



By Ray Howard

Will the dollar ever come back?

One of the reasons for our current inflation is the collapse of the American dollar. And one of the reasons for the collapse of the dollar is currency speculation. Those international currency speculators in London, Paris and Zurich have driven the dollar into the ground.

Will the dollar come back?

To get some kind of insight into the situation, I talked with Leo Melamed, chairman of the International Monetary Market of the Chicago Mercantile Exchange.

Leo Melamed is a high-powered commodity broker who, at 41, has had a successful career in law and in commodities. He founded a commodities trading firm and served as chairman of the Mercantile Exchange for three terms.

OF COURSE, MELAMED has paid for his success. In his office there is a penny gum-ball machine. Only the machine isn't filled with gum balls. It's chock full of ulcer pills.

Melamed is a super-intense guy. He sat behind the desk eyeing me warily. Like a jungle cat that wasn't sure whether to attack or retreat. The interview began on a cautious note: The public thinks you speculators are ruining the country.

"That's because 97 per cent of the public are economic ignoramuses!"

You speculators are not ruining the country?

"Of course not. Currency speculation is not a cause of economic conditions. It is only a reflection of economic conditions. If world speculators had more faith in the American economy and our government, the value of the dollar would be considerably higher. But as it is..."

What has shaken faith in the American dollar?

"**IT'S PRETTY OBVIOUS.** The budget is unbalanced. We cannot seem to bring inflation under control. Our balance-of-payments situation is out of whack. And Watergate suggests that Washington isn't going to be able to do anything decisive to rectify the situation," he said.

But aren't all you speculators really contributing to the problem?

"The word speculator is an emotionally charged word. And unfortunately the connotations are all negative. We would prefer the term market investor."

But speculators aren't investors. You guys are in and out of markets constantly. The average contract at the Mercantile Exchange is only five days long. You people don't even qualify as investors under the tax laws.

"The six-month capital gains provision is irrelevant in defining what an investor is. But if you prefer, we can use the term trader."

How about "gambler"?

Melamed shot up in his seat. "No! A speculator is not a gambler. Speculation is based upon economics. Gambling is based on the rules of chance. Those are two entirely different things. And it is our experience that gamblers make poor speculators."

Why is that?

"**TO BE A GOOD** speculator," Melamed said, "you have to have a very healthy respect for money. Gamblers have little or no respect for money. The two psychologies are totally opposed to each other."

Why do our big multinational corporations speculate in currency?

"They are doing more hedging than specu-

lating. And it's easy to understand."

Do you have a specific example?

"Yes. ABC-TV contracted to telecast the Munich Olympic Games. But ABC did not buy any German marks in advance of the time it had to pay its German contractors. Between the date of contract and the payment dates, the dollar fell. So ABC had to pay a lot more dollars for marks than it had originally planned. As a result, ABC lost more than a million dollars on the Olympic games. If it had bought marks forward at contract time, it would have made a good profit."

SO CURRENCY SPECULATION is vital to international trade?

"Yes, currency trading is now standard procedure for our large corporations."

What about the dollar? Is it going to fall further? Or is it going to come back?

"The American dollar is definitely going to come back. There's no question about it."

What makes you so sure?

"Because the dollar is drastically undervalued in world markets. American economic conditions justified a fall in the value of the dollar. But it has fallen too far. Its current low level cannot be justified by economic conditions."

Why has the dollar fallen so far?

"Because America is not a force in world money markets. When the speculators in London, Paris and Zurich move against the dollar, there is no counterforce in America which moves in support of the dollar."

But I thought we were the world's largest economy. And that New York was the banking center of the world.

"We are the world's largest economy, but New York is not the world's money center.

London is. And when it comes to currency trading, Paris and Zurich are much more important than New York."

You mean that money men in European countries can dictate what the value of the dollar will be?

"Yes. As idiotic as it sounds, yes. The American Revolution may have been won 200 years ago,

but when it comes to money, we are still tied to the Bank of England."

That's hard to believe.

"**CHECK ANY CURRENCY** broker. During the trading hours when the Bank of England is open, everything here is nice and orderly. But five minutes after the Bank of England closes, everything goes kablooey. The gap between 'bid-ask' widens unbelievably."

So foreign currency speculation has hurt the dollar worse than our economic conditions would indicate.

"Yes, but we are learning. We need a large, powerful money market in America to act as a counterforce to the money market dominance of London, Paris and Zurich."

You are saying that such a market would help everyone, including the consumer, by setting up a more effective defense of the dollar?

"Yes, and a large money market could do more. It could even check the fiscal and monetary abuses brought about by government."

How in the world could a money market do that?



LEO MELAMED



"Suppose Congress passed a new bundle of big spending bills which were clearly inflationary. And suppose all the congressmen told their constituents that the legislation was going to be good for America. The public would be fooled as usual. Until it was too late.

"But if we had a big money market here, 24 hours after the passage of inflationary legislation, a huge cry would come from the money market.

"The dollar would crash and the public would be warned in time to get the legislation changed."

Leo Melamed is trying to establish just such a market at the Chicago Mercantile Exchange. It is called the International Monetary Market.

And it is high time we started defending the dollar.

Dwindling
dollar
results from
U.S. lack of big
money market