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Dollar Bubble's End Draws Deadline For Growth Policy

The sudden reversal on May 18 of both the dollar's rise and the U.S. stock market's gains marked a financial correlative of the simultaneous "invasion" of Zaire as a political move to undermine the solution to world depression recently placed on the table by West Germany's Schmidt and Soviet leader Brezhnev. Federal Reserve Chairman G. William Miller and his London-coached international associates made a political decision to prick the monetary bubble they had built up over the past several weeks.

FOREIGN EXCHANGE

This *Review* had predicted such an eventuality since the bubble was launched last month.

The point is not the immediate ups and downs of the markets per se. The point is that Miller has now dumped the dollar problem in the Administration's lap. The next stage is a "package deal" detailed below, which will be directed against growth-bent factions of all national governments. Its purpose is to derail the July economic summit and the surrounding negotiations. The logical agenda of that meeting would instead be U.S. entry into the multibillion-dollar 25-year trade and development agreement reached earlier this month between Moscow and Bonn.

The immediate trigger in a jittery market for the dollar's May 18 two-pfennig drop against both the Swiss and West German currencies was two central bank statements. The head of the Swiss Nationalbank, Fritz Leutwiler, announced that during the April 1-May 17 period a net *sale* of 850 million U.S. dollars had occured through the central bank by Swiss public and private entities. It had been clear to the markets for some days already that both the Swiss and West Germans were selling, instead of supporting the dollar.

U.S. Labor Party chairman Lyndon H. LaRouche, Jr., stated from Wiesbaden, West Germany that he has material evidence that Leutwiler was acting under British influence in this matter, not according to Swiss interests. The dollar crisis precipitated by deflating the bubble is intended to force a climate of chaos and anxiety, such that by the July meeting of Western heads of states in Bonn, both West Germany in particular and the U.S. itself will beg to negotiate a "package stabilization deal," trading a final pledge of energy contraction and austerity for West Germany's final agreement to reflate its economy.

The maneuver has every potential to backfire (see TRADE article this section).

The second central bank statement May 18 came from Otmar Emminger, president of the West German Bundesbank, who fed the market unrest by suggesting, first, that "the recent uptrend in the dollar has been exaggerated," and fundamental energy and balance-of-payments problems must be addressed. Emminger went on to announce a $2 billion-plus expansion in deutschmark liquidity, through a 7 percent reduction in minimum reserve requirements, but he denied that West German inflation would be allowed to increase; specifically refused to foresee an increase in government borrowing requirements (i.e., fiscal stimulation); and predicted a slowdown in the U.S economy — which, however, he said would not arrest U.S. inflation.

Market elements expecting some progress on the "package stabilization deal," thus saw the West Germans holding back, "smart" international money, including the Middle Eastern, was already pulling out. The African destabilization accelerated a flight into "safe" Swiss francs, pulling up the mark as well. The dollar's slide then hit the stock market with a downturn that was *intensified* (not reversed) May 18-19 by the news that the Federal Reserve Chairman G. William Miller had hiked the Fed funds interbank rate another eighth of a percent and rumors of more to come.

The Game Shifts

The latter event is the most telling of all. The Markets have not just taken a dip; London has switched the game cards on the Monopoly board. The bubble *psychology* has been deliberately destroyed, in the following way.

As it became clear to London that the Scmidt-Brezhnev initiative would go through, the bubble operation was launched in mid-April. Stock-market speculation and tentative dollar recovery were built up in the U.S. and attributed by Miller and the Anglo-American financial press to the Fed's interest-rate tightening — the "Miller miracle." This was not because anyone had rational confidence in the credit squeeze, either as a remedy for the dollar's payments position (as witness 1974) or for inflation (increased borrowing costs in fact multiply inflation). But the market wanted to see some leadership in Washington, and euphorically seized on Miller, despite his history as a Kennedy machine hatchetman. A good deal of U.K.-controlled funds primed the bubble, but London, which traditionally operates not with money but through the press, depended on its number-one semisecret weapon — the media "hype" of public opinion.

Beginning in early May, rumblings against interest-rate euphoria gradually emanated from the financial press and British-oriented institutions like Manufacturers Hanover and the Conference Board. "Miller is great, but he can't do it alone. The U.S. economy needs a total aus-

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terity bath" is the line. Businessmen are whipsawed by the menace of inflation — no one, much less corporations, can actually launch a national and international growth policy under the inflation blitz.

This was the message relayed most luridly by *Business Week* May 22: inflation is "ineradicable" and it means "this country could be heading into the worst period of economic and social dislocation since the Civil War."

G. William Miller, the Pied Piper who lured the market's infants to the cliff's edge, has done the same to the White House. As a usually reliable Washington source put it, Miller has told the Administration that — despite criticisms from Stu Eizenstadt, Robert Strauss and others — he was out, not to crunch credit, but to draw in foreign funds. And this he has accomplished. If the Administration wants to keep the funds here and the dollar alive, it will have to impose sweeping, savage, fiscal and energy cutbacks. The clincher came in a May 18 *New York Times* interview where Vice-President Walter Mondale — long noted for pushing the make-work "jobs" programs of his mentor Hubert Humphrey — enunciated his sudden discovery that unemployment no longer matters compared with the urgent need to belt-tighten against inflation.

The International Operation

Western Europe, too, is being threatened with dollar-depreciation chaos (and resulting trade war) unless it subjugates itself to Miller's "package deal." The first hints of the deal emerged during May 12 as Bundesbank chief Otmar Emminger indicated that, owing to the outflow of West German funds to the U.S., West Germany would need to expand its money supply. More dramatically, Economics Minister Otto Graf von Lambsdorff the erstwhile great "free market" spokesman, has become a persistent advocate of what he openly calls "Keynesian fiscal stimulation" as well.

Lambsdorff, in statements cited by the London *Financial Times* and the *Ruhr Generalanzeiger* journal, has tried to sweeten this for domestic listeners by promising that in exchange for reflation, West Germany would be allowed to overrule the other European Community members' efforts toward the kind of trade protectionism the Federal Republic detests. Having appointed himself liason with the National Security Advisor group around Brzezinski and the Brookings Institution planners for the U.S. side of the Bonn summit in July, Lambsdorff wants to make a brawl over protectionism one key aspect of wrecking the meeting.

The West German Chamber of Commerce executive secretary, Paul Broicher, stumbled into Lambsdorff's trap, or perpetuated it, by urging the July summit to concentrate on protectionism, since West Germany, he said, in a May 17 speech, cannot expand its 1978 exports enough for real growth.

The reward for West German reflation, from this side of the Atlantic, according to Fed Governor Henry Wallich in a May 17 *Die Welt* interview, will be Congressional approval of the U.S. energy consumption restriction program for which West Germans have been allegedly — and to a dangerous degree actually — screaming. Otherwise, the President will impose oil import taxes by fiat, Wallich threatened. His counterpart at the Bundesbank, vice-president Karl-Otto Poehl, rounded out the package. Poehl told a Bankers Association for Foreign Trade conference in Hot Springs, Arkansas that, given an anti-inflation program in the U.S., West German firms will be happy to provide more capital inflow, since mark exports and West German labor are "overpriced."

The philanthropic efforts of these underlings — operating under the orders of no one but Miller, Blumenthal and the Brookings Institution in the U.S. — were complemented by a babble of antidollar warnings and blandishments from direct London circles. Robert Triffin told the Forex research gathering in New York City May 15-16 that the dollar's role must be reduced, and a new international currency substituted. West German Finance Undersecretary Manfred Lahnstein elsewhere expressed great enthusiasm for a European Monetary Unit reserve system to diminish the dollar's role. Belgian central bank chief de Struyker proposed a "dual snake" European joint currency float to the same effect. Finally, Hamish McRae of the London *Guardian* thumped on the fragility of the dollar recovery and the inability of the Fed to deal with the situation May 16. Such sideshows amount to a foil to persuade certain Americans, West Germans, and others that they would prefer a "dollar stabilization package" to the formed demotion of the dollar to these sorts of polymorphous little "zones," "pegs," "tiers" and "snakes."

In this climate, the joint annoucement by Swiss, West German, and Japanese monetary authorities that they will attempt to ease the foreign-exchange controls which served as a brake against antidollar speculation can be used by Miller as another sort of blackmail. They could lead the imposition of hyperinflationary oil import taxes, accept a "recession," and thus "deal with the fundamentals." Or, our international partners will simply let the dollar strip its gears.

—Susan Johnson

Accept Inflation or Face Civil War

Business Week, special report on inflation May 22:

The most pernicious inflation in U.S. history is destroying the nation's effort to achieve solid economic growth. Government policies are largely to blame , and government measures to alleviate the impact of price increases only make the inflation more virulent. Indeed, inflation seems so embedded in U.S. society as to appear ineradicable....

...In the event of wage increases, the government will be forced to take more stringent action, either by imposing mandatory controls or restrictive economic policy, which would temporarily slow the pace of inflation..."The most realistic threat the country faces is not controls but another recession," says (Council of Wage and Price Stability chief Barry) Bosworth. "We can see the signs already... A recession is likely because that has always been government's anti-inflation policy."

...The U.S. is still a long way from open class warfare, but many people worry about what could happen if inflation remains at anything approaching recent levels... the economic outlook is clouded, inflation is no longer waning, and this country could be heading into the worst period of economic and social dislocation since the Civil War.