Click here for Full Issue of EIR Volume 3, Number 13, March 29, 1976

INTERNATIONAL MARKETS NEWSLETTER

NEW SOLIDARITY
International Press Service

P O. Box 1972, G.P.O.
New York, New York 10001
Editorial (212)279-5950
Customer Service (212)564-8529

Wall St. to Pull the Plug on Europe Monday

A canvass of foreign exchange departments at Wall Street's money center banks confirmed that they intend to pull the plug on European currencies when the forex markets open on Monday unless European central bankers "realign their joint float, the so-called European currency snake" on their own this weekend. As of this writing, the realignment or even a promise of realignment has not taken place.

Thus, the Rockefeller-run New York commercial banks have targeted this week to go for a final victory in their months-long currency war against Europe—an "Endsieg" maneuver of total desperation to prevent the dollar empire from crumbling into ruins around the March 31 international payments deadline. The Atlanticists have as their immediate goal the fascist reorganization of Western Europe under the "Safety Net" proposal, which various Wall Street agents are attempting to ram through Congress.

Should the Atlanticists succeed with either or both of these schemes, they will destroy what remains of the world economy — including the property titles and debt structures that they are trying so hard to protect.

But the success of their "Endsieg" is an open question. Europe will not simply submit to the bankers' demands as the West Germans' now open rebellion against Wall Street's marching orders to up value the deutschemark indicates. As will be covered in this newsletter, the Gaullists in France, the Andreotti faction of the Christian Democrats in Italy, are also resisting Wall Street's attempt to impose its political solution upon Europe. Meanwhile, a mass-strike wave is sweeping across Europe, with its immediate focus on Italy.

These developments have already made the Wall Street strategists extremely nervous about their chances of success. Summing up Wall Street's current quandary, the State Department's liason to the OECD countries said in an interview late in the week, "The European factions are schizophrenic...we can deal with them. But the Soviet moves (for expanded trade) and labor trouble are a different ball game. That's why we have got to exert leadership in Europe....Our problem is that we don't know where the hell to lead them (the Europeans) to."

The Lull Before the Storm

What the international financial press described as a "nervous calm" prevailing on the world's foreign exchanges this week was really a lull before the storm. The only activity the market saw was confined to the unwinding of some of the long positions (a long position is when one buys a particular currency, betting on it to appreciate in the near future) of multinational corporations, European and New York banks, speculators in deutschemarks and Swiss francs. Both currencies had appreciated against the dollar during the last several weeks' turbulent activity on the markets. As it became clear over the week that the West Germans were not playing ball according to the rules and were not following Wall Street orders to revalue, the long position in these currencies became increasingly unattractive.

The selling off of deutschemarks and Swiss francs marginally — and temporarily — strengthened the dollar. The unwinding could not stabilize the situation for long, as the forex traders and the New York banks were acutely aware. The entire $125-150 billion short term dollar sector waited for the materialization of the promised realignment of the currency snake as if its life depended on it — in point of fact, it did.

"For New York's seven largest banks alone," said a foreign exchange source at one of those banks, "we lose $10 million every day in 'covering' costs on our short and long positions...for the whole system it could be as much as one billion goddamned dollars." The trading chief at another Wall Street bank translated this fact into the following tactic: "We can't take this shit any more. The damn Germans don't want to upvalue....If European central bankers and finance ministers don't get their asses together and 'realign' the snake (it was widely rumored in European and New York banking circles that such a meeting was scheduled for this weekend) then the seven of us will gang up on the Belgian franc and bust the damn thing (the snake)." The chief OECD (Organization for Economic Cooperation and Development) liason at the State Department further confirmed this: "it's entirely plausible for the (New York) banks to do so (bust the snake) under the present circumstances."

The Wall Street-directed assault on European currencies had been launched to create a dollar-deutschemark-yen axis that would force the West German and Japanese central banks to absorb the dollar debt overhang and play debt collector for the New York banks. Though Wall Street has succeeded in enforcing drastic de facto currency devaluations and cuts in the standard of living in every European country except West Germany, the glut of illiquid dollars has grown. The dollar is no longer a reserve currency or real means of international payment. It is the equivalent of a gambling chip being used to "cover bets" on the international money markets. As most bankers realize, there is no longer anything even resembling an international monetary system.

This week, for instance, the mass of dollars from the short-term pool worldwide flowed into currency speculation, the New York Stock Exchange, refinancing of uncollectable

© 1976 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

bailout loans, and other such soft "investments." Despite this short-term interest rates in the dollar sector continued to collapse. The bankers' last hope to absorb the dollar glut — Federal Reserve chairman Arthur Burns' continued issuance of billions in U.S. Treasury notes — has failed to soak up enough greenbacks to make a real difference. Meanwhile, the so-called "weaker" European currencies (after weeks of speculation this distinction is becoming meaningless) appreciated vis-a-vis the U.S. dollar as speculators paid premium prices to either buy them or borrow them to "cover" their positions every night. Euro-franc interest rates skyrocketed to between 1600 and 2000 per cent per annum.

European "resistance" to the Wall Street-directed devastation of their currencies, trade, production, and living standards, has created an uncontrollable crisis situation which threatened to lead to a general breakdown some time around March 31 when France, Italy, Britain, Denmark, Belgium and others settle their massive trade imbalances.

The Safety Net

When New York banks "leaked" their plans to pull the plug on Europe, and even the traditionally pro-Atlanticist West German press began demanding a new international monetary order, State Department Under Secretary Charles Robinson's office announced plans to immediately railroad the $25 billion "Safety Net" proposal through. The "Safety Net" concept is essentially a plan to set up mini-International Monetary Fund for the OECD countries, which include Western Europe, Japan, Canada, New Zealand, Australia, and the United States.

The OECD "Safety Net" will create a common pool of member government guarantees (based on their quotas) on an overall private market borrowing limit of $25 billion for medium term (not to exceed a maturity of 7 years) bailout loans to member countries at "onerous" conditions. The "Net" scheme, not unlike New York City's "Big MAC," will allow fascist reorganization of European economies so that eventually New York banks can collect at least a partial amount of their now-uncollectable outstanding credits to Europe. The plan will also allow Wall Street to dictate exactly the level of wages, total energy consumption, amount of domestic credit and what productive sectors are to be triaged in a country receiving so-called bailout loans.

In baring this hyperinflationary tactical maneuver to a journalist, a Robinson aide admitted that the move was aimed at preventing a collapse of the dollar empire around the March 31 international payments deadline. The threat of a link-up between Western European industrialists and the Soviet and Third World blocs to create a new monetary system left the State Department with little choice, the aide said.

If the reception of the Senate Foreign Relations Committee to the testimony yesterday on the "Safety Net" by U.S. Treasury Secretary William Simon (see special report) is any indication, then its eventual passage by Congress is guaranteed. As if following the script, State Undersecretary Charles Robinson's aide had told the journalist the day before, Simon used the threatened monetary blowout to urge Congress immediately to implement the Safety Net.

Brandishing the U.S.' "quota and voting share of 27.8 per cent" which will provide it "the ability to set very stringent conditons" on recipients of the OECD Safety Net, Simon lied that the U.S.'s share will only take the form of 'guarantees on money raised on the private capital markets.' If the inability to successfully market the recent EEC (European Economic Community) $300 million Eurobond issue to bail out Italy and Ireland is any indication of investor reluctance to tie up their dollars for any other than very short-term loans, then the U.S. will indeed have to print and dish out cash — i.e. dollars — for the medium-term loans proposed under the Safety Net. The hyperinflationary consequences of the Fed's printing $6.4 billion — the U.S. "official" quota — during the worst depressionary collapse in capitalist history — are obvious.

Senator Jacob Javits (R-NY) made it quite clear at the hearings that what was at stake with the Safety Net was not production and incomes of near-bankrupt European countries, but the protection of the entire $800 billion debt overhang. "The genius of our society is the power to command credit," said the Senator, adding "the opposition is deadly. I'm for anything that will give us that edge." Senator Clifford Case (D-NJ) was more explicit: "We may have to do these things to prevent the collapse of the capitalist system....I'll vote for this thing (the Safety Net) — but it will only postpone the disaster."