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"The Greater Fools Principle"

Currency Crisis Fuels Atlanticist Drive for War

NEW YORK, May 1 (IPS) — The drive now underway by Atlanticist financiers for "show of force" nuclear confrontation with the Soviet Union in the Middle East and for a NATO-backed coup in Italy is being fueled by the quickening pace of the unravelling of what remains of the international monetary system. Over the last four months Wall Street has attempted to hold together the dollar-based monetary system by forcing a de facto realignment of Western European currencies — and thereby forcing a reduction in Western European living standards of upwards of 30-50 per cent. While their assaults on first the lira, then the pound, then the franc, then repeating the cycle, have forced such currencies to plummet, the support operations conducted by Western European central banks to prevent a full-scale monetary panic have all but exhausted European currency reserves, posing the short-term threat of national bankruptcies.

Wall Street, by buying some temporary breathing space for the dollar, has reared a new monster that threatens to devour the monetary system sometime around the middle of this month. As several banking sources on both sides of the Atlantic indicated this week, Wall Street is faced with the following conjunctural problem. Either the weaker European currencies simultaneously fall through the floor around the middle of this month — the point at which it projected that the central banks will have exhausted their reserves — and pull their national sector economies and the dollar quickly down the sinkhole with them. Or, as the International Monetary Fund's European desks and several private bankers insist, the IMF the Common Market (EEC) and whatever international financial institutions are still operative will continue to refinance the central bank reserve positions — on the condition that savage levels of austerity are imposed in each national sector. That refinancing operation will itself feed the already manifest tendencies for a hyperinflationary outbreak — double and triple digit inflation in the advanced sector, which will quickly bring most economic activity to a standstill. If their operation is "successful," the Atlanticists will have only papered over the collapse of their already dysfunctional monetary system.

The Con Game

For months now and especially since March 31, the international markets have been operating solely according to what one top New York investment banker called the "Greater Fools Principle" — i.e. that there is always a 'greater fool' somewhere down the line who will be willing to take inflated stocks, bonds, commodities, inventories off your hands or who can be conned into picking up the refinancing tab on portions of the $800 billion in uncollectable debt.

The banker thus pegged the international monetary system and all its appendage for what it really is, a cheap confidence game in which the New York bankers are trying to play everyone for a sucker. There are only two rules to the game, as perceived from the perspective of the duped victims. First, you gotta believe in the totally irrations, that the worthless paper that is being exchanged will someday lay claim to real value equivalent to the price paid for it. Second, you have to believe that "Big bad Atlanticists" have the power to destroy anyone who refuses to pay by the rules, a point which make participation appear to be a question of life or death.

This stupid confidence game is now determining Atlanticist policy. For example, you can't just refinance debt or have a debt moratorium of some kind. As any banker will tell you, one must attach some strings — otherwise the rules of the game are destroyed. Without austerity attached to debt rollover the players become nervous about whether any of the billion in worthless paper they are holding will ever secure value.

The signs that the West Europeans might not want to play the game according to Wall Street's rules created considerable anxiety among the Atlanticists on this side of the Atlantic as they realized that Europe is a hare's breath away from dumping the dollar itself. Gaullist leader Michel Jobert's call for new gold backed European currency block, coupled with the Bundesbank's tentative moves toward killing the monster of the Eurodollar — the Atlanticist weak link — market through imposition of "sane," capitalist banking restrictions have propelled the Atlanticists into their drive for a show of force.

The potential of European anti-Wall Street moves to link up with the motion in the Third World for dollar debt moratorium and for the establishment of a new world economic order points the way out of the hyperinflation-austerity con game once and for all.

A Time Limit

According to foreign exchange traders in New York, the rate at which Britain, France, Italy, Belgium and the Scandinavian countries are expending their reserves to support their currencies against speculative runs will lead to the virtual exhaustion of their reserve positions by the middle of May.

The situation of Italy is the most serious. The West German paper Die Welt reported last week that Italy had to spend $650 million in April to defend its currency from continuing attack. France, which had spent some $3.5 billion of its $7 billion foreign currency reserves before it came under

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heavy attack starting March 15, must now repay a 7 billion franc loan to the Bundesbank in "early May." The cash was borrowed to maintain the franc's position in the European currency snake. The loan will be rolled over — or so sources at the U.S. Treasury report. According to Morgan Guaranty, after receiving that bit of "grace," France must start using its gold reserves for collateral for future Euromarket loans. Meanwhile, Iran is reported to be withdrawing $200 million of its $1 billion in deposits at the Banque de France.

The Bank of England is in similar rotten shape. The Old Lady spent around a billion dollars supporting the pound in March and has continued to expand reserves at a similar rate. One banker attending the international banking conference in Hot Springs, Va., last week commented that a dollar pound is on the horizon.

Denmark, meanwhile, had to repay a 1.52 million deutschemark loan to the Bundesbank at the end of the month, but managed to get an extension until July. Repayment would have cost the country half its reserves.

The estimated $4 billion in Bundesbank support of other European currencies in the snake so far this year has introduced enormous inflationary pressure into the German national economy. The West German marks it provided to other central banks went directly into the hands of currency speculators and from there found their way back into the West German banking system, pushing the German money supply up at an annual rate of 16 per cent during the first quarter of 1976. It is no wonder then that the Bundesbank announced last week that it can no longer go on supporting European currencies.

How Much Longer?

Statements coming out of Europe over the last week indicate acute awareness on the part of the Europeans of the consequences of the continuation of present monetary arrangements. The Bundesbank, pivotal in the refinancing swindle, is showing signs of squirming under the Atlanticist yoke. Its annual report released last week warned of instability and inflation caused by the Eurodollar market operations with recommendations for bringing it under the control of the New York Federal Reserve Bank, the IMF, or other appropriate agencies. As everyone in Western Europe is fully aware, such regulation of the Eurodollar market would effectively end its illegal operations (which flourish only because it is "unregulated") as well as the major New York banks which depend on Eurodollar market operations for their profit margin.

A top New York investment banker confirmed last week that West Germany is indeed feeling heavy inflationary pressure, adding that the head of the Swedish central bank is privately very concerned about a tremendous "inflationary spiral later this year."

As the West Germans made their announcement, the Bank of England was giving its first slap in the face to the Eurodollar market. According to reliable sources here the Old Lady has abruptly ended its long-standing bribe to London investors to invest in Eurodollar bonds: it has recently changed regulations whereby London underwriters were allowed to take their dollar earnings and sell them to the Bank of England through the Investment Dollar Premium Pool, for sterling — an approximate 45 per cent bonus.

The debates within the EEC about what to do about the deteriorating monetary picture were unmistakably laid out by EEC staffer John E. Nash at the Financial Times of London's "Off-Shore Banking" conference in New York on Friday. The Euromarket, he noted, "is seen largely (particularly at its long end) as the means of buying up large sections of European industry with the money created by the U.S. balance of payments deficit .... So far as the Eurodollar market is concerned the old but recurring idea of putting a 'ring fence' of direct exchange controls around the Community countries is, I do not think, either politically practicable at this stage .... It is frequently propounded that a solution resides in achieving a higher degree of control over Euromarkets by the imposition of deposit requirements on Eurodollar banks and Eurodollar activities of banks...."

Hyperinflation: Atlanticists Move for Hyperinflation to Buy Some Time

April 27 (IPS) — Atlanticist financier circles made a deliberate decision over the past week to throw the world into a hyperinflationary spiral, in order to prevent the immediate collapse of the fraudulent "upswing."

Senior officials of the International Monetary Fund, the financial policeman of the post-war Atlantic Alliances, have identified the policy shift as a desperate gamble to avoid general political rout. According to these officials, the Atlanticists are afraid of triggering mass unemployment in the industrial countries and are equally unprepared to face the political consequences once the "upswing" myth is shattered: Europe and the Third World will defect from the dollar system.

"We hope that we can get through six to eight months of inflation before we get a collapse much worse than before," an IMF official said. "It could collapse much sooner. But it's the only choice we have."

The world economy is already deep into an inflationary collapse. The policy decision to forestall the dissolution of the "upswing" myth is opening up a flood of inflationary pressures, which have already shown up on the commodities markets and in industrial price increases. The monetary hyperinflation already underway throughout the dollar sector indicates that the current round of price jumps is the first ascent of an exponential curve.

The pressure towards immediate hyperinflation feeds off the disintegration of the dollar, which the Federal Reserve must now support almost daily in the foreign exchange markets, and its "buffer currencies," the West German mark and the British pound, now in an advanced state of putrefaction.

During the past month, key commodities trade on the world exchanges leapt up towards their 1974 speculative highs. The leading industrial metals, which are the benchmark for industrial raw materials prices, rose by 20 per cent since March.

In the United States sector, nearly the entire raw materials sector has announced price increases ranging from 6 per cent (for aluminum ingots) to 20 per cent (for lead) within the past week — more than the increase over the entire year to March. The Wheeling-Pittsburgh Steel Co. yesterday chalked up an 8 per cent increase in the price of flat-rolled steel, the