Recovery myth evaporates, as the dollar tumbles

by Christopher White

Donald Regan's "mighty dollar" has entered a new ratchet of accelerated downward descent on international markets. Since the onset of the present wave of banking collapses in the United States, triggered by the failure of Ohio's state-insured savings and loan system at the end of March, the dollar was reduced to, and then kept in a range of, just over 3.00 deutschemarks. Now the so-called 3.00 DM "psychological barrier" has been breached, and the "mighty dollar" is heading toward the next plateau in its descent toward the valuation which reality will dictate against the West German mark, about 1.50.

Different than in March, the dollar's new decline is paralleled by the accelerating decline of the international oil price, and with the beginnings of an escalated price war among the producers, over a shrinking market. Mexico's decision to lower its prices, after OPEC's failure to hold the line on pricing, is indicative.

Also, it is no longer the smaller, regional U.S. banks or thrift institutions which are threatened. The underpinnings of some among the largest of the American banks are beginning to shake. First Chicago, affected heavily by the recent failure of a Brazilian bank, is among those rumored among insiders, to be on the verge of big trouble. Those same insiders know that troubles at First Chicago are merely the tip of the proverbial iceberg.

It does not take much imagination to figure out that, Washington gossip notwithstanding, the world is approaching one the most cataclysmic financial upheavals of all time, and that the United States will be at the epicenter of the storm. The myth of the recovery has begun to evaporate.

Such reality was reflected on both sides of the Atlantic in language appropriate to the brain-damaged state of the so-called leadership of the business community.

At a *Financial Times* conference on "Oil Industry Development," James Adamson, a vice-president at David Rockefeller's Chase Manhattan Bank, reported that banking and oil refining were in similar parlous straits: "We have an over-supply of raw material [money] and an over-supply of manufacturing facilities [banks], in a low-demand economic environment caused partly by the high costs [interest rates] of raw material. The result in both the oil refining business and banking business is a prevalence of marginal pricing strategies resulting in inadequate shareholder returns, which eventually will lead to consolidations and bankruptcies."

Other participants reported that oil refining in the United States was in its "worst recession" for more than 50 years.

On the United States side, Gary Shilling, president of the Wall Street consulting firm of the same name, debunked the myth of the beneficial effects of a decline in the dollar to the same effect. Shilling summarized his argument thus: "The real world, then, is one in which U.S. productivity growth has not kept pace with that of our major trading partners, one in which excess supplies of men and machines will continue fierce international competition, and one in which the rest of the world is so dependent on exports to the U.S. that anything that improves our competitive position could wreak havoc on a global scale. This is not a world in which a decline in the dollar will deflate the trade-woes balloon—ours or anyone else's."

Such candor has not been heard for quite some time.

Indeed such views, especially those reported from Chase Manhattan, should be contrasted with the latest economic projection that Chase Econometrics sent to the U.S. Congress, shortly before that body left for the July 4th recess. The forecasting unit projects that Donald Regan's fraudulent recovery would continue, for up to the next five years. In this report, no doubt specially designed to be suitably stupifying to the addled heads up on the Hill, Chase Econometrics assumed that nothing would change.

In reality of course, nothing has changed. The collapse is proceeding perfectly normally under the governance of the policies of Volcker and Regan, which make the continuance of collapse inevitable, so long as they remain unchanged.

However, the changed language cited here in contrast to the double-talk of Chase Econometrics, shows that the psychedelic euphoria associated with the "recovery" swindle is beginning to evaporate out of the heads of those who have been among its staunchest supporters.

Where Adams of Chase adopts the perspective of a wave of banking collapses as axiomatic, Shilling has no alternative to propose to the "havoc" he decries. Such awakening to reality among so-called leading financial circles is only going to accelerate the unfolding of the catastrophe. From the adopted perspective of unfolding disaster, it is only a matter of time before those institutions begin to act on the basis of unfolding disaster.

LaRouche's warning

This course of events was projected by *EIR* contributing editor Lyndon LaRouche during the course of his 1984 election campaign. Addressing the nation in a televised broadcast on Labor Day, LaRouche warned that the eruption of the consequences of the Volcker-Regan policy, in the form of currency crisis, falling dollar, collapsing banks, could not be postponed beyond the end of the first quarter of 1985, if those policies were continued.

Compare what those who now speak up were saying, when LaRouche's projections were made nine months ago. Over the entire period, the policy associated with Paul Volcker's tenure as chairman of the Board of Governors of the Federal Reserve Board has been in effect, opposite to all other forecasting services, LaRouche has built up a unique record of accuracy. It is still not too late for the lessons of that record of accuracy to be learned, and acted on. But time is running out.

Chase's Adams is in part right. Sections of the banking system, under present circumstances, are doomed to failure. Chase, like Walter Wriston's Citibank, no doubt expects its own bankruptcy to be delayed by ripping off the assets of failed institutions as they go down. This is what Adams calls "consolidations," and what is also known as the "spread of interstate banking." Chase, and Citibank, are themselves in worse financial shape than the institutions whose assets they want to steal. And, stealing those assets will not change that situation. For it is the whole banking system which is bankrupt, not individual banks, or agglomerations of individual banks.

Adams's perspective would therefore lead, not to the consolidation of the banking system he envisions, but to the collapse of the dollar-based credit system, and its replacement with something else, either based on the reassertion of the constitutional powers of the U.S. Executive and Congress to control the nation's money supply and credit, or on some new financial arrangement, such as the expansion of the European Monetary System's ECU, which would be the credit vehicle of Soviet imperial rule. Under either arrangement, the present aura of political power that surrounds Chase and Citibank, would disappear quite rapidly.

In this case there is only one acceptable alternative, the assertion of Executive power, to protect the bankrupt banking system from the consequences of its own actions and policies, on grounds of national security emergency. Between that, and a new monetary system vehicle for Soviet world rule, there is no middle ground, on which any bankers or others can continue to delude themselves that they are profiting from continued overall global collapse.

Unlike Chase, Shilling is implicitly pleading, out of desperation, that Donald Regan's bloated over-valued dollar be propped up to maintain the flow of imports into the United States, and of course the exports of U.S. trading partners. But the consequences of maintaining the over-valued dollar are themselves as disastrous as the devaluation Shilling decries.

The over-valued dollar forces those who export to the United States to do so at levels below the cost of production of what they are exporting. They therefore must either inflate internally, or cut costs through increasing unemployment, or idling capacity. In either case, their capacity to sustain the level of exports reached, for example, in the case of Ibero-American nations, is reduced in proportion to the increase in such exports, and must decline exponentially as internal productive capacities are cannibalized to support exports at lower than the cost of production.

The over-valuation of the dollar thus increases the rate of growth of instability in the international credit system, just as the collapse of the dollar does. Consequently, neither alternative is any more acceptable than Chase's perspective of the inevitable collapse of sections of the banking system.

The dollar credit and banking system must be reorganized in such a way as to preserve the integrity of the nations which are part of that credit and banking system. Otherwise the Russians take the world, in the wake of the self-destruction of the West.

LaRouche knows how to accomplish such a reorganization, as he also reported on national television during the course of 1984, and as he recommends in a pamphlet issued recently by the patriotic political action committee, the National Democratic Policy Committee. Short of what LaRouche has proposed, nothing will stop the process that lunacy and incompetence are making increasingly unstoppable.