Salvage rights for the dollar?

If U.S. businessmen sit back and passively allow Mr. Paul Volcker to proceed with his stated intention to "disintegrate" the American economy, they will learn the hard way that, as maritime law is extremely ungenerous toward the salvagee, so the same criteria will apply to the dollar if the European Monetary System exercises salvage rights over the U.S. currency. Smart money has already bet on at least a dollar stabilization, if not a dollar recovery—no matter what the new Chairman of the Federal Reserve chooses to do about interest rates and monetary aggregates. However, there are two distinct political tracks under which the dollar could be stabilized. The first is that the Europeans will step in if need be and absorb the excess dollars on the market. That the West German central bank is prepared to do so, despite a great deal of puffery to the contrary, is not even a secret now to the American financial press or to senior American financial managers. The second is that Paul Volcker will pull a classical "British" austerity program, possibly with the public assistance of the International Monetary Fund's Managing Director, Jacques de Larosière. There are numerous versions of this scenario in circulation, the most prominent of which was published on July 24 in the Lombard column of the London *Financial Times* (see Domestic Credit).

The point on which concentration should be directed is the former scenario. All the discussions in the financial press of the conditions under which the Bundesbank will choose to intervene in support of the dollar ignore the real motivations involved. Where do the dollars go? By and large, not back to the United States in the form of investment. The German, French, and other continental European banks are employing the surplus of dollars to maintain their exports through generous foreign lending. In American banking circles, this is known as "loan dumping."

The European lending operation is of far greater significance than mere "unfair competition" against their American and British competitors. Senators Heinz (R-Pa.) and Javits (R-N.Y.) believe—correctly—that it represents a "strategic threat," in the words of a senior aide to Sen. Heinz (see Banking). To put it simply, the European lending program is currently holding together a broad array of trade agreements between Western Europe, the Arab world, the Soviet bloc, and the developing countries. The centerpiece of the latter is the joint European-Soviet nuclear export program, featured in the *Executive Intelligence Review* last week.

In the words of both American and British defenders of the Anglo-American world order, the European domination of the world financial markets is already a clear and present danger to such institutions as the International Monetary Fund, if not NATO itself. And the preferred Anglo-American alternative, the substitution of the International Monetary Fund's Special Drawing Right for the dollar in either reserve or private transactions, is dead as a squashed bug. Ditto for Eurodollar market credit controls to put a damper on European lending.

The current situation is the least of the Anglo-Americans' worries. If the dollar continues to deteriorate, the mere combination of intervention and lending now in force will give way to a formal, institutionalized form of European domination of the international markets. The proposal of the Dresdner Bank's Hans-Joachim Schreiber (see Gold) for a link between the price of oil and the price of gold follows our earlier analysis of European intentions.

What Volcker et al. have going for them is the simple fact that the West Germans "do not like to put themselves up front," in the words of an American corporate chairman just back from Europe. Even though an American depression would have deleterious consequences for their own economies, they will swallow hard and go along with a money crunch policy in the United States, and proceed slowly on the construction of the monetary institutions that must ultimately replace Bretton Woods' decaying institutions.

There is a third option: a U.S. rebuilding program based on no recession, and high-technology capital formation—essentially a U.S. leadership role in the European operation. This may seem distant given the situation in Washington, but given the mood of the American population, it should by no out, as the response to the Lyndon LaRouche presidential candidacy (see U.S. REPORT) indicates.

—*David Goldman*