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CURRENCY CRISIS

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Resistance To Austerity In Europe Triggers Run On Dollar

Feb. 15 (IPS) -- Mounting European resistance over the last week to Wall Street-ordered austerity policies has triggered the worst run on the U.S dollar since the days leading up to Aug. 15, 1971, when the bankrupt U.S. currency was first officially devalued and severed from gold. The crisis, which reached panic proportions on the foreign exchange markets, has in turn produced governmental crisis in all of Western Europe and in Washington, where the U.S. government is paralyzed and unable to act.

In New York, where the major money center banks opened their foreign exchange trading several house early, one source explained the situation: "Every French company, bank, private currency holder, the same for Sweeden, Norway, Denmark, Spain, everywhere, is selling off francs or lira, their own currency, for dollars, then dumping the dollars for German marks or Swiss francs. The Arabs have sold heavily dollars for Deutschemarks ... Dresdner Bank in Frankfurt has 11 traders and they are all selling $15 million a minute, I've seen a billion, no several billion dollars sold here. Chase, Citibank, Manufacturers Hanover, they're all selling dollars. This is insane."

Prof. Robert Triffin of Yale, one of the few bourgeois economists to forsee the Aug. 1971 crisis, commented this week "The situation is very serious. All the hopes of the International Monetary Fund for monetary stability have been thrown out the window. The post-war monetary system is a shambles. This is chaos."

The failure of the Wall Street financiers last week to force devaluations, import cutoffs, and Schachtian austerity on Western Europe, to ensure the continued flow of debt-service tribute to the U.S. dollar, abruptly knocked the political underpinnings out from under the overvalued currency.

Given the on-going collapse of real production in the U.S., the value of the dollar hinges entirely on the ability of the Atlanticist financial cabal and its political adjuncts to loot the productive output of Europe and the Third World and guarantee the value of 800 billion on outstanding dollar-denominated debt.

The center of resistance to austerity is Italy, the country first assaulted by a run against its currency, instigated by Atlanticist financiers, three weeks ago. In the face of the continuing naked attempts to crush this resistance — including the "yellow-alert" of U.S. troops throughout Western Europe Feb. 12 and the on-going boycott of oil shipments to Italy by the U.S. Seven Sisters oil multinationals — the pro-development forces in Italy are fighting the Atlanticist onslaught with the program of the U.S. and European Labor Party program — debt moratorium and International Development Bank.

These pro-development forces — led by Christian Democratic Budget Minister Giulio Andreotti, Socialist Party leader Giacomo Mancini and industrialist Eugenio Cefis — have the strong union movement, which is slated for destruction under the Schactian economic program proposed of Atlanticist puppet Premier Aldo Moro. The Mancini faction of the Italian Socialist Party this week successfully blocked attempts by the Atlanticist-controlled Italian Communist Party to provide Moro's new austerity government with trade union approval. Observers such as the Financial Times of London have given the new pro-austerity government only weeks to live.

This pro-development motion has already taken on substantial form. Negotiations are currently underway between the Cefis-controlled chemical giant, Montedison, and the Soviet leadership to open trade channels that would break the debt-stranglehold on the Italian economy. In response to Montedison proposals last weekend for huge Italian technology exports to the Soviet Union in return for fuel and raw materials, a high Soviet trade official called this week for a three-fold increase in Italian-Soviet trade.

Equally shattering to Atlanticist hopes, in the last week the Italian press put the Italian crisis in international perspective, calling for the implementation of the New World Economic Order, support for Italy from outside, expanded world agricultural production, and other proposals that would sweep away the bankrupt dollar empire.

Il Fiorino, the Italian financial daily, commented that it was legitimate to expect a lot more to emerge from the recent Manila Conference of the Group of 77 Third World nations (than the Charter calling for case-by-case negotiations on indebtedness -- ed.). In other words, Andreotti, Mancini, Cefis were giving a kick to their allies in the third world.

The strength of anti-austerity resistance in Italy has catalyzed resistance to the Atlanticist plans in the rest of Europe, primarily in France and West Germany. The awakened industrialist layers in France and West Germany, has forced even the two Atlanticist agents, French President Valery Giscard d'Estang and Helmut Schmidt to agree to "intensify intervention" on the foreign exchange markets to protect the franc from devaluation and the Deutschemark from an "upvaluation." In itself, the support arrangement worked out by Giscard and Schmidt at their Nice meeting at the end of the week of chaotic currency movements, is only a holding action. Its significance lies in the fact that it reflects the flat rejection by French and West German industrialists and independent political forces of the so-called dollar-deutschemark axis. This currency axix, dreamed up by Atlanticist financiers to secure the hegemoney of the dollar in Europe, would have created a fixed parity between the U.S. and West Germany currencies, allowing the "weaker" European currencies "to seek their own level."

In response to Atlanticist plans for a devaluation of the franc which would raise the price of imported consumer goods and the price of raw material imports to French industry, the Gaullists forced the Banque de France to commit itself to match every sale of French francs by speculators with a sale of dollars from the bank's currency reserves. Traders estimated that the Banque de France spent about $2 billion, or more than one-third of its available reserves, in support operations from the time the attack on the franc began.

Gaullist politicians and industrial leaders meanwhile announced the formation of "Committees for the Defense of National Independence," targeting the Atlanticist government of Valery Giscard and its prime minister, Jacques Chirac, for its support of the Tindemans plan which would integrate France into NATO corordinated austerity in Europe.

Triffin warned that the dollar-deutschemark scheme would never work because of German dependence on intra-European trade. He said it was his understanding from his contacts in Europe that, "The West Germans don't want to see Europe destroyed — they would rather let the dollar 'float'" — that is, let the dollar seek its own level.

But the standpoint of the survival of the bankrupt dollar, Italy with $14 billion in foreign debt, France with $20 billion (of which $10 billion is short-term) Spain with $8 billion ($6.5 billion short-term) and Britain with $14 billion ($5 billion short-term) all must devalue. This is the only basis on which the continued refinancing of these sectors will be profitable, principally because devaluation is the pillar of Wall Street's austerity policy. If any of these sectors refuse to accept devaluation-austerity, or West Germany chooses not to go along as is the case, what immediately surfaces is a crisis of the profitability of the dollar.

That is exactly what happened over the last week, sparked by the Italian resistance to the gutting of its economy.

An official of the Western German steel-exporting firm Mannesmann commented on the Atlanticist dilemma "Letting the French franc fall against the German mark would destroy any possibility of a West German economic recovery. We're glad the West German Federal Bank is backing the franc ... Nothing would be worse that changing the exchange rates." In an editorial on Feb. 11 the day the run dollar reached panic proportions, the German daily business paper Handelsblatt said bluntly, "We estimate the dollar is overvalued."

Chronology of the Currency Crisis

Feb. 9 the speculative run on the lira spilled over to the French franc. Traders in New York confirmed that the attack on the franc was initiated on Atlanticist orders by the West German central bank (the Bundesbank), which gave the go-ahead to Frankfurt foreign exchange traders to move against the French currency, while at the same time ordering them not to touch the lira — out of fear that a further assault against the Italian currency would only propell the anti-austerity axis of Andreotti-Mancini-Cefis toward debt moratorium faster.

Money Manager, the widely respected financial weekly, had hinted at the attack over the weekend, saying that the franc was now weaker than the lira since the lira's sharp depreciation.

Also on Feb. 9 the Spanish peseta was officially devalued by 11 per cent, and the Belgian franc came under strong pressure. Sources in the New York banking community and at the State Department expressed the opinion that, in the words of one trader, "We've done enough for the lira for now."

By Feb. 11, the managed run scenario had backfired. Following the agreement of the Bundesbank and the Banque de France on Feb. 10 to conduct mutual support operations — to prevent the depreciation of the franc and appreciation of the mark — the run hit the dollar. The volume of dollars which passed through foreign exchange markets into West Germany, Holland, and Switzerland, was estimated by traders at several billions of dollars, reminiscent of the hot money flows under the old fixed parity system. On Feb. 11 the mark appreciated by 0.6 per cent against the dollar, despite at least $10 million of Bundesbank intervention; the Swiss franc rose by 1 per cent against the dollar; the Franc also rose against the dollar, but only through approximately $1 billion in dollar sales by the Banque de France over a 48-hour period; the devalued Spanish peseta remained stable — through $60 million in intervention in 48 hours; the unsupported Swedish kroner fell by 1.4 per cent against the dollar; and the Danish bond market collapsed due to currency outflows.

These massive money flows tapered off on Feb. 12 only because the markets were closed in the U.S. for Lincoln's Birthday, slowing the plunge of the dollar.

Meanwhile on the same day international financial press reported West German resistance to upvaluation of the mark, signaling the failure of the "dollar-deutschmark axis." Handelsblatt's coverage of the currency crisis emphasized the Franco-German agreement to keep the European "snake" from disintegrating, and denied that any new parities would be established.

However, the currency crisis is far from over. Trading continued slower on Feb. 13, because many U.S. bankers took a long weekend, but the International Herald Tribune reported on Feb. 14 that all the speculators were waiting until Feb. 16 to test the Giscard-Schmidt agreement on central bank intervention. At the moment both Italy and France are on the verge of exhausting their currency reserves.

The only resolution to the currency crisis — as the Italians understand best — is a complete break with the dollar system and the beginnings of the New World Economic Order. On Feb. 13 there were indications that the Europeans are, in fact, mobilizing their gold reserves and establishing a European gold payments system to replace the dollar — a transition to the International Development Bank.

Professor Triffin confirmed that day that the European central banks are discussing a system to clear gold among themselves and "abandoning the dollar to the market." Triffin also stated that the West Germans seem committed to find some medium other than the dollar for international trade and payments.