European Press Ridicules 'Flower Dollar'

As the U.S. dollar sunk to new historic lows last week, one West German newspaper, the *Frankfurter Rundschau,* labeled the currency the "Blumenthaler" — a double pun on the name of the U.S. Treasury Secretary (Blumenthal) and the German word for "flower" (Blume). At one moment of panic on the New York foreign exchange market on Wed., June 20, the dollar hit a new nadir of 2.255 deutschemarks compared to 2.3590 two months ago.

FOREIGN EXCHANGE

Even the most fervent U.S. bank proponents of Blumenthal's policy of "benign neglect" towards the dollar — as part of a strategy to forcibly reduce the West German and Japanese trade surpluses — have suddenly realized that the dollar collapse is now lurching out of their control toward a generalized crisis of confidence. The normally complacent Rimmer de Vries, Morgan Guaranty's chief economist, bitterly complained to the *New York Times* that the major West German banks are speculating against the dollar and predicted still more dollar weakness unless the West German and Japanese governments "adopt more stimulative policies."

According to West Germany's *Frankfurter Allgemeine Zeitung*, the dollar crisis has prompted OPEC Finance Ministers to call an emergency meeting in Vienna on August 4 to discuss the dollar slide in relation to oil prices. The Italian daily *Il Giorno* noted that OPEC investors, abetted by the Swiss banks, have been unloading dollars on a large scale. Several European and U.S. gold market sources confirmed that a substantial chunk of these petrofunds are going directly into gold, which may help to account for gold's sudden jump to $145.50 on July 19.

The British *Daily Telegraph* hinted broadly July 20 that "the more Gaullist stance emerging from Paris" is one of the "major psychological factors" boosting the gold market in Europe. EIR specialists have gridded evidence pointing to the formation of a right-wing French-Swiss-South African "gold axis" (*see Gold Report*). Indeed French financial interests have been heavily disinvesting from dollars recently.

Squeeze Play

The possibility of an open break with Washington on monetary policy has been mooted by several European press organs, which have characterized Blumenthal's maneuvers as *trade war* directed against European export markets. The *Frankfurter Allgemeine Zeitung* complained of the Carter Administration's "conscious war of nerves," while the French financial paper *Les Echoes* roundly denounced the dollar decline as disguised protectionism.

As if to rub in the point, Blumenthal announced at a mid-week press conference that the U.S. would continue to run a mammoth trade deficit — now estimated at $25 billion for 1977 — throughout 1978 as well. What particularly irks the Europeans is that the U.S. deficit — contrary to Blumenthal — has not helped the European economies a bit. U.S. imports from Western Europe have not risen, and, in fact, the U.S. has tended to run a *trade surplus* against this sector. The U.S. deficit actually reflects the decline of U.S. export capabilities due to austerity policies implemented abroad, particularly in Third World countries.

Cure Worse than Disease

Any European counter-moves in this currency warfare, however, will prove useless as long as action remains within the framework of the bankrupt dollar system. West German monetary authorities are confronted with two equally undesirable choices: either let the dollar go and destroy West German exports, or support the dollar through intervention and set off an inflationary spiral in the German money supply. The Bundesbank appears to have opted for the first "alternative," purchasing only about $20 to $30 million a day to "smooth out" the markets.

Most foreign exchange experts have predicted that currencies such as the British pound, French franc, Italian lira, and Scandinavian currencies which have tended to appreciate along with the deutschemark, will not be able to sustain their revalued position due to the greater weakness of their economies. The continued appreciation of the deutschemark threatens, in particular, to bust up the deutschemark-centered European "snake." Such "snake" participants as the Swedish krona and Danish krona are deemed in most immediate danger.

Italy, Britain, and France have "protected" themselves against future crises by making large purchases of dollars. For example, the Italian central bank, according to the *Daily Telegraph,* has taken advantage of the dollar decline to purchase about $60 milion daily on the open markets. As a result, Italian reserves are now close to $7 billion, compared to $4.3 billion at the end of May. In reality, continued holding of dollar reserves only serves to guarantee that the European economies are further infected with the dollar's inflationary disease.