



## INTERNATIONAL MARKETS NEWSLETTER

# NEW SOLIDARITY International Press Service

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## Dollar Crisis Out of Atlanticists' Control

March 13 (IPS) — The chaos this week on money and commodity markets following the continued precipitous collapse of the British pound sterling and the Wall Street organized attacks on the French franc has moved out of control of the Rockefeller-Harriman-Ball directed banks in New York City.

On Thursday and Friday, the Banque of France responded to the Wall Street-directed currency war by dumping dollars, flooding the international markets with an estimated \$1 billion, and thereby thwarted the attempt to force a franc devaluation.

Earlier in the week, the Atlanticists forced devaluation of the pound sterling had produced volatile cash flows out of all paper currencies and into the safety of commodities.

Only an absolutely unprecedented U.S. Treasury note rescue operation which absorbed some \$9.05 billion from the dollar-flooded markets conducted by the central banks of the U.S. and West Germany, prevented the dollar empire from going down this week for the count.

After a week of this economic warfare, the casualty list, measured by the vast sums spent by European central banks defending their currencies was the following:

The Bank of France has spent \$1.75 billion; since the beginning of the year the French have spent more than \$4 billion or almost half their entire currency reserves; the West Germans spent at least \$800 million; and the Bank of England spent more than \$750 million.

While its outlays on the currency markets were relatively light, last week's lifeboat operation by the U.S. Federal Reserve placed the U.S. central bank in a position identical to that of the Bank of England just prior to the renewed collapse of the pound two weeks ago. For the last year, while sterling had doggedly persisted, the Bank of England sold 5 billion in pound-denominated short term Treasury notes to provide opportunities for investment for the British currency. This rescue operation gave out at the mere threat of a rise in interest rates in the dollar sector. By using the U.S. Treasury as the sponge to soak up the dollars on the international markets, Fed chairman Arthur Burns has established that the basis for the value of the dollar, is a rise in the U.S. government deficits. While some immediate pressure has been taken off, the dollar is in its most volatile possible position in its history.

The developments on the currency markets resemble a game of chicken between the Atlanticists and their opposition.

### The Opposition and the Panic

Early in the week few people had expected the French franc to last another day without devaluation under the incredible Wall Street-directed selling pressure coming from U.S. multinationals and banks. Responses from leading New

York bankers ranged from, "it's amazing," to "it's the damn Gaullists denying economic reality and foolishly acting out their anti-American hostilities." The Gaullist barons have pressured the Banque into its \$4 billion reserve dumping operation.

The Gaullists resistance quickly led to some very interesting developments both politically and market-wise. By March 10, the pound, (which under the latest proposal of the dollar-deutschemark axis scenario was only supposed to devalue by 4 per cent) continued to fall as if in a bottomless pit, forcing unusually heavy intervention from the Bank of England. At the same time, the speculative move out of pounds and into copper, sugar, silver and other "safe" havens, was picked up in New York where speculators began arbitraging between dollar-denominated lower-priced commodities in New York and sterling-denominated higher-priced metals, grains, etc. in London.

Despite this inflow of funds into the sterling and out of the dollar, the pound dropped in value against the dollar by a record 4 cents March 10 and by the end of the week had slipped by a whopping 11 cents. The pressure was so great on the pound that the bankrupt Bank of England had to spend \$750 million of its \$1.1 billion in the just-acquired bailout loan from the International Monetary Fund (IMF) to prevent the British currency from dropping out of sight. There was talk about the pound hitting the \$1.80 to the pound level and with the forex market in a state of near panic.

A nervous Federal Reserve started buying up U.S. Treasury bills in single orders of as much as \$250 million worth in behalf of the West German central bank in a mad rush to absorb the rush of dollars out of European central bank coffers. In addition, the Fed's move was aimed at stopping U.S. short-term interest rates from tumbling further and thereby accentuating the unattractiveness of the dollar.

### A Change In Strategy

Unable to "break" the French, the pound dropping uncontrollably, and with volumes of sales contracts for such key commodities as copper, silver, and sugar having risen by between 200 to 400 per cent of their week-ago levels in London, by March 11 the Atlanticists decided to change their strategy in midstream. Forced by opposition to momentarily give up the aggressive strategy of forcing devaluations of West European currencies against the West German mark to force immediate 25 to 30 per cent cuts in the living standard of the European population, in coordination with their allies in West Germany, Wall Street moved to defend the dollar — at all costs.

The West Germans, according to reliable banking sources

here, made available Deutsch Mark credits to the Banque de France. This would enable the French central bank to defend the franc without having to dump dollars while giving them cash to buy up 2 to 3 billion in U.S. Treasury securities. The next day however, the Banque de France still dumped at least \$450 million along with between 1 billion to 3 billion in Deutschmarks.

The French resistance to Wall Street's brutal attempts at debt collection, a sign that Atlanticist power was waning, helped feed other resistance around the world. On March 11 thirty-six members of the left-wing Tribune group of the ruling British Labour Party joined with the Tories and voted down the IMF-dictated austerity package of Chancellor of the Exchequer Denis Healey.

The same day that the British parliament voted "no" to Atlanticist austerity — an authoritative Banque de France official said that there were negotiations in progress between the Swiss central banking authorities and the directors of the Banque de France to establish a floor price for gold. According to the official, the loyal West Germans are the major obstacle holding up such coordinated European central bank move to a gold-backed European snake. "The Germans don't want to displease the Americans," the Banque de France official declared.

This information shed additional light on the Bundesbank, the West German central bank, currency intervention role of last week. While the West Germans intervened on behalf of the French franc and the Danish kroner and extended them deutschmark loans for the protection of the European currency snake, the Bundesbank also bought between 2 to 3 billion in dollars that Arthur Burns was peddling last week. West Germany, 50 per cent of whose trade is with the Europeans (France is Germany's major trading partner absorbing 17 per cent of its exports) will be destroyed if the franc and other devaluations go ahead.

#### **Resistance Not Enough**

Yet the West Germans won't openly break with the dollar

in their own "self-interest." On the other hand, bold as they may be, the moves by the Gaullists, the Tribune group in Britain, and the Swiss, are hardly sufficient to forestall a chaotic collapse. The March 15 meeting of the central bankers and finance ministers of the European snake member countries will most probably vote some kind of a realignment of the snake, involving a de facto devaluation of the French franc and other weaker European currencies and permanently damaging the real economy of Europe as a whole in the process. At least, what is what the Wall Street bankers are hoping. March 15 is the day after county election runoffs and French President Giscard d'Estaing will consequently have more maneuvering room, the bankers said.

The West Germans may realize that Federal Reserve vice-chairman Henry Wallich, the man instrumental in working out the deutschmark central bank swap arrangements under which deutschmarks and not dollars will be used to fuel the currency war, and U.S. Treasury Secretary William Simon, have nothing to offer them but economic rout. They also agree to maintain the European snake. But such action can only postpone a full-scale dollar collapse for a few days.

The stupidity of Wall Street's opposition is exacerbating the crisis. Their attempts to avoid dealing with the debt overhang and need for a new international credit institution by negotiating to maintain the "status quo" or moving into commodities will merely recombine with the existing chaos to produce a self-feeding collapse.

As the Fed operation also shows, the Atlanticists are bluffing from a position of strategic weakness. At the point that the banking community is convinced that the situation is out of the Atlanticist's control, the worst panic in financial history will take place. It is entirely likely that the world's \$800 billion debt overhang will unravel into a collapse between now and the March-April payments deadline. For Wall Street based collectors of dollar denominated debt it is only a matter of time before their power is lost once and for all.

The upcoming week's developments may prove to be decisive in the history of the dollar empire.