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Foreign Exchange by David Goldman

An all-out deutschemark collapse?

West German capital controls are on the boards, and the dollar is probably next in the barrel.

The U.S. Ambassador to West Germany, Arthur Burns, is predicting near-term collapse of the West German mark, Washington sources told *EIR* in early January. What is not generally realized is that, in the medium term, this will turn out to be a "spike" for the dollar.

Burns believes that massive capital flight out of Europe will cause an "August 1971 for Europe," a source close to Burns at the American Enterprise Institute (AEI) in Washington said. Just as he crisis-managed the collapse of the U.S. dollar in 1971, so Burns is spreading rumors and crisis-managing the collapse of the mark now.

Capital flight, an aide to Burns said Jan. 4, will continue. "There's no way you can staunch the flow . . . if you're getting the kinds of exchange rates you have and the interest rates you have on the dollar." The strong dollar will "continue to bring the mark down," Burns believes.

EIR is looking for a sharp downward drop in the German mark, because the Burns sell-out plan is already well under way.

After Burns put out the word against the mark, rumors have swept the markets about "instability in Europe." In fact, the mark collapsed by three percent the first week in January to a 10-year low against the U.S. dollar of 2.81 marks per dollar. A 3.00-mark dollar in the near term is not inconceivable.

Burns is openly predicting that Europe, led by West Germany, will be driven into capital controls, i.e., controls on foreign currency movements that will decouple Europe from the U.S. dollar and the U.S. economy for the first time since the end of World War II. "The thing [Burns] is most concerned about is that Europeans will take protective measures of their own to staunch the flow of capital," the aide said.

Burns is organizing this rumor campaign to enrage West Germany against President Reagan, on whom Burns is pinning the blame for high interest rates, and to pull Germany out of the NATO alliance. Specifically, Burns is telling Germans that Reagan's defense budget is the cause of rocketing U.S. interest rates, and that there is nothing the Federal Reserve can do but raise rates until Reagan agrees to slash the budget.

"On the subject of holding the line on interest rates, Burns is speaking as former Fed chairman; there's only so much the Fed chairman can do," said the aide.

On Jan. 5, Congressional Budget Office director Rudolph Penner, a former assistant to Burns at the American Enterprise Institute, also publicly blamed "atrociously high" Reagan deficits and a "do-nothing fiscal policy" for high U.S. interest rates.

At the same time, Burns is telling the Reagan administration that the only way to deal with the currency crisis is to impose "IMF surveillance" over the foreign-exchange markets, a supranational system of setting exchange rates that would subject the dollar and the United States to IMF conditionalities.

Burns has been pushing this approach since the 1983 Williamsburg economic summit, said the aide. Burns will "constantly push for a moderation of the nationalistic U.S. position" against the IMF currency surveillance. "Burns was concerned that the administration was in too much of a nationalist mood. He thinks of this policy as being highly U.S.-centered."

If the currency crisis gets bad enough, "there may be a good deal of potential assistance" that can be forced out of Reagan for IMF surveillance, the Burns aide commented.

All this bodes no good for the U.S. dollar.

The short-term objective of the Soviet Union and the Austrian-Swiss "Mitteleuropeans" close to Burns and the Bank for International Settlements is to throw West Germany into a crisis that will accelerate its departure from NATO; that involves a crash of the mark.

The further objective is to crush the U.S. economy itself and sabotage President Reagan's re-election. If a clear European split from NATO emerges, look for Burns's allies and the Soviets to reverse currency policy later this year.

Once West Germany and the rest of Europe have been forced into diplomatic conflict with the United States, the dollar-mark relation could swing the other way in what will turn out to be a dollar spike, that is, a sharp short-term rise in the dollar, followed by a dollar collapse later this year.

This will be completely determined by European political and military realities, not by "market forces."

At that point, look for the Soviets to use their $100 billion in Euromarket credit lines to start selling the dollar short.

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