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Examining the actual dimensions of the Eurodollar interbank market, it is possible to see the mad logic behind David Rockefeller's thinking. As of June 30, 1980, commercial banks in the United States had $185.4 billion in deposits from foreign sources, of which $61 billion were liabilities to banks' own foreign offices, i.e., funding from abroad for loan purposes. The net liabilities to foreigners came to $124 billion.

Of these net liabilities, $20 billion came from Latin America and the Caribbean, and $34 billion from Asia, that is to say, roughly half of the net total came from the two great flight capital centers: the Singapore-Hong Kong axis, and the Venezuela-Jamaica-Bahamas triangle.

The biggest chunk of net liabilities comes from Western Europe, at $61 billion; but of these, two-thirds are from countries whose central banks are virtual arms of the Bank for International Settlements and which would most likely cooperate with the Fed during a crunch. This includes $7 billion to England, over $13 billion to Switzerland, and $3.5 billion to Belgium and Luxembourg, the three European markets closest to the Caribbean-Hong Kong "offshore" nexus.

Of course, the creation of a "dollar zone" based on the offshore markets noted could not be handled so easily, but the cited measures give some sort of geographical order and perspective on the size of the actual problem. American banks' loans to Third World countries net of deposits are now, by official measure, $100 billion, and substantially more when unconsolidated loans from foreign subsidiaries are figured in; it must be assumed that many of these offshore subsidiaries would be abandoned, and that the Fed would additionally have to buy up between $40 and $60 billion of bad paper.

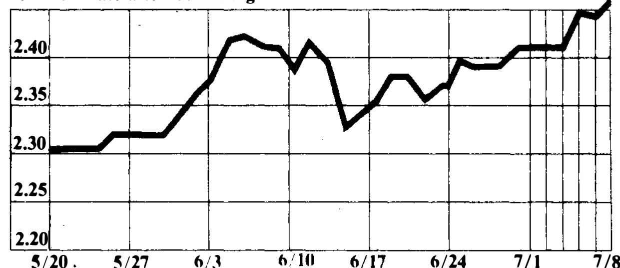
In other words, the type of "dollar zone" the bankers have in mind as a fallback option, based on the federal printing presses, Latin American narcotics revenues, and other dubious sources of funding, is a prepackaged hyperinflationary disaster. No wonder that international investors are willing to pay 20 percent interest to buy oil and gas in the ground! That they are apparently not willing to buy gold at current low prices is a far more complex issue, treated separately in this issue (see Gold).

This type of disaster is unmanageable under the stock of methods the Reagan administration heretofore imagined it had available. It implies a highly visible hand directing national economic affairs. Whether the form of the crisis will be the one outlined above is not possible to say; it is only important evidence that leading market participants are following a scenario of this type. Meanwhile, the administration, whether the President knows it or not, is on alert status for economic rule by decree.

# Currency Rates

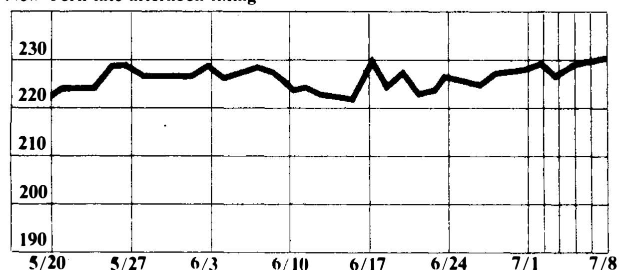
## The dollar in deutschemarks

New York late afternoon fixing



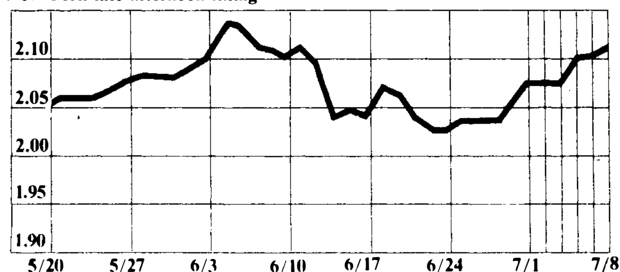

## The dollar in yen

New York late afternoon fixing



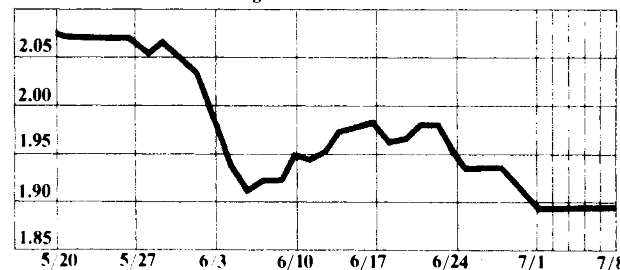

## The dollar in Swiss francs

New York late afternoon fixing




## The British pound in dollars

New York late afternoon fixing



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