

## INTERNATIONAL MARKETS NEWSLETTER

# Patch-Up Job On Italian Lira Is Over Shadowed By Political Crisis

The financial enforcers of Wall Street's "dollar-deutschmark axis" scenario moved on Feb. 26 to stabilize the Italian lira prior to Monday's scheduled reopening of the official Italian foreign exchange markets, in return for whatever mayhem the Banca d'Italia can pull off against the Italian economy.

In a desperate measure to regain control and patch up the Italian end of the Atlanticists' scenario for devaluing all European currencies except the mark, the West German and U.S. central banks coughed up bailout loans to Italy of \$500 million each. Paolo Baffi, the Atlanticist agent who heads the Banca d'Italia, the Italian central bank, has obliged by summarily removing the Bank's export subsidies to Italian industry and tightening domestic credit to the point of virtual shutoff. Meanwhile, Gianni Agnelli — the Rockefeller-allied owner of FIAT — in the past two days has filled the press with demands for "more sacrifices" than the Bank of Italy alone is authorized to implement.

### "Do or Die"

Italy's pro-development forces led by industrialist Eugenio Cefis, Socialist Giacomo Mancini, and Budget Minister Giulio Andreotti have repeatedly made it clear that they regard austerity as insane, and that they will fight for high-technology capital investment as the only way to save the economy. The question is whether the pro-development group understands the present conjuncture as demanding a "do or die" fight. Either they will declare debt moratorium now, or there will be little left to fight for in the weeks ahead.

What NATO mouthpiece Agnelli brands as the "soft" austerity program of the Banca d'Italia has already cut domestic credit by 40-50 per cent through a 33 per cent increase in the central bank's discount rate for loans over the period of just one month. This "soft" austerity will idle yet another 30 per cent of Italian industry by next summer, bringing about a scale of devastation unparalleled since the post-World War II Allied occupation of Europe.

No one, including the central bankers who put together the patch job for Italy, expects the financial arrangement to last more than a few days. A U.S. Federal Reserve Bank spokesman complains that "all we can get together for Italy is two billion dollars," provided the stalled loan guarantees from the European Economic Community (EEC) for another \$1 billion goes through. When pressed further as to the chances of succeeding at the dollar-deutschmark axis instantly, the Fed spokesman threw up his hands admitting: "No one knows which way it will go...it's a political problem."

Bent on drawing as much blood as possible before the entire debt structure blows up, the EEC at Wall Street's command is demanding now that the Banca d'Italia increase the discount rate by yet another percentage point to 9 per

cent and drain domestic liquidity by an incredible 75 per cent, before the new billion-dollar loan to Italy can be guaranteed. Such measures would deal the deathblow to credit-starved Italian industry and municipalities.

### War of Attrition

The blackmail against Italy is just the beginning of a "war of attrition" which the New York banks have announced against Europe as a whole, to devalue every European currency except that of West Germany, the assigned debt collector, sector by sector.

Bank of America's Milan office spokesman summed up the tactic thus: "Now that the lira is down 30 per cent, we'll have to move on the French franc, the Belgian franc, and the Danish kroner. Then to the rest of Scandinavia. Sure, this will destroy European industry. That's why we want to do it slowly....Sure, this means Brüning governments (Brüning was the last German chancellor before Hitler — ed.) throughout Europe."

For precisely this reason, resistance to Wall Street by Italian industrialists and politicians will be immediately joined, not only by the combative Italian working class but by powerful forces elsewhere in Europe. Former NATO economist Yves Laulan, in the French business weekly *Le Nouvelle Economiste*, in a dramatic accommodation to the anti-NATO battle of French Gaullist industrialists, this week denounced the devaluation on the (correct) grounds that raising the costs of raw materials to French industry would be disastrous. The Swedish Foreign Ministry is making a similar move for market-needy Swedish industry by supporting Third World debt moratoria.

Even the supposed accomplices and enforcers of the Wall Street scheme, the West Germans, have become increasingly unpredictable as slaves of their U.S. Occupation masters, since the consequences of revaluing the mark — the total collapse of the West German export sector — are hitting industrial layers.

Wall Street spokesmen were talking boldly in the beginning of the week of moving the timetable on implementing their dollar-detuschmark scheme. Their plan called for devaluation of the franc and upvaluation of the deutschmark, in some combination which would produce a 10 per cent differential between the two. Meanwhile, the weaker currencies such as the lira were to be put through the wringer. After Wall St. began to implement its plan, rumors of an impending devaluation, circulated by the New York banks and their agents in Europe, triggered a run on the franc on Monday and Tuesday.

The Atlanticists also zeroed in on the lira. The oil multinationals dumped trillions in the Italian currency onto the forex markets on Tuesday, causing a 3 per cent drop in

the lira's value against the deustchemark. Italy was forced to use its precious reserves to prevent the currency from falling through its floor.

But by midweek the political opposition was too great and a Fed spokesman indicated that a change of strategy was required: "There is so much opposition to devaluation that we will have to sneak up on it."

The Lira began to stabilize as the attacks subsided. Then with Bundesbank support and the rumor of the EEC loan about to go through, the Lira finally reached the level of trading it had had on the day before the attack began.

There were other factors besides political opposition which made a pullback a more attractive strategy. The end of the month necessity for settling international trade accounts

generated demand for the same currencies which were being dumped artifically by the central banks. In addition, banking sources reported that if the multimotionals were to continue to specualte against either the lira or the franc they would have to go into the market and borrow currencies, since the petty cash box of their French and Italian subsidiaries were already drained.

The pullback to a war of attrition tactic has exposed the whole political character of the attack on the Lira and franc. At least one major New York bank expressed the fear that this exposure will only weaken the Wall Street position of control and produce an even greater resolve on the part of the Europeans not to go along with the dollar detuschemark scheme.