INTERNATIONAL MARKETS NEWSLETTER

Atlanticists In Zugswang

The stewards and guardians of the Dollar Empire are presently being treated to the kind of "existential crisis" otherwise reserved for benighted chessplayers — they are, in "zugswang." With at least half the Atlanticist army still on the board and some admitted potential "threats" left to boot, their opponents' superior deployment and the fatal weaknesses inherent in their own position have nonetheless converged over the past two weeks and months to leave the Atlanticists without one single move that does not instantly expose the full extent of their strategic bankruptcy.

A quick review of political economic developments over the past week emphasizes the point. With the terminal rupture the dollar payments system at hand, Arthur Burns, chairman of the U.S. Federal Reserve, cannot decide whether to raise interest rates or lower them, whether to deflate or inflate — it is a choice of death by fire or frost. Faced with the anti-austerity revolt of European pro-development forces, and a bankrupt Third World looking toward the debt moratorium alternative, Atlanticist policymakers can't decide which political factions to entrust with debt collection enforcement in the field — a raging brawl broke out within cabal ranks this week over whether the "White Communists" in the Communist Party of Italy (PCI) and by extension the French Communist can be relied upon to hold the Italian working class to heel and enforce austerity.

THE "SAFETY NET"GAMBIT

In these circumstances it should not be surprising that the Atlanticists are desperately trying to "buy time," the inevitable last hope of the hopeless — chessplayers or otherwise. The public call for more rope came on March 2 when a panicked New York Times pushed the Atlanticist policy paralysis into the open stateside. In a lead editorial — "Saving Italy?...Or Sinking It" — the Times charged that "the financial 'success' was a socio-economic-political disaster," referring to the imposition of austerity conditions in Italy prefatory to re-opening the foreign exchange market and, most emphatically, reacting to the crystalization of anti-Atlanticist, anti-austerity political factions in the Christian Democracy and the Socialist Party now preparing a debt moratorium government for Italy.

Breaking ranks with Wall Street bankers committed to the employment of the agent-ridden Italian Communist Party leadership to collect the debt in Italy, the Times demanded the implementation of the "safety net" of $25 billion in government-guaranteed loans from the advanced sector as the basis for giving Italy a breathing space.

The attempted resurrection of the moribund "safety net" proposal first fielded almost a year ago by U.S. Secretary of State Henry Kissinger is to date the most concrete manifestation of a broader attempt by Atlanticist bankers and political operatives to piece together a holding action on the imminent explosion of $800 billion on debt-bloated dollar payments structures. What the nervous nellies among Atlanticists would like to effect is a global operation modelled on New York's Big Mac — a centralized clearing house for selected governments bailouts and federal banking for new loans, while their agents hammer away at the opposition to austerity and debt collection. Sources at the hub of New York City's Big MAC debt collection operation, the investment firm of Lazard Freres which houses MAC master-mind Felix "The Fixer" Rohatyn, insisted this week that such a scheme of government bailouts and loan guarantees is the only thing left, and acknowledge a "full employment" of their personnel to that end.

Banking on the Kissinger "safety net" however, is analogous to calling the rescue squad ten minutes after the victim has jumped from the window ledge. The loan guarantee scheme, which requires the approval of 16 federal governments, has only been ratified by four in nearly a year. It is well-known to face massive opposition in the U.S. Congress. Nonetheless, the Treasury and State Departments are predicting swift, "positive action" on the scheme "very soon." To the complete astonishment of Senate committee members, the State Department told IPS this week that the safety net proposal would be out of the Senate Foreign Relations Committee within ten days!

Elsewhere, New York banking sources, acknowledging the impossibility of enforcing austerity, revealed that a proposal to give guarantees to Third World loans is being tossed around among bankers on both sides of the Atlantic. The proposal calls for the creation, among advanced-sector governments represented in the Organization for Economic Cooperation and Development (OECD), of "a new institution for government backing of LDC loans, so that current loans could be rolled over and new credits issued." With no investment outlets in the recovery-less advanced sector, banks are desperate to continue lending operations in the Third World, but "the risk factor is too great for private capital alone."

DEFLATION STRATEGY BACKFIRES

Underlying the frantic effort to "buy time" is the impossible dilemma now confronting Arthur Burns. The collapse of the U.S. trade balance in January, publicly announcing the non-existence of the alleged world recovery, pulled the last prop out form under the bankrupt U.S. dollar. Already the absence of productive investment outlets had prompted a 1929-style speculative bubble in the stock markets. To preclude the disastrous consequences — a hyperinflationary collapse — of such speculative excesses and prevent an imminent run on the dollar Burns is compelled to rein in credit and raise rates — immediately invoking a deflationary collapse of equally disatrous proportions. Without excising the enormous cancer of dollar debt, there is no escape from this dilemma. Either course will blow the capitalist credit structure to smithereens and further destroy the productive base of the world economy, a fact of which Dr. Burns is not wholly unaware.

Burns clinical ambivalance in this matter was plainly demonstrated over the past two weeks. When trade figures were released he hiked up the key interbank lending rate by fully one-half per cent — only to drop it by one-quarter point only days later. The currency markets did not, however,miss the net quarter point rise in interest rates — and responded in kind to the tentative deflationary policy. The currency crisis that broke out at week's end was the direct result.

At the same time, NATO's civilian arm, the Organization for Economic Cooperation and Development put the official stamp of approval this week on the Atlanticists' implied deflation policy. At a ministerial meeting of the organization's manpower and social affairs committee late last week, OECD spokesmen announced that "persistent inflationary pressures" would not allow the use of traditional fiscal and monetary measures to "stimulate" demand and "reduce unemployment" — measures which have characterized the stimulative economic policy in effect throughout virtually the entire advanced sector for the past year.

Tremendous and continuing pressure has, moreover, been exerted upon West Germany to serve as the Atlanticists' enforcer for such a deflation policy. U.S. Treasury Secretary William Simon will visit West Germany next week — as the West German industrialists' financial daily Handelsblatt noted acidly this week, he can be expected to merely reiterate the marching orders of Federal Reserve member Henry Wallich for West Germany to impose devaluations and austerity on its European neighbors — in the process eliminating its own markets!

The OECD notwithstanding, a deflationary policy spells instant disaster for Europe in particular. At a time when the continent's financing needs have more than doubled, New York bankers estimate that dollar inflows into Europe will drop by as much as $6 billion from last year's already low levels. A deflationary policy will provoke payments crises in every sector, and seriously undermine if not outright collapse internal credit structures and industrial production. The adoption of a deflationary policy will merely drive Europe further from Atlanticist clutches.

Who, then, Will Collect The Debt?

That is at the core of the policyless brawl over the "solution for Italy" now wracking the Atlanticist layers. Ironically, the brawl broke out at the moment the Atlanticists' trained pets among the leadership of the "White Communist" parties of Western Europe — in France, Italy and Spain — publicly declared their unfailing allegiance to NATO at the Soviet Communist Party's 25th Congress last week. Over the course of the week the realization struck Atlanticist layers that the working class base of these parties, the Atlanticists' long-chosen debt collectors, would quickly emerge to battle austerity and debt payments mandated by any government — including one made up of their own traitorous leadership.

On February 27, following the White Communists' obscene pledges, BRD Chancellor Helmut Schmidt publicly called for PCI participation in the government as a condition for the $1 billion EEC bailout loan to Italy. That weekend, the London Economist flatly contradicted the Atlanticist Schmidt in a major feature on Italy's Communists. "Try as he might to establish his independence," the Economist warned, Berlinguer cannot afford to antagonize the pro-Soviet wing of his party. Further, "A tough Communist line on wages could lose the party support from unionists on the left, and would probably cause major dissent within the party, where workers are outnumbered 2-1 by 'intellectuals' on the Central Committee."

This week the breach in Atlanticist ranks widened with a panic-stricken New York Times, Brookings Institution and key French and West German newspapers plunging into the fray. Sharing the New York Times' hysterical perception, influential spokesmen for the "liberal" Brookings Institution thinktank are known to be worried about a possible "slip" in payments to Italy, whereupon, reportedly, "the PCI will come in...and everything will go to hell." Brookings has apparently banned a payments crisis from their universe — sources say one of their most prominent Brookings fellows declared authoritatively at the mention at midweek of the impending payments crisis in Europe, "Why, would it be ridiculous to have a financial crisis at this point!"

In Europe, meanwhile, the influential Die Welt, the daily newspaper of West Germany's right wing, warned of the consequences of even a **nominally** Communist government in Italy. "Objectively Berlinguer is weakening the West and strengthening Moscow, even though subjectively he does not want to do so," Die Welt editorialized. Similarly, in France, Le Monde's Moscow reporter warned this week that if French Communist Party chief Marchais goes much further, he may provoke a "conservative backlash" from the Soviets — i.e. an open denunciation and break with the White Communists. At the same time veteran NATO journalist Raymond Aron, in Le Figaro, raised the spectre that revolutionary ferment may sweep the White Communists from the stage just as the October 1917 defeated Anglo-American operative "White Russian" Kerensky. "No one can really foresee the tremendous upheaval such historical compromise (including Communists, ed.) governments would create in France and Italy; certainly Kerensky had little expectation or desire for paving the way for the Bolsheviks..," Aron reminds the Atlanticists of the relevant historical nightmare.