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statements that the country would reduce its trade deficit and take pressure off the dollar. However, the dollar fell on Friday from 246 yen to 244 yen, and declined even more sharply against the West German mark and the Swiss franc.

Contrary to past experience, the gold price has not gained at the expense of the dollar. Given the strong political control over the market, there is no reason to expect a direct relationship between a weak dollar and a high gold market price, not, in any case, in the short run.

There has been no firm decision taken as to how to proceed to return gold to its old monetary role, although the way is made considerably clearer by the expiration of the Jamaica International Monetary Fund meeting's ban on central bank gold trading during 1978. One suggestion that has been floated is that central banks will intervene in the market sufficiently to stabilize gold's trading price, giving the private sector the opportunity to denominate payments in gold, which would become more stable than the dollar. Reportedly, the Bank of England is especially terrified of this prospect, because a numeraire role for gold would undermine the reserve value of both sterling and the dollar.

— David Goldman

London Exploits Dollar Downfall

FOREIGN EXCHANGE

The French financial journal *Les Echoes* has provided new evidence that the Bank of England and allied British merchant banking interests are manipulating the latest round of international monetary chaos so that London can "come out on top" and restore the faded glories of the British Empire. *Les Echoes* revealed on Nov. 29 that the Bank of England itself has led the recent dollar-dumping, driving the speculative momentum which has brought the U.S. currency to record lows against the Japanese yen, West German mark, and Swiss franc.

"Hot money" flows into Britain as a result of the dollar's weakness and the short-lived "bubble" in British securities markets have allowed the Bank of England to add a full $16 billion to its reserves this year. The British central bank has reinvested the bulk of its huge dollar hoard — the second largest in the world after Saudi Arabia — into U.S. Treasury IOUs. The Bank of England has therefore gained strategic leverage not only over the fate of the dollar, but over the financing of the Carter Administration's budget deficit! According to *Les Echoes*, the central bank has been "trying, on and off, to get rid of its dollars" — ostensibly because it fears the depreciation of its dollar holdings — and has been joined in the dumping by "commercial banks and Arab dollar holders."

Admittedly, those New York-centered financial interests which have backed the wing of the Carter Administration centered around Treasury Secretary Blumenthal and Special Trade Negotiator Strauss — especially the British-linked investment banks, such as Lazard Freres, but also factions within the major commercial banks — share the responsibility for the dollar's precipitous decline. The commercial banks' view has been that the dollar drop is "not calamitous" since it will bludgeon the Japanese and West Germans into reducing their industrial exports and "solve" the problem of a $30 billion U.S. trade deficit.

The debilitating effects of dollar instability on world trade, however, will undermine U.S. industry, and London banks will be the prime beneficiaries in the end. Many commecial bankers have realized this belatedly, as reflected in a Dec. 1 *Wall Street Journal* feature which reported that many foreigners will no longer accept payment in dollars, forcing U.S. corporations to take the foreign exchange risks.

Japanese Feint

This week's Japanese cabinet shakeup, and the apparent "capitulation" of Japan to Special Trade Representative Strauss's demand that definite steps be taken to reduce the country's trade surplus, have momentarily buoyed the dollar against the yen. On Nov. 30, the dollar rebounded to ¥244.20 in Tokyo against - 241.88 the previous day. But seasoned observers say the Japanese have no intention of carrying out measures which would cripple export-based industry and send their economy into a major recession.

New York Federal Reserve officials and some foreign exchange experts say that the dollar could strengthen between now and the end of December, if only for technical, end-of-year book-balancing reasons. Although the Fed spent only $365 million in support of the dollar during the third quarter, New York Fed vice president Scott Pardee has promised that: "We have done a lot and are prepared to do more. We aren't sitting on our hands." Nevertheless, by Dec. 1, the "confidence game" appeared to have already evaporated as the dollar slipped to new lows against the West German mark and Swiss franc, 2.2144 DM and 2.1415 respectively.

Eurodollar Explosion

The rapid multiplication of excess dollars abroad insures that — without a U.S. government-backed high-technology export policy — no *long-term* stabilization is possible. As a Nov. 23 Dow Jones special report on the Eurodollar market documented, the "explosion in Eurodollar bank credit," which began in the third quarter, so as to cover national trade deficits and debts, has seriously aggravated the pressure on the dollar.

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"Medium-term Eurocurrency lending this year could exceed $36 billion with more than 80 percent of that amount in dollars. This would not only be a record but would exceed the previous annual total of $29.3 billion in 1974 by nearly a quarter."

Although such heavy borrowing would normally strengthen the dollar, most of the loans are immediately converted into other currencies, often to allow countries to support their own currencies against the zooming yen, mark, and Swiss franc. "Even when bank loans are for construction of plant and equipment, the proceeds are often converted into other currencies" as countries choose to buy from the more technology-conscious Japanese and West Germany than from U.S. producers. Add to this the $18 billion so far printed in the U.S. to pay the current account deficit, and "the ability of central banks to keep an orderly market is in doubt," the Dow Jones concludes. "If so, the dollar's decline could become pronounced."

British Refloat 'Europa'

Although British EEC Commissioner Roy Jenkins's proposal to create a new European currency, the "Europa", as an open rival to the dollar, has been firmly rebuffed by other European governments, a diluted version of the proposal received wide circulation this week. Under the "Europa" plan, all national European currencies would be eliminated and replaced by one single currency. National governments would lose control over their own economices, allowing London — with its strategic control over Arab money flows — to buy and dominate continental industry.

An article in the Nov. 29 *Daily Telegraph*, by economics editor Andreas Whittam-Smith, entitled "EMU (European Monetary Union — AB) Will Fly When the Political Flight-Path is Clear" lets slip the methods by which City of London forces hope to break down European resistance to the "Europa." According to Whittam-Smith, the first phase must be the destruction of the "snake" — the joint European currency float, which is the sole remaining oasis of stability in the international currency markets. This will entail forced devaluations of the weaker currencies and austerity so as to eliminate the inflation rate "differential" between countries and pave the way for "integration."

Even Robert Triffin, the Yale University professor who popularized the original Special Drawing Rights "funny money" scheme, has gotten into the act. In a Nov. 25 London *Financial Times* feature, modestly titled "A Proposal to Shelter Europe from Currency Shocks," Triffin attempts to meet European objections that the "Europa" will undermine national autonomy, advocating a "step-by-step" approach. Triffin recommends the creation of a "parallel currency", which would replace the Eurodollar and other Euro-currencies in international transactions but would — for the moment — leave national currencies intact. Such a parallel currency, says Triffin, "would provide a far more logical 'centre of gravity' than the dollar,'" although, like the dollar, it would not be freely convertible into gold, nor would its expansion be limited by any other measure of productive economic activity.

The "option" of an expanded role for the pound sterling has also not been dropped. Two more Euro-sterling bonds, totalling £45 million, were floated this week, and *Times* of London columnist Hamish McRae claims that the Euro-sterling issues have successfully "endured" the test of the marketplace.

The drive to re-establish London's pre-eminence as "the world's banker" emerged as the major theme of the Institutional Investors conference held in London this week — under the guise of promoting "European Federalism." Summing up the anti-American tone of the conference, Lord Duncan-Sands, an old Winston Churchill crony, ominously declared: "The European Western alliance is too lopsided, too dependent on one super-power."

— Alice Blythe

Administration Offers Steel Industry The Third World Treatment

In an effort to buy off sections of the steel industry, the United Steelworkers, and steel belt politicians, Under Treasury Secretary Anthony Solomon will feature a special loan guarantee fund as part of his forthcoming emergency program for the steel industry.

STEEL

As described in a memorandum which is circulating among members of the congressional steel caucus and other involved parties, the financial loan program would center on a $215 million fund which could extend $500 million in loan guarantees over four years. The purpose would be to enable ailing steel companies to raise the capital needed to modernize. This aspect of the Solomon plan is clearly a response to the mounting pressure for a full-scale modernization program.

However, this "concession" to smaller steel companies and the communities where they are located is tantamount to treating the companies like Third World debtors—offering them financial aid on a "case-by-case" basis to keep them from demanding a major program for putting the steel industry back on its feet. The miniscule size of the funds involved would probably keep near-bankrupt companies like Wheeling-Pittsburgh open just long enough to repay their debts, and while Solomon is trying to sell his proposals as an aid package for the