Dollar Collapse Almost Uncontrollable

The U.S. dollar was hit by a continuous round of dumping from Feb. 20-24, but picked up at the end of the week to 2.05 deutschemarks. Rumors that the Federal Reserve had intervened drove both the dollar and the stock market up late Friday. But well-placed business and government sources in West Germany stated this week that nothing stands in the way of a decline in the dollar's value to below the 2 deutschemark level. This parity is widely recognized as the point at which the dollar ceases to be the reserve currency for financing international trade and loans.

FOREIGN EXCHANGE

Similar predictions are circulating in New York, where one banker stated that the U.S. currency will stabilize briefly at the 2.02 level during next week, until a new round of dumping drives it below the 2 deutschemark level.

If opportunities exist for the U.S. Administration to salvage the dollar from its demise, they exist in the direction of a concerted political drive by the U.S. government to put the nation's economy onto a course toward a dramatic recovery. The impact which an expansionist economic recovery program would have on so-called "market forces" was clearly shown on Feb. 24, when a wire report citing the head of U.S. Steel and the chairman of the Senate public works committee that the coal miners' strike would be settled within a few hours, snapped the dollar upwards by 4 pfennig to 2.05 DM.

Shortly afterwards, an announcement of the imposition of exchange controls and an obligatory 40 percent deposit on all foreign accounts by the Swiss Central Bank set off a minor panic among "bear" holders of short-term positions against the dollar.

At writing, European forex markets are being kept open past hours to permit the "bears" to cover their short positions in face of the prospect that action to fish the dollar from the bottom may be underway.

Who's Out to "Get" the Dollar System?

The consistent support operations by the West German and Japanese Central Banks throughout the week (from $50-200 million per day) are simple results of the knowledge in informed circles that no sensible alternative to the dollar system exists at this point. The attacks on the dollar are being led by a pack of London merchant banks, who have moved in, according to confidential reports, with $6 billion in short-term positions against the dollar, and are forcing desperate European and American corporations to join in on their dumping rounds.

For the London merchant banks, the "bear" raid on the dollar interlocks a concerted effort to break the back of the U.S. economy. Energy Secretary James Schlesinger's efforts to prolong the coal strike for a minimum of another three weeks is consciously aimed to produce bankruptcies and layoffs throughout U.S. heavy industry, which will finish off both the economy and the dollar.

A number of New York commercial bank spokesmen emphasized in interviews this week that as far as American business is concerned, the dollar is undervalued. The same spokesman rejected as incompetent various London scenarios to meet this crisis by competitive "trade war" or protectionist measures, or by sending the U.S. out onto the open capital markets to finance its current account deficit with foreign bonds.

At this time, however, these sentiments have not yet succeeded in changing Washington policy positively. American business representatives have been effectively cut off from deliberation with officials. Also operative is an increasing "Watergate" climate engineered by London to paralyze President Carter.

Push for Diversification

The refusal of U.S. forces to defend both the economy and its currency is forcing particularly West Germany and Japan to adopt emergency defensive measures to protect their trade flows. This threatens to replace the dollar system with a chaotic "basket of currencies" vulnerable to continuous raids on London-controlled markets.

In desperation, West German corporations are reported by the financial press to be cashing in their dollar receivables as fast as they can get rid of them. In addition, up to 70 percent of West German trade is now being billed in marks.

The West German Central Bank is concentrating its interventions on the forward markets, attempting to hold the dam against this dumping. In January, West Germany registered a $200 million balance of payments deficit (in contrast to a December $2.6 billion surplus), as its currency increasingly takes on the characteristics of an international reserve.

Similar processes are taking hold in Japan. Neither of these economies is large enough to sustain the burden of massive international circulation of their currencies, inviting the prospect that once London has reduced the U.S. to ruins, it will target the West German and Japanese economies for the same treatment.

In both countries, there is the widest support for any move by the U.S. to "collaborate with them to support the dollar and stabilize the international monetary system," as one New York banker admitted this week. Ironically, if West Germany and Japan were to confront the emergency by Central Bank agreements to introduce gold reserve backing for their currencies in the intermediate term, this would permit them to fulfill the dollar's role pending a U.S. commitment to introduce a gold-backed monetary system.

The U.S. will not make any such commitment unless Schlesinger and Blumenthal are removed from office. The urgency of this action was underlined this week by reports that Kuwait has begun to stop accepting dollars as payment for oil, and is "diversifying" its reserves. Moves out of the dollar in the Gulf region not only further weaken the dollar, but encourage cliques in that region which favor a London-guided course of setting up Kuwait as a new financial bubble center for squandering Arab investment funds.

Some U.S. Forces Wake Up

In a speech delivered Feb. 23 before the National Energy Resources Organization, U.S. Senator James McClure (R-Idaho) indicated that an important layer of U.S. spokesman may be preparing a concerted political move to force the Administration to take action in support of the dollar. Concentrating on the impact of U.S. negligence abroad, McClure stated: "I have the impression that most dollar-surplus foreign nations are searching desperately for alternative investments. It is our good fortune that, so far, they have failed to find any. But, I believe it would be a serious mistake to assume that they will continue to fail. A far wiser and more responsible approach would be to restore confidence in the dollar."

He added: "The Administration has...committed a major international blunder by deliberately working for a devalued dollar. I am amazed that so-called economic experts would still believe that devaluing our currency helps the economy. You would think that England's example would have been sufficient."

There is no evidence at this time that McClure's statements were coordinated with the Administraiton group which is pushing for immediate settlement of the coal strike. Nor is there evidence that the Swiss Central Bank impositon of controls on the Swiss was undertaken in consultation with the U.S, Federal Reserve. However, this grouping outlines the forces which need to adopt a common policy, including introduction of gold as a recognized reserve, to pull the rug out from under London's bears.

Correcting Mr. Connally:

Gold Is The Best Support For The Dollar

Speaking before a Harvard University audience last week, former Treasury Secretary John B. Connally warned — in response to a question from NSIPS — that reintroducing gold into the world monetary system would threaten the dollar's role as a world reserve currency.

GOLD

Not only is Mr. Connally dead wrong, but gold is fast becoming the single chance the dollar has to remain a reserve currency. That sounds paradoxical to men like Connally who took the dollar off the gold standard in 1971, thereby falling into a trap rigged by the Edward Heath government in Britain and the London-controlled Willy Brandt government of West Germany. Both Nixon and Ford Administrations devoted great effort towards keeping gold in a monetary deep freeze, and Republican officials react badly to the word's mention.

The Color of Our Money

Apparently, these people — who had no idea what hit them in 1971 — don't understand what kind of mess we have run into. The dollar going off gold meant only one thing: instead of balancing the U.S. payments deficit with shipments of real goods in the form of exports or transfers of monetary gold, the U.S. would pay off in paper IOU's — to be precise, $150 billion of them, — in the form of Treasury securities or other dollar obligations held by foreign governments.

Even though it stuffed the world with dollar paper, that arrangement could hold only as long as our trading partners, now our creditors, could expect that the mighty U.S. economy would pay up in the form of exports at some future point. But two things brought the problem to a head. First, accumulating debt choked off U.S. export expansion to the developing sector, to the point of putting us in deficit with the world's poorest countries during 1977. Much worse, British agent-of-influence U.S. Treasury Secretary Michael Blumenthal's public posture of dumping the dollar has queered the deal.

Blumenthal's sabotage has made foreign govern-