merely smoke with respect to the actual fire: The Swiss National Bank is playing both sides of a projected currency war between Western Europe and the United States. The object of the war is less financial than political: It reflects the breakway objectives of the Swiss-based oligarchical group in Europe with respect to the United States.

The dollar has been placed in the deadly position of parasite with respect to other currencies, and faces devastating repercussions once the flight of capital from other countries forces a break in the global chain of payments. Reading between the lines of the just-published Bank for International Settlements report on the Eurodollar market during the second quarter, it is evident that flight capital into the dollar accounted for extraordinary inflows into Eurodollar deposits during the second quarter. Non-bank funds worth $7 billion flowed in, reflecting both legal and illegal flight capital, against a withdrawal of $8.1 billion from OPEC countries during the first quarter and by $7.1 billion during the second quarter. In other words, flight capital out of European and Latin American sources balanced the OPEC deposit withdrawals (we are talking here about the Eurodollar monetary base, on which the multiplier proceeds; the small sums therefore are highly relevant marginally important shifts).

As authoritative central banking sources explain it, the transfer of domestic funds into Eurodollar deposits provided the principal source of Eurodollar market liquidity through the first half of the year, and is apparently continuing. As noted above, the European central banks, the Bundesbank in particular, dealt with this situation first by printing money (and letting the European currencies collapse), and elsewhere by adopting really nasty austerity measures which have substantially reduced the European payments deficits, but shut down the European economies. Since international lending continued to slow to only half of what it had been in the second quarter of 1982, this liquidity transfer from Europe to the Eurodollar market merely replaced OPEC deposit withdrawals.

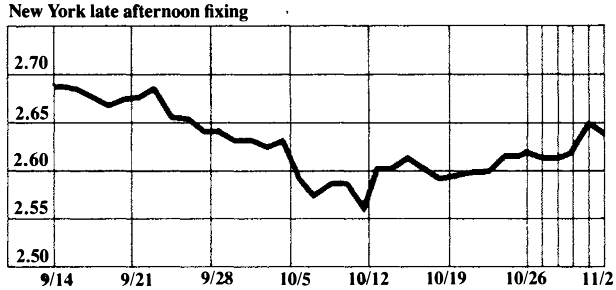
The outlook is that world trade will continue to decline, i.e., that European countries continue to cut their deficits (and eliminate their foreign borrowing requirements as well as domestic borrowing requirments) and that no net credit whatever will go to the Third World—further destroying the income-base for any further debt payments. That is, even if the present Brazilian refunding goes through, the next crisis will be all the more monstrous.

Thus the Swiss banks are betting that the balancing act will not work, that the combination of financial and political destabilization will make life impossible for the Europeans and push the dollar through the ceiling within the next several weeks. But this will produce a disaster for the dollar worse than the July 1931 collapse of the British pound. The United States will then have only two alternatives: Either introduce a dirigistic credit policy, including top-down reorganization of the Ibero-American debt, or let the Swiss inherit what remains of the financial system.

Currency Rates

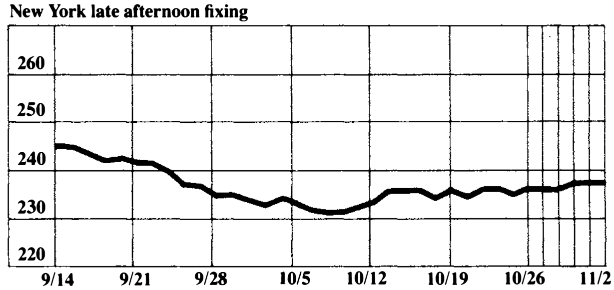
The dollar in deutschemarks

New York late afternoon fixing



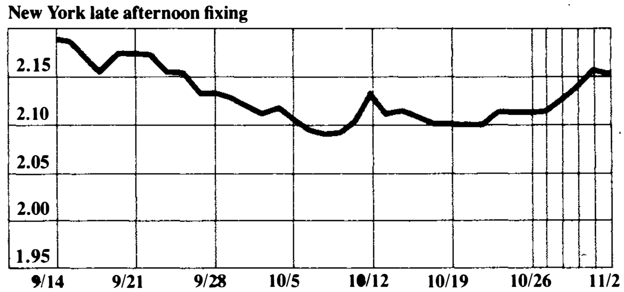
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing