Arabs Abandon the Dollar; Must Go For The International Development Bank

by Dave Goldman

NEW YORK, May 24 (IPS)—Starting last Thursday, the U.S. dollar entered a further phase of collapse as Arab depositors began pulling out of the sinking currency en masse. Within a few trading hours of the Arab abandonment, the dollar plunged nearly 1 per cent against some of the major Western European currencies in the international foreign exchange markets. The plunge occurred despite the unprecedentedly large intervention on its behalf by a number of central banks.

Moments after the news of the dumping reached central banking authorities, the French central bank and the U.S. Federal Reserve rushed in to purchase $100 million and $40 million respectively to slow the collapse. Ironically, even the West German central bank, despite West German Finance Minister Apel's official declaration of opposition to the continued support of the dollar earlier this week, was forced to purchase an undisclosed amount of dollars in order to try to protect West Germany's export competitiveness.

Monetary Blackmail

Both Western European financiers and Arab sheihks are trapped in the same self-aggravating cycle of capitalist collapse. Although triggered by this week's OECD report, which completely destroyed the carefully nurtured Rockefeller public relations campaign of the past few months heralding an economic recovery in the U.S. and Western Europe later this year, the Arab pullout from dollar deposits was fundamentally motivated by the threatened bankruptcy of the dollar sector as a whole. As world industrial output is currently declining at an annual rate of 40 per cent, commodity prices have plunged to half last year's levels, and the breakdown of international trade is well underway, their fear is utterly comprehensible.

Yet Arab abandonment of the dollar can only accelerate the process of collapse which caused the pullout in the first place. World trade absolutely requires relative stability of dollar-valuations against other currencies at least over a period of months. Otherwise, import-export contracts usually concluded on the basis of delivery in 60 to 90 days, may be completely wrecked by currency fluctuations which completely alter the terms of the deals; chaos on the foreign exchange markets could bring production to a virtual standstill in the advanced sector almost overnight.

As it is, European central banks are forced to come to the aid to the sinking dollar to maintain their dollar reserves and competitive trade position.

The irony of the situation was best expressed by Paul Fabra's front-page article in today's Paris daily, Le Monde. Fabra points out that while the dollar crisis is sinking the world "into a depression whose end one does not see," debt-strapped major Western European central banks have been forced to spend upward of $5 billion this year alone in dollar-support operations.

It is precisely this helplessness of the European and Arab depositors alike—either they support the dollar and its buffer reserve currency, the pound sterling, or sink with them—that sent them scurrying to the aid of the bankrupt pound sterling recently when Charles Coombs of the New York Federal Reserve Bank and other Rockefeller spokesmen arrogantly threatened to "let the pound seek its own level."

Thus the round of the dollar dumping on which the Arabs have embarked will spell catastrophe for the world economy. Unless appropriate measures are taken immediately to dump the present international monetary system, declaring debt moratoria on major categories of dollar debt and replacing the current mess with a Soviet transferable ruble-based currency system centered on the creation of an International Development Bank, international trade will grind to a standstill in a matter of weeks.

Even Rockefeller's own advisers can't help reflecting on the fundamental sanity of the viewpoints behind the IDB proposal. According to a spokesman of the oil consulting firm of Walter J. Levy, "If the Arabs could only stretch their imagination, they could use their wealth to either buy western technology directly for their own development or lend it to the Russians to buy western technology."

Dollar Bind

As for the Western Europeans, the best efforts of Rockefeller's factional opponents in the bourgeoisie—the schlotbarone allied Stoltenberg faction in West Germany, the Fanfani Banca Commerciale Italiana faction in Italy, the industrialists and bankers following the lead of the Gaullists in France, and certain Swedish industrialists—were directed at pressuring their Rockefeller-controlled governments into a flat rejection of a French proposal to institutionalize a Europeanwide support of the sinking dollar by establishing a fixed parity with the European currency float. The worth by itself of the healthy resistance was starkly revealed when the French and West Germans had to support the dollar on the currency markets. Meanwhile, the viability of East-West trade was sharply underlined when it was reported that West German exports to the U.S. fell by 50 per cent for the month of March—while their exports to the Soviet Union increased at the same rate!

The Rockefeller forces are simply shoring up the liquidity of their banks in preparation for the coming defaults and searching for the opportunity to push the button. What else can they do?

As the market price of copper, tin, lead, wheat, sugar, soybeans, and other assorted commodities plunge precipitously, thereby threatening to unleash a wave of Third World defaults on the $20 billion due in debt service payments from that sector this year, municipalities like New York City and entire nations from Britain to Italy are on the verge of

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bankruptcy. To this, combined with 48 per cent of all corporate income by June 30 due for debt service, Manufacturers Hanover Trust chief economist Tilford Gaines could only "The best thing is to do nothing." Actually, the Rockefeller-connected banks are desperately shoring up their liquidity with the help of the Federal Reserve in anticipation of what is to come. But despite the massive liquidation of commercial and industrial loans as well as tax-exempt securities (municipal bonds) over the past few months by the U.S. banking system, the magnitude of losses it faces from defaults by municipalities, REIT (Real Estate Investment Trusts), Third World countries and corporations, is driving investors away from bank certificates of deposits in favor of equally doubtful corporate commercial paper, according to the head of the commercial paper department at the New York brokerage house of Goldman, Sachs.

Even more precarious is the Eurocurrency banking network—the raison d'etre of which is to supply the dollars (and, to a lesser extent, pound sterling) for international trade in the dollar sector. With trade badly hit, the recent bankruptcies of major importing companies in Italy and elsewhere, a capital-to-asset ratio of 50 to 1, and the very real prospect of a huge mass of uncollectable funds from the Third World countries it lent subsequent to the Great Oil Hoax, the $360 billion Eurocurrency market is a powder-keg that can go up in smoke anytime.

In short, trade and investment conducted in dollars, along with the associated speculation in commodities and currencies, that has until now held the dollar relatively stable despite the mushrooming of the number of dollars in circulation, have now turned around and are signalling its very downfall. Without the IDB, there is no alternative.