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The Treasury rollover

Federal Reserve Chairman Paul Volcker's warning Jan. 20 that continued attempts by the Federal Reserve to pump liquidity into the world banking system would "lead to perverse effects," namely rising interest rates, brought to world attention what elite European financial circles have considered for some time: as Richard Coughlin, deputy editor of the Montreal *Bank Credit Analyst*, emphasizes, the U.S. Treasury must issue $15 billion in debt-securities per week, including $6 billion of new money and $9 billion of rollover. Coughlin evaluates the Treasury's rollover position as parallel to that of Brazil. A snap rise in interest rates, a run against the dollar, a drop in oil prices, or simply the continued weight of the American depression could bring the American credit markets down.

The problem is unpleasantly simple: the Treasury must borrow about $300 billion of new money this year, while the American economy will generate little over $200 billion in savings. The balance must be absorbed either through foreign buyers of Treasury securities, or through the Fed's printing presses.

Strictly speaking, the American banks cannot go bankrupt so long as the Federal Reserve can print money. Chase Manhattan Bank Senior Vice-President Francis Mason, in charge of the bank's risk analysis division, argues, "We know there are people in Europe who want to get us. We've known this for a year and more. But tell me, do they control the dollar printing press? If they don't control the dollar printing press, who are they to say who goes bankrupt and who doesn't?"

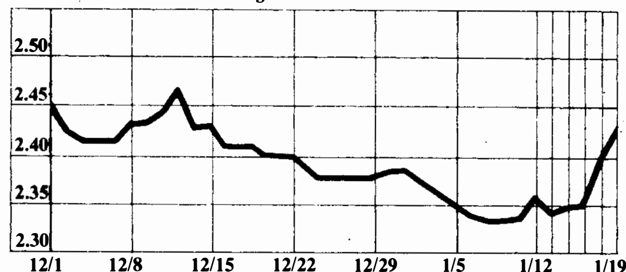
Mason's point is well taken: the argument is made frequently, if privately, by New York bank economists, that because the U.S. banks are the primary originators of dollar deposits, and have primary access to the discount window of the Federal Reserve, the European banks stand to take it on the nose. On this ground alone, Chase and Citibank are following Morgan Guaranty's pied piper, Rimmer de Vries, into a "creditors' cartel," the Ditchley Group which met in Washington Jan. 14, which wants enhanced powers for the IMF. Such powers will, as the Venetians insist, appear over the corpses of New York banks.

This was the subject of the OECD staff papers which dominated the just-concluded Group of 10 meeting; with a $45 billion current-account U.S. deficit foreseen this year, the dollar may collapse, and the Treasury debt market with it. The IMF will conduct a private seminar in March to review procedures for such an eventuality: at this point a central bankers' consortium will be organized through the IMF to handle America's Treasury debt problems. The IMF will offer Special Drawing Rights in return for unwanted excess dollars held by the central banks, and obtain virtual right of veto over American budget policy. American banks will lend at the behest of the IMF only, and the United States Constitution's clauses regarding credit will cease to hold effect.

Currency Rates

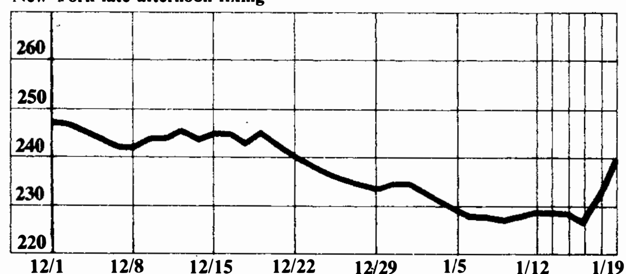
The dollar in deutschemarks

New York late afternoon fixing



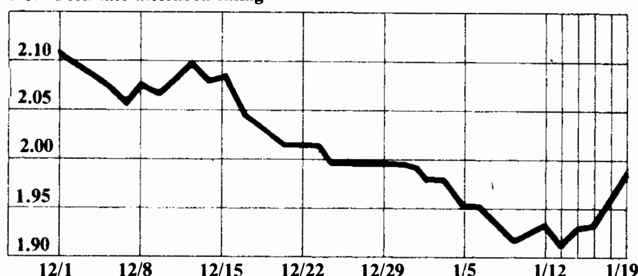
The dollar in yen

New York late afternoon fixing



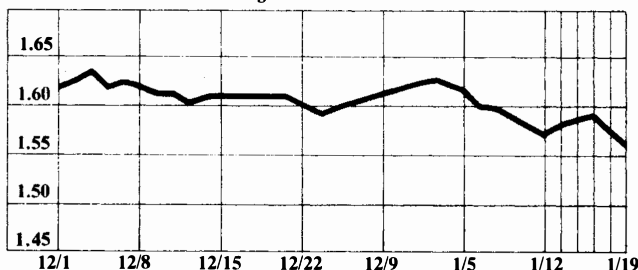
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



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