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International Markets Newsletter

Panic Starts To Set In On Wall St.

by David Goldman

Aug. 21 (NSIPS) — On a world scale, the Atlanticist financial machine is going through a general destabilization, in immediate response to the Colombo meeting of Non-Aligned nations.

In secret, the Federal Reserve has sent urgent warnings to almost 20 U.S. banks to consolidate what positions they can and prepare for trouble. Despite a few hysterical Wall Street diehards who insist that the Fed will bail out the banks in the event of a moratorium on $300 billion in private-sector Third World debt, the realization that a bailout is impossible now for basic strategic reasons has begun to sink into the financiers' thick heads.

Again, despite hysterical insistence on the integrity of the "Bonn-Washington Axis," i.e., the continuation of West Germany's policeman role over Western Europe, from the muddle-headed editors of Business Week, West Germany's Atlanticists have reached an advanced stage of panic and confusion. High-level West German government sources reveal that the Kissinger puppet government on the Rhine is totally unprepared to deal with the consequences of the Colombo meeting.

Indeed, Colombo's supporters in Western Europe, the Andreotti government in Italy and the French Gaullists, are working on the strategic premise that the West German gendarme is about to be isolated and enfeebled, and that the direction of Western European policy will fall to Paris and Rome.

"The Dollar is Toilet Paper"

An Italian commentator close to the Andreotti government, Il Fiorino's Vitangeli, pointed out yesterday that the West Germans and Japanese, the mainstays of the dollar empire, will fall hardest once the dollar gets into trouble. "A decline of the U.S. economy" — which is of course now happening — "will hit Bonn and Tokyo much faster than Paris and Rome." In this situation, the hyperinflated dollar becomes "recycled toilet paper," Vitangeli concludes.

Authoritative New York banking sources say that the Federal Reserve's much-publicized warning to Bankers Trust Company of New York not to extend itself in the purchase of an upstate bank was, in fact, a cover story for a much more ominous warning: the top New York bankers and other big Eurodollar market swindlers were warned that trouble was ahead. In the event of debt moratorium, well-placed sources explain, the Eurodollar banks have only one contingency plan: to try to get their outstanding deposits in the Eurodollar pool out before the others do. On an hourly basis, these sources say, senior officers monitor a computerized "early warning system" which reports Eurodollar market trouble. But the effect of such a pullout by several banks simultaneously would be to shut down the Eurodollar market, which resembles a chain letter, within one hour!

Other bankers admit that the political determination of the Non-Aligned countries virtually cancels any possibility of a Big-MAC bailout arrangement. "Under other circumstances we could set up a Big MAC arrangement within ten minutes," said an aide to Lazard Freres partner Felix Rohatyn, who devised New York's Big MAC. "But there's nothing we can do if things happen too fast and too much happens at once."

Bailout Won't be Tolerated

There are two reasons why a bailout of the New York banks following general debt moratoria — Chemical Bank calculates $100 billion requirement in paper-printing by the end of the year — has been ruled out.

First, the immediate response of the Western Europeans and Japanese to an open commitment to hyperinflation on the part of the U.S. Federal Reserve will be to retaliate in the most devastating possible fashion. The dollar reserve system means that the rest of the capitalist countries accept the credit of the United States, by holding dollars in their central bank's vaults. These foreign-held dollars are mostly invested in the IOU's of the U.S. Treasury.

The Swiss and West Germans have privately delivered a deadly warning to Federal Reserve chief Arthur Burns: if Burns lets loose the monetary floodgates, then Switzerland and West Germany will immediately dump their combined holdings of $40 billion in U.S. Treasury securities on the open market. France and Italy, among others, will interpret any Federal Reserve move in the direction of a $100 billion bailout as a green light to dump their combined $50-60 billion dollar debts and return immediately to a gold reserve standard.

The second reason precluding a bailout of the New York banks is the attitude of the Ford Administration. Senior White House officials predict that Ford will treat a Eurodollar market collapse as a "private sector matter" and rule out a bailout, despite the open commitment of Fed chairman Burns and the private commitment of Treasury Secretary William Simon to save the banks at all costs. A survey of Republican delegates at the Kansas City convention last week showed that there is overwhelming opposition in Republican ranks to generating hyperinflation to bail out Wall Street.

Identical sentiments prevail among regional bankers, who have for the most part steered clear of the Eurodollar swindle. "What I think of the Third World debt problem is that these banks were in for a fast buck, and now they're going to get what they deserve," declared the international department chief of a big Indiana bank. "We know why the Wall Street banks are backing Jimmy Carter," says a Chicago-based bank economist. "He's promised to bail them out." One Chicago banker estimates that 80 per cent of U.S. bankers are dead set against a bailout.

After President Ford's convention statements against big government, and Vice-Presidential nominee Robert Dole's call 'get the government out of the money markets," the New York banks have few friends left at the White House.

Exclusive Interview

Wall Street Insider Reveals New York Banks' Contingency Plans

Aug. 18 — A highly placed Wall Street investment banker revealed the following contingency plans drawn up by the New York banks should the Third World "go for a general declaration of moratoria on their debt obligations to the U.S. banks."

First, let met tell you that the banks expect a declaration (of moratoria — Ed.) in the near future. If not today, then tomorrow, if not tomorrow, then the day after. Now, bankers are very smart people when it comes to sniffing trouble, and they damn well know they're in trouble. They have done two things. One, they have an early warning system in case of big defaults and all disbursements will stop when the alarm signal is activated. Banks for at least three to four months have balanced out their interbank lendings with interbank borrowings. Any banker who has a big differential here on the lending side is a damn fool.

Second, Arthur Burns will give a guarantee to the OPEC depositors that they'll get back their deposits if they only withdraw as per plan. The guarantee, as you can well imagine, isn't worth much but it is a guarantee. Uncle Sam, that is Kissinger, will tell the Saudis, Kuwaitis, the Shah, etc., "Look you guys, you wanted those missiles didn't you? We'll deliver'em to you as long as you don't withdraw for a while."

The whole strategy you see is based on the premise that the thing (debt moratorium — Ed.) will come in stages. Now as long as Ford is talking about moratoria with groups of countries, group I, group II, etc., then it can be handled. The whole idea is to keep the loans on the books until Carter gets into the White House. Then, things will be arranged such that the financial center banks will be bailed out on the "rob Peter to pay Paul" principle. At the expense of the smaller banks.

Europe, Japan At Breaking Point

Europe

Atlanticists Concede Defeat On D-Mark, Yen Revaluation

Aug. 21 (NSIPS) — New York bankers were forced to concede defeat this week in their efforts to force revaluations of the West German mark and the Japanese yen when political opposition in those countries proved too strong. According to the scenario cooked up by Brown Brothers Harriman banker Robert Roosa and Brookings Institution economist C. Fred Bergsten, the revalued deutschemark and yen were to have emerged as secondary international reserve currencies in Wall Street's $100 billion bail-out of the bankrupt Eurodollar market planned for this Fall. The deutschemark and yen would thereby act as "buffers" for the bloated dollar by "sharing" the hyperinflation.

The turning-point in New York's speculative offensive came Aug. 19, when the word went out on the world's foreign exchange markets that West Germany's Social Democratic government — normally totally subservient to Wall Street dictates — would fight revaluation tooth and nail, at least until the West German elections in October. Citing interviews with unidentified BRD bankers, Journal of Commerce currency expert Alena Welles warned business readers Thursday morning that the European "snake" — the monetary union of the deutschemark and other European currencies which has been a target of the Atlanticist speculative attack — would remain "viable through the Bonn elections."

"It's a battle of nerves between us and the West German government," commented one trader at a top New York City bank. "They're fighting revaluation because it will hurt their exports...They don't want the deutschemark to be made an

Japan

Wall St.'s Yen Revaluations Won't Work

Aug. 20 (NSIPS) — The New York banks have been forced to retreat from their effort to force a 10 per cent revaluation of the yen to 270 yen per dollar. Today the yen fell for the first time in weeks from 288.0 to 289.6 when the New York banks sold yen in Tokyo. The immediate cause of the retreat was the fact that the strenuous efforts of lower Manhattan force upvaluations of the yen and the West German mark provoked an attack on the dollar on Wednesday, Aug. 18, when the dollar fell even against the British pound. The banks were forced to retreat in Tokyo and in Europe to avoid further attacks on the dollar.

Last week U.S. Treasury Undersecretary Edwin Yeo met in Tokyo with government and business leaders to force them to agree to revaluation of the yen and have Japan run a current account payments deficit. According to a high Treasury official, the Japanese monetary authorities were willing to comply with Treasury dictates. Economic Planning Agency head Takeo Fukuda was singled out as "understanding Japan's responsibilities in maintaining the stability of the world monetary situation." Following Yeo's visit, the Bank of Japan let the yen rise, and today's Journal of Commerce reports that the Bank intends to increase yen-denominated imports.

With Japanese leaders apparently compliant, why did the plan fall apart? Japan is now in an economic-political conjuncture — defined by a sudden explosion of inflation in June and July — which determines that, no matter how willing, Japan is in no position to carry out the U.S. policy. Any attempt to do so will produce 30 per cent-plus inflation and precepitous declines in production.