Central bankers flex muscle, but what's the price tag?

by Chris White

Two days of massive central bank intervention, Thursday, Nov. 17, and Friday, Nov. 18, kept the U.S. dollar at about the level reached by the weekend after George Bush's election victory. At around 123 yen and 1.73 deutschemarks, the dollar had been held at about 3% lower against both currencies than it was before the U.S. election.

For the two days of massively coordinated central bank intervention, it is estimated that some $3 billion were spent by central bankers to hold the line. Intervention on Thursday was probably running at twice the level of Friday. For those two days of effort, the Japanese central bank, which had been intervening daily to support the dollar-yen rate, at a level in excess of $400 million, was joined by the Bundesbank, the Swiss central bank, the Bank of England, the Dutch central bank, the French central bank, and Alan Greenspan's Federal Reserve Bank of the United States.

Yet, the massive level of support, which has actually only slowed the otherwise precipitous rate of decline of the dollar, which has fallen by 10% against the deutschemark since August, has not been enough to eliminate what the financial markets call "bearish sentiment." On each of the cited days of massive intervention, the central banks followed the markets across the world's time zones, deploying three successive waves of intervention, in Asia, Europe, and the United States in their attempt to staunch the hemorrhage out of the U.S. currency.

A power play

Meanwhile, it is well to bear in mind that it was the central bankers who intervened so massively Thursday and Friday who also happen to be the ones who set recent developments into motion during their end of September confabulations at the Berlin International Monetary Fund meeting. The central bankers, as we have reported, are acting to precipitate a crisis, to demonstrate that they, and they alone, have the power to control what they have unleashed. Their objective is political; to use their ability to exert control over market developments, to batter the incoming U.S. administration into submission to their overall policy designs.

Thus, Friday's "third wave" of central bank intervention, during U.S. trading hours, was apparently precipitated by remarks Bush's nominee for Treasury, Nicholas Brady, made to Bryant Gumble on NBC's morning TV talk show. Brady told Gumble, "There is nothing to worry about" with the dollar, that there was "no need" to increase U.S. interest rates, that a deficit reduction package could be worked out with Congress, without increasing taxes, the more so because he had as yet found no congressman who had run his re-election campaign on a platform of increasing taxes.

Brady's remarks stand in sharp contrast to the Wednesday, Nov. 16 testimony of Federal Reserve chairman Alan Greenspan before the Robert Strauss-Drew Lewis co-chaired National Economic Commission. While Greenspan was not so crass as to outright join the chorus of those who are calling for tax increases, he did demolish the core of the President-elect's "flexible freeze" strategy for dealing with the deficit. Where Bush has insisted that continued economic growth will take care of the deficit, if spending is held in line, Greenspan argued that such a tack is "unrealistic." He took off from this slap at the President-elect, to present a case, argued from the last 100 years, that foreign investors could not be expected to keep their holdings in their country of choice, if that country was running perpetual deficits. Greenspan insisted that the deficits are undermining the foundations of the economy, and have to be dealt with now.

That testimony was widely regarded as the trigger for

Thursday's assault on the dollar, and the subsequent central bank intervention. Therefore, irrespective of the truth or falsity of what either Brady or Greenspan are saying, Greenspan has made clear where his loyalties lie. In acting to undercut the new administration, even before it is formed, he has shown that he has thrown in his lot with the central bankers' cabal.

Greenspan's testimony also undercut an effort launched by the President-elect and his appointees over the previous weekend. At that time Brady, not appointed to the Treasury till Tuesday, Nov. 15, had called in the *Wall Street Journal* to let it be known, in time for market opening Monday, that the new administration does not agree with Harvard's Martin Feldstein, who calls for a further 20% devaluaton of the dollar, but favors dollar stability. The "transition team" took to the Sunday talk shows to make the same point.

But before Brady's reappointment as Treasury Secretary was announced on Tuesday, he had flown off to Paris for a secret series of conferences between finance ministers and finance ministry technocrats of some of the Group of Seven countries. According to Friday, Nov. 18's *New York Times,* Monday, Nov. 14, in and around the precincts of the Louvre offices of the French Finance Ministry there were at least two sets of meetings. On one level, the *Times* reported, Brady met with his West German and French counterparts, Stoltenberg and Bérégovoy, along with the number-two in the Japanese Finance Ministry, Gyohten. At the same time, the top Treasury official for international monetary affairs, David Mulford, was meeting with his German and French counterparts.

The U.S. Treasury has admitted that the meetings occurred. There has been no official comment on their content. It is to be presumed that the officials gathered there worked out the outlines of an agreement among themselves, under which the dollar would be supported, even while the central bankers are organizing the international campaign against the dollar.

That's not so mysterious as it may appear. The name of the game is control. Running the foreign currencies like a yo-yo, which drops, but never climbs back to the levels it has dropped from, is designed to create conditions, through controlled manipulations of crisis, in which the incoming administration can be broken to the central bankers' collective will to implement their desired policy of savage austerity.

Among the immediate signals that some trade-off arrangements have been accepted for the support side of the package was a speech given by outgoing President Reagan on Thursday, Nov. 17, to a Chamber of Commerce organization. The speech, originally billed as a statement in support of the proposed free trade agreement between the United States and Canada, became something else. The out-going President took the opportunity to back off from one of the more extreme of his standing "free enterprise" commitments, namely, that which requires the elimination of all so-called agricultural subsidies by the year 2000. Now, in advance of the upcoming Montreal GATT talks, that fixed deadline, opposed bitterly for months by U.S. creditors in Japan and the European Community is, in appearance at least, junked. The President has agreed that "food security," a major concern of Japan and Europe, can be discussed.

It doesn't take much imagination to see that shift, as part of the horse-trading that underlies the intervention on behalf of the dollar. What else was agreed to can be surmised. Most immediately, would be an increase in interest rates inside the United States. Indeed, rates on both short-term Treasury bills and the 30-year long bond have been climbing, even while the dollar was under pressure on international markets. It can be expected on that basis, and on the narrowing differential between interest rates in the United States, and in overseas money-markets, that U.S. commercial banks will shortly begin to increase their prime lending rate, to maintain the spreads between their cost of borrowing funds, and the interest they receive in payment.

As far as the Federal Reserve is concerned, the operative question must be, how much foreign currency does the Fed have available with which to finance its side of the intervention in favor of the dollar, and what will happen, as those funds are depleted, if the central bankers protract their yo-yo routine in a gradual tightening of the screws?

Not really under control

The problem with all such calculations is the assumption that the process under way is under the control of those who claim that such is the case. Perhaps, over the short-term, central bankers do have the maneuvering room to play pressure games against the dollar to back up their attempt to bring the new U.S. administration into line, as their house-broken creature on these questions.

That must remain an open question, simply because of the overall bankruptcy of the system. Obligations were incurred, over the last year, in the name of "keeping things going" until after the U.S. elections. Thus, what was insupportable a year ago, through trickery, arm-twisting, and other forms of blackmail was ultimately supported, the price for continuing that now, is to add another $400 billion and up in obligations to the claims outstanding against the U.S. credit system. Without the expectation of continued increased money returns on a growing pile of indebtedness, the system will collapse on itself.

Any attempt to play pressure politics, by manipulating the conditions under which the system has been supported, by playing around with currency rates, and interest rates, must tend to accelerate the destabilization of the whole thing, in ways which will not be understood by the people at the central banks. They will then learn what political control is all about, as they are subordinated to the political will of sovereign government, or we will have the biggest financial crash of all time.