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The BIS in shift: Dollar's rally is ended

by Chris White

On Thursday, June 15, panic selling internationally, prompted by central bankers, including the United States Federal Reserve, brought to an end the rally in the dollar's nominal value which had begun with the new year. Losing about 2.5% against all currencies, the dollar registered its steepest decline of the decade, falling by 6 pfennigs against the West German mark, and 6 yen against the Japanese currency. "It was a stampede," said Frank Watson, vice-president at the Swiss Bank Corporation. "Traders were pretty panicked," said an exchange sales official at the Union Bank of Switzerland. "I'm under the desk. What a bloodbath."

There are a lot of speculative theories going the rounds about why the dollar took the tumble it did. It might be better to ask why it didn't before. The speculation is the usual type of market twaddle: on the one hand, all funds available to continue the dollar's rise being accounted for, and in the dollar, there was no place else to go, but down; and on the other hand, profit taking after the last months' run-up, as speculators took their winnings and ran for cover.

The speculation overlooks the obvious. On Monday, June 12, the international central bankers' central bank, the Basel, Switzerland-based Bank for International Settlements, held its annual conference, with the attendance of most of the representatives of the world's larger central banks. The meeting discussed the BIS's annual report, prepared under the direction of Alexandre Lamfalussy, the bank's general manager. Blunt and harsh in its scoring of U.S. policy since the middle of 1988, the report specifically counseled against maintaining current fixations on so-called exchange rate "stability." Tuesday, the day after the meeting, central bankers around the world began to intervene against the dollar. Helped by the announcement Tuesday within the United States that the current account deficit, the net of all goods, services, and transfers of money in and out of the United States, had risen sharply in the first quarter of the year, with the improvement in the trade balance over the same quarter more than wiped out by the loss of $8 billion in financial income from around the world, the central bankers' intervention against the dollar went into high gear on Thursday, June 15.

The BIS annual report is perhaps as much a portent of things to come as was the decision, at the regular monthly meeting of the same outfit, in August 1987, which helped accelerate the process leading into the global stock market crash of October. Then, BIS members confirmed as their policy, the interest rate tightening which had been ongoing since May.

Their decision was followed within days by the first round of shake-outs in the Milan, Italy and London, U.K. stock exchanges.

Now the BIS proposes to junk the crisis management approach to "international policy coordination," the hallmark of James Baker's legacy as treasury secretary from the time of the Plaza agreements of 1985, and the flow-on Louvre agreements of February 1987. Under this arrangement, it has been maintained that the responsibility to correct what are called "global imbalances" rests as much upon the shoulders of surplus-producing countries, namely Japan and West Germany, as it does on those of the world's principal deficit and debtor nation, the United States. In the "coordination" scheme, Japan and Germany were supposed to reduce their surpluses as the U.S. reduced its deficit. Now the BIS announces, "All around, there has been a policy of sustaining rather than

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reducing current account balances. Adjustment has not been a pressing issue."

Pressure on the United States

For the first time in four years, the central bankers' central bank argues against the "policy coordination" which has been dominant. "Symmetrical action"—by the U.S., Germany, and Japan—"is no longer required," the report says bluntly. Instead, "A substantial unilateral reduction of domestic demand in the United States through fiscal action could give the adjustment process the required stimulus."

Two aspects of the "coordination" policy are attacked. Firstly, the pursuit of so-called "exchange rate stability." Under the Plaza and Louvre agreements, upper and lower limits were set for the dollar. Central banks would intervene in coordinated fashion to prevent the U.S. currency falling below the bottom limit, or rising above the upper limit. Though never made public, it was most recently believed that the level of DM 1.90 to the dollar was the upper limit. This was breached in the last weeks as the dollar rose above DM 2.00 for the first time in years.

Secondly, the BIS attacked American government reliance on the Federal Reserve to raise interest rates to keep funds flowing into the dollar. This undermined efforts to reduce the trade deficit. "National control over short-term rates," the report stated, can "pull the exchange market in the opposite direction from that which fundamentals would warrant." In this respect, it is the United States, Britain, and Canada which share the brunt of the attack, for in each, interest rates have skyrocketed in order to protect currency from the threat of devaluation and capital flight. "Exchange rates were being pushed away from their longer term equilibrium by excessive capital flows."

Against this, the BIS puts the onus on the United States "to take the lead in new efforts to substantially reduce the current account imbalances among the large industrial nations." By reducing the federal government's budget deficit, it is supposed that internal U.S. consumption can be reduced, thereby dampening the threat of inflation, and lowering interest rates. Such measures are additionally supposed to be required to avert the threat of a "crash landing" for the world financial system.

Yet, if the BIS recommendations are translated into practice, as rapidly as they usually are, then what the world is headed for is precisely the kind "crash landing" the report's authors profess the desire to avoid. The demand for unilateral action from the United States to curb domestic consumption, by fiscal means, is also a threat. Leaving aside the funny business in government offices which has reduced the trade deficit from about $15 billion per month down to about $8 billion, what the U.S. owes the rest of the world, in terms of interest and other charges of usury and speculation, is still running at between $10 and $12 billion per month. The BIS crowd is demanding that health, defense, and other services of government be cut to generate the funds required to continue to service the demands of America's creditors. The threat is not new; it is simply that if the demanded cuts are not made, then those who provide the funds to cover the U.S. deficits on foreign account will begin to pull their money out.

Thursday's dollar slide is seen as the beginning of that blackmail policy.

Trade war builds

However, it is well to bear in mind that what the BIS is now recommending, is also something that the United States has been doing. It was the U.S. administration which launched the threat of trade war, for example, back in January, over the question of exports of hormone-treated beef to Europe. It was the United States which implemented the measures enacted in last year's Omnibus Trade Bill during the month of May, specifically applying the insane "Super 301" penalty and retaliation provisions against major trading partner countries like Japan, Brazil, India, and the members of the European Community. And, it was Greenspan at the Federal Reserve, who from the beginning of the year, hiked internal U.S. interest rates, the better to suck funds in from everywhere else.

It is the yahoos in the U.S. financial community who have been attempting to induce a shift into a psychotic round of engineered trade wars in the obsessive delusion that thus can "competitors" be defeated, or brought to heel. Now, the BIS is applying in the financial domain what the United States has been consistently trying to impose on the rest of the world, in the name of "free trade."

Only the completely insane, or totally evil, could ever maintain that anything good or useful could come from promoting such commercial and financial warfare. What is proposed now is another round of global cannibalism, as the world economy is contracted further to continue to meet the demands the bankrupt system of usury is imposing. Out of this, only Gorbachov's Russia can benefit.

But this result is no different than would occur if the crisis management "policy coordination" were to continue. Reality is that of a bankrupt financial system, whose bankruptcy is aggravated by the measures adopted by such outfits as the BIS, whether in the name of avoiding what they call "a crash landing," or achieving what they call "adjustment." It doesn't matter whether the competitors cross the finishing line running forwards or backwards; they still end up in the same place.

If the Plaza crisis management of the last five years is replaced by the kind of "all against the U.S." gang-up that is advocated in the BIS report, then the new instabilities introduced into the already tottering edifice of international finance may very well be sufficient to set off the coming next seismic shock to the system as a whole. They helped it along in 1987. Now it looks like the same crowd is out to help along the same kind of thing in 1989. Perhaps all affected will be capable of responding more intelligently this time than they did last time around.