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International Markets Newsletter

Aftermath Of Colombo

Dollar Is Battered As Monetary Collapse Slips Out Of Atlanticist Control

Aug. 28 (NSIPS) The international monetary system based on the U.S. dollar continued to unravel from within this week, led by a singificant weakening of the dollar itself following the political declarations for global debt moratorium at the Colombo Non-Aligned Summit. The very existence of the Eurodollar market and the survival of the dollar as a reserve currency after the September 15 Paris Conference, has been called strongly into question.

On the surface, the week's bevy of ugly U.S. economic statistics was enough to deal the dollar a significant blow. (See Domestic Newsletter). After the Aug. 26 announcement of a $1.6 billion trade deficit for July, and news that the U.S.'s M-1 money supply has grown at a 7.8 per cent annual rate (the top of Fed Chairman Arthur Burns' target) since June 30, every major currency except the moribund British pound rose significantly against the dollar. Beyond a rise of deutschemarks from $.3955 to $.3962, even the currencies at the very bottom of the European snake rose significantly, including the Dutch guilder, which jumped to $.3805, while the French franc strengthened from $.2017 to $.2024. These rates were maintained on Friday.

But the crisis runs much deeper. The West German central bank, the Bundesbank and other European central banks, with a strong show of support for the weaker currencies including an all out bear-squeeze against the sellers of Dutch guilders, have completely halted the speculative attempt by the New York banks to devalue European currencies against the deutschemark. Devaluations would have further triaged major sections of intra-European trade, hitting especially hard the some 60 per cent of West German exports which go to the EEC by shaving the latter nations' import buying power.

When combined with release of U.S. economic statistics, the immediate result will be a "general rise of all currencies against the dollar," traders at Bankers Trust and Manufacturers Hanover predicted two days ago.

More basic still is the general collapse of the deutschemark-dollar-yen axis, the cornerstone of Robert Roosa's and the Trilateral Commission's monetary strategy. It became clear this week that West Germany and Japan simply cannot continue trade and economic growth under these conditions. There is a general, August 1971-type glut of dollars and no one wants to pick up the tab.

The Bundesbank announced that it has taken $1.2 billion into its bloated dollar reserves during the week of Aug. 23 in support of the dollar-mark parity. Traders all agreed that such soaking operations continued at the same rate this week. The Bundesbank also purchased at least half again as much French, Dutch, and other European currencies.

"The amount of deutschemarks the Germans have had to shell out and print up to accomplish this has completely wrecked their ability to control the money supply," commented a top trader at Citibank yesterday. He insisted that the inflationary effects of the mark flood was so out of control that the Germans would be forced to back down from their support of the European currencies "fairly soon" and revalue against everything.

This is a totally political battle, however: will pro-growth German industrialists, trade unions, etc., accept the deterioration of exports, the unemployment, and further production shutdowns following from any significant widening of European parities? Despite Citibank's insistence, this is highly unlikely until at least the October elections, as Friday's Journal of Commerce pointed out. Either way, Germany cannot possibly absorb any more dollars without a political explosion.

Atlanticists Fail to Break Japan

Wall Street's efforts to pressure a similar upvaluation of the Japanese yen is simultaneously being rejected firmly by the Japanese government. Following statements at the beginning of the month that the inflationary effects on the economy would be unbearable, Bank of Japan Governor Morinaga early this week denounced Business Week's campaign against the yen as "somewhat emotional." Noting that the U.S. should be pleased at the strength of the Japanese economy, Morinaga said he was "puzzled" as to why the Japanese were being singled out for attack.

It's not really all that "puzzling." If pro-development Prime Minister Miki, now under heavy political attack from David Rockefeller's acknowledged little brother, Takeo Fukuda, continues running Japanese policy, not only will the yen be forever lost as a safety-valve for dollar inflation, but Japan will likely go all the way with Third World debt moratoria and the complete destruction of the dollar empire.

Underlining the political nature of the attack, Wall Street employee Rep. Henry Reuss (D-Wisc) told an NBC-TV audience

Friday that Japan's refusal to upvalue the yen was endangering the entire international monetary system. Reuss this week sent a letter to Japanese Ambassador Fumihiko Togo, accusing Japan of "systematic foreign exchange rigging (which) produces severe dislocations for the rest of the world." Reuss accuses the Bank of Japan for the financial difficulties of Harley-Davidson Co. in his district, which he claims has lost much of the U.S. market due to the "artificially undervalued yen." Reuss is pressuring the Ford Administration, whcih has been quietly sympathetic to the Japanese, to join the attack.

Japanese Vice Minister of Finance for International Affairs, Michiya Matsukawa, yesterday flatly rejected Reuss' charges at a foreign press briefing in Tokyo as "based on a short-term point of view." Japan, he said, must prevent "damage to the nation's economy" by taking a "longer-term view."

Dollar Under Attack

The dollar also came under strong implicit attack by the Swiss Central Bank and Union Bank of Switzerland (UBS) Thursday, infuriated by the week's $4 collapse in the price of gold to $104.37. The U.S. attitude towards gold was denounced as "childish," by a Swiss Central Bank spokesman, UPI reported yesterday, following a similar attack by UBS the previous day. "The United States wants gold to disappear altogether from the monetary system," said the government spokesman, "and is backing policies that will depress the price of gold."

In response to this general rout (and to the dangerous Japanese revolt in particular) two former Under-Secretaries of the Treasury and Wall Street spokesmen called yesterday for the formation of a council to monitor — read "police" — the international monetary system within the structure of the International Monetary Fund. Robert V. Roosa, partner at Brown Brothers Harriman and Company, and Jack F. Bennett, Senior Vice President at Exxon Corporation, told the Senate International Finance Committee, the council would be especially "useful" in determining "whether the Japanese government has been attempting improperly to hold down the value of the yen." Generally, Roosa stated, the "inherent power of many governments should thereby be "brought to bear ... on the repercussions which the actions of particular governments have upon the functioning of the international monetary system."

The support for such a kangaroo court, outside of the New York banking community and a possible minority of Junior Yankee bankers in West Germany, is though by informed observers to be virtually nonexistent.

Bankers Respond To Colombo

German Bankers' Association: I doubt that we are under any pressure to really discuss the New World Economic Order....I'm not convinced that you have so much weight behind you....I'm not surprised that the Third World stands behind you, that's no wonder, their support for the International Development Bank and Debt Moratorium in based on their interests....I'm not surprised that the U.S. exporting industry is behind you, they want to enhance the Third World's ability to pay....Well maybe things change, but you exaggerate....I understand you propose me a deal. Well I'll think about it. I'm prepared to think, I'm not blind. Things can't go on as they did. Wealth should be redistributed. But the International Development Bank is no top priority on my agenda.

Herr Steir, Rothschild-Oppenheim: If worse comes to worst, anything can happen, but it does not happen like that....We'll go on rolling over even for those many countries who haven't repaid a thing. I can't believe that the White House thinks this way (i.e. that a debt moratorium is a private matter between banks and creditors and that the U.S. government should not bail out the banks-ed.)

Herr Ganz, spokesman fr W. German Foreign Minister Genscher: It's ridiculous to propose that the West German Foreign Ministry negotiate with the U.S. Labor Party.

Herr Jaenicke, Third World specialist at West Germany's Foreign Office: Would (U.S. Labor Party Presidential candidate) Lyndon LaRouche's debt moratorium freeze the debt forever?

Deutsche Bank: Nevertheless, I won't talk with you.

John Mason, Bank Analyst, Loeb, Rhoades: Let there be a general, well-publicized moratorium. We will handle it like we did the moratorium, total non-payment of any interest or principal whatsoever, on $14 billion worth of New York City debt. The Fed and Treasury will just see to it that not a word of the consequences to the banks appears in the press, or on the books of the banks. The defaulted loans just won't be examined. There need be no Fed discounting, or other government bailouts. In the case of New York City, the second phase of the program (1, moratorium, 2, Federal bailout-ed) was necessary because New York City is a part of the United States and needed further funds to function. But that's not true for Sri Lanka etc. It turns out that Dresdner Bank and some other European banks are deeply in bed with Citibank — so the central banks just won't make a fuss, jointly. Informed Treasury and Fed officials will put enough pressure on the administration to see that the viewpoint prevails....I have been warning people not to invest in these banks' stocks due to their irresponsible lending for a long time.

Roy Bennet, corporatist labor consultant: Bankers are not surprised by Colombo, they fully expected that the poorest Third World countries would have to declare debt moratoria. However, there will be no apocalyptic collapse of the banking system because what is involved is only the interest payments amounting to a few billion dollars, not the total Third World debt. Brazil and Mexico are doing too well to default, and then how would they get credit....Brazil is a booming economy. You should read Engels on the condition of the working class in England. Don't you know that capitalism was built on child and women labor. That's why Brazil is growing today.

NSIPS: What about the plague and ecological holocaust in Brazil?

That's only half the population in Brazil. They're not integrated into the economy.

NSIPS: But these policies will lead to swine flu pandemic in the United States, the destruction of living standards and labor productivity.

So what? I'm afraid you don't know very much about banking. International banking and monetary policy has nothing to do with living standards.

European chief of a major New York bank: The so-called Non-Aligned....They're all aligned behind Moscow....It's unrealistic....they ain't gonna say "we won't pay." This would really destroy worldwide banking. If they get together and say "we won't pay"...Look at all those international banks....They got billions out....Gosh. The mind boggles.You're just left with nuttin'....but that's how things are nowadays.

Head of Foreign Exchange at a major New York bank: Do you know who the Non-Aligned bloc is? Why they're socialists, totalitarians.