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Central banks begin post-election power push

by Chris White

Technically, it actually started the week before the election in the United States, but that hardly matters. The central bank-organized run against the dollar has begun, and by the end of business on Nov. 11—Veterans' Day—had already sent the currency sliding to a 10-month low against the Japanese yen and a 5-month low against the West German mark.

There are no surprises here for *EIR* readers. The central bankers' plot against the U.S. currency and credit system had been telegraphed since the meeting of the International Monetary Fund in West Berlin at the end of September. Now, it's happening. Organized out of the European money centers—London, Frankfurt, Switzerland—the attack is proceeding on three levels. Euromarket interest rates, such as the three-month Euro-deposit rate, are being increased, to organize a secondary flow out of dollar instruments, and begin a new round of pressure against U.S. equity markets.

By the close of business in London on Nov. 11, the three-month Euro-deposit rate had reached 9%, roughly the same as the then-quoted yield for the 30-year U.S. long bond, and for the first time in months, only 1% under the U.S. prime rate. The dollar was trading near its postwar low range against the Japanese yen at just over 122, and at about DM 1.73. The New York Stock Exchange's Dow Jones Index, shedding more than 47 points in the day's trading, lost more than 70 points for the week. According to the *New York Times,* this is the biggest post-election weekly loss since Harry Truman's 1948 victory.

Two sorts of developments have been set into motion. On the one side, politically, the central bankers' plot against the dollar is a pressure tactic, designed to subdue the incoming administration of George Bush, and force that administration's submission to central bankers' will. On the other side, beyond the political games with the existence of nations and the world, there is the underlying reality of the bankruptcy of the dollar-based credit and banking system. Whoever now chooses to play such pressure games, is also taking the lid off a Pandora's Box of monetary and banking crisis potential, accumulated during the last year and more of buying time until the U.S. elections were over.

Deficit reduction, tax increases

The first side was represented by the slew of conferences held and press statements issued in the aftermath of the elections. In the United States, Bill Bradley, the New Jersey senator, and Paul Volcker, the cynical former Federal Reserve chief, laid out the perspective to a gathering of international investors convened by the American Stock Exchange. Trilateral Commission member and one-time Carter administration teeny-bopper C. Fred Bergsten presented the bankers' austerity demands in the form of a new study produced by the Washington, D.C.-based International Institute for Economics.

Attempting to prove that Pythagorean doctrines of reincarnation do actually represent something, this outfit in an earlier life used to be known as the Creditors' Committee, and before that as the Ditchley Group. Now representing hundreds of large international banks, its views, even if represented by the unfortunate Bergsten, should be taken as seriously as a doctor would take the ravings of a psychopath who needs restraint.

Bergsten identified the next six months as critical for the United States. Either the new administration quickly puts together a package of deficit reduction and tax increases acceptable to the international financial community, or there will be an explosion. Bradley told the international investors at the American Stock Exchange the same, adding the rider

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that the new administration could expect no cooperation from the Democrats in Congress in elaborating such a program of cuts acceptable to the international bankers. Volcker warned of the limits to foreign creditors' patience, which could perhaps produce a flight out of dollar assets if the same kind of action were not taken.

Outside the United States, the chorus was the same. British and French finance ministers Nigel Lawson and Pierre Beregovoy warned that markets would suffer unless Bush signals that he will cut the deficit. Timothy O'Dell, an economist with UBS Phillips and Drew in London, told the *New York Times*, in remarks reported Nov. 11: "If the markets concluded they didn't like what they saw, there would be at least the implicit threat of overseas central bankers that they would withdraw support for the dollar. The decision may be taken by the Germans and others that the Americans may need, if you like, to face a more substantial crisis in the financial markets to come to their senses."

Contrary to this, Japanese Finance Minister Kiichi Miyazawa, decrying the week's plunge in the dollar, issued a call Nov. 10 for more coordinated central bank intervention to halt its slide.

While seemingly different, it can be assumed that Miyazawa and company are actually walking the other side of the same street that the Europeans and the Americans are on. While the name of the demands is "cut the budget deficit," "reduce the current account deficit," and "increase taxes," the coordinated international political pressure campaign is actually intended to make sure that the levers of control are held by the international central banks, and that the new administration will be only a malleable tool in the bankers' hands.

The pressure against the dollar will rapidly translate into new increases in U.S. interest rates, increases which will be coordinated by the Federal Reserve and the big commercial banks. On the basis of such increases, it is probably thought that a new, lower level can be found for the dollar against both the yen and the deutschemark, by establishing in practice the independence of the central banks, no matter what elected governments intend.

The increase in the Euro-deposit rate portends an increase in the prime rate, perhaps to 10.5% or 11%, as banks pass along their increased borrowing costs; it also portends the establishment of a new higher interest rate spectrum in the bond markets. If three-month off-shore money is rated about the same as the yield on the U.S. government's 30-year bonds, then there are going to be substantial increases in rates in the bond markets to keep pace. The Treasury's quarterly marketing, in the last two weeks of November, when it attempts to sell about $30 billion of debt, will compound the pressure.

Then back onto the agenda will come the proposals floated in the Spring of 1988, by former Japanese Prime Minister Yasuhiro Nakasone, and the crowd in Europe typified by Dutch Finance Minister Onno Ruding and Hans-Jörg Rudloff from Crédit Suisse, that the United States finance its overseas debt by issuing bonds denominated in foreign currencies. That way, Washington no longer has the option of devaluing its currency to outsmart the foreign creditors, and, of course, that way the United States no longer has sovereignty over its monetary and credit policies.

Treading dangerous ground

But what will the effect of all this be on an already rotten bankrupt credit and banking system? It is not too difficult to establish that such tricks from the central bankers' armory will contribute to accelerating the collapse of the entire $15-20 trillion in unsecured paper which is still called the dollar-based system.

Interest rate increases, combined with another dollar collapse? Ho, ho! First to go down the tubes will be the new round of enormous "leveraged buy-outs," which alone kept the market going during the final two weeks of the election campaign. Then, completed LBOs and the $150 billion junk bond market will be sucked into the maelstrom, as borrowing costs rise. Also to be considered is the effect of a 1.5-2.5% increase in borrowing costs on the savings and loan institutions, and indeed on the commercial banking sector itself.

What the financial crowd calls a "flight into quality" had already begun before the new slide of the dollar, when the announcement of the RJR-Nabisco buy-out, a $20 billion transaction, knocked the bottom out of the international and domestic market for U.S. corporate debt. A new round of interest rate increases will raise the tempo of that flight to quality, speedily leaving whole chunks of outstanding claims worthless in the stampede for cash and other relatively crash-proof holdings. It will also help knock the bottom out of the speculatively superinflated U.S. real estate market, which ultimately provides the collateral for a good chunk of the financial transactions, as assets are forcibly converted into cash to pay down outstanding debt.

Of course, it will then be very difficult for the central bankers who organized the flight with their pressure tactics to argue that there should be deficit reductions. They will have contributed to increasing the cost to the Treasury of closing the S&Ls to the $200-250 billion level, and will have been responsible for adding a similar charge against Treasury accounts for the commercial banking sector.

By pursuing their pressure campaign, the central bankers' consortium is pushing to take control over the U.S. government in the kind of way hitherto reserved for Third World debtors. It is also undermining the source of its own power, the rotten bankrupt financial system, and thereby creating the conditions in which those with the requisite knowledge and courage can hope to reorganize world credit and economic systems on the basis of the reassertion of the sovereign powers of national governments, to end the rule of usury and speculation.