EIR Economics

Bankers are rigging the dollar collapse

by Laurent Murawiec

As the dust settled on the false news of a successful Iraqi air raid against the Iranian Kharg island oil terminal, foreign-exchange traders rubbed their eyes in disbelief: While tested conventional wisdom would have called for the dollar to shoot up through the ceiling—traditional trading patterns, in case of crisis, put a premium on America's own energy endowment and its political safety, and a discount on most other Western nations' lack of domestic oil sources, and greater vulnerability to an oil shock—the dollar, through most of that day, Feb. 28, kept on plummeting on the markets.

The U.S. currency lost three pfennigs to the deutschemark in the first hours of the morning, and lost across the board to the Swiss franc, admittedly a strong currency, but also to the French franc, whose weakness has become chronic, and did not even rise against the yen—even though Japan depends for 60% of its crude imports from the Persian Gulf. As for the pound sterling, the sky was the limit.

War on Ronald Reagan

The dollar's all-time high of last January is a thing of the past. Open season has been declared on the U.S. currency and, with it, on President Reagan. "The only question is: By how much is the dollar going to be smashed?" a Swiss banker asked. The London *Financial Times* quoted a dealer as saying, "There has been a critical change. There is no question that the dollar has broken. Investors have realized that you can make more money by selling than by buying dollars." As yet, he went on, "There has been no large-scale flight of capital from the U.S.A., but institutional investors and corporations have significantly increased their cover against losses and are diverting new funds into marks and other currencies."

The same newspaper bluntly editorialized under the ominous title "When Reality Catches Up" that "long expected events can come as a shock too . . . a major fall in the dollar would be an event of world importance." And for no one to miss the *political* significance, it concluded: "The new events in the U.S. are the substantial fall on Wall Street *and the equally substantial fall in the domestic prestige of President Reagan; these could be two sides of the same coin. . .* a strong economy with a weak stock market and an *accident prone regime turns thoughts to profit-taking* [emphasis added]."

The United States being labeled little more than a banana republic's "regime," the marching orders were clear: sell. Sell quietly, in limited, gradual quantities so as not to frighten the markets, but *build-down dollar exposure*. That is what some credulous, or stupid, economists call the "action of the free market." The *Financial Times* itself has been pressing for a dollar build-down, giving unprecedented and rather shocking front-page publicity to averse sentiment concerning the U.S. currency.

On Feb. 20, a lead article entitled "U.K. Investment Funds Cut U.S. Exposure," stated that "fund managers are not yet predicting a massive slide for the dollar and there are no tangible signs of large-scale disposal of dollar-denominated assets, but many institutional investors take fresh steps to hedge their U.S. investment against a dollar fall." The City's daily even went so far as to mention by name those large institutions and corporations pulling part of their assets

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out of the dollar—a very unusual practice.

In the European press as a whole, the dollar's name only appears surrounded with epithets of doom. In Paris, *Le Monde*: "Red alert on the dollar—the unanimous conclusion of international financial circles." The *Neue Zürcher Zeitung:* "The uncertainty and instability of financial and currency markets is based on continued mistrust in Reagan's policy."

'Money will go into sterling'

In London, the Foreign Office bank, Morgan Grenfell, explains: "We've been devoting a lot of study to find out why the dollar did *not* collapse in 1983. We've found that all the countervailing factors that prevented the current account deficit from generating the collapse will not be present in 1984. The dollar is poised for a substantial fall. The dollar will crack when it will crack—there is no way this can be avoided with an $80 billion deficit on current account."

And once more, to put the political icing on the currency cake, the City banker added: "And as the Democrats close ranks—they'll pick Mondale, you will see—and challenge Reagan, this might tip the scale and put the last nail in the dollar's coffin. If there is an oil crisis, this will not even offset the decline of the dollar: Money flows will go into sterling—not dollars."

For the seven weeks in a row that Wall Street has been falling, and while nothing fundamental has changed in the U.S. economic situation (the fraudulent "recovery" data are still streaming into the media and the markets, while the real economy keeps on going through its agonizing shrinkage), the chimera called "market opinion" has been systematically worked upon with the same theme: The dollar collapse is coming. The huge budget deficit, the equally huge trade and current account deficits, are the facts of 1984 as they were of 1983, and the same factors are being cited to motivate the downtrend as they were the uptrend.

In the meanwhile, the spurious debate among Council of Economic Advisers chairman Martin Feldstein, Paul Volcker, and Donald Regan in the course of January started the "reappraisal." Fed chairman Volcker repeatedly announced that the same budget deficit he created with 20% interest rates was now working in an inflationary manner that might well choke off a non-existent recovery. As a result, he said—and a variety of Wall Street gurus, market soothsayers, and assorted imbeciles emphasized the point—interest rates would have to go up significantly. The irrationality in command of world financial affairs motivated, as a result, the extraordinary comment that higher U.S. interest rates would *depress* the dollar.

A climax was reached by the Edinburgh brokers Wood, McKenzie in their quarterly *International Economic Review*, which wrote without blushing that "The U.S. needs to cut its budget deficit. While there are no signs of any such action being taken, market pressures will force the administration's hand. At some point, the dollar will fall. As the U.S. will still need to import capital, interest rates will rise. The dollar will fall further [why?—L.M.] The economy will collapse and action on the deficit will be taken."

Swiss bankers are declaring "open season" on the dollar. Shown here are the headquarters of Crédit Suisse.

The latest stage of usury

A market source in London explained: "The markets are disturbed by the Gulf conflict, that is why sterling is soaring. If the oil flow is cut off, there will be a flight from stocks and bonds into Treasury bills, and the safety of depositing money with the banks will be questioned. Debtors will be subject to renewed economic disaster. The Fed, in that case, would have to print like hell to save the banks."

The net result would be, first, a very severe blow to the dollar, which would probably finish off the world economy; the triumphant return of "petro-currency" sterling; the sinking of oil-hungry economies like Japan's or those of much of Western Europe; and a possibly fatal blow to President Reagan's credibility. The present state of pre-dollar crisis is no less rigged by the bankers' marching orders out of the dollar than the dollar's stupendous rise had been by the usurious extortion of hundreds of billions of dollars from the rest of the world, courtesy of Paul Volcker.