The dollar turnaround: how soon?

Other forecasters are now voicing our analysis (with dubious motives) that after Europe crumbles, the dollar is next.

Last October, when the American dollar was at the end of a two-month weak spell against European currencies, most commentators congratulated themselves on the accuracy of earlier predictions that the dollar would fall during 1983. *EIR,* citing the de facto bankruptcy of most European governments, warned that the dollar would undergo a "vicious snapback" at the end of the year. The dollar proceeded to appreciate by 20 percent against the West German mark.

After the spectacular rise of the dollar in the first two weeks of January, marked by Federal Reserve forecasts that European currencies would drop an additional 15 percent over the next several weeks, Swiss banking sources have begun to predict a dollar crash.

It is unlikely that any such thing will occur immediately, given the chaos in the West German political situation; the pullback of the dollar during the week of Jan. 9 from a previous high of about DM 2.85 to about DM 2.79 is probably *not* the beginning of a dollar "turnaround." But the ground for a dollar crash is already prepared, perhaps for the beginning of the second quarter of this year.

In New York City, some international monetary analysts at large commercial banks who had accurately anticipated the dollar's rise now believe that the currency could fall off precipitously at any moment. The argument is that all the major European funds who wanted to diversify into the United States have done so, and that the present capital movements represent the ragtag and bobtail of small investors seeking refuge from the ominous West German political situation.

As *EIR* reported last week, Fed officials are suggesting that the West German mark could collapse by almost 20 percent in the early part of this year as a combined result of Soviet dumping of marks and rumors being circulated against West Germany by U.S. ambassador Arthur Burns. The mark, which started the year at 2.70 marks per dollar, could fall as low as 3.20 marks per dollar, one official said.

On the other hand, the Bundesbank in its most recent monthly report argued nastily for an international role for the mark, and for capital flows back into the mark, anticipating a reversal of the dollar's strength. According to the Bundesbank, the mark's reversal since 1979 represented a "correction" from unusually high levels. The West German central bank cited a net inflow of DM 7 billion in capital during the August-October period of last year as an indication that the mark is still capable of attracting foreign capital.

This may be perceived as whistling in the dark, considering the very good reasons West German investors have found since then to move money elsewhere; nonetheless, financial sources close to Britain's Lord Carrington argue that in a general panic against the dollar, even the mark stands to benefit.

Such themes has suddenly become popular in the central banking circuit. "Central bankers fear that the dollar will come down just as fast and markedly as it has risen," warned the Swiss financial daily *Neue Zürcher Zeitung* Jan. 9. "The longer the dollar strengthens, the more we fear a destabilizing collapse," Hans Mast of the Swiss Credit Bank told the *New York Times* Jan. 13. "What goes up must, in the end, come down," sagely added the chief economist of the German-based Westdeutsche Landesbank.

These early advertisements of a dollar crash prefigure the underlying objective of the Soviets—who have bought over $30 billion during the past two months—and their financial and political allies in Western Europe. These include the Swiss-based Nestlé Corporation, the secret joint owner with the Russians of a Swiss bank. The crash of the West German mark and other European currencies has already destroyed Europe's hopes for recovery, and now threatens to tumble the financial system of most of Western Europe.

Once the Europeans are forced into capital controls—i.e., open financial warfare with the United States—U.S. Ambassador to Germany Arthur Burns has told associates, the U.S. economy will go down along with Western Europe.

All that is needed to crash the dollar is a "non-political event" that discredits American policy, for example, destabilization of Mexico, argue financial sources close to Britain's Lord Carrington. Warning of a $140 billion trade deficit in 1984, following last year's record U.S. $100 billion deficit, former Carter administration official Fred Bergsten, now at the Institute for International Economics, warns of a collapse of the world trading system. "When the recovery begins to slow down and unemployment is no longer coming down and is even rising again, with a trade deficit of $140 billion, then all hell could break loose," Bergsten told the New York *Journal of Commerce* Jan. 12.