Dollar in free fall; world financial institutions quake

by John Hoefle and Marcia Merry

Within 24 hours of George Bush's speech Aug. 20 in Houston, Texas accepting his party's endorsement for "four more years," as the conventioneers chanted, the dollar began a spectacular slide in value on currency markets the world over, hitting new lows against the deutschemark day by day from Aug. 21 to Aug. 26, until it finally "took a breather"—turning up by only a fraction of a pfennig. The dollar didn't even last four more days. Moreover, the institutions of the dollar era are quaking in anticipation of worse to come.

In contrast to the historic low exchange value of the dollar to the deutschemark of 1.443 (which occurred for a brief time during the Persian Gulf war in February 1991), the August plunge of the dollar took it down to DM 1.4315 on Friday, Aug. 21; then it dropped to DM 1.4015 on Monday, Aug. 24, and to DM 1.4020 on Tuesday, Aug. 25. These are record postwar lows for the dollar. Over just a two-week period in August, the dollar value fell 5% against the deutschemark.

Stock values also plunged on exchanges round the world from Aug. 21 to Aug. 26. The Dow Jones Industrial Average fell 50 points Aug. 21, the day after Bush's speech, and fell another 26 points the following day. The London FTSE/100 rose 6 points Aug. 21, then fell 55 points and 30 points over the next two days. From the close of trading Aug. 20, through the close of trading Aug. 26, the Dow was off 58 points, the FTSE/100 off 74 points, the Frankfurt DAX off 40 points, and the Paris CAC 40 off 56 points. "All the bourses languished," as the London *Financial Times* lamented.

The same declines occurred outside of European exchanges. The highly inflated levels on the Mexican Bolsa de Valores plunged. All the stock indices on the Australian exchange fell. And in Hong Kong, the Heng Shang Index registered a 2% fall.

The standard currency dollar rescue operations didn't work this time around. On Aug. 21, there were five rounds of interventions by 17 banks. On Aug. 24, there were another two rounds by 15 banks, and the Federal Reserve itself jumped in. By Aug. 25, an estimated $3.94 billion had been expended in the buying spree to prop up the dollar, but to no avail. Finally, after Aug. 27, what are described as "covert" central bank interventions had some effect.

The free fall of the dollar was front-page news outside the United States. "Central Banks Cannot Save Dollar," was the Aug. 24 headline of the German daily *Frankfurter Allgemeine Zeitung*.

However, in the United States, the dollar debacle was relegated to the inside business pages, somewhere behind sports. Only after several days, did the story push forward onto at least the front of the business section.

The response of presidential contenders George Bush and Bill Clinton was to shadow-box over "family values," not economic values, and vie for who could talk tougher on resuming the new "little war" against Iraq. As the dollar whizzed to new lows, Bush made headlines Aug. 27 announcing the imposition of his "no-fly zone" in southern Iraq.

The causes

After its August free fall, the dollar ended about 20% lower against the mark, over just the past year. The immediate causes of the end-of-summer plunge are obvious. First, there was Bush's speech in Houston, which was a hodgepodge of gag lines—in all meanings of the word. He offered nothing for the real economy, nor for the parasites in the "financial world," that could be construed as backup for the dollar. Second, interest rates in Germany have been relatively high for six months. On Aug. 21, the gradual dumping of dollars turned into hysteria.

The deeper reason for this inevitable devaluation of the dollar lies in the deep decline of the U.S. economy over the past 25 years. Each passing week brings the announcement of some new bankruptcy, mass layoffs, or defaults, in the Anglo-American economic sphere—the United States, Canada, Australia, and Great Britain. August brought the refinancing crisis of the Chrysler Motors credit division, and the revelation that Citicorp, the nation's largest bank, has been secretly backed up by the Federal Reserve for months. Sept. 30 marks the end of the fiscal year, and the third quarter of the calendar year, so a tidal wave of insolvency announcements can be expected in early October, before the presidential election.

Institutional crisis

Against the backdrop of the crumbling U.S. economy, the institutions that have directed the world dollar regime are likewise in disarray.

On July 4, in a review of the first half of 1992, political prisoner Lyndon LaRouche, now an independent presidential candidate, warned that "the next six to eight weeks are going to see the most dramatic changes in configurations of power and posture in the entire postwar period—more dramatic than those which accompanied the collapse of the Berlin Wall; perhaps more so, but at least analogous to it, in terms of fundamental change. More profound, in terms of fundamental change in the institutional array."

In September, the International Monetary Fund meets in Washington, D.C. for its annual conference. Whatever IMF officials expect about continuing their power over national economies, reality shows that there is no "percentage" for a nation to go along with IMF demands. For example, even as the dollar was plunging, the IMF delegation arrived in Moscow to attempt to impose more austerity and collect unpayable debts. Will the IMF continue to get its way?

On Aug. 27 and 28, the Group of Seven (United States, Canada, Britain, Germany, France, Japan, and Italy) will meet in Paris, and they have on their agenda emergency action on the dollar, and special talks on Russia. The G-7 could reach no consensus on currencies at their last meeting in Munich in July, and this time around, no one expects the meeting to produce more than a diplomatic joint communiqué talking about "currency stability." Russian Deputy Prime Minister Aleksandr Shokhin will be on hand for the talks. It is expected that he will receive a deferral from the G-7 on Russian debt payments, because Russia's other option is to cancel debts to western creditors.

Anglo-American financial interests have in the works grand new schemes for deeper looting, in order to back up the dollar, the pound, and favored stock values. These include the North American Free Trade Agreement (NAFTA) and a unified Europe under the Maastricht Treaty. However, these schemes are already in trouble, even before they officially come into existence.

In North America, free trade practices prior to a treaty have thrown thousands out of jobs in Canada and the United States, and created slave-labor conditions in Mexico, to the point where cholera has reached the southern banks of the Rio Grande—George Bush's "model" free trade zone! The NAFTA treaty itself, although signed by the United States and Mexico, has still to undergo eight months of congressional review, and may not survive.

The Maastricht Treaty, which calls for an all-powerful European central bank, a unified currency, and centralized economic power, is also in trouble. On Aug. 24, French polls came out showing that over 50% of the voters are likely to reject Maastricht in the Sept. 20 plebiscite. The Danes voted it down on June 2.

British pound in trouble, too

The Anglo-American schemers behind these proposals are stewing in their own juice, since they have prediscounted the expected loot from these deals to prop up their crumbling currency and stock values. However, even before treaty approval, Britain's economy is so shattered, and its currency so weak, that the John Major government can hardly even play by the pre-Maastricht rules, and maintain the value of the pound above the floor level of the European Rate Mechanism (EMS).

When the dollar went into free fall Aug. 21, the British pound also dropped below the agreed-upon EMS level. On Aug. 26, Chancellor of the Exchequer Norman Lamont made a panic move, went to the Treasury building in the early hours, before the currency exchanges opened, and, speaking from the steps, appealed to foreign exchange dealers not to speculate against the pound! He said he wanted to erase any "scintilla of doubt" that the British government would defend the pound within the Exchange Rate Mechanism. "I just wanted to make the government's position absolutely clear. . . . There are going to be no devaluations," Lamont said, reaffirming Britain's commitment to a common European monetary system. At the same time, the Bank of England intervened heavily to prop up the pound. Traders estimate that the bank bought £1 billion.

This stage show was set off by the circulation on Aug. 26 of an undelivered section of a speech by a German Bundesbank official, Reimut Jochimsen, the president of the North-Rhine Westphalia state central bank, and a member of the Bundesbank policy council. Jochimsen spoke of the potential for a "realignment" within the EMS, and said that this potential "has been suppressed for prestige reasons for years." The remarks were taken as a warning that Britain and Italy would probably have to devalue their currencies.

Apparently under pressure, Jochimsen deleted the section about currency realignment from his speech when he delivered it to German stock market officials. But the circulation of the advance copy of his speech had been sufficient to give rise to visible hysteria among the oh-so-unflappable Brits.