



SPECIAL REPORT

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The Lira Crisis

World Monetary System on Edge of Total Collapse

Feb.8 (IPS) — At this moment, the entire world monetary and credit structure is poised on the brink of an uncontrollable collapse. Trading chiefs at New York's largest banks admitted this week that a full scale, simultaneous run on all currencies in favor of gold could occur at almost any moment, that the mood on international money markets is in its immediate "pre-panic phase." The crisis, which was triggered by the attempts of Wall Street to force the devaluation of the Italian lira and to impose an austerity government on Italy, was only temporarily prevented from developing into a total collapse when late in the week the West German Central Bank, the Bundesbank, and the New York Federal Reserve Bank gave explicit orders to force traders not to speculate against either the lira or severely weakened French franc.

Simultaneously, all the essential elements of a solution to the current crisis — the creation of a new non-dollar based international credit structure to replace the bankrupt International Monetary Fund (IMF) — have been placed on the table.

Anti-austerity elements in the Italian Socialist Party (PSI) and the Italian Christian Democracy (DC) have successfully blocked the formation of an austerity government. Earlier in the week these forces, centered around the Mancini wing of the PSI and the Andreotti wing in the DC and the Cefis industrialist faction, forced Treasury Secretary Colombo to reject IMF and EEC loans with austerity stipulations that would have turned Italy into a Fourth World country.

With this, U.S. Labor Party Presidential candidate Lyndon LaRouche Jr., in Rome to meet with top Italian political, financial, industrial and journalist leaders in an effort to resolve the crisis, reported to his New York campaign headquarters that, "phase one of my activities in Rome have been successfully completed." The next step is the putting together of an Italian government based on program of debt moratorium and expanded trade with the developing and Comecon sectors.

Yesterday, Sr. Ratti, the head of the foreign trade desk of the giant Italian industrial concern Montedison, sent a written statement to the Italian-USSR Chamber of Commerce, praising the current Soviet 5 year plan, and stressing that "this plan has been viewed positively by Italian industries which will have difficulties in getting credit in the future." In putting forward the unprecedented proposal to achieve industrial integration of Italy with the Comecon economy, Sr. Ratti emphasized that "the Soviet Union should support the technological development of Italy even when Italy can't have any credit..." As it is known, the current Soviet 5 year plan is an integral part of a publicly slated

Comecon policy calling on non-Socialist countries to join the Comecon regardless of political system.

Moreover, Sr. Giulio Andreotti, he leading personality of Italy's Christian Democratic Party, reiterated yesterday, before an assembly of West European political figures in Brussels, his known position that the solution to the continents economic, political and security problems will be found in an integration of Europe not within the EEC scheme, but rather in the broader context of a "Europe from the Atlantic to the Urals" as stipulated in last year's European Security and Cooperation Conference in Helsinki.

In a statement yesterday, Presidential candidate LaRouche said that his judgement at this time is that the key pro-development political forces in Italy, including influential groupings in the leaderships of the Socialist Party and the Christian Democracy, are now acting on the perception that it would require them about six months to develop the matured international conditions that will allow them to resolve the current political deadlock in their country in a way decisively in favor of the New World Economic Order.

A second critical predicate of the solution was placed on the table at the Manila meeting of the Group of 77 non-aligned nations. Guyanan Foreign Minister F. Wills, who has been thoroughly briefed on the Labor Committee's International Development Bank proposal, put that proposal on the table calling for the junking of the IMF and the establishment of a new International Central bank to provide credit for development. Both proposals took place in the context of discussion at the conference which centered around the question of debt moratoria and debt cancellation for the Third and Fourth World nations.

In addition, the meeting adopted resolutions calling on the Soviet sector to make the transfer ruble available to Third World countries. As part of a package of "demands" placed on the Comecon sector, the G77 demands that ruble surpluses be built up on their accounts to be freed for trade with third parties (a full analysis will be presented next week).

Neither the U.S. Labor Party nor the International Caucus of Labor Committees share the perception of Italian political figures as regards available time margins and that both the USLP and the ICLC are fully committing their forces to the speediest possible conclusion of the Italian crisis by means of a general debt moratorium and energetic measures for the establishment of the International Development Bank, a world reconstruction agency authored by Mr. LaRouche and proposed to replace the now bankrupt International Monetary Fund and its affiliated Bretton Woods Institutions.

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Lira Scenario Collapses; Atlanticists Attempt Nazi Occupation Of Italy

The Wall Street bankers have launched their Italian gambit two weeks ago when it became clear that the Rambouillet monetary accord signed by the U.S., Japan, West Germany, France, Great Britain, and Italy last November, could not by itself contain the wild and heteronomic movement of funds in search of speculative profit. This movement, which will inevitably shake apart the fragile monetary framework, was caused by the total collapse of outlets for productive investment within the advanced sector.

The plan of the atlanticist financiers headed by George Ball, Averell Harriman, David Rockefeller, et al, was simple. Italy was to be used for a "triggering point" for a series of currency devaluations, drastic import cutbacks, and genocidal levels of austerity in all Western European national sectors. This would in turn enable the bankers to collect as much of the dollar-denominated debt owed to them as possible prior to the collapse of the entire monetary system.

However, the Italian austerity government cannot be formed and the whole scenario has backfired in the faces of the Atlanticists. They have now resorted to economic blackmail and threats of embargo against Italy in a futile effort to scare the Italians away from a debt moratorium and thereby regain control of the situation.

The New York banks — in collaboration with the IMF — have activated every mouthpiece and company they control to force Italy to voluntarily submit to Nazi occupation.

Multinational oil companies have demanded that the Italian government agree to protect them against losses due to the New York-created drop in the lira value, or face cancelation of deliveries. Oil tankers have reportedly been told to slow down and prevent delivery until further orders. How the multinationals will survive without orders is a question yet unsolved.

* Treasury Minister Colombo and heads of the Bank of Italy Baffi and Ossola have demanded import regulations of the kind that have resulted in the shutdown of 50 per cent of Brazil's trade over a period of six months. The "proposals" call for a 20 per cent deposit of the value of imports by companies importing essential goods and 100 per cent deposit for luxuries." Meat has been deemed a luxury of the past.

*The Bank of Italy has called for limitations on wages and increases in worker productivity while government budgets — already largely unmeetable due to lack of revenues — are cut further to the bone. Italian sanitation is already at Third World levels in most cities.

* The chief economists for both the Moro faction of the Christian Democracy and Italian Communist Party have demanded that wages and unemployment funds be cut in order to provide funds for particularly youth labor at pitance wages of \$120 for an indeterminate period of work. The Moro program, announced on Feb. 4 as a basis for the formation of a new government, added two other wage-gouging demands to the youth slave-labor plank as supposed steps to "recovery." These were a substantial increase in taxation of workers' incomes and a freeze on all wage increases which were owed to workers making over the equivalent of \$6300 a year — to be "held" instead in the government coffers for "investment."

These proposals have nothing to do with "recovery" for the Italian economy. Taken from the notebooks of Mussolini and Hjalmar Schacht, Hitler's "economic wizard," they are intended to provide the conditions and mechanisms under which the New York bankers can collect on some portion of the \$14 billion dollar external debt. All production from the Italian economy must go for debt repayment — hence no funds can be spared for imports. The debt-repayment machine cannot afford to spend money on costs which do not result in an immediate profit — hence education for youth must be replaced by youth jobs. By the same principle expenditure on the sick, mentally ill, and aged also becomes "unnecessary," as the history of the Nazi genocide shows.

The Wall Street gentlemen hope to carry out their grand repeat of history — without acknowledging that the very incompetence of their economic policies will destroy their system, if the working class does not do so first. Their policy is a massive bluff — based on the delusion that they can fight a war against not only the working class but European capitalists as well, without even a hint of working class support at a home.

The Swap Collapses

Such bluffs aside, there is growing recognition among leading layers both inside and outside Italy that the New York bankers have bitten off more than they can chew. The massive level of central bank intervention required since the beginning of the Lira crisis has virtually wiped out all of the \$17 billion in swap reserves set aside by the Rambouillet accords, as well as the remaining currency reserves of most European central banks.

This set the stage for the emergence of panic psychology on the monetary markets this week. Short term flows of "hot" money in search of quick, speculative profit moved wildly from one continent to another, sometimes in opposite directions on the same day. Despite these obvious signs of impending monetary disaster, it wasn't until mid week before the staggering implications of the Atlanticists' failure began to sink in on forex traders: there was now nothing left to prevent the wholesale dumping of the bankrupt U.S. dollar.

Almost immediately, the forward markets were hit by large-scale selling off of dollars for Deutschmarks and Yen. Forex traders told IPS late in the week that despite the \$350 million in dollar support operations by the Bank of Japan over a two day period and the heavy dumping for deutschmarks by the New York Fed, speculators are betting that the dollar will never rise again.

One trader in New York said: "The whole currency system could blow if something isn't done soon enough. Now the Treasury says it will come up with some kind of a brand new arrangement. Bullshit! There's nothing they can do at this point." The Japanese Daily Asahi of Jan. 29 blasted Japan's Finance Ministry for whitewashing the Italian crisis as a local phenomenon and says that the combination of the Italian currency crisis and the Third World debt situation threatens to blow the entire Eurodollar market.

A partner at a New York-based investment banking house reached for comment screamed: "Yes, I know the Eurodollar market will blow. That means more business for me. I'm a bankruptcy banker."

Reflecting this panic, the Rockefeller controlled multinational oil companies announced in midweek that they were now refusing payment in dollars and demanded that all

payments be made in DM. The wholesale movement away from dollars into gold or gold-backed Swiss francs was blocked by the aforementioned Bundesbank and N.Y. Fed orders to halt lira and French franc speculation and by the immediate rush into DM and Yen. As the psychology of collapse sets in, nobody expects anyone to "follow orders" much longer.

The wiping out of the swap reserves coupled with Italy's rejection of the IMF-authorized austerity solution, has also wiped out the Atlanticist's maneuvering room. These layers had counted on the now dysfunctional Rambouillet agreements to buy them two-to-three months time, holding the monetary system together while they attempted to impose police states in the U.S. and Western Europe to collect their otherwise uncollectable debts.

The Atlanticists Fumble In Search of a Policy

With the collapse of the Rambouillet agreements, which only a month ago were touted as the solution to all future monetary problems, the Atlanticists have nothing that even resembles a monetary policy. Instead they fumble about from day to day, fixating on first one hairbrained "solution" and then another, hoping that they can come up with something before the whole monetary structure comes down on their heads.

All the schemes have a similar thread: the bulk of dollar-denominated debt must be maintained. Thus all the schemes are fundamentally unworkable, since the rate of debt collection and concomitant austerity demanded is no longer politically tenable — a fact underscored by the Italian situation.

Reflecting the schizophrenia produced by such policy formulation, the former chief economist of NATO told IPS in a phone interview this week, "The IMF plan for Italy? I know it's not going to work. It means cuts in wages, cuts in imports, boosts in exports and productivity and of course without productive investment....I know it can't work, but it'll buy us time, a couple of months, maybe."

The Dollar-Deutschmark Axis

By mid week, Wall Street was fixating on an old idea — the creation of a Dollar-Deutschmark currency axis. The plan which had been put forward previously by such Trilateral Commission and NATO-related economists as Richard Cooper and Robert Triffin of Yale, James Tobin of Princeton and has among its upporters Belgian Prime Minister Leo Tindemanns, is as simplistic as the failed "lira scenario." As outlined in a Feb. 4 Wall Street Journal editorial it calls for a parity of around 2.60 DM to the dollar, which would be maintained through the interventions by the Bundesbank and the federal reserve Bank. All other currencies placed in a "second tier" would be allowed to seek their own level (i.e. zero).

"The only way a more stable monetary system can work is by linking the D-Mark to the dollar, the pivotal currency in Europe, with the pivotal currency outside of Europe," the Journal editorial stated. "It is up to the French, the Italians, et al. to manage their own monetary policies...." By pulling the Deutschmark out of the "European Snake" arrangement (by which currencies are allowed to float against each other and are maintained above minimum parity levels by central bank intervention) that agreement becomes totally dysfunctional. More specifically, the plan would have the U.S. delegate West Germany the responsibility for playing

the financial and political policeman of western Europe. This in turn would require the mobilization of West German currency reserves in the full service of the Wall Street debt collectors. The Bundesbank would wind up providing bailout loans.

As a sign that the Atlanticists were momentarily clutching at this straw, this plan for the subjecting of the weaker European economies to austerity programs through a Chile-style shock devaluation was simultaneously picked up by several other press sources. The Italian dailies Corriere della Serra and La Stampa called for the "emargination" of weaker European countries by letting their currencies depreciate. The West German dailies *Sueddeutsche Zeitung* and the financial trade paper *Handelsblatt* played up rumors about the imminent devaluations of the franc and lira and the pound sterling. Meanwhile, foreign traders in New York reported that the Banco Italia had informed them of its intentions to support the lira only when it fell to 850 per dollar. (It is currently at 750 per dollar).

Despite this public support, there is little prognosis for the implementation of the two tier plan. The cutback of world trade has already wrecked the trade-oriented West German national sector. A further collapse of trade with the EEC that would be caused by the "emargination" of its weaker members would destroy what is left of the West German economy. There is presently a significant faction within the Bundesbank itself that stands firmly opposed to any measures that would destroy West German trade in general and trade with Europe in particular (50 per cent of West Germany's trade is with the EEC). This grouping and perhaps broader layers are also against the depletion of the banks' currency reserves in dollar support operations and are worried about the hyperinflationary effects on the domestic economy of the Bundesbank being forced to provide the bailout loans. "West Germany does not want to play the policeman of Europe," Herr Sterr of the influential Sol Oppenheim West German banking group told IPS this week. As the Harriman-Ball grouping knows — or should know — if the Bundesbank says the plan won't wash, then nothing that such loyal Wall Street servants as West German Chancellor Helmut Schmidt do will make the Dollar-DM axis work.

Furthermore, the plan represents a tacit admission that the IMF as an institution is no longer capable of playing the policeman role — a point underscored by Italy's rejection of the IMF loan. While many leading financial sources would readily attest to the current inadequacy of the IMF, few would agree that a solution can be found through the creation of a Dollar-DM axis.

Finally, the plan will in no way stabilize the currency markets. It will merely institutionalize the chaos.

With the collapse and wreckage left by Messrs. Harriman's and Ball's Italian caper, the underlying crisis — the problem of the \$800 billion world dollar debt overhang — demands immediate solution.

The author of the previously-cited Wall Street Journal editorial was contacted by IPS later in the week, at a point when a marked movement of funds was perceived as abandoning all paper currencies and moving into gold and the gold-backed Swiss francs. Recognizing this harbinger of a full scale panic, the "bold" editorialist who had only days before called for abandoning of all currency support operations for the weaker currencies, had now reversed

himself: "We went too far in that editorial," he stated, "there is no reason why support operations shouldn't be extended to the franc and the lira." Then flipping back into a discussion of the Italian situation, which he perceived as triggering the crisis, the editorialist said, "International lenders are imposing the destructive conditions (on loans). Loans to Italy must go forward (but) I don't know where the money is going to come from."

**The Content of Atlanticist Policy:
Let Useless Eaters Die**

Such fumbling would almost be humorous, were it not for the fact that the actions taken by these incompetents have dire consequences for the future of the world economy and the human race.

A senior aide to Ludwig Poullain, head of the Westdeutsche Landesbank, West Germany's fourth largest, and a top outside policy advisor to West German Chancellor Helmut Schmidt unabashedly spelled out to an IPS reporter Feb. 3 the precise fascist content of current Atlanticist policy. According to the aide, the Atlanticists explicitly intend to enforce levels of austerity transcending the policies of wholesale genocide and economic cannibalization pursued by Hitler's Finance Minister Hjalmar Schacht, and thereby achieve global depopulation in conformity with the hideous doctrines of the 18th century Parson Malthus.

After first answering in the affirmative to IPS charges that current Atlanticist policy is indistinguishable in its essential features to the mass-scaled "elimination of useless eaters" leitmotiv of Schacht's program, the spokesman for Willy Brandt-confidant Poullain then gave his unqualified endorsement of worldwide Brazilianization and ecological holocaust: "I think that good old Malthus is working here, and this is quite good: people will die because they are not used." Beyond Schacht — to Malthus. Beyond rhetorical ambiguities as well.

Poullain and Co. are not issuing a mere "cry in the wilderness" call for a fascist economic regimen. Rather, this top intimate of both Schmidt and Brandt is faithfully portraying the goals for which the Harriman-Ball-Kennedy Atlanticists have mobilized every facet and tentacle of their Atlanticist occupation machine in Europe. The criminally stupid insistence of U.S. patricians in clinging to the sanctity of debt repayment and the willingness of European

"leaders" — including the white communist variety, long since housebroken into servilely enforcing the dictates of the U.S. occupation — (with the historically crucial exception of Italy) is now being reflected in a synchronized NATO drive centered around rearmament, austerity, and fascist economic reorganization, and a plethora of calls for "pyramid building" slave-labor programs.

Schmidt and the heads of state of the other Western European U.S. satrapies are scrambling fast to carry out the Atlanticist policy of beyond Schacht to Malthus. The press, both in its own editorials and in prominently featuring austerity and slave-labor calls from whatever source, beat the Malthusian drum in singular rhythm; "privatize — and thus dismantle — health care," "privatize social welfare," "Impose wage controls now," "Eliminate unemployment funds." Lemming-like, the Atlanticist puppet regimes march to the orders, and move to implement programs, which require institutionalized police-state and fascist forms of political regimen which presage the early political demise of the very political figures who are now leading the way down the Schachtian road.

The content of Atlanticist policy toward the Third world and Fourth world is genocidal austerity to collect dollar-denominated debt.

As the Group of 77 was deliberating on the debt question in Manila, Morgan Guaranty Bank in New York released a special report on the Third World debt situation which recommends massive currency devaluations, sharp import cutbacks, and the imposition of harsh austerity measures so that the financial needs of these countries drop from an estimated \$72 billion to \$29 billion during the calendar year 1976 — a 60 per cent cut in living standards.

In an interview with IPS, the author of the Morgan study insisted that all Third World debt must be collected — whatever the cost. He admitted that proposed Third World import cutbacks will only "reinforce the depression in the advanced capitalist sector." When he was asked whether this reinforced depression would make it even more impossible for the Third World to repay its debts, he replied, "Yes, of course that's possible, but these are bad times and everybody including the Third World has to make adjustments." Then pausing, he stated, "That includes everybody."

How many millions of lives will this adjustment cost?