## International Markets Newsletter

# Euro-Currency Panic Turns To Run On Dollar

A run on the U.S. dollar and a potential generalized panic directed against **all** "paper" currencies and into gold and commodities is emerging out of yesterday's collapse of the British pound, which fell below the $2.00 to the pound level for the first time in post-war history. "Competitive devaluations are in the air," noted Continental Illinois Bank's foreign exchange traders, amidst reports that the Bank of England had contributed to the collapse of its currency. The initial reaction to the pound collapse was sales of all European currencies against the U.S. dollar, with heavy pressure as well against the French franc and Danish kroner. However, by the end of the European trading day, the dollar was declining sharply against the "stronger" European currencies plunging 1 per cent against the West German mark and the Swiss franc.

Although there are technical reasons why a collapse of the pound should lead automatically to a dollar decline —(namely the dollar's role as a "vehicle currency"—that is, first buy dollars, and then sell the dollars for marks)—the volume of trading against the U.S. currency was several times that of the trade in sterling, indicating a geniune run on the dollar was underway.

At the same time, to the extent that European governments are still refusing to break with the dollar and the huge burden of dollar-denominated debt which is choking off European production and trade, there is a growing "loss of confidence" in all paper currencies as frantic investors rush into gold, commodities, anything representing real wealth.

The signal for an all-out panic, which could trigger a sudden and total breakdown in world trade, came from Swiss Central Bank head Leutweiler who announced that the Swiss would swap their excess dollars for gold. Tin and copper prices surged on the London Metals Exchange yesterday, as sterling holders, barred from going into other currencies by exchange controls, got out of the collapsing English currency and bought commodities instead. The stage is thus already set for the next phase of the run, which traders indicate could occur when the markets reopen Monday.

### BEHIND THE CRISIS

The Bank of England's decision to let the pound drop did not cause the currency crisis. It was only the **trigger** for a crisis which could have broken out at any time and on any number of fronts. The British credit system, along with that of every key European economic sector, is strained to the breaking point. When U.S. Federal Reserve Chairman Arthur Burns opted for higher U.S. interest rates and a deflationary policy last week, he literally forced the "Old Lady's" (as the Bank of England is called) hand.

The details of the British crisis are as follows: According to informed New York banking sources, due to the severe already regimented cutbacks in British industrial production and trade, British corporations and banks are "stuffed to the gills" with "excess" funds which cannot be invested profitably anywhere. Ironically, the spiralling British government deficit has been the main prop for the pound up to this moment. To mop up the excess liquidity, the British government increased its outstanding short-term Treasury bills (a large portion of which were sold to foreigners) from £1 billion in 1973 to over £5 billion now. Adding the Treasury bills to the money supply rate, the actual annual rate of increase of the money supply rate in Britain is an astounding 47 per cent.

The London banks, acting as intermediaries in world trade, hold the bulk of Euro dollar deposits, which also tends to prop up the pound. Since British companies finance an increasing share of their trade through these Eurodollar accounts, rather than sterling, the actual size of the British balance of payments deficit is masked.

The New York banks further shore up British liquidity by depositing huge amounts of dollars on a 180-day basis, which the British banks then use to finance British and third-country trade. The multiplier here is five to one — i.e. the banks lend out $5 for every $1 from New York. This paper expansion swindle allows the British to finance their growing payments deficit. (One consequence of this, of course, is that as British foreign loans, the bulk of which are to Third World countries , go soft, the collapse will feed right back on the New York banks!)

The ability of the British government to sustain this double fraud was based on the continuing collapse of international interest rates—a spin off of the depression in the U.S. Under such conditions, the United Kingdom's gilt-edged bonds appeared as a relatively high-yielding investment.

Burns' moves to higher rates (to stave off a collapse of the inflated dollar), whether intentionally or not, called an end to the British game.

On March 4, as the pound was sinking, the British government dropped its minimum daily lending rate from 9.5 to 9 per cent, the third such lowering in the last three weeks. The move was aimed at convincing investors that government securities were their best bet, since interest rates were not going to rise. No one took the bait. The market for British Treasury bills collapsed. Meanwhile, the Nigerian government refusing to participate in the swindle any longer, called on the Bank of England to liquidate Nigeria's sterling deposits.

The British had only two choices: either declare a moratorium on the government debt or let the pound go. So the Old Lady let the pound go, actually speeding the process by selling off sterling covertly through intermediary banks.

### THE DILEMMA

The "British" crisis however, merely reflects a dilemma now faced by every European national sector. As long as the European economies are tied to the debt-bloated Dollar Empire, they will be faced with one of two situations. Those sectors facing an external payments crunch, such as the United Kingdom, Denmark, France, and Italy, are forced into deflationary collapse. France, for example, in order to keep capital in the country this week was forced to raise the interest rate on franc deposits from 6 to 7.5 per cent.

Those sectors, like West Germany, which are in a relatively good payments position are faced instead with an inflationary explosion as funds flow in from the "weaker" currency sectors. If they raise interest rates to halt the inflation, however, they only attract more speculative capital in-flow.



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