The central bankers are now on the chopping block

by Chris White

The central bankers of the Group of Seven countries became the latest to offer themselves up as sacrificial lambs to the unfolding financial and economic crisis, when they began what is called "coordinated action" to reverse the dollar's international decline.

Thanks to this "coordinated action," the dollar in the first days of the new year recovered some of the ground that had been lost in the closing phases of the old. According to sources in Europe, the central bankers' action was worked out secretly from the middle of December, while the Dec. 22 Group of Seven statement warning that "continued instability of the dollar could be counter-productive" was under negotiation within the finance ministries of the relevant nations. These sources say that the coordinated plan was designed to create a "bear trap" for speculators against the dollar. On behalf of that objective, the central banks of the United States, West Germany, and Japan are said to have amassed a pool of $15 billion, with further funds available from a tier of secondary central banks, like the British and the Swiss, to reverse the tide.

The coordinated action did not work, between the Dec. 22 issuance of the finance ministers' statement of intent and New Year's. Then, in the first week of January, with central bank intervention running at more than $3 billion per day, with the Bank of Japan perhaps accounting for more than half of the total on a daily basis, the dollar began to go back up again.

The first Monday of the new trading year was the day on which the euphoric consider the turn-around occurred, as the Federal Reserve apparently intervened in the Tokyo markets to support the dollar, and as French Finance Minister Balladur reported to the press that behind the Group of Seven pre-Christmas agreements lay a set of secret-clause commitments which bound all parties to the agreement to support the dollar. The content of those "secret agreements" immediately became the subject for much speculation as to what might actually be involved.

As to what the central bankers are actually accomplishing with this latest display of coordinated action: Well, actually, they are helping to increase the very instability which they claim to be reducing. Not least because it is the very credibility of the big three central banks, the United States, German, and Japanese, which is being put on the line to defend something which is, in principle, indefensible without sweeping reorganization of the international financial and credit system as a whole.

How to hyperinflate

In first approximation, the "defend the dollar" commitment is of course just plain hyperinflationary. West Germany and Japan print deutschemarks and yen to purchase dollars for central bank reserve stocks. There is a limit beyond which they cannot do that, as has been stressed again, since the beginning of the year, by the president of the German Bundesbank, Karl-Otto Poehl. The Federal Reserve is supposed to use stocks of yen and deutschemarks to buy back dollars, or employ other means to take dollars out of circulation. Apparently, the Fed only had about $8 billion of such foreign currency holdings before the save-the-dollar effort began.

It is useful to contrast the size of the fund the central bankers are reported to have put together, $15 billion, for their dollar defense, with the daily speculative money flows through the world's financial paper dealing centers. This is estimated to be about one order of magnitude larger, in the range of $120 to $150 billion worth of paper transactions per day, distributed through the major market centers.

Beside that volume, the central bankers' stockpile of funds is about as effective an intervention force as U.S. forward stockpiles of materiel in Europe would be in countering a Russian assault. It is therefore clear that the central bankers' intervention tactic only worked because some portion of the financial community was brought in on the secret, and working with the central banks, made money on the dollar's so-called rise, while others were left to lose.

Thus, the central banks did not, as some claim, defeat the speculators with their "bear trap." What they rather did was join one group of speculators to cream another. That is basically why the central bankers offered themselves up, like lambs to the slaughter, before the unfolding crisis.

The Morgan interests

What might that group of bankers be, which we may correctly surmise, joined with the central bankers to speculate on the dollar's temporary increase? Anyone who supposed that it was the power of old-family money associated with the Morgan interests in the United States, Britain, and Switzerland, wouldn't be too far off the mark. Such a supposer would probably point out that Ayatollah Greenspan at the Federal Reserve had been on the board of Morgan Guaranty before he was kicked upstairs to the Fed. They would also argue that Greenspan's disciple-status in the cult of the Russian mystic Ayn Rand also qualifies him as an initiate of the inner circles of the international masonic brotherhood which Morgan has represented, under the Boston crowd, and their London and Swiss controllers, since the 1850s' days of Caleb Cushing and Albert Pike.

Morgan surfaced during the same period between Christmas and New Year with a new scheme for Mexico's debt, which, as we reported, was as much aimed at Morgan's competitors among the commercial banks, like Citibank, Chase, and the Bank of America, which are but little able to swallow the 50% write-offs on all Third World debt, which are implied by the Mexican plan. With that concurrent development, it wouldn't be at all surprising if the central banks joined with the speculators, for the moment, to further weaken that opponent grouping among the central banks.

This byzantine infighting among the ranks of the, in any case, bankrupt banks, combines with the overall hyperinflationary thrust implicit in the central bankers' interventions, to actually increase, rather than decrease the heteronomic instabilities which are dominating world markets. The more so as the leading commercial banks, in some concession to post-Black Monday reality, have seen the nominal value of their common stock collapse on the U.S. stock exchange by between 45% and 55% from the high points reached during the course of 1987. Among the leaders in this pattern are Bank of America, Citibank, Chase Manhattan, and Manny Hanny. Morgan, the only big U.S. bank to retain a triple-A credit rating from Moody's, brings up the rear of the heap along with the Bank of Boston. These two have seen less than 40% of the face value of their stock evaporate.

The halving of the stock value is not simply a result of what it would cost these banks to cover the further write-off of their debt positions, still classed as assets on the books, or the losses it can be presumed some of them took, when the rigged dollar increase began to come through. But it gives an idea of how their room for maneuver has been reduced.

Meanwhile, it is generally admitted, that since the central bankers' commitment to back up the dollar has only been accompanied by air, hot or merely warm, in the form of statements to the press and leaks, like those attributed to the Japanese central bank, that a range has been established for the dollar, between 130-140 yen, and not by any change in policy, the increase will only be short-lived. In London and some quarters in the United States, the cut-off date is given as Jan. 15.

On that day, the U.S. Department of Commerce makes public the U.S. trade figures for the month of November. To sustain what is idiotically called the "dollar's rally," those numbers are supposed to represent some kind of big improvement over the trade figures for October, issued Dec. 15. Then, the U.S. trade deficit reached an all-time record high of $17.6 billion. If the improvement is to be measured against that, then a $16 billion deficit for the month may well look good to some. And a deficit in the range of $14-15 billion, or $165-175 billion for the year, may be out of the reach of the fakers in the Commerce Department, who have already cooked up the numbers, and submitted them to the Bakers and Greenspans so they can be prepared for what to expect.

That Jan. 15 date is supposedly yet another "watershed" for the dollar. If the pressure resumes, then the heat will be put on the United States to adopt the alternative insanity to the hyperinflationary beginnings of recent days: a new round of credit tightening, in the form of increases in rates of interest.

This has been advocated since the beginning of November by British Chancellor of the Exchequer Nigel Lawson, who has taken the point for colleagues in other countries in so doing. Not content with the insanity which already prevails in the United States, he's insisting on throwing his own brand of lunacy into the hopper, too.

Behind all this, the political arrangements are going into place which will ease George Bush out of the running in 1988, as first the nest of Bush campaigners around James Baker in the Treasury Department is eased aside from policymaking, as they are being in the case of the Mexican arrangements and the dollar, to be replaced by the Federal Reserve and the Morgan-centered international bankers' clique, which, as the *Washington Post* and others claim, can make the "hard decisions," for what they call "economic reasons," which the "politicians" will avoid.

That's like having to choose to get your house repaired by a demolition squad or a bunch of arsonists. Either way, there won't be anything left standing that could be called a home.