Bundesbank Cash-In Spells Economic Warfare, Inflation

by Susan Cohen

Aug. 9 (IPS) — In a development that presages international economic warfare of the sort that triggered the 1931 world credit collapse, the West German central bank and other foreign governments have been quietly taking their revenge against the U.S. Treasury and Federal Reserve, IPS learned this week. In the month of July alone, the U.S. Treasury was presented with $1.5 billion worth for foreign-held, non-marketable U.S. Treasury Securities for immediate cash redemption.

The action precipitated a cash crisis at the Treasury, forcing it to hastily borrow $1 billion from the Fed early last week to meet payments. The Treasury's subsequent announcement of a substantial upward revision in its annual borrowing requirements, hoisted the spectre of massive inflation stateside and threw U.S. capital markets into a panic.

Acknowledging that the Treasury's cash flow problem was in large measure due to the unusual spate of foreign government redemptions, U.S. federal debt manager Ralph Forbes insisted that the Bundesbank's move was not an act of retaliation. "Why, we have a close working relation with the Bundesbank," he told IPS. The Bundesbank, for its part, gave IPS correspondents in Wiesbaden an "official denial" of their involvement in the operation, adding with defensive pique that "other central banks" were "also involved."

Well-placed financial sources in New York told IPS that rumors of such an emphatically retaliatory move by the Bundesbank have been circulating for some time — to the horror of the money market, the source confessed. It is well known, this source argued, that the West Germans are thoroughly annoyed with U.S. foot-dragging on domestic reflation. In cashing in the bonds for dollars to support the recently devalued Deutschmark, the Bundesbank neatly threw the hot potato of hyperinflationary dollar debt back across the Atlantic. Bundesbank official Otmar Eminger underscored the point in an interview this week. "The financing of the U.S. deficit cannot be accepted by Europe," he told reporters.

The Bundesbank, in leading the charge to dump U.S. bonds, is merely returning Federal Reserve Chairman Arthur Burns a favor in kind. Their action is a direct response to U.S. moves at the end of June which pulled the rug out from under the West German bond market. At that time Fed chairman Burns hiked U.S. interest rates which, together with the tremendous demand for dollars created by the June 30 payments deadline, sucked liquidity out of Europe at a rate that produced an immediate, severe crisis in continental credit markets. The Bundesbank itself was forced to pump over 1 billion Deutschmarks into the German credit system in less than one week to finance otherwise unsaleable government bond issues.

The "weapons cache" the Bundesbank and other central banks are using in this round of economic warfare is the more than $20 billion of non-marketable U.S. Treasury securities they have been forced to swallow over the past ten years. Dubbed "Roosa bonds" for their inventor Robert V. Roosa, who came up with the gimmick during his term at the Treasury in the Kennedy administration, the securities issues were an outflanking maneuver to prevent the Europeans from "freely exchanging" the piles of greenbacks accumulating in their central bank vaults for gold at the U.S. Treasury — the prospect of which constituted the foremost nightmare of U.S. capitalists at the time.

Oil Countries to Cash In?

Europe is not the only party engaged in sending the chickens home to their roost in the U.S., nor are non-marketable securities the only medium of government debt at stake. Since the 1973 Oil Hoax U.S. government securities have become an opportune investment for oil producing countries, a relatively liquid means of investing the tide of petrodollars that flowed into that sector. Now, however, with the oil market glutted as a result of unprecedented industrial contraction and their dollar revenues declining rapidly, OPEC countries too may be cashing in their securities as was mooted in the latest issue of the weekly Money Manager.

The Fed's own weekly statistics show that in the past week it has been ordered to liquidate fully $200 million in marketable Federal Agency bonds held on foreign account.