Proposed Reserve Status for Mark Will Drag Europe Into Dollar Spiral

by Dave Goldman

NEW YORK, March 15 (IPS) — Fury about the Rockefeller faction's incompetent handling of the dollar collapse rode high in West German banking and industrial circles this week (see box). But real shock waves will erupt when the West German and other European capitalists hear about Rockefeller's "solution."

First National City Bank's top officials responsible for international policy explained to IPS last week that West Germany "would be forced" to make the Deutsche mark an international reserve currency, in place of the U.S. dollar. This is the financial equivalent of a small and healthy railroad merging with the bankrupt Penn Central, to "bail it out."

There is no sane reason for the Germans to swallow this, and they have no intention of doing so. Handelsblatt's public feeler towards the Soviets on the question of the transferable ruble follows that newspaper's open rejection of neo-Nazi Franz Joseph Strauss, reported last issue. The hard core of industrial capitalists represented by Handelsblatt is fighting desperately for West Germany's foreign trade — with or without the dollar.

Asked whether the Germans could be persuaded to give up their opposition to this maneuver, International Financial Planning chief Heinz Riel said, "They may have no choice. The Americans will tell the Germans to help them. The German central bank is now supporting the dollar, and I interpret that to mean that the U.S. will encourage the use of the Deutsche mark as a reserve currency." Wouldn't this push the West Germans eastwards?, Riel was asked. The banker froze, and said, "I am not the East European currencies specialist..."

In February, the same Heinz Riel claimed that anyone who wanted to use the mark as a reserve currency was "crazy." What changed his mind? "The dollar is so weak now, and the mark is less so. It is the least unacceptable currency."

Certain economists, like the Brookings Institution's C. Fred Bergsten, have confessed recently that the source of the dollar's palsy is the more than $200 billion "overhang" of dollars held outside the United States. They are useless because the United States credit system can no longer circulate capital for an apparent profit, much less for production.

For the mark to function as an international currency, the German Federal Bank would have to print up over 500 billion marks to swap for the unwanted dollars, or about four times the present German money supply! "Quadrupling is possible," Riel claims, "though not in a short period of time. There is now a Deutsche mark shortage, and you make that up by printing more marks."

By this plan, the German monetary authorities would be compelled to print vast amounts of currency, ballooning the mark out of proportion of the German economy. In return, the Federal Bank would take in as reserves 200 billion unwanted and worthless dollars — the backing for the Deutsche mark. The joke is that since the 1940s, the mark has been nothing but a dollar in a **Wehrmacht** uniform. Of the Federal Bank's $32 billion reserves, less than $6 billion are gold; $24 billion are dollars.

Internationally, the dollar-based credit system is collapsing because the accumulated mass of debt has strangled production, and lowered production cannot maintain debt service — a classic breakdown spiral. In the Eurodollar market, which accounts for 80 per cent of the dollar overhang, the U.S. paper has become worthless, because international dollar loans no longer bear interest from near-bankrupt countries and corporations.

Forcing the mark into the position of a reserve currency means exchanging bankrupted dollar assets for Deutsche mark assets...to draw income from the same diminishing sources. Momentarily, the mark is stabler than the dollar internationally because the volume of mark-denominated assets is more in line with the real output of the West German economy. To switch the vast dead mass of unproductive dollar assets into the mark sector would merely bankrupt both currencies.

After World War II and the Bretton Woods monetary agreement, the dollar functioned as the international currency of trade, lending, and reserve for two reasons. First, the U.S. economy could then expand production and real productivity. Secondly, Europe used the dollars it held to purchase plant and equipment from the United States for the reconstruction of its own currency, in the present world situation, means pledging the assets of the German economy against the accumulated debts of the U.S. dollar. If other European currencies are thrown into the bargain, as French Finance Minister Fourcade proposed in January, the result will be identical: the bankruptcy of all.

In West Germany, there is fierce and unanimous opposition from leading capitalist layers, who have no wish to be dragged into bankruptcy along with Chase Manhattan. But as First National City insists, "They may be forced to."

If West Germany continues to support the dollar on international markets — it has wavered between buying and selling the dollar during the past two months — the mark will be pushed into a reserve-currency position. To maintain the flagging dollar value, the German Federal Bank purchases dollars sold on the open market, in return for newly-printed marks. This process puts the mark into international circulation. The Federal Bank's support operations of a late 1960s and early 1970s helped feed a "Euro-Deutsche-mark" market of about $30 billion. During the past four months, these "Euro-marks" have become a major source of international loans, due to bankers' unwillingness to trade in worthless dollars.

Additional pressure was brought to bear on West Germany this week by Saudi Arabia's decision to un-link its currency, the riyal, from the dollar. Following a similar move by another Persian Gulf bank-account state, Iran, the Saudi decision is compel the West Germans and other European countries to provide the currency for international oil transactions. Worse, the well-intentioned efforts of Iraq to force the use of currencies other than the dollar play into Rockefeller's game.

West Germany must choose. If it remains on the dollar standard it must support the dollar. As Citibank demands, supporting the dollar ultimately means joining it in bankruptcy. To break with the dollar would mean accepting the Euro-ruble, as Handelsblatt's editors imply. One road leads to bankruptcy and the collapse of industry, the other to a reversal of the depression in Europe.