

For this very reason, Washington think-tank sources report, Blumenthal's Treasury Department is strongly opposed to such a public auction. On April 5, Treasury Undersecretary Anthony Solomon attempted to dismiss the rumors of an imminent gold sale: "From time to time we do sell gold, (but)...there's no special sale being planned right now."

Nevertheless, even if Burns's plan should be implemented, \$50 billion in gold reserves are obviously no match for the \$600 billion in dollars — American IOUs — sloshing around overseas. Unless the U.S. mops up these IOU's through a major "hard commodity" export drive, any gold sale will, at best, merely postpone the next dollar crisis or, at worst, allow the British to manipulate a 1971-style run on U.S. gold reserves.

The inadequacy of some European officials' thinking on this question was best illustrated by Swiss National Bank head Fritz Leutwiller, who on April 3 issued a statement simultaneously praising Burns's gold sale proposal and demanding cuts in U.S. domestic energy consumption, a measure which would merely speed America's deindustrialization.

#### *Snakes in the Grass*

Meanwhile, the City of London has managed to dupe some leading Continental bankers into embracing its plan for an expanded European currency "snake" to prop sterling, albeit with little hope of actually bringing this strange animal into existence. The April 5 Dow Jones ticker carried a report, date-lined Brussels, that the April 7-8 summit of EEC government heads in Copenhagen would "discuss forming a European currency bloc to counter erratic movements of the U.S. currency." Citing unidentified "high monetary and government sources" in the EEC, Dow Jones stated, "the idea of stabilizing foreign exchange rates of European currencies is being advocated by Britain, France, and West Germany...Initial exchanges at the expert level appear to indicate an EEC currency bloc could be formed along the broad outlines of, but not identical with, the current European joint float, the snake."

Last week's issue of the London *Economist*, however, inadvertently lets slip the fact that the "European currency bloc" is in fact a British plan with a "Europeanist" cover. The *Economist* claims that French President Giscard is applying pressure to West German Chancellor Schmidt to reflate his economy, and is also ready to push for bringing both the French franc and sterling into the

snake. Although Giscard's press secretary, Pierre Hunt, did hint vaguely that Giscard wanted to make Europe a "zone of monetary stability," all the evidence points to close collaboration between Giscard and Schmidt going beyond purely monetary considerations.

Unfortunately, this has not stopped the head of West Germany's Commerzbank, Robert Dhom, from advocating a "European solution" for the dollar crisis. Albert Coppe, president of the Société Générale de Banque, a Belgian bank with possible British ties, told reporters in Washington that the snake should be expanded to include the French franc, British pound, and Italian lira.

#### *Calling Britain's Bluff*

But as even the British financial press has admitted openly, even the hint of a stronger dollar could easily blow sterling out of the water. Britain's industry has been stagnating at abysmally low levels for months, its exports are falling, and the myth of financial salvation through North Sea oil has recently been popped.

In an April 4 column titled "Stopping the Nonsense," the British *Guardian's* financial editor, Hamish McRae, warned that a dollar recovery could trigger a panicky exodus of the "hot money" which flowed heavily into London last year back into the dollar. To avoid sterling collapse, McRae lectures, Callaghan must hold back on his reflationary budget plans, which would feed British monetary growth and inflation.

Still another warning came from W. Greenwell's, a London stock brokerage firm: "recent excessive monetary growth has definitely become significant." According to the *London Times*, Greenwell's further declared that "if monetary policy were tightened in the U.S. and not in Britain, a run on sterling was probable." Although the latest banking figures indicated that monetary growth declined somewhat in the month ending mid-March, money supply is still running at least 1 percent over the official target of 13 percent. Britain's official holdings of foreign currency reserves also dropped \$381 million in March — \$281 million net of debt repayment — indicating that capital flight may already have begun.

The dilemma for the Callaghan government is that if it tries to defend sterling by adopting a restrictive budget and jacking up interest rates, it will also destroy the international credibility of Callaghan's "coordinated reflation action program," aptly acronymed CRAP.

—Alice Shepard

## W. German Bankers Stave Off Economic Collapse

West German industrial and government circles are desperately attempting to halt the decline in industrial orders and the stagnation in industrial output forced on their country by the collapse of the U.S. dollar. Their efforts are directly responsible for the unexpected upturn in West German domestic industrial orders for capital equipment, which began in October 1977 and has continued at the modest rate of 3 to 5 percent per month into January of this year.

It is widely hoped in these West German circles, typified by the leading spokesmen for the two major commercial banks, Deutsche and Dresdner, that the resounding defeat of French Socialist leader François Mitterrand in the French elections will pave the way for a rise in exports and industrial investment simultaneously in both countries. Two developments in France have been interpreted by informed circles as a strong opening to Franco-German cooperation on solving long-

standing economic problems in both countries. One is the appointment of Jean François Deniau, former head of the Franco-Soviet Mixed Trade Commission, and a specialist on European Economic Community affairs, to the post of French Foreign Trade Minister; the other is the decisively conservative character of the new French cabinet as a whole.

### West German Domestic Capital Goods Offset Worst Effects of Dollar Collapse

	Domestic Capital Goods Orders % Change over 1976	Industrial Output % Change Over Previous Month	Domestic Engineering Output % change over previous month
Aug. 1977	1.4	1.8	8.
Sept.	8.3	0	19.
Oct.	11.6	0	14.
Nov.	15.6	0	13.
Dec.	14.0	2.6	14.
Jan.			29.

Source: Bundesbank, Deutsche Bank

In West Germany, the modest pickup in domestic capital goods orders and output results from a two-pronged effort to open Mideast, Latin American and African markets for exports, and to use these openings as an encouragement to firms to unlock their bank accounts and invest. In January West Germany was the only western country to strike a balance of payments surplus with the Mideast oil producing countries, as especially Iran forwarded major contracts in the shipbuilding sector.

On the domestic front, "There are many indications that, at long last, orders are being placed for much-needed replacements of standard plant and equipment," according to the Commerzbank. One of these indications is the 6 billion deutschemark hike in bank lending to the manufacturing sector, in the fourth quarter of 1977, following over a year of stagnation in industrial borrowing.

#### Risks Remain for Banks

Over most of 1977, West German bank earnings were sorely affected by corporations' refusal to invest, despite historically low interest rate levels (imposed to discourage hot money inflows out of the dollar). Over 30 percent of profits for commercial and large state-owned banks were earned in Eurobond marketing operations, centralized in Luxembourg, and other foreign banking operations. This year, it is expected that a new record volume of 80 billion in deutschemark-denominated Eurobonds will be issued (following 78 billion marks in 1977).

Earnings on this large volume will be one of the buffer zones protecting the banking system from the immense

problems created by the collapse of the dollar. Reliable sources estimate that in order to maintain trading volumes, West German banks have taken up 160 billion deutschemarks in highly unpredictable forward currency transactions. A renewed British merchant bank "bear raid" attack on the dollar could provoke major foreign exchange losses in the crucial private banking sector.

A December survey in the *Financial Times* on West German banking, as well as the *London Investor's Chronicle* March report on Luxembourg banking leave little doubt that London is maliciously anticipating such a crisis. *Investor's Chronicle* peddles the lie that Luxembourg banking authorities are presently contemplating the imposition of stringent controls on foreign banks based there due to reports that a major West German bank has already incurred substantial foreign exchange losses.

The *Financial Times*, on the other hand, issues the proposal that West German regional authorities clamp down on state-owned banks moving into Luxembourg and related foreign markets to force them to concentrate their financing activities on "regional" — or labor-intensive — development.

In sum, West German banks have adopted a long-term practice of the Japanese financial community, namely the maintenance of export and corporate financing at high financial risk, to prevent a spiraling downturn in industry. The government's contributions to this effort were visible most recently, during the state visit of Brazilian President Geisel to Bonn. At that time, a series of accords for Brazilian participation in West German nuclear breeder and fusion power research were signed.

This visit had a direct impact on French-Brazilian relations, aiding the conclusion of two years of negotiations for a \$1 billion capital equipment sale by one of France's leading engineering firms, Creusot-Loire, for a Brazilian hydroelectric project. The equipment sales are being financed by a private banking consortium which includes Banque de l'Union Europeene, a leading Franco-Belgian representative of European programs to develop the Third World.

#### French Companies Threatened

In France, strict limitations on bank lending to private sector corporations, coupled with the relative weakness of the franc, which imposes high domestic interest rates, creates a situation in which it is impossible for private banks to play a "fire brigade" role on the Japanese or West German model. This fact pinpoints the stupidity of conservative, anti-Gaullist and British-leaning circles in France which have recently been screaming for a "return to free enterprise" and substantial industrial price hikes as the solution to the country's economic ill-

Since the election outcome, government experts in France have predicted a modest 4 percent rise in private corporate expenditures in capital equipment will occur. Similarly, West Germany's industrial daily *Handelsblatt* recently insisted that French companies "are prepared to look afresh at the 'bypassed opportunities' let go during the insecure political period of the past few months, and to 'newly conquer' both the domestic and foreign markets." As could be expected, moreover, "West German importers are taking advantage of the

decline in the rate of the franc" to up their purchases of French goods. Preliminary estimates mark a 6.5 percent hike in French exports for the month of February.

The serious weakness of the French economy, however, cannot be underestimated. Not only did bankruptcies once again rise in January 1978, but major mechanical engineering firms and fiber producers in the chemicals sector were only able to ward off what Banque Nationale de Paris described as "potentially catastrophic" yearend results because of the European-wide boom in the auto industry last year. The weak financial position of the country's chemical industry was further highlighted by the fact that its earnings deteriorated despite a 6 percent rise in turnover in volume

terms, a considerably higher increase in sales than occurred in either West Germany, or Britain.

The limitations in West Germany's "fire brigade" approach are also evident though as soon as the upturn in engineering products is compared to the absolute decline in producers and chemical goods output during 1977.

The efforts by private bankers and government officials in West Germany to keep the economy afloat are part of expectations that an international recovery program led by the U.S. with an expansion of East-West trade is a feasible, foreseeable solution to the dollar collapse, and that Franco-German cooperation will simply be one source of pressure for getting U.S.-Soviet economic collaboration underway.

—Renee Sigerson

## Congress Avoids Need For U.S. To Be Major Food Producer

Conferees from the House and Senate Agriculture Committees could have used their recent get-together to initiate legislation to expand American farm exports. The need for such an approach, both from the standpoint of American agricultural development and that of food-short Third World nations, could not be more desirable. But instead, House-Senate Agriculture conferees, under Republican Senator Robert Dole of Kansas, approved a

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### AGRICULTURE

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farm aid package featuring the "Flexible Parity Act of 1978," which will pay farmers not to produce. Patently inflationary, and administratively a nightmare, the legislation will "aid" American agriculture to remain stagnant and Third World nations to remain food-short.

The approved plan sets target prices and crop loan support rates according to a sliding scale — by individual farmer, according to how much of his cropland up to 50 percent (for wheat, feedgrains and cotton) he chooses to take out of production in 1978.

The conference bill, already denounced as a "cruel hoax on farmers," is not expected to get through the Congress, much less past the President. But the conferees' approval of the silly measure has temporarily tabled serious discussion of expanded farm exports, which are a critical element in an increasingly heated national debate over the U.S. Export-Import Bank's and industrial America's role in programs for world development.

The side of this debate which stands for zero-growth in American agriculture and starvation abroad made itself felt this week in other places besides Robert Dole's Senate-House conference. A series of editorial statements in newspapers and news "leaks" from the office of Dr. Peter Bourne, the heroin advocate in the Carter

Administration, announced that a 20-page memorandum outlining a "world hunger program" has just been given to President Carter by...Dr. Peter Bourne. According to syndicated columnist Jack Anderson, Carter is being pressed to adopt and unveil the program before Congress by May. If he does, it will be a major victory for the World Bank, the London Rothschild family, and any other person who believes that American farmers ought to have frozen production in 1865.

Bourne's "hunger program" emphasizes the "Chinese model" of backwardness on the family farm — "labor-intensive self-sufficiency." This "key to solving the world hunger problem" bears the hallmark of the World Bank, that helped draft Bourne's memorandum. It is an unambiguous attack on technology-proud American farmers who want to feed an industrializing world. It is an attack on Third World industrialization, which only the produce of American agriculture could make possible.

Dr. Bourne laid the broader issue on the table in an editorial feature in the April 4 New York Times. He announced a "national debate" on "a policy governing the entire American presence in the developing world," and advocated a "broader strategy" for "land reform and the redistribution of wealth." To Bourne the *production* of wealth is not within the realm of imagination, and "Redistribution of wealth" is convenient World Bank short-hand for crippling the production of wealth by promoting subsistence agriculture and "cottage industry" in 15th century modes.

#### *Any Connections?*

When Senator Dole's conference meeting decided to pay farmers more not to produce, it was under pressure from the "farm strike" movement led by the anarchist American Agriculture Movement. The AAM has demanded "100 percent parity" in government price-supports; "farm strikers" actually packed the committee