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Foreign Exchange by Laurent Murawiec

Contingency plans for dollar collapse

The Treasury is riding a bicycle it must keep moving continuously, but the Swiss are making plans for the rider's fall.

From Continental Illinois in the spring to Financial Corporation of America in the summer, the U.S. banking system is cracking at the seams, whatever the day-to-day ebbs and flows. The desperate attempts by the U.S. Treasury to pump yet more money into financing the Treasury debt and U.S. banks' liabilities—lifting of the withholding tax on foreign purchasers of Treasury bonds, discussion around issuance of anonymous "bearer bonds," and a few more tricks under review for their efficacy in attracting predominantly dirty-money flight capital—underscore the dilemma in Washington: The Treasury and the Fed are riding a bicycle they must keep moving continuously, lest they lose their balance.

A recent speech by IMF head Jacques de Larosière, who warned of the possibility of an "explosion" of public debt in the industrial nations and advanced a drastic set of recommendations for fiscal policies, created some waves: one year after *EIR* documented this, his speech documented the stupendous increase in the ratio of central government debt to GDP/GNP (+209% for Germany, +320% for Japan, +26.8% for the U.S.A., +98% for Belgium, +88% for the Netherlands, +213% for Sweden) as well as the increase in interest payments to total government expenditures (332% in Germany, 328% in Japan, 105.5% in the United States, etc.).

As the *Financial Times* was quick to point out in its Aug. 29 editorial, the warning was mainly directed at the United States, whose ballooning budget and trade deficits are draining the rest of the world's liquidity, making the other countries' debt plight all the harder to tackle. The United States will have to increase its interest rates to attract increasingly scarce funds. Either it will succeed in doing so—at the price of U.S. industry, implying even greater deficits—or it will give in, and what the interest-rate mechanism will not be able to withstand will be shouldered by the parity of the currency: The dollar will collapse.

Recent talks I had in Switzerland indicate the following view as predominant among leading Swiss financiers: They expect, very privately, of course, that the dollar will collapse *after* the presidential elections, from the present Swiss franc 2.40 level to 2.00, and then by leaps and bounds, to *a dollar/Swiss franc parity of one for one*—at which point U.S. assets would be the cheapest available.

This, of course, is not the only implication. As one of my contacts put it, "no major international bank—save our 'Big Three' in Zürich and Basel—must be considered viable," nor are their deposits, either direct or on the interbank market, to be considered safe.

As a result, I was told, Swiss finance already has the following contingency plan: In case of a severe alert on the Euromarkets, they will *repudiate their Euromarket liabilities and waive any responsibility of their head offices for offshore deposits*. It is already the case that the banks in question require purchasers of certificates of deposit with offshore subsidiaries to sign a document that exonerates the banks from any liability!

When the storm comes in international finance, whether provoked by a debt default in Ibero-America or a bank panic in North America, the prospect is for capital controls to be slapped on very quickly, borders to be closed financially speaking, and offshore money to be repudiated entirely.

Of course, this leaves very little leeway to international investors. The major fortunes of Europe have been systematically chasing high-technology corporations, mining ventures, and related real-asset investment in the United States: The perspective of a "monetary Pearl Harbor" is pressing. The abolition of the West German *Couponsteuer* (withholding tax), and consideration of doing the same in Japan, both in response to the U.S. move, are only the first stages in the coming war to capture "real values." A drain on bank deposits, shifts from deposits, stocks, and bonds to Treasury bills, in short, all the "flight to quality" phenomena typical of a liquidity crisis, will not be long in coming.

As *EIR* reported one year ago, the world's leading insurance companies have been operating since at least the spring/summer of 1983 on the assumption that the OECD nations' debt structure would start to blow to pieces by the end of 1984 or the beginning of 1985. At present, only politics—the "fix" maintained until Ronald Reagan gets reelected—are propping up the dollar. After the first week of November, it will be open season on the U.S. currency.

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