Foreign Exchange by David Goldman

Bergsten predicts dollar collapse

Come fall, the smart-money men may push for exchange controls and a spurt in commodity prices.

The spectacular increase in the dollar's value the week of Aug. 3-7, hitting its highest level against the French franc since World War II, will be short-lived, according to C. Fred Bergsten, assistant secretary of the treasury for international affairs under the Carter administration.

In an interview Aug. 4, Bergsten, who is now at the Carnegie Endowment for International Peace in Washington, D.C., said that he expects the dollar to remain firm or even rise into September or October but then to fall sharply as an American current-account deficit asserts itself.

Bergsten said, "The dollar is vastly overvalued. But the U.S. was in current-account surplus, so no one worried much. However, the U.S. current-account surplus will have pretty much evaporated in the second quarter or even have moved into slight deficit. It will be negative during the second half of 1981."

Then the problems will really begin. Bergsten predicts that the current-account deficit for the United States in the second quarter will swell "to some multiple of the 1974 U.S. current-account deficit of $14 billion," one of the largest in U.S. history. The United States will remain in deficit well into 1983. Thus, the period of U.S. current-account surplus which began in mid-1979 will be short-lived.

Bergsten explains that the high-interest policy of the Federal Reserve Board will shift the United States into current-account deficit. "The overvaluation of the dollar is cutting deeply into U.S. trade and services," he stated. "The dollar rose on a trade-weighted basis by 25 percent against all currencies since the beginning of the year, and by as much as 30 to 40 percent against the major trading currencies like the mark and the yen. But the U.S. inflation rate is above that of Japan and Germany, thus the price of U.S. goods is very uncompetitive," because of both currency appreciation and inflation.

It is only a matter of smart-money men catching onto the U.S. current-account deficit before "the dollar gets hit big," said Bergsten. He said that the high interest-rate policy of the Fed will probably continue to draw in money from abroad for several more months. This will keep the dollar firm in all likelihood. But, notes Bergsten, "this dollar inflow improves the U.S. position on capital account, but doesn't help one bit to improve the current account position."

Yet, Bergsten maintains, "the dollar inflow will not help once the U.S. current account widens. Then the dollar will get into trouble, and it will be big trouble, considering how far the dollar has been run up." Bergsten says the timing of this dollar bust is probably September or October, or perhaps a little later.

Bergsten's view is not new. *EIR* has been saying the same thing for over a month, as have some of the smart-money traders, like National Westminster's bank. However, as *EIR* has pointed out, a sharp shift in market sentiment would be enough to send the dollar falling, and this could happen well before September. West German banking authorities have already in place on their computer the blueprints for German imposition of exchange controls in case of a dollar collapse, to prevent an excess of sudden flight money into Germany.

Several economists, including Sam Nakagama, have noted that a dollar fall is necessary for an increase in commodity prices, and several money-market players would dearly like to see a new spurt in commodity prices. (The rationale is that when the dollar falls, other currencies become stronger, allowing the European nations to increase their purchase of, and thus the price of, Third World commodities.)

Bergsten is keenly aware of what a dollar crash would do to the Reagan administration's popularity. "Whether a dollar bust turns into a rout depends on how much confidence the population has at that moment in the President. If Reagan's economic program appears to be working well, then the spread of the danger will be stopped and the consequences minimized. But there are people like myself who don't think the Reagan program is going to work well, and who think that the federal deficit will be large and not controlled. Under that circumstance, the dollar will be in real trouble, because people will lack confidence in Reagan."

Bergsten will release an article, entitled "Reagonomics," in the September issue of *Foreign Policy* magazine along these lines.