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Reviving the dollar through NATO

by David Goldman

At deadline for this issue, the dollar continued stable and the New York Stock Exchange had finished the third day of a rally that carried the Dow-Jones up almost 30 points. The price of gold held at less than $600 per ounce, substantially down from the preceding week's high.

No more erroneous picture of the actual state affairs has recently been given by behavior of the markets. Within a short period of time the markets will catch a dose of the panic already prevailing in the foreign and military policy sphere, and market stability will be gone.

The problem in judging these developments is that any major blow to the stability of dollar markets will be read as a strategic setback for NATO at a time of crisis. An indicator of the situation is the abrupt change of heart in London concerning the viability of the dollar as an international reserve currency. As *EIR* has emphasized in the past, the Bank of England looked forward to a "controlled disintegration" of the dollar, a flight out of paper into commodities, and so forth, in order to put through its version of a "new international order." Now London urgently wants to preserve the dollar as part of NATO's highly perishable facade.

London's earlier view of what constituted advantage in world affairs centered on relative positions in gold, oil, and other raw materials. However, all that has changed since the Soviet Union moved into Afghanistan. It is much more than a matter of the Soviets threatening the Persian Gulf and Western oil supplies. Nations do not make war with raw materials, but with advanced technology and industry in depth. The American industrial base is now so depleted that it could not undertake a respectable military buildup—the chimerical premise of last week's stock-market surge—without sustaining rates of inflation at more than double present levels. This is particularly the case now that the Carter Administration has decided to present a front of prewar autarky to the Warsaw Pact by taking measures against grain and industrial goods export to the U.S.S.R. which will hurt the United States more than the Soviet Union. The grain shutoff, in particular, was so ill-prepared and incompetently executed that this policy could well set off a chain reaction leading to depression.

EIR has argued that the raw materials economics of London, of the Brandt Commission, and the Bretton Woods institutions were incompetent to begin with. The Soviet Union has done the Western World the favor of proving that this is in fact the case.

The economic issues, in turn, are now entirely strategic. From Washington's point of view, anything that Europe now does merely for purposes of economic stabilization is a source of potential breakup of the North Atlantic Treaty Organization. This is no exaggeration. For West Germany, trade with the Soviet Union is not an optional, $400 million per year affair (that is the volume of industrial trade to be affected by the White House ban), but a matter of economic survival. West German official sources insist that expanded trade with the Soviets is in preparation, especially in the energy field, despite the postponement by Moscow of the planned Jan. 31 Soviet-German trade negotiations. Although West German official sources claim that the postponement is merely for technical reasons, it is probable that the Soviets took the occasion to make clear that they need Moscow more than Moscow needs them.

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Consequently, the first reaction to Carter's trade ban among European (and perhaps Japanese) industrialists may be to break out the champagne and toast the American President who has given them such exclusive access to the world's biggest market.

There is a far more important issue, however, than the question of exports to the Soviet Union, and it is waiting like a submerged rock. It is generally agreed that the Soviets have attained a measure of strategic superiority to NATO by sustaining high levels of military spending at considerable cost to economic growth rates, a decision that the West has been unable to make. How is the United States to finance a real, hard, arms race, after the advent of a "post-industrial society?" Under generally much better economic conditions, the United States, from 1965 to 1971, financed about $33 billion, or roughly one-third the cost, of the Vietnam war by dumping official liabilities on foreign central banks. Will Europe accept the burden this time? It is difficult to estimate what a serious military balance would cost. But a good place to start might be the $40 to $60 billion required to reinforce China, according to a Pentagon study.

The question is not whether Europe *could* finance such an operation, but whether it likes what it would be buying. In the Western European view, a major NATO initiative of this sort leads directly to a thermonuclear battle in which Europe ceases to exist virtually immediately. West Germany accepted the Pershing missiles at the December NATO meeting, almost ruining its relations with Moscow, but it will not deliberately wreck its economy to prepare for its physical destruction.

That puts the West Germans in the peculiar position of conspiring with the French for monetary stabilization, including a role for gold. That country may be incapable of a strategic decision for or against NATO, in the midst of that organization's worst strategic debacle. But it can make a set of "business decisions" which, implicitly, tilt the answer to the strategic question.

Preparations for realizing Giscard's pre-Afghan crisis pledge for an early spring initiative for a new monetary system center on a March meeting in Sardinia of European Community officials to prepare for the EC heads of state summit in Venice. In charge of preparations are the just-retired French and West German central bank governors, Bernard Clappier and Otmar Emminger. But this timetable must not be taken too literally, because the strategic events determine the timetable. The façade of dollar stability, so vital now to NATO's aura of strength, could go at any moment. At that point efforts to hold the price of gold down, or to hold the dollar up, may prove useless. "If anyone is so stupid as to want to sell gold," a senior Bundesbank official in Frankfurt told *EIR* this week, "then we will buy it."

If a gold monetary system comes into being under present conditions, the Soviets could well dominate it.

Despite a glut

Zbigniew Brzezinski's oil price increases

What has most stymied oil market observers about the newest round of OPEC price increases, which brought African crude up to $34 a barrel, is how the OPEC price hawks and Britain could get away with it under conditions of general market glut. After the substantial increases announced disparately by members at the Caracas OPEC meeting last month, the average price of OPEC oil has risen to $27 a barrel, and is still climbing. This has occurred despite what are acknowledged to be glut conditions, to the point of exhausting storage capacity, on the world oil market.

One suggestion of an answer is now being circulated by the State Department Office of Fuels and Energy, which predicts a shutdown of Iranian oil capacity due to some military disruption. The current strategic situation makes that statement impossible to evaluate. Much more interesting is the question: Why has Saudi leverage over the market not pushed the other producers into line? The answer is that Zbigniew Brzezinski's overt commitment to an alliance with the Muslim Brotherhood puts the Saudis in real trouble, particularly since the Muslim Brotherhood is currently trying to overthrow the Saudi regime.

First, the events on the oil market.

The Libyan lead

OPEC's leading hardline price hawk, Libya, enacted its second increase in less than a month last week with an announcement of a new price of $34.50 a barrel, the highest in OPEC. During the mid-December OPEC meeting, Libya suddenly raised its price from $27 to $30 a barrel as a show of defiance to a bloc of pricing moderates led by Saudi Arabia. Libya and its OPEC ally, Iran, who jointly contested the Saudis call for moderation, are both under the dominant influence of the Muslim Brotherhood, i.e., Great Britain.

Following Libya's second price increase, a new round of sharp price jumps occurred. According to the *Financial Times* of London, Dec. 28, Britain will raise the cost of North Sea crude from between $2 and $4 to about $30 a barrel. On Jan. 1, Algeria and Nigeria announced new crude prices of $33 and $31 a barrel, respectively. Tradi-