strategy to deal with the crisis. "Forget about yesterday's crisis, or tomorrow's crisis," said one participant in these meetings. "Look at the situation in broad perspective. The exchange rates problem has been finessed for the past 30 years, first by Bretton Woods, by forcing everyone to accept a dollar peg, and then by so-called floating rates. There is no way we can go back to any of this."

Gold on the Horizon

One of the factors making American leaders jump is the not-so-covert European threat of a return to a gold reserve basis of some kind if the dollar should continue to fall. In a press statement Dec. 4, Swiss National Bank President Fritz Leutwiler made public a proposal that he has circulated in private for some time, i.e., for the U.S. to sell gold reserves to Western European central banks in order to obtain the wherewithal for intervention on the foreign exchange markets. Although the U.S. is not likely to accept the proposal—as Leutwiler has informed his friends—the impact of the statement lies in the first-since-1971 reference to the use of gold for central bank transfers by a leading central banker.

It is highly significant that the *Wall Street Journal* editorialized favorably on the Leutwiler statement in a Dec. 9 editorial entitled, "Malign Neglect."

U.S. policymaking circles are broadly aware that they Western Europeans mean business on the subject of gold. The National Security Council is currently preparing an assessment of the Leutwiler statement. Virtually the only section of the U.S. financial community that presents a different evaluation is the British-connected investment banks. One top investment banker protested, "I just had dinner with Gordon Richardson (Bank of England president—ed.), and he assured me that (a European return to gold) will never happen."

At the moment, the Western European orientation is to intervene in the U.S. political situation and use their own resources to stabilize the dollar for as long as possible, recognizing, as Bundesbank President Otmar Emminger said in a press conference Dec. 8, "We alone cannot resist the pressures on the dollar coming from all over the world." According to West German official sources, the Bundesbank and Bank of Japan are negotiating to create a facility "to support the dollar until we both go bust."

Bundesbank Aid to Dollar

Officially, the Bundesbank intervened with $2.4 billion during the month of November alone, all of which represents an equivalent increase in West German money supply. In effect, the Western Europeans are temporarily putting aside their own economic stabilization efforts on behalf of the dollar. They are counting on a change in Washington, knowing they will not be able to sustain these levels of intervention.

Possibly an even greater sacrifice is the form that West German intervention has taken. After the dollar fell through the "psychological barrier" of DM 2.20 to the dollar on Monday and Tuesday, falling by a solid percentage point on each day, the Bundesbank stopped attempting to smooth out market fluctuations, and instead intervened with the objective of burning the speculators. Instead of buying dollars at the morning fixing on the Frankfurt market, permitting speculators to get a good price for their dumped dollars, and then letting the dollar rate drift down later in the day, the Bundesbank permitted the market to fluctuate wildly on Wednesday and Thursday. The dollar swung within a band of DM 2.15 to DM 2.18 to the dollar, according to Frankfurt market participants, as the Bundesbank let the rate fall quickly, and then intervened to turn the rate around, catching some of the dollar-sellers with a loss. By Friday, the market had quieted, leaving the Bundesbank temporarily in possession of the field. Central banks generally avoid doing this—although central bankers enjoy it immensely—because the wide swings in currency rates are potentially disruptive of trade.

But the intervention policy cannot hold for long, unless some fundamental redirection of U.S. policy to stimulate American exports is introduced. A growing section of American business is lobbying for an expanded role for the Eximbank, including utilization of the Eximbank's dormant commercial banking powers. Surface impressions to the contrary, most of the Western Europeans are sympathetic to this type of approach. In interviews with *EIR*, West German bankers, academics, and trade association specialists expressed support for a strong U.S. export profile, viewing the health of the dollar and the U.S. ecoonomy as more important than short-term considerations of market share.

How Europe Reacted To The Dollar Collapse

Swiss National Bank President Fritz Leutwiler, in a press statement Dec. 5:

You can no longer say that what the United States is doing is benign neglect for the dollar. It is now malign neglect on the part of the United States. The United States has good reason to worry about its currency. If the dollar continues to go down, it will incite the oil producers to raise their prices. There is a risk of less economic growth in countries like West Germany and Switzerland.

Where should the United States get the foreign exchange with which to intervene? There are large and unutilized swap nets that should be used to support the dollar. The U.S. and European central banks could share the gains and losses of intervention. If the U.S. wishes to intervene to support the dollar without borrowing, it can obtain Swiss francs and Deutschemarks by selling gold.

Dr. Otmar Emminger, President of the Deutsche Bundesbank, in a press statement in Frankfurt, Dec. 8:

The present dollar-mark rate is totally out of line with reality... the Bundesbank will intervene not only to smooth out the day-to-day fluctuations, but will intervene to control the fall of the dollar.

West German Federal Chancellory spokesman Armin Grünewald, in a press statement Dec. 8:

It is the responsibility of the United States to intervene to support the dollar.

West German Federal Chancellor Helmut Schmidt, at the Dec. 5 summit of European Community leaders (as reported by wire services):

We should beware of anyone who comes along with a panacea for the economic situation, for instance, printing money. Printing money will not work either here or in the United States... Europe has been financing the U.S. oil deficit by intervening on the foreign exchange market.

Helmut Geiger, President of the West German Savings Banks Association, in Die Welt *Dec. 8:*

We cannot permit the European snake to fall apart... the pressure on the dollar has reached intolerable levels. It is the responsibility of the United States to solve the problem.

Otto Wolf von Amerongen, President of the West German Conference of Trade and Commerce (DIHT):

Everyone, not only the countries who trade with the United States, is affected by the fall of the dollar. There are people in the United States who want to support the dollar. We in Europe should give them all the encouragement we can.

(A source close to Mr. von Amerongen added: Schmidt and Giscard are doing something about the dollar mess. They are old hands at this game. It seems that Mr. Carter has learned his lesson. I hope that 'Blumie' at the Treasury has learned his lesson, too. The only problem is that the British are old hands at this, too. They would do everything to the Western world for their own benefit. They do not care at all about the Western world.)

Deutsche Bank Board of Directors member Thierbach, in a statement broadcast over West German radio stations on Dec. 6:

The dollar is certainly undervalued. Certain Mideast countries have overdone their mistrust of the dollar... It would be completely wrong to draw a parallel between the current situation and the end of the 1920s, when the world entered a depression... West German exports might suffer due to the appreciation of the deutschemark, but they are not going to collapse. That is ruled out.

Le Monde *columnist Paul Fabra, in* Le Monde *Dec. 8:*

The persistent weakness of the dollar has turned into a crisis. There is no way to isolate the United States from the World economy. The American non-policy is paving the way for a new world recession... Blumenthal has violated the solemn commitments of the United States... the reason for the collapse of the dollar is not the growth of oil imports, nor the rise in money supply, as usually presented. The fundamental problem is that the Federal Reserve has accepted a policy of domestic reflation, as witnessed by the huge budget deficit during the third quarter...

If the decline of the dollar continues, it will make inevitable a new recession in the countries that are supposed to lead the world economy.

Italian Communist Party daily L'Unita, *Dec. 8:*

All the European countries are agreed on the need to support the dollar, except for the British, who believe that they will benefit from the dollar's decline.

West German Finance Minister Hans Apel, in a press statement Dec. 7:

The Federal government views favorably the efforts of the Bundesbank to support the dollar... according to the definition of the (1975) Rambouillet agreement, the flows out of the dollar are erratic and speculative. Therefore the Federal Reserve has the obligation to take action.

EEC 'Gaullist' Axis Blocks Jenkins's Proposals

Under the leadership of West German Chancellor Helmut Schmidt, the Dec. 5-6 summit of the European Economic Community (EEC) heads of state in Brussels delivered a resounding defeat to former British Minister and current EEC Commissioner Roy Jenkins's plan to relaunch a European Monetary Union. Although "taking note" of the Jenkins Commission's plans for long-term economic and monetary union, the combined forces of West Germany, France, and Italy pointedly refused to accept any concrete plans for the creation of a monetary union, calling on their finance and economic ministers to discuss details "at a later date."

The *Frankfurter Rundschau* proclaimed the meeting "a first-class funeral," commenting that "never before has the European Monetary Union been given such a blow... the Willy Brandt and Pompidou 1971 plans for such a union are as far from realization as the unification of Germany."

Against strong opposition from the British, the West Germans succeeded in pushing through the new EEC budget, which calls for almost doubling the British contribution, while restraining British and Irish demands for large increases in the Regional Fund (money earmarked for various regional development and rationalization projects in industry). Schmidt warned that under no circumstances would the Regional Fund be used for refinancing of existing debt, but only for new investment.

Schmidt Gets Last Say On EEC Finances

On the eve of the EEC summit, the behind-the-scenes fight between West Germany and France on one side and Britain on the other broke into the open with German Finance Minister Hans Apel's Dec. 2 *Handelsblatt* interview. The *Financial Times* of Dec. 3 splashed the story across its front page, noting Apel's attack on Britain for