

The U.S. dollar must be defended!

by Chris White

It shouldn't be a question, but unfortunately it is. Over the recent five years, there have been a series of so-called policy discussions about what exchange parity the dollar should have relative to the currencies of its principal trading partners. The net effect since 1985 has been the devaluation of the dollar down to postwar lows against the Japanese yen, and to within a cat's whisker of the level set at the conclusion of hostilities 40 years ago and more against the West German currency, the deutschemark.

Now it is argued, that defense of the dollar ought no longer to be an objective of U.S. economic policy. These pearls of wisdom have emanated in recent days from new cabinet appointee Beryl Sprinkel; from one of the gurus of the free-enterprise wing of the Republican Party, Marty Feldstein; from liberal spokesman for the Boston Brahmins J.K. Galbraith; from the liberal wing of the Republican Party, typified by Herbert Stein; and from Allen Sinai of the Wall Street investment bank Shearson Lehman.

They assert, with appeals to the expediency of maintaining the stability of the system, that the dollar ought no longer to be defended.

Leaving expediency aside, their calls for the United States to abandon its own currency are actually treasonous.

The practical benefits are argued, first, in respect to the beneficial impact a declining dollar would have on the monstrous trade deficit, second, as politically more acceptable, especially in an election year, to higher rates of interest within the United States, under which banks, industries, and household consumption would be brutally crushed.

The adduced benefits are hooey. The declining dollar, over the last two years in particular, has not done anything to halt the growth of the U.S. trade deficit. Nor would it ever.

If the United States is not prepared to adopt the policy changes which would result in a renewal of manufacturing and agricultural capabilities, after 25 years of depletion under the policies of the "post-industrial society," it is not prepared to reduce its trade deficit.

For example, the imposition of a tariff on imported oil, triggered at a price of \$22-25 per barrel, would do more to bring down the nation's monthly import bill than anything else. It would help put domestic industry back to work; it would help in the exploitation of plentiful domestic resources; it would contribute to safeguarding the supplies of Persian Gulf oil upon which allies such as West Germany and Japan depend.

If anyone says that he is talking about reducing the trade deficit, and does not support a tariff on imported oil, then the conclusion should be drawn that either he doesn't know what he is talking about, or that he is talking about something else. The United States is presently importing about 40% of its oil requirements, a sizeable chunk of its total import bill, which could be produced here, if the price were right.

As to the alternative to a lower dollar, namely higher interest rates. Despite what the cited gurus say, that is not the alternative. The fate of the dollar has come up again as part of the desperate efforts, undertaken by the so-called U.S. elite, to keep the international financial system together, after the shocks of the week leading into Monday Oct. 19. The purpose of the renewed assaults on the dollar from within the United States is twofold. First, to terrify especially West Germany and Japan into providing liquidity, through internal reflation, to support the dollar credit system. It is well known, that what is demanded of Germany and Japan will mean suicide for their economies. Second, to provide liquidity for

the U.S. banking system through foreign exchange speculation against the dollar, backstopped by German and Japanese support. After announcing massive losses on foreign exchange transactions in the last quarter, the U.S. banks let it be known that to maintain profitability on such transactions, they need volatility in foreign exchange markets. Without volatility, they don't make money. Since the dollar won't go up, under present policies, the banks demand that it continue to go down.

The Federal Reserve's initial reaction to the Black Monday crash had been to lower interest rates, and man the printing presses to hand cash to the banking system, to finance losses sustained by banks, brokerage houses, and corporations, through redemptions of Treasury securities. That game began to come to an end the last week in October, when sellers of the relevant Treasury securities no longer turned up at Treasury auctions. At that point, the Fed's interest rate game began to reverse, threatening, once again, to set off the kind of destabilization of the international bond and money markets that had led into the Black Monday collapse.

Continental Illinois and other casualties

This came on top of the institutional body count from the period leading into Black Monday. It has been pretty well covered up in the United States, by recourse to the brainwashing media techniques of psychological warfare. But the reversal of the Fed's interest rate shift threatened once again the kind of chain-reaction seen in the shocks of Black Monday. The wreckage of futures markets around the world, where big funds had hedged losses on the stock markets, by driving prices down 20% further, left brokerage houses, investment banks, and commercial money-center banks badly hurt. On top of which, it seemed from Hong Kong, through Amsterdam to London and Chicago, that it was the same outfits which had taken it on the chin in each location: Citibank's brokerage house James Capell, Hongkong and Shanghai Bank's Vickers Scrimgeour, Conti Illinois, and the big investment houses.

At that point, the U.S. "powers that be" launched their push for a new collapse of the dollar.

In the same scale, the case of the almost twice bankrupt Conti Illinois demonstrates the idiocy of what they're trying to do. Conti owned First Options, the company which ran the Chicago Mercantile Exchange's futures business. After Black Monday, Conti pumped, it is said, \$385 million into the options firm, to maintain its cash deposits at 10% of contracts outstanding. That means that \$3.8 billion of contracts were minimally left in the void on Conti's accounts alone. The \$385 million was more than one-third of the pre-Black Monday equity capital of Conti, and bank stocks collapsed by 25-35% between Friday Oct. 16 and Monday Oct. 19.

But what did Conti do? It announced plans to sell off its relatively sound operations, such as its network of suburban banks around Chicago, which are at least endowed with wage

and related deposit accounts, something real, to retrench into "risk management" and "corporate finance," two areas of financial speculation that will probably not last out the winter. The management of the bank is adopting the course which ensures that it will go over the edge into a second bankruptcy, perhaps sooner rather than later. But the management, since the bank went under for the first time in the spring of 1984, includes the U.S. government's Federal Deposit Insurance Corporation.

A question of treason

The policy of letting the good go to protect the bad, and intrinsically unprotectable, is exactly what's being proposed for the dollar, by the luminaries cited above.

It may be stupid, it may be incompetent, it will not work, but why is it treasonous?

Simply, because it is only the powers of government, the government's power, under the Constitution, to create credit and money and regulate foreign and domestic trade and commerce, that is available to prevent the chaos of the developing collapse from spreading, and to define the policies which will bring about recovery. To the extent that the government's power to do that is weakened, or otherwise abused, those powers will be put at the service of the kind of self-feeding process of collapse, which will destroy the government itself.

Galbraith, Stein, Feldstein, and Sinai ought to know that, because over the years they have helped, in some cases draft, in others implement, the policies which produced the \$15 trillion bubble which is now popping. This policy has, in recent years, been implemented in the name of the "magic of the market-place," or "free enterprise."

Government powers can and must be employed to defend the country's credit and currency, to defend the federal and other government debt, and to keep the banking system functioning, or at least that part of it which is based on deposits which reflect real economic activity, rather than speculation, rentierism, and usury.

That can easily be done, under the Constitution, and other legal instruments which define the emergency powers of the presidency.

If the idiocy of the last days around the dollar is permitted to continue, then you can be sure that we are headed onto very dangerous ground, indeed. A collapsing dollar, with spillover effects on the interest rate structures of the international money and securities markets, is about the fastest way there is to ensure that the staggering international financial system does indeed come tumbling down.

Perhaps such methods can, in the short run, bludgeon Germany and Japan into doing what the financial "powers that be" demand they do. Actually, what is the choice? If the dollar tactic succeeds, it all comes down. If it doesn't succeed, it all comes down. Only the stupid, or criminally insane would refuse to adopt the necessary changes, to use the powers of government to halt the crash that is hastening upon us.