Foreign Exchange by Montresor

Volcker demands end to U.S. sovereignty

"President Reagan must end U.S. unilateral decisions on the dollar," says a former New York Fed director.

The dollar's outlandish gyrations of Feb. 22-25 have exposed a scheme by the Bank for International Settlements and Federal Reserve Chairman Paul Volcker to turn the national sovereignty of the United States over to the BIS banking cartel. Using the hysterical debate over valuation of a mere piece of paper, the dollar, the BIS plans to grab the real prize: political control over U.S. defense and economic production.

The occasion was the dollar's ride from 3.32 German marks on Feb. 22, up to 3.44 on Feb. 25, which was blamed by the markets on President Reagan's Feb. 22 press conference. "The U.S. should not attempt to curb the dollar," he stated, despite the problems its strength presents to foreign governments. The speech caused the dollar to soar 3.2%.

Gold also collapsed by $17 to $282, its lowest since Aug. 8, 1979.

The speech was undoubtedly sold to the President by his "free enterprise" advisers, since it set him up so vulnerably for what followed.

Led by the West German Bundesbank and the BIS, a cartel of European central bankers dumped over $1.5 billion on the markets Feb. 27, plunging the dollar to DM 3.18.

The central banks' one time effort was unsuccessful, as the dollar recovered to the DM 3.35 level on March 1, and may well rise further.

But the political point had been made. Volcker intends to break President Reagan's personal political power over the U.S. economy, a former top Fed official close to Volcker revealed on March 1, using mismanagement of the dollar as an excuse. "President Reagan is the problem," said Scott Pardee, head of New York's Discount Corp., former director of the New York Federal Reserve's foreign-exchange desk.

"The speech that Reagan made shows that he is the one preventing international cooperation to rein in the dollar, and so it was an open invitation to speculators to buy dollars," Pardee told *EIR*. "The problem is that the U.S. must give up unilateral decisions on its currency."

Volcker is quietly demanding Reagan give in to "cooperation" with the BIS central banks, Pardee revealed. Before the Senate Foreign Relations Committee Feb 27, "Volcker indicated that there should be more cooperation by the U.S. authorities, for intervention jointly with the other central banks, and to manage the dollar somehow," Pardee stated. "He wants an international consensus of the central banks."

Pardee proposed that the United States join the consensus by setting up a "strategic currency reserve, modeled on the U.S. strategic oil reserve," with which the BIS could play. "The U.S. should purchase some $30 billion of German marks, Swiss francs, Japanese yen, British pounds, and other currencies, in large amounts, to help our allies and ourselves," he said.

That is, the United States should establish a huge intervention pool. "It is strictly in the interests of the U.S. to do this, since the rise of the dollar is killing our domestic industry at this point. Textiles, farming, steel, chemicals, paper, and other industries are going under from competition as cheap imports are flooding our markets," he said. This "consensus" or mafia-style "cooperation" is the BIS takeover of the dollar proposed by Henry Kissinger in his Jan. 24, 1983 *Newsweek* piece, "Saving the World Economy." He called for the United States to end "unilateral decisions regarding exchange rates, which have profoundly affected the world economy. Unpredictability encourages speculation. . . . An overhaul of the international monetary system is a precondition to world recovery."

Kissinger demanded the United States join the BIS cartel in BIS-mandated joint intervention. "While more fundamental reform is being negotiated, central banks could agree on a *realistic range for permissible exchange rate fluctuations and take action when relationships among major currencies move outside this range*."

Kissinger's aide at Goldman Sachs, Robert Hormats, told the press Feb. 28 that the BIS intervention had set up a European cartel. "The Europeans banded together, and decided it was the right time. What's impressive is not the volume of intervention, but the fact that they worked together."

Meanwhile, a study by Dallas S. Batten of the St. Louis Fed on Feb. 25 argues that the dollar's rise is really due to a collapse of U.S. bank lending abroad. Since 1983, American banks, instead of lending net funds abroad, are making net withdrawals of funds from abroad. Total new U.S. investments abroad (bank and others) fell from $107.8 billion in 1982 to $43 billion in 1983 and as little as $2 billion, according to estimates based on Commerce Department figures in 1984.