FOREIGN EXCHANGE

Behind the October crisis forecasts

Throughout this summer, scenarios have trickled through the currency markets predicting a "hot autumn" for both the dollar and the European Monetary System. A new bout of dollar weakness is supposed to fuel demands for the International Monetary Fund's substitution of Special Drawing Rights as the world's key reserve medium. Combined with internal stresses on the EMS's fixed-rate parity grid among members, the crisis is also supposed to terminate EMS aspirations to stabilize both the dollar and world trade financing.

While dollar destabilizations may indeed be attempted, the pound sterling is the main object of mistrust as far as certain Europeans are concerned. A source close to the French central bank, confirming Sept. 13 that the Saudi Arabians are collaborating with West Germany to beef up EMS gold remonetization, added, "We are sick and tired of having the pound in the 'snake' and we want to throw it out." Although Britain, since the EMS was implemented this spring, has refused to submit sterling to the EMS fluctuation limits, sterling is included in the basket of currencies composing the European Currency Unit (ECU), while the Thatcher government has chipped in 20 percent of Britain's gold and dollar reserves to the EMS. Both the pound's volatility and its secular appreciation have had adverse effects on the stability of the ECU and on the weaker members' position in the snake grid.

Storm forecasts mount

On Sept. 10, London's *Observer* reported that the "October" crisis would be the top agenda item at the next day's monthly meeting of the Bank for International Settlements, the private gathering of advanced sector central bankers. The BIS participants would discuss "How to stop a new foreign exchange crisis, and whether the danger of a deflationary interest rate war can be avoided." Reporting on the same meeting, the *International Herald Tribune* commented that "a dash of currency unrest is all that is needed to ignite yet another international monetary crisis."

According to numerous reports, the revaluation, in conjunction with the far greater stability of West Germany's bond market in comparison to the dollar bond market, is then supposed to unleash an unprecedented wave of anti-dollar speculation; this would soon be followed by a dollar-bond-sector collapse; and finally, such a bombardment of Europe with unwanted dollars will occur that the EMS will accept some IMF plan for Fund control of the U.S.

The predicted 2-3 percent revaluation of the deutschemark is likely, but its significance is being blown completely out of proportion by the anti-EMS oracles. *London Economist* editor Norman Macrae told an inquirer this week, "At the beginning the EMS was a very big thing... [French-German] political coup and all that. But I hope it will break apart at (this) weekend.... The EMS will prove to have been a brief pause before a new international monetary destabilization."

The New York Journal of Commerce ran a Sept 11 lead titled "EMS Seen on Road to Trouble," by veteran commentator Jess Lukomski, an American protégé of the Ludwig Erhard anti-growth factions in Bonn and Frankfurt. Lukomski warns salaciously that the EMS will be destroyed by "intensifying divergence in economic growth and inflation patterns... lubricated by the potent rise in oil prices." The Bayerische Landesbank is quoted on the currency-related dangers of France's scrapping its Barre "stability program"—which over the past three years in fact has sent inflation to 11 percent and pushed unemployment to 1.4 million. The bank, however, concedes that any adjustments in the EMS grid will be "moderate," not terminal. French bankers this week told *EIR* the "inflationary divergence" problem is a canard given the determination of President Giscard and Chancellor Schmidt to make the EMS work.

Meanwhile the OECD has notified Belgium and Denmark—the countries whose currencies this year have tended to hit the floor of the snake—that 1) they must demand a deutschemark revaluation to save themselves from devaluing, and b) they must abolish the cost of living escalator for their labor forces! This prescription has been accompanied by seemingly contrary pressures on the Germans from the IMF and U.S. spokesmen to stop "competitive revaluations"—which are alleged to be partly responsible for the U.S. Federal Reserve's astronomical interest rate policies, and instead use "fiscal policies" to fight inflation—i.e., domestic German austerity that could undermine Schmidt's 1980 reelection.

Ireland, a strategically important EMS member because of its intensive industrialization policy and leadership in favor of the Euro-Arab energy and technology "dialogue," has also been targeted. The Sept. 10 *Business Week* ran an exultant report that the Irish punt's severance from sterling in order to join the EMS has meant such high interest rates that funds flow into the money markets instead of fixed capital investment.

—***Renée Sigerson***