

still traded at \$28 per barrel. Throughout the southwest of the United States, land prices are crashing along with oil, and the cash flow to support highly leveraged real estate is evaporating with the oil flows.

That is to say, *no reduction in interest rates will have any impact on the real-estate disaster.* Paul Volcker is in the position of a doctor used to prescribing iron pills for anemic patients; they don't do much for a punctured aorta.

### The dollar doomsday machine

How long can the Fed keep money rates down? There are three kinds of money. One, namely, monetary gold, was demonetized for the interim, when the United States closed its gold window in 1971. The second is primary bank deposits, i.e., real, earned money, such as the proceeds of sales in international trade. The third is the kind of money banks manufacture by re-lending these primary deposits.

Bad money drives out good. To the extent that the Federal Reserve props up worthless bank assets by pumping money into the banking system, real money will avoid the dollar. Ronald Layton-Liesching of Chase Manhattan's Investment Banking division points out that there are two, distinct money markets. The Federal Reserve presides over the first, in which solvency is measured by whatever the regulators say it is. But the Fed has little direct influence over the second, namely, the large overseas private interests who ultimately must lend the United States what it needs to finance a \$150 billion annual payments deficit.

Holders of real money now dominate the international markets. After the collapse of most developing-sector debtors, the large international banks have virtually stopped lending. The international lending market is now dominated by the offshore "Eurobond" market, i.e., the market for securities purchased anonymously in Europe or elsewhere. The market is funded by about \$500 billion annually in "black" or "grey" money, including proceeds of international drug traffic, flight capital, and so forth.

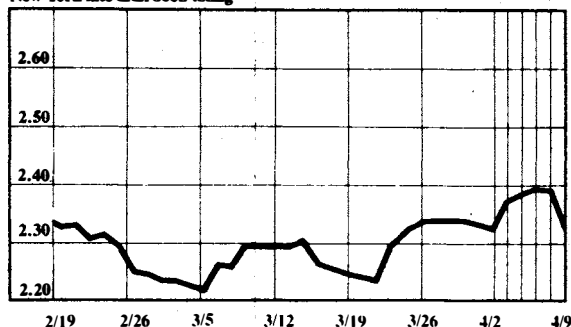
Dollar Eurobonds have already begun to fall in price, as European money grows suspicious of the dollar. Previously, major American corporate names paid the same interest rate in the Eurobond market as did the U.S. Treasury. Now the corporations pay about 1% more. "The people who buy Eurobond and the people who buy Treasuries are different people," Layton-Liesching explains. "European investors expect the dollar to fall, and are more hesitant to buy U.S. paper."

The United States now borrows \$150 billion a year, most of it from these sources, to finance its payments deficit. A run against the dollar will pull money out instead of bringing it in, forcing up American interest rates. If the banking system has not crashed before a run against the dollar, despite the open pump at the Fed, it will crash then. The IMF meetings have merely confirmed that the rest of the world has decided to leave Paul Volcker and the American banks to their fate.

## Currency Rates

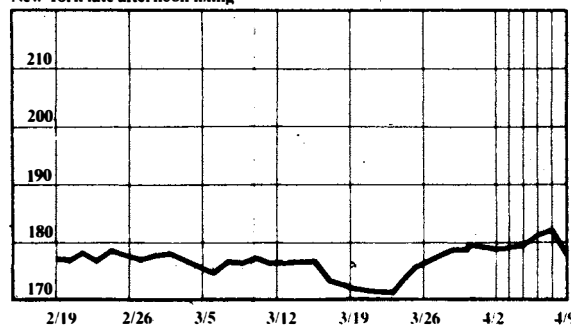
### The dollar in deutschemarks

New York late afternoon fixing



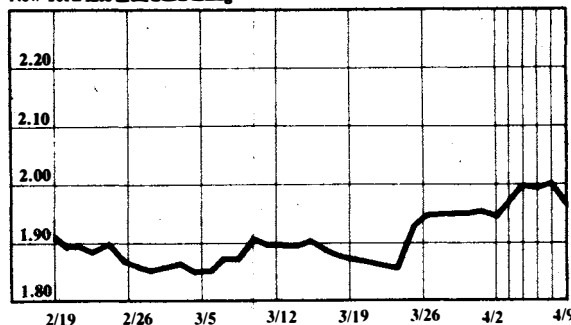
### The dollar in yen

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing

