in Washington Wednesday could not be effectively employed.

"A decision to support actively the United States dollar does not alter the fundamentals," the (London — ed.) advisory service Forex Research Ltd. declared in a special report. The currency "is likely to slip further" before recovering somewhat in the second half of the year, it is predicted....

U.S. Must Remonetize Gold Reserves

The following statement was issued by the U.S. Labor Party Jan. 10. It was written by David Goldman, USLP Director of Financial Intelligence:

America's allies and friends among the major industrial countries have made us an offer — as of this week's meeting of central bankers in Basel, Switzerland — which this country must accept. At the Basel meeting, the chief central bankers of West Germany, Switzerland, and France informed outgoing U.S. Federal Reserve Chairman Arthur Burns that they are prepared to use their massive gold reserves as the fulcrum for a general restabilization of the world currency situation.

They have given the United States the chance to peg the dollar back to gold, as the first step toward launching a new round of hard-commodity credits for international trade, with a hard dollar as vehicle currency.

In essence, this is what America's allies told Fed Chairman Burns: The situation is of the most extreme gravity. Your interest-rate juggling and other measures to support the dollar are miserably inadequate even in the short-run. If the United States refuses the responsibility of managing the world's reserve currency, Europe (and Japan) will exchange their surplus dollars for gold, and create the core-group of a new gold-based monetary system.

Europe will present a gold system to the United States as an accomplished fact.