broadening the southern rim of the European Community lies in the challenge this will pose for French industry and agriculture (*see excerpts on page 27*).

The French Communist Party (PCF) of Georges Marchais, aping the most backward aspects of Chirac's nationalism, has meanwhile called for a European-wide mobilization of peasants and workers against a "Europe dominated by German imperialism," thus becoming a pawn of forces, led by the British, who oppose the EMS and its grand design. The fact that the PCF's coffers are lined by the Rothschild-allied wine-grower millionaire Jean-Baptiste Doumeng is not accidental to the party's current posture.

The type of program put forward by Deniau in the name of the UDF, with the addition of a more elaborated agricultural component, should permit a broad cross-party factionalization to occur such that Giscard emerges with a clear mandate. Numerous indications already point to Chirac's isolation on this issue; he has already attempted to retreat from his earlier statements, claiming that his remarks were misinterpreted by the press. The program also constitutes an urgently needed indication of Giscard's disenchantment with the Darwinian "free-enterprise" plan of Premier Raymond Barre.

The organization of Europe around the EMS, what Helmut Schmidt has termed the creation of a "superpower for peace," has been thoroughly discussed in the cirlces in and around Giscard's Republican Party. Leading figures in the party have defined the urgent necessity of implementing the EMS in terms of the need to avert the dangers created by the "tactical nuclear warfare" doctrine of Alexander Haig and Zbigniew Brzezinski. Moreover, they regard Giscard's role as that of the legitimate heir of Charles de Gaulle, defined as a strategist whose approach was based on French leadership in a sovereign, united, and confederated Europe.

And the French role in this Europe is to mediate a global policy in the interests of peace, working through detente with the Soviet Union, in Africa, the Middle East, and Latin America.

The just-ended trip to Western Africa of State Secretary for Foreign Affairs Olivier Stirn, Giscard's current state visit to Guinea and the preparations leading up to Giscard's planned trip to Mexico in February verify this role. Stirn's successful meetings with the leaders of several English-speaking African nations is a significant breakthrough for France, whose influence has traditionally been limited to the French-speaking nations of Africa.

— *Dana Sloan*

The problems with

At a time when so much hangs on the emergence of rational thinking in U.S. economic policy circles, current debate in the U.S. on the key issues of dollar stability and U.S. policy concerning the European Monetary System is dominated by a stale set of Hobson's choices. The debate is being conducted between the self-described advocates of a strong dollar, who insist on "defending the dollar" through economically debilitating high interest rates and belt tightening, and Kennedy machine "liberals" who assail the Administration's Nov. 1 dollar support package for costing the nation needed social programs and who instead advocate immediate implementation of International Monetary Fund-directed "reflation" and austerity.

Hearings held Dec. 14 by the international economics subcommittee of the Joint Economic Committee of Congress on "The Dollar Rescue Operations and Their Domestic Implications" provided the well-publicized stage for both sides in the controversy to air their views. Treasury Secretary W. Michael Blumenthal, who bears a special, personal responsibility for the steep decline in the dollar over the last year and a half, testified on behalf of the Administration's dollar-support measures and its ever-tighter monetary policy. In Blumenthal's rendition of the matter, the Nov. 1 actions — which established a $30 billion kitty of credit lines with the Europeans and Japanese and other funds for currency intervention — were a follow-up to the wage-price guidelines announced by President Carter in late October and the overall austerity of current Administration economic policy. The Treasury Secretary, in other words, advocated the position of defending the dollar through killing the U.S. economy.

To those who remember speech after speech in which Blumenthal told the foreign exchange markets that the widening U.S. trade deficit and depreciating dollar were no cause for concern, his remarks before the JEC on the negative repercussions of the trade deficit and falling dollar were most ironical. But unfortunately for U.S. policymaking, Blumenthal's conversion reflects the confusion of economic policy advisors throughout the Administration. Blumenthal went on to admit that a new "feedback" mechanism is operative, whereby depreciation of the dollar has resulted in higher prices for imports, leading to higher prices for domestic products competing with foreign goods, more inflation, further weakness in the dollar, and so forth. Blumenthal estimated that as much as one full percentage point of U.S. inflation this year reflects the effects stemming from the depreciation of the dollar, but he failed to mention his own leading role in "talking down the dollar." Blumenthal, in fact, sharply rebuked "those who feel that continuing decline in the dollar is good for trade."

On the question of the EMS, Blumenthal favorably

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endorsed the new monetary system as a means to "greater stability in Europe," but he predicted a "gradual" and "orderly" evolution away from the dollar's leading reserve currency role — a formulation influenced by the British strategy of turning the EMS into an antidollar, austerity-based regional currency bloc and creating a central role for the ECU (European Currency Unit) in international reserve transactions. However, bowing to an array of American and international business pressures, the Treasury Secretary concluded that "the dollar will continue to play an important role in international monetary relationships for the forseeable future, if the world is to continue to achieve growth and progress."

Congressman Henry Reuss (D-Wisc.), cochairman of the JEC subcommittee on international economics, mimicked the recent statements of British Chancellor of the Exchequer Dennis Healey. Reuss opened the hearings with an attack on the dollar rescue program and the domestic anti-inflation program for running the risk of recession and igniting "civil strife" in Newark, Cleveland, Detroit, Los Angeles, etc. Taken at face value, Reuss's criticisms of the Administration's economic policy might appear to be sound. "Higher interest rates, it is argued, will lure foreign capital here and thus improve our balance of payments," said Reuss. "It seems much more likely that an unnecessarily tight money policy will seriously slow down research and development, and investment in plant and equipment—both needed for increased productivity, which in turn is the soundest method of fighting inflation."

A closer examination of Reuss' demagogic pitch, however, reveals that he is playing the same role that he did in the midst of the 1971 dollar turmoil, when he helped trigger the August 15 crisis by "predicting" that the U.S. would have to sever the weakening dollar from its gold backing and phase out the dollar's role as the principal international reserve asset. Reuss's current recommendations that monetary tightness should be confined to fighting domestic inflation and the self-defeating high-interest rate "dollar defense" program be dropped, should be read as a call to abandon the U.S. dollar to free fall on the foreign exchange markets.

The specifically Healeyite bent of Reuss's remarks was expanded in his recommendations on international monetary reform, one of the Congressman's pet interests. Reuss endorsed the proposal of Governor Xenophon Zolotas of the Bank of Greece for issuing medium-term dollar-denominated Treasury securities to the Eurodollar banks and thereby "sterilizing" the volatile $700 billion overhang in the Eurodollar market. The intention of this proposal is directly contrary to the Bank of Japan's Eurodollar market "consolidation" plan, which involves not sterilizing the dollar liquidity but rechanneling it into productive loans for Third World development, thereby strengthening the dollar.

As the second element in his antidollar program, Reuss called on the U.S. to take the lead at the January Guadeloupe summit and in other international forums in promoting the relinquishing of the dollar's key reserve currency role and adopting "a basket-of-currencies unit under the aegis of a reinvigorated IMF." According to Reuss, the introduction of a second international reserve currency to supplement the dollar is a way of taking pressure off the dollar and shutting down the dollar printing press that has tempted us to "live and invest beyond our means." Reuss's aim is to subordinate all national currencies and credit policies to IMF dictatorship, subjecting advanced sector economies to the same IMF austerity policies that have debilitated the Third World.

"What is needed is some sort of substitution account in the IMF whereby foreign monetary authorities not wishing to hold so many dollars may turn in their unwanted dollars for enlarged and rechristened special drawing rights," said Reuss. The SDRs must be rechristened because the IMF's fiat money is discredited, and has now been upstaged by the explicitly anti-IMF European Monetary System, whose aim is to stabilize currencies through revived production, not austerity.

The great misconception, promoted by the confused Blumenthal and furthered by Reuss and the entire British-IMF crowd, is that the world economy is poised between two alternatives: run-away inflation and currency chaos or recession and stability. In issuing the economic forecast Dec. 14 of the Business Council of which he is vice chairman, duPont chairman Irving Shapiro commented. "The prospect of slower growth next year isn't bad news but is exactly the medicine our economists have said the country needs at this time." Echoing the same line that Blumenthal was delivering at the JEC hearings, Shapiro praised the Administration's Nov. 1 actions as a major step toward imposing discipline in the economy and egged President Carter on to greater feats of political suicide: "We can live with slower economic growth in 1979 and 1980 — even a mild recession — but we cannot afford the consequences of a reversal of the policies now in place," said Shapiro. "One must hope that the resolve of the administration will be a match for the pressures that are certain to appear next year."

The prevailing fantasy in the U.S. business community–which British-influenced U.S. policymakers like Reuss, and Shapiro play on — is that the economy must be put through a recession to knock out chronic inflation; only then can the process of capital formation recommence.

The European Monetary System and the corollary French proposal to create a $100 billion fund to finance high technology export to the Third World and the revitalization of European industry has now given the lie to every variety of British system economics. The only

sound anti-inflation policy consists in channeling "excess liquidity" into productive investments — investments in plant and equipment and in the development of new technologies, which raise labor productivity and cut production costs — in tandem with tax policy reform to promote capital formation. For this approach to work, what has to be frozen is categories of non-productive debt, principally the debt burden hanging over the developing sector, not the dollar overhang as Reuss suggests.

The only voice of sanity amid all the inflation versus deflation banter is that of certain businessmen and their political allies who realize that the Administration's 7 percent lid on wage increases will actually undermine labor productivity and hurt business. The president of Data General, a rapidly expanding computer company in Wesboro, Mass., told the *New York Times* recently that the wage guidelines will actually fuel inflation in his industry. Mr. de Castro said that his company was able to lower its prices 15 to 20 percent a year during 1976 and 1977 because of impressive gains in productivity. He attributed these gains to the computer industry's generous compensation of its skilled workforce, as well as the extensive training programs to upgrade skills. This deflationary process is currently threatened by the guidelines program devised by Council on Wage and Price Stability director Barry Bosworth, the whiz kid from the Brookings Institution.

—*Lydia Dittler*

Why Robert Triffin is

LaRouche clarifies the role of paper credit

Several weeks ago (Executive Intelligence Review, *Vol. V, No 47, Dec. 5-11*), *we reported on Robert Triffin's call for the strengthening of the Special Drawing Rights system which he helped design in the 1960s. We noted that Triffin is trying to "kill the EMS by cooption." In the following analysis, U.S. Labor Party chairman Lyndon H. LaRouche, who has looked at Triffin's recent productions, explains what's behind his latest outpourings.*

It is the spreading perception among leading circles on the continent of Europe that Professor Robert Triffin has been making an awful public ass of himself during recent weeks. Since I and my immediate associates know some relevant things about Triffin which other policy-makers may not have put into place from their own knowledge, my report on the current state of the Triffin case will be helpful.

My attention was first drawn to Triffin during the 1960-1961 period. I have always since granted him his due for his efforts of that period; he was one of the few policy-influencing voices who did indeed warn that all was not going well with the Bretton Woods system. Unfortunately, on matters of economics, he was less than useful then, and his recent recommendations are, at best, downright pathetic.

Mr. Triffin's most obvious ignorance is that he confuses purely paper credit and paper-credit mechanisms with what his peers among academics amuse themselves to term "savings." By "savings," the academic lads mean something very simple — yet Triffin has so far shown no comprehension of so simple a point.

Paper credit is ultimately a bill of exchange for tangible wealth *produced*. The net growth of paper credit which is associated with the expansion of an economy is properly limited to the amount of investable goods remaining after current costs of production, maintenance and replacement are deducted. Generally speaking, as long as the amount and direction of flow of paper credit is kept in line with the investment of the portion of goods represented as savings, an economy tends to function agreeably without catastrophic inflation or deflation.

Mr. Triffin's consistent folly is that he has never managed to grasp so simple a connection.

I am not saying that the foregoing covers the subject of economics. A study of my *The Theory of the European Monetary Fund* indicates what an adequate economic theory must take into account. I am merely pointing out that Mr. Triffin has flunked the first, beginner's step toward understanding how an economy works.

Unfortunately, it is not Professor Triffin's shocking ignorance of the ABC's of economics which has reduced