

How U.S. currency policy helped the Soviets in 1984

Fed Chairman Paul Volcker, the International Monetary Fund, and the Bank for International Settlements (BIS), deliberately used the overvalued U.S. dollar during 1984 to loot and destroy the economies of America's allies, a program which has been far more valuable to the Soviets than a mere dollar crisis would be. The dollars flooding into the U.S. economy from abroad have done it about as much good as free heroin does an addict. They have, however, made the United States more vulnerable to a Soviet/Swiss "monetary Pearl Harbor," crashing the dollar. The year's "Dollar Reich" also discredited gold in the eyes of the administration; starting out close to \$400, the metal fell all year, to a little over \$300.

During the course of 1984, the dollar actually rose in a step function which paralleled the Soviets' rising military pressures around the world, especially on Europe. This began with Arthur Burns' famous deliberate incitement of flight capital out of West Germany in December 1983-January 1984, when the dollar rose from DM 2.69 to DM 2.81 (see chronology). The Soviets began heavily accumulating dollars and never really stopped doing so for most of the year. The dollar was at DM 2.90 by July, and charged straight up to DM 3.10, falling back to the 2.90 level briefly in October, then regaining the 3.10 levels.

In other words, the dollar is being held up for political reasons, which could continue as long as the Soviets and their assets create enough political terror in Europe and Asia to drive out flight capital.

The warfare against the Reagan budget has taken the tack that the threat is mightier than the execution. When the 1985 budget came out in February 1984, the dollar declined somewhat. Then, as the chronology shows, right at the dollar's low, the Swiss urged *other* investors to dump their dollars. Immediately afterwards, the dollar went through the ceiling again, as U.S. banks were forced by the Swiss to borrow dollars to fund their Latin American loans. This only accelerated the process which the BIS announced at the year's beginning: the United States had become a debtor nation during 1984.

January

- Arthur Burns, U.S. ambassador in Bonn, reportedly predicts capital flight into U.S. will cause a near-term collapse of the deutschemark, which falls to below 2.81 to the dollar as a result—the beginning of pressures for Germany's financial decoupling from America.

- The Soviet Union is reported to have accumulated \$30 billion in long dollar positions, and is reported accumulating dollars at \$1 billion a week.

- Swiss banking sources warn that dollar's rise is only a set up for a dollar crash if Europe imposes exchange controls.

- Soviet-South African collaboration in gold-price fixing revealed; *Der Spiegel* also reports price-fixing collaboration on diamonds, chromium, vanadium, manganese, and platinum.

February

- BIS reports U.S. banks had become net borrowers (\$10 billion) on the Eurodollar market for first time since Civil War during last quarter of 1983.

- Dollar falls after release of Reagan budget deficit prediction of \$180 billion for FY 1985.

- Fed chairman Paul Volcker tells Joint Economic Committee of Congress that capital inflows had financed Treasury deficits for past two years, that this was now at an end, and that \$50 billion had to be cut from the budget.

- The dollar, at 2.86 marks in mid-January, falls to 2.67 marks on Feb. 7, a decline of almost 7%.

March

- Japan comes under pressure to liberalize its money and capital markets, permit U.S. access to a "Euro-yen" investment market, and decontrol Japanese interest rates which are kept below U.S. rates for business lending.

- Swiss bankers advise selling positions on the dollar, and hedging against its plunge.

- Swiss banks use pressure on American banks due to March 31 payments deadline to force massive new U.S. borrowing on Eurodollar market, causing a rebound in dollar's value.

April

- European central bankers led by then-BIS chief Fritz Leutwiler reported arranging greater use of European Currency Unit (ECU), previously merely a unit of account, in trade and bond transactions.

- German banker Otto Wolff von Amerongen proposes ECU parity with Soviet "transferable ruble."

- Week-long meeting of German and Soviet bankers in Tashkent, Uzbekistan is held "to find an international currency to replace the dollar." Soviets demand ECU.

- BIS report shows a \$10.3 billion U.S. trade deficit in March, representing import-purchases with overvalued dollar, with large supplements from direct Eurodollar borrowings to finance budget deficit.

May

- Central bankers gather in New York May 7-8, and force U.S. banks to raise prime rate to 12-12½%.
- Eurodollar investors, including the Bundesbank, organize run on Continental Illinois, requiring an \$11 billion bailout by combination of federal agencies and private banks.
- Bundesbank chief Karl Otto Pöhl demands U.S. cut its defense budget to relieve deficit.
- Manufacturers Hanover and other U.S. bank paper plunges on London market; dollar drops steeply, with fears of debtors' cartel action against U.S. creditors cited.

June

- Secret June 5 meeting at BIS in Switzerland plans expansion of scope and use of ECU; three largest Swiss banks float ECU Eurobond for European Community.
- Swiss *Neue Zürcher Zeitung* warns that U.S. savings and loan banks are in worse shape than U.S. commercial banks.
- London economic summit denounces U.S. deficit as cause of world financial crisis.
- BIS and OECD annual reports both warn of a withdrawal of foreign capital and precipitous fall of the dollar.
- Continuing run on U.S. bank deposits forces banks to pay higher interbank rates to attract funds, propping up dollar's value.
- Sources report Fed chairman Volcker and IMF director de Larosière want to use U.S. banking crisis to force mergers and consolidations of U.S. banks into Canadian-style cartelization.

July

- Price of gold plunges \$23 on July 6 to \$338, a two-year low; a Soviet-Swiss "bear raid" is suspected.
- Soviet economist Felix Gorzunov writes in *New Times*, "An eruption of the 'financial volcano' of international indebtedness is quite possible," crushing the American banking system.
- As Soviet military maneuvers proliferate, dollar reaches record highs against European currencies. Italy freezes its commercial banks' dollar borrowings at June 30 levels, a form of exchange control, in response to lira's fall to lowest level against dollar in history.
- Continental Illinois is effectively nationalized July 26, as new board of directors is appointed by Federal Reserve.

August

- Henry Wallich, Federal Reserve governor and liaison to BIS, warns that dollar is overvalued, that current value

cannot be sustained, and the only way to avert disaster is to reduce federal budget deficit.

- U.S. Treasury, having trouble raising funds abroad, submits proposal to Congress for sale of "bearer bonds," anonymous paper preferred by tax-evaders, drug-dealers, as means of attracting more flight capital.

- IMF head de Larosière in Innsbruck, Austria Aug. 27 demands higher taxes and drastic budget-cutting in all Western industrial nations to halt growth of public and private indebtedness.

- Moscow's Narodny Finance purchases its first Eurobond Aug. 29 from a consortium led by the Deutsche Bank of Frankfurt, which also led in financing Soviet-German natural gas pipeline.

September

- IMF annual report (Sept. 12) predicts drastic collapse of U.S. dollar.
- First Soviet ECU-denominated loan taken out by foreign trade bank, Vneshtorg, from France's Crédit Lyonnais, \$56 million at "very fine terms."
- Europeans reported buying dollars at a loss in reaction to Soviet military pressures on Europe; European Community finance ministers meet to discuss increasing ECU interest rates, amounts of ECU-denominated debt, and removing barriers to ECU commercial use.
- IMF meets in Washington; "secret keynote" by Henry Kissinger at Mocatta Metals luncheon calls for U.S. to undergo IMF conditionalities austerity.

October

- Comptroller of the Currency C. Todd Conover announces Oct. 15 that regulators will permit nationwide banking by "nonbank banks"—those that don't make commercial loans—clearing way for large banks to buy smaller ones out of state.

November

- Soviet KGB official Dzhermen Gvishiani tells European bankers in Paris Nov. 3 to promote the use of the ECU in East-West trade financing.
- Former German Chancellor Helmut Schmidt outlines in Nov. 9 *Die Zeit* a plan for international use of ECU, as a means of decoupling from the U.S. economy.
- London sources report Wall Street houses have accumulated largest stock of bond holdings in history, and plan to unload in early 1985 to create maximum pressure "over the size of the U.S. deficit."
- U.S. bank regulators force major banks to raise capital-to-asset ratios; move will permit foreign bankers to buy up stocks U.S. banks must sell cheaply to raise capital, in the direction of making the survivors of a cartelized banking system colonial branches of foreign banking powers.