Germany, Japan, Saudis Press U.S. Toward 'Grand Design' Policy

To win the American government to international measures to stabilize an upvalued dollar and peg it to the new gold-backed European Monetary System plus its Japanese and Arab affiliates — this is the goal intensively pursued at the end of August by powerful

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U.S. allies. By Sept. 1 private indications were mounting from key multinational corporations, as well as individuals within the Federal Reserve System and State Department, that a coalition can be awakened within the U.S. for such a policy.

After the Germans and Japanese present their calls for U.S. support for the EMS at the Sept. 8 Group of Ten Finance Ministers meeting, "we and several other multinationals intend to coordinate our reserves, in concert with the U.S. government, to bull the dollar," a source at a major U.S. oil company told this publication Aug. 30. He indicated, as did a Federal Reserve official sympathetic to the EMS method of recycling the dollar into a development vehicle, that the pro-EMF faction within the Carter Administration is identified with Secretary of State Cyrus Vance's diplomatic efforts to coordinate with the Germans, Japanese and Saudi Arabian governments on stabilizing the dollar as a matter of U.S. national security. The viewpoints of Treasury Secretary W.M. Blumenthal, who continues to talk down the dollar, must be vigorously resisted, both sources warned.

Germany, Japan Act While They Recommend

The governments of Takeo Fukuda and Helmut Schmidt are demonstrating in action the rudiments of the EMS, and extending pressure on the U.S. for corresponding moves. In a sharp message to both the dollar-wreckers and the procrastinators in the U.S., Chancellor Schmidt stressed in a television interview Aug. 27 that before 1972, it was accepted as self-evident that fixed currency exchange rates are a precondition for monetary stability. They must be reinstated, he said, at least for a start within the European Community; he added that the recent Franco-West German agreement to do this is the key to the EMS's success.

The implications were drawn out the next day by the lead editorial in the New York *Journal of Commerce* (see box), which concluded that the best option for rescuing the dollar is to stop jacking up interest rates and make a positive U.S. response to the EMS; this will strengthen the dollar's necessary reserve-currency potency instead of weakening it, the Journal affirmed. A leading New York currency analyst on Aug. 28 saw "a return to fixed rates" as highly plausible "based on the recognition that the dollar is ridiculously undervalued."

Simultaneously, market operations were under way along EMF lines even before the EMF's formal inception. The West German central bank, according to the Aug. 30 *International Herald Tribune*, has funneled at least $3.1 billion to commercial banks during August to place dollar orders. And Japanese trading companies are placing advance orders for dollar-denominated oil and raw materials, at a rate of $400 million on certain days.

But Japan is also changing the very nature of the credit markets themselves. For the first time since 1973, the Japanese Finance Ministry has authorized Japanese lenders to use the glut of U.S. dollars in the Tokyo dollar market for trading and investment purposes. The first taker was the Mexican national

Journal of Commerce Backs EMS

From the Journal of Commerce *editorial, "Our Dollar Is Our Problem," Aug. 28:*

... the dollar is a reserve and transaction currency. Washington owes it to the world to keep it stable and reasonably valued .... Twice this year the Federal Reserve has pushed up interest rates for international considerations when domestic considerations didn't fully warrant such moves ....

One very real benefit of European monetary integration would be the use of European currencies for intervention purposes within the enlarged European currency arrangement. This would remove one element of pressure on the dollar in the future. Although the Europeans deny that their current initiative is designed in any way to be "against the dollar," it could be used in a harmful or protectionist way in the future. On the other hand, it could be easier for the U.S. to maintain a stable dollar against a bloc of European currencies than against a mass of fluctuating ones .... Washington has more responsibility than any other capital for acting in such a way as not only to maintain a healthy American economy, but a stable currency.

credit institution, Banobras; the Tokyo-based Sanwa bank is confident of "more such placements in the future." This is the EMS principle in action — soaking up foreign-held dollars, i.e. debt claims on the United States, and turning them into loans for developmnt which generate giant export orders for the United States. Thus the U.S. becomes a strong creditor nation again — a creditor for productive purposes — in alliance with the other "surplus" export-oriented inhabitants of a vastly expanding world market. The Aug. 28 *Journal of Commerce* editorial astutely intimated that Japan's pioneering in this kind of credit will force U.S. banks to join in making low-interest loans, or remain stuck with a low real return on their present sterile Eurodollar-mode assets.

Japanese Premier Fukuda has planned a trip beginning Sept. 10 to Saudi Arabia, Iran, Qatar and the United Arab Emirates, explicitly to discuss dollar support, the July pro-nuclear energy Bonn Summit results, and Western Economic recovery, according to Italian press reports Aug. 31. Fukuda will be able to confer with these petrodollar holders about the all-around benefits of the kind of technology financing Japan, as well as France, has already launched in Mexico. The Japanese offensive on behalf of the EMS has also extended to an unprecedented invitation to the U.S. to remonetize gold as the EMS is doing, by revaluing American gold reserves at the market price; this was transmitted in an Aug. 23 Yomiuri *Daily News* article describing the concern of the Japanese central bank and finance ministry that Japan and the U.S. not be left out of the new system.

For several months, the dominant prodollar, prodevelopment faction in Saudi Arabia has already been working closely with West Germany on behalf of the dollar. On Aug. 27, Saudi Crown Prince Fahd stated that "support of the dollar and cooperation with the U.S. in every way" must multiply, because "the dollar problem is not just a problem for Saudi Arabia but for the whole world." Fahd privately circulated the texts of his earlier series of such statements among European ministries before he made them, to ensure coordinated pressure on the U.S. The Shah of Iran echoed Fahd Aug. 24, declaring that "no one should panic over the dollar," and the price of oil will not be raised. Then, following a "consultative" trip to Iran, Iraq and Saudi Arabia, the oil minister of British-influenced — and consequently anti-dollar — Kuwait told the Qatar News that Kuwait would no longer press for price hikes, and did not foresee an emergency OPEC meeting to end dollar-numeraire oil pricing.

The full direction of this European-Arab pressure on the U.S. was identified Aug. 29 by Hans Friderichs in a speech to a conference on underdevelopment in Alpbach, Austria (see box). Friderichs is the former West German Economics Minister who replaced the murdered Jürgen Ponto as the spokesman for the giant Dresdner Bank. He denied that there is either too much Third World debt per se, or too many international dollars; he spelled out the fact that a real world growth policy would require *more* of both, to the benefit of advanced sector lenders.

Friderichs On Recycling The Debt Overhang

From the address by the spokesman for the West German Dresdner Bank, Hans Friderichs, in Alpbach, Austria, Aug. 29:

There should be a sensible international policy of going further into debt, which could contribute to a renaissance of international growth rates. The present situation is that the Western industrial countries can produce at a tremendous rate. But the Third World capacity for absorption is even larger than that, and the only problem is the Third World's lack of the requisite purchasing power — so we need new lending to the Third World to come to the rescue.

Counter-Deployments

The present West German Economics Minister, Otto Graf von Lambsdorff, is unfortunately among those Europeans working with EMS opponent Great Britain to keep a deindustrializing U.S. out of the growth alliance. Lambsdorff was reported by Armed Forces Radio Aug. 31 to have crowed, Bank of England-style, that "Europe is throwing down the economic gauntlet to President Carter" and insisting on energy-contraction, credit-shrinking measures. On the U.S. side — although even the Aug. 27 *Sunday Telegraph* of London conceded that the State and Defense departments are blocking the most outrageous Treasury attempts to disrupt relations with West Germany, Japan, and Saudi Arabia by stalling on dollar support — Lambsdorff's counterparts are hard at work. Henry Wallich, a Federal Reserve governor, managed to torpedo the dollar Aug. 30 by darkly foreseeing continued acceleration in the U.S. inflation rate unless both wages and "excess profits" are slashed. Europe and Japan had helped the dollar quickly recover from the previous day's disastrous market response to news of a $3 billion American trade deficit for July, until Wallich's statement.

Instead of appropriately and confidently responding to the deficit by pulling together an export-promotion policy to link up with the EMS, the Carter Administration left itself open to further counterpressures. The Aug. 31 *Wall Street Journal* claimed that the Executive branch is self-avowedly "at sea" in the face of rising interest rates, and in the event of "another dollar crisis" will be powerless to resist advocates of even further austerity tightening.

—Susan Johnson