

the London banking establishment, entitled its January editorial, "Cool It." The editorial warned:

"The explosion of trading volume in every type of financial instrument may not be a cause for celebration. It may be the beginning of a very unpleasant chain of events.

"Last year trading in foreign currency futures in the U.S. increased by more than 70%. . . . Market crashes are usually preceded by a sharp increase in the number of buys and sells. . . . Why is activity in the securities markets ballooning, when the real world of making and exporting widgets is almost static? We hope the answer is not what we think it is."

The central banks are in the same position that the Fed and the Bank of England found themselves in early in 1929, when the American stock market functioned like a gigantic vacuum for capital from the rest of the world. Capital flowed out of Germany, threatening to bring down the entire structure of refinancing of postwar reparations, thus ruining the City of London. Bank of England Governor Montagu Norman, observing the ruins of the City's loans to Germany and Eastern Europe, demanded that the American authorities take action to stop the bubble; after the Fed raised the discount rate, and the market crashed, he sent a congratulatory telegram to his counterparts at the New York Federal Reserve Bank.

Norman, of course, had killed the goose, namely, the Wall Street capital market which had financed London in the first place. pound sterling, and began the collapse of world trade which left the world in depression until the beginning of World War II.

As matters stand, it does not matter much whether the Fed or the Treasury has the final word, since neither offers a policy leading to a different result.

## 'Merrill Lynch Mafia' rides the dollar down

by William Engdahl

"I just returned from Zurich, and people in the banking community there and in London compare the current Washington policy on the dollar to the 'malign neglect' which reigned during the Carter presidency." This is the comment of one of the leading monetary analysts in the City of London. "The power, we see, has shifted. Monetary policy is no longer being controlled by central banks, but by finance ministers. In the United States, the man running things is David Mulford."

To the horror of Federal Reserve chairman Paul Volcker, Treasury Assistant Secretary David C. Mulford is riding the

dollar's freefall, in fair imitation of Slim Pickens' rodeo ride on a hydrogen bomb in the 1961 film, *Dr. Strangelove*. London market participants, whose activity centers on dollar-denomination paper, are aghast.

Since the Sept. 22, 1985 Group of Five meeting at New York's Plaza Hotel, engineered by Mulford, the U.S. dollar, still the major currency of world trade, has collapsed at an alarming rate. Fueled by official government propaganda that the dollar fall would produce beneficial results for the U.S. economy, the dollar has lost 30% of its value of only five months ago. Its rise occurred over almost four years, up until the Plaza Hotel meeting, organized by Mulford with reported help from his former boss, Donald Regan. Volcker was kept uninformed of the important meeting until two hours before and had to be picked up by helicopter from a Potomac fishing trip.

The dollar was due for a crash in any event, and the current decline has only brought the U.S. currency roughly into range of commodity market-basket parity with the German mark and the Japanese yen. However, Mulford has created the conditions for what observers call the "hard landing scenario," or, more politely, "overshooting" of the dollar's proper exchange rate—and total chaos in the world economy.

### Collapsing world trade further

Until now, the only obvious gainers from the dramatic dollar coup of the past several months have been the stock exchanges of Wall Street and major industrial countries. The real economy, and most importantly, world trade, appear to be undergoing major dislocations as a result of the rapid freefall. Since George Shultz, Paul Volcker, and others in the Nixon Treasury Department engineered the decoupling of the 1945 Bretton Woods fixed exchange rates, on Aug. 15, 1971, the world has undergone an escalating series of monetary shocks which have devastated the real trade in goods throughout the economy.

Europe geared its entire economy to exporting to the United States while the dollar was overvalued. Now, the dollar's collapse leaves Europe without an export market, and the threat of economic breakdown.

"European farmers are being devastated by the collapse of the dollar," one West German beef trader told *EIR*. Since last fall, the West German mark has risen in value from about 3.35 DM to under 2.25 DM to the dollar. Since world food trade for grain and other major exports is priced in dollars, this has meant an effective loss of almost 30% in the value of German farm exports alone. This has produced a major budget crisis in the European Community as West German Finance Minister (and Trilateral Commission member) Gerhard Stoltenberg announced that no new monies would come from EC finance ministers for the troubled farm sector. Under EC farm-export subsidy programs, if the dollar price of world grain and other food falls below EC cost prices, the EC should pay farmers the differential. A collapsing dollar has meant in

effect, a 30% increase in the prices of German exports on world markets. If Brussels refuses to make up the difference, the competitive advantage of EC farm exports will rapidly collapse.

Additional reports that chemicals, steel, and other bulk exports are beginning to be hit by the loss of the dollar price differential are coming from major European industrial nations.

The man reportedly orchestrating U.S. dollar strategy since the September "Plaza Hotel coup," David Mulford, got his present job as head of international relations at Treasury in February 1984, when Don Regan was Treasury Secretary. Sources say Regan and Mulford form the "Merrill Lynch mafia" inside the administration. Mulford was a director of Merrill Lynch, the huge Wall Street stock, commodity, and investment conglomerate, when Regan headed the firm in the late 1970s.

The 46-year-old Mulford became a director of Merrill Lynch when Regan bought White, Weld. White, Weld reportedly funneled untold millions of dollars in assets out of China after the war into Montevideo and secret Swiss accounts. It was the only bank in the 1950s and 1960s to maintain ties to a Swiss bank, Cr dit Suisse, which was laundering Meyer Lansky's illegal funds for Bernie Cornfeld's Investors Overseas Services. From 1970 until its purchase by Don Regan's Merrill Lynch, Mulford headed the White, Weld International Financial Group in New York and London.

London sources report that it was Regan personally, despite his transfer to become White House chief of staff, who lashed out in rage at the decision by the Federal Reserve Board, at Volcker's initiative, to restrict the "wild west" process of so-called "junk bond" borrowing to buy up corporations. Under permissive deregulation rules of recent years, tiny firms suddenly are able to borrow many times their assets in order to launch hostile take-over bids of giant multinational companies such as TWA airlines. One firm, Drexel Burnham Lambert, last year raised some \$47 billion generating such junk bonds. The paper is worthless in event of bankruptcy, but takeover specialists like Saul Steinberg or T. Boone Pickens "asset-strip" the victim companies, selling off what they can and laying off who they can to pay off debts. Reliable reports indicate that the clients able to get such junk bond financing are an exclusive insiders club tied to Las Vegas gambling interests. Merrill Lynch is also a junk-bond financier.

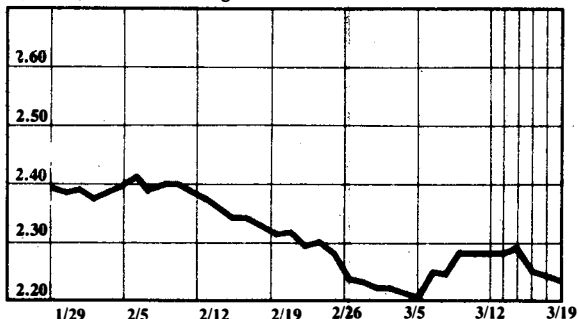
Regan, in January, is said to have launched a power-play to pull control away from the Federal Reserve, using the weight of "offshore" dollar flows to make it. At this point, observers say, Volcker's Federal reserve has turned into an unwilling "rubber stamp" on dollar and interest-rate policy to Regan and Mulford and the "Merrill Lynch mafia."

"[Treasury Secretary] James Baker doesn't know anything about international monetary policy, and Mulford is running the show by default," commented a former senior U.S. economic policymaker.

## Currency Rates

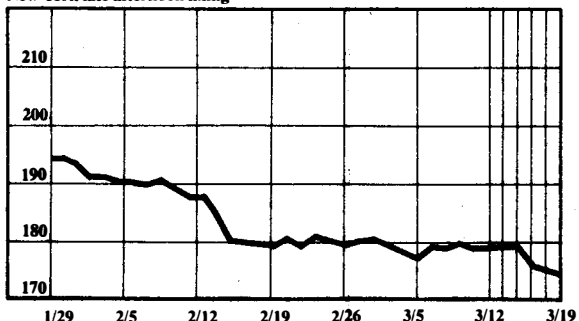
### The dollar in deutschemarks

New York late afternoon fixing



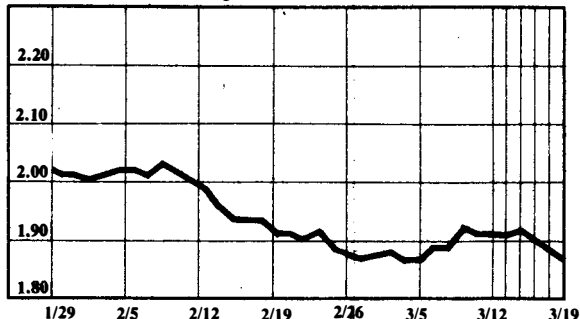
### The dollar in yen

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

