

## Foreign Exchange by David Goldman

### Who's shaping the markets

*The Bundesbank beat back speculators who were attacking the mark—and the dollar is rumored as next.*

**J**ust as the West German Central Bank had succeeded in fending off a week of heavy attacks on the German mark, rumors began to mount on Feb. 4 that the U.S. dollar is headed for a crisis on foreign exchange markets.

The emergence of wild fluctuations and instabilities in currency values since Ronald Reagan's inauguration is not explained anywhere in the financial press, nor among the foreign exchange trading rooms in banks and corporations that give the green light to perform currency transactions. Currency parities are currently entirely subject to the political maneuvers occurring around Washington by different political groupings vying to shape Reagan's economic policies.

As stated by Fidelity Bank economist Lacey Hunt to my sources, if Reagan fails to follow the recommendations of the staunchest defenders of Federal Reserve Chairman Paul Volcker, and attempts to "decouple" implementation of tax cuts from substantial budget cuts, then "the dollar will go lower," possibly the day after Reagan reveals his economic program to the nation on Feb. 5.

While Hunt's line would have little credibility by itself, identical threats have been issued by managers of major institutional investors, namely, that if Reagan doesn't bend to Volcker, drastic international financial consequences could ensue. This is adequate evidence to

assert that the option of an early dollar crisis is an active threat.

The severity of the speculation against the mark over the recent period, which produced some of the wildest currency exchange fluctuations seen since 1978, also underlines the fact that the major speculators out in the market know the game they are playing is political.

In a two-day period, the Bundesbank threw \$1 billion in U.S. currency onto the markets to drive back the speculators. On Feb. 3, the speculative funds were moving at such rapid rates that within a three-minute period, the mark had gyrated between 2.12 and 2.16 to the dollar. With a heavy show of force, however, by Feb. 4, German officials had succeeded in halting the mark's movement at 2.11.

As this was occurring, Reuters news service and foreign exchange floors in banks around the world were rife with rumors that Germany was seeking an "emergency" support package that would probably involve large purchases of dollar bonds. German officials angrily denied these reports, denouncing them as "nonsense" on the grounds that the mark and the economy behind it were fundamentally strong enough to stand up without admission of crisis and defeat.

While it still needs to be determined exactly which financial institutions were behind the assault on the mark, there is evidence that the large British and Hong Kong financial multinationals used their

clout on this occasion. (They form one of only two global financial networks with the capability to launch rapid-fire financial warfare, and the record of exercising this capability.)

It is most telling, for example, that on Feb. 2, just as a wave of currency chaos began to descend on Frankfurt, Bank of England Governor Gordon Richardson issued a statement that Britain would like to become a member of the European Monetary System (EMS), the currency stabilization arrangement set up by Germany and France in 1979 as a steppingstone to world monetary reform.

Britain not only refused to join the EMS then, but opposed the stated goals of the EMS, which entail using European financial weight to industrialize the Third World. Consistently, Britain has only offered to link up fully with the EMS under conditions in which the EMS can become an instrument of the Bank of England's deflationary policies for Europe.

Also, the attacks on the mark occurred the same day as an unprecedented factional assault was launched against EMS proponent Chancellor Schmidt by an environmentalist, pro-British Labour Party faction in Schmidt's Social Democratic Party. Had the currency unrest continued further, this would have added to the left SPD's efforts to topple Schmidt.

I noted above that the British financial institutions are one of two world centers capable of moving currencies in this way. The other grouping—the Saudi-dominated oil producers—has backed the mark, and is expected to have contributed to the central bank's assault on the speculators.