OPEC investors must have been shifting into other types of assets besides bank deposits — perhaps British Treasury securities or British merchant bank-managed "private placements"? The BIS also indicates that OPEC countries drew down their dollar deposits with branches of U.S. banks in the Caribbean and Far East by $.9 billion and with banks in the European Group of Ten countries by $.2 billion, while simultaneously building up their non-dollar deposits in Europe by $1.4 billion. Thus, OPEC "portfolio diversification," although not yet massive enough to crush U.S. banks, nevertheless represents a significant threat as long as the dollar is unstable and could swing the balance between the Luxembourg and London "systems."

—*Alice Shepard*

British Plot Bear Raid On Eurodollar Market

A Feb. 6 Financial Times *survey on the Euromarket subtly aired several British scenarios for "bearing" the Eurocurrency market in such a way as to wipe out the remaining U.S. bank competition and emerge on top of world credit flows. In 1974, West Germany's Herstatt Bank collapsed and momentarily paralyzed the entire Eurocurrency interbank deposit network. A Herstatt-type crunch could evolve again in many ways, the* Financial Times *editors suggest — from Third World defaults to a New York City bankruptcy to increased regulation of U.S. banks by British-oriented U.S. Comptroller of the Currency Heimann.*

If this situation (another Herstatt-ed.) is to be repeated one may expect an increasing strain on the U.S. banks' lending capacity during this year...The one development which could change this general picture (i.e., trigger a shift from the present excess liquidity to a credit shortage-ed.) is a sharp shock such as happened with the oil price rises and money market losses in 1973-74. For, while the numbers of institutions involved in the Euromarkets — and the commitment of the old hands in the business — has grown immeasurably since in the last four years, the market mechanisms are more firmly based only to the extent that solutions to the particular problems posed in 1974 have been found. The potential remains for tiered rates and a sharp and speedy contraction in the volume of inter-bank deposits, in the absence of any meaningful lender of last resort.

Czechs Say:
What's Good For The Dollar Is Good For Us

One clear statement on why the dollar must be supported issued this month from Prague, where the Communist Party daily *Rude Pravo* carried a two-part series of articles by Ladislav Alster on the currency crisis. Far from gloating over the U.S. currency's fall, as misguided Eastern European officials have often done—on the principle of "what's bad for the capitalists is good for us"—Alster focused on the devastating damage to world trade, not sparing Eastern Europe.

"The weakness and the decline of the dollar are no domestic affair of the United States, but a question of worldwide dimension," wrote Alster Feb. 2. Among the experts he cited to demonstrate the point were former U.S. Treasury Secretary William Simon, warning that without a strong dollar to ensure the economic stability of the United States an international crisis will occur; and Horst Siebert of the conservative West German daily *Die Welt*, who has written that the currency insecurity, consciously advocated by the Carter Administration, has done great harm to international investment activity and international trade.

Neither the West German mark, the Swiss franc, the Japanese yen—much less "so-called Special Drawing Rights"—could successfully be used to denominate oil transactions or other world trade, stressed Alster. In Saudi Arabia and in Paris, Carter was put under strong pressure for "the U.S. government to take energetic measures to support the dollar."

"Can the U.S. do anything for the international position of the dollar? Most likely it could....the U.S. remains by far the greatest capitalist economic power."

The dollar recovered somewhat after Carter's Jan. 5, 1978 statement that it would be supported, but the recovery lasted only until the president's State of the Union speech. "It may appear that the financial policy of the Carter Administration is helping the American economy by 'burning' its partners" (West Germany, Japan, etc.). "But this is not the case. Actually, nobody in the U.S. is really satisfied with Carter's financial policy....The so far very phlegmatic financial policy of the Carter government surely mirrors the crisis contradictions in the United States....Some of the phenomena cited are indeed alarming, and signal that the partially structural crisis of the capitalist world could easily turn into a high gear crisis, with unpredictable consequences, which to a certain extent would also have an unfavorable influence on the economy of the socialist countries."

In a follow-up article, Alster wrote that the U.S. deficit was only one problem underlying the fall of the dollar. More important, is the speculation against it, which has assumed "incredible dimensions and forms." Alster's cited European sources who believe the dollar is to be undervalued at this time, suggesting that central banks might attempt a wave of counterspeculation to boost the dollar.

The danger remains, he concluded, that "secret groups of insatiable adventurers can turn the economy into a huge roulette wheel."