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Remedy offered for dollar slide: recession

The dollar fell sharply starting June 18. By June 21, it had sunk to 1.857 marks, compared with a 1.915 average the week before, and 1.66 Swiss francs compared with 1.72. In yen terms, the decline was moderate; but the pound sterling rose from the $2.10 level to $2.13. Allegedly, the dollar's fall is due to continuing U.S. monetary expansion and the Fed Chairman William Miller's delay in precipitating a recession.

The underlying situation roughly parallels 1926-29, when the Federal Reserve was expanding the money

FOREIGN EXCHANGE

supply like mad, under an Anglo-American agreement to make sterling strong by comparison and maintain the pound's world reserve role—while the dollars piled up in a speculative pyramid. In 1929, Fed Chairman Benjamin Strong forced higher rates, London pulled out of the U.S. markets, and domestic speculators couldn't meet their call loans: Black Friday

This time the prearranged nature of the "recession" is being announced and applauded. G. William Miller has indeed refrained from crunching the money supply, while keeping the economy extremely vulnerable. Interest rates have recently moved downward, reflecting the short-term money supply bulge, and creating an important differential between New York and London.

Now, to defend the dollar, Miller is supposed to contract the money supply, hike interest rates, and gratefully accept the IMF's offer to supervise a recession. The borrowers and lenders who have rushed to the markets to get ahead of credit controls of higher rates will be placed under "surveillance." All this has been repeatedly urged by U.S. bank economists and columnists. The question then is whether the European Monetary System founders, especially West Germany and France, will stand by, let the dollar tumble, and advise the U.S. to take its contradictory medicine.

No one, least of all the IMF, actually believes a recession would be good for the dollar, any more than they believed their converse claims that Blumenthal's 1978 dollar-depreciations policy would be good for the U.S. economy. The choice for Europe is between letting the dollar go and making the EMS's European Currency Unit (ECU) into a "parallel currency" for "dollar substitution accounts"—a course openly urged last week by strategists like Robert Triffin who envison the EMS as an anti-dollar adjunct to the IMF—or consummating the EMS's original resolve to strengthen the dollar by concentrating foreign-held dollars into credits for mammoth Third World imports of U.S. and European technology. And the choice for OPEC leaders in the Middle East then becomes which kind of new Western leadership to align with.

For the first time during the week's dollar turbulence, the West German Bundesbank was reported June 21 to be heavily buying dollars after its token dollar support at the morning mark-dollar rate fixing. The Federal Reserve, in line with its November 1978 pledge, has also intervened substantially.

Within the EMS, the latest development was a row at the Luxembourg meeting of European finance ministers over the concessionary credit promised Ireland and Italy when they joined the system. Britain, which did not, insisted on receiving an equivalent loan; Germany and France refused; so Britain, as a European Community member, vetoed the other two credits.

At the same time, British entry this fall into the EMS continues to be mooted, along with British-inspired predictions that the EMS will fall apart (see below). The former contingency is geared by London to drawing Europe into administering austerity; the latter is their standard threat should the EMS activate its European Monetary Fund plan for gold-backed dollar financing.

—*Susan Johnson*

A 'parallel currency'?

In a June 15 article, "The EMS would not survive a dollar agony," *Les Echos reported on British scenarios to turn the European Monetary System against the U.S. dollar.* What is the future of the European Monetary System? Here are the views expressed by experts today at a colloquium organized by the Group for Economic and Financial Deliberations (GREF)...

Professor Robert Triffin of Yale set out the conditions under which the European unit of account, the ECU, could become a "parallel currency." "The European Fund for Monetary Cooperation (FECOM) would have to allow central banks to consolidate their dollar overhangs in ECU, in such a way as to preserve the liquidity of their assets," he said.

They would exchange these surplus dollars against fully liquid ECU accounts utilizable for balance of

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payments settlements; and FECOM could hold the funds it acquired in this way from the U.S. in a form which was traditional and indeed prestigious in the 19th century, that is "interest-bearing and offering an exchange-rate guarantee in terms of their denomination in ECU."

For M. Fredric Boyer de la Giroday, director of monetary affairs for the European Community Commission, the transformation of the ECU into a parallel currency will occur through an "evolutionary method."...According to him, it is above all necessary for public authorities not to obstruct this process, and even to favor the acceptance of ECUs by economic agencies and especially by banks, analogously to Eurodollars.

M. Géoffrey Maynard, economic director for Europe and the Middle East for the Chase Manhattan Bank, indicated the reasons why the new Conservative government in Great Britian is very likely to join the EMS.

The Tories seem more favorable toward the EMS than Labour was, and, he added, they see the advantage fo sterling appreciation and of a restrictive monetary policy....

M. Harold Van Cleveland, international economist at Citibank [coauthor of Atlantic Council and Council on Foreign Relations proposals for austerity and "controlled disintegration"—ed.] stated that the U.S. will remain the arbiter of the international monetary situation. "Without a monetary stabilization in the U.S.," he said, "European nations will be unable to maintain stable exchange rates among themselves."

WORLD TRADE

Europeans bypass multis in quest of oil

Have the Anglo-Dutch and Anglo-American major oil companies killed their proverbial golden goose?

A number of Western European nations, in self-defense against Seven Sisters oil price manipulation, recently deployed their diplomatic staffs to the Mideast to conclude bilateral state-to-state oil deals, completely bypassing the oil multis and their speculator friends on the Rotterdam and Genoa spot markets.

Most unsettling to the majors is the June 16 deal signed between the Italian state oil agency ENI and Saudi Arabia's oil agency, Petromin. The terms of the June 16 deal are that ENI will get an additional 2.5 million tons of crude oil in 1979, and 5 million tons in 1980 and 1981 each. The oil will be priced at the current official OPEC price of $14.55 per barrel, creating a considerable saving for Italy. (The current speculator-controlled spot price is $40 per barrel in some cases.)

Italy's ENI has also arranged for 3 million tons of oil from Iraq, 1 million from Syria, and a just-announced 1 million tons from Libya. This means that Italy has now more than compensated for the 7 million tons of oil that it lost from Iranian cutbacks. ENI is currently negotiating with Iraq to build a new refinery there, which may entail more Iraqi oil shipments to Italy.

The enraged oil multis are now threatening to launch an oil boycott against Italy—the same threat that was brought against Italy in 1974 and 1976—and earlier, when ENI was led by the Christian Democratic nationalist, Enrico Mattei. Mattei was aggressively pursuing the same panoply of state-to-state oil deals ENI is pursuing today. His efforts were cut short in 1962 when he died in a suspicious plane crash.

Italy is by no means unique in bypassing with increasing success the Seven Sisters and spot market speculators. In February, shortly after the Shah's downfall, Greece's Karamanlis government obtained oil from Saudi Arabia on a bilateral basis. Kuwait is reported to be directly supplying Japan. West German Foreign Minister Hans-Dietrich Genscher is now seeking similar arrangements for his country from the Saudis. Genscher was also just in Libya—whether the deal there goes through will depend on whether the Libyan government agrees to expand net production—and Genscher will be visiting Iraq on his return from the Tokyo summit.

—*Richard Schulman*