The Crisis of Confidence Hits Dollar Based Banking System

June 5 (NSIPS) — A major crisis of confidence in the dollar based international banking system surfaced this week, as spokesmen for the financial community on both sides of the Atlantic openly stated their expectations of disastrous collapse of Third World debt on the Eurodollar markets and voiced fear of a simultaneous run on all European currencies.

At the same time, U.S. monetary authorities admitted that they have neither a plan nor the ability to deal with the crisis. Spokesmen from Treasury Secretary William Simon on down, told the press this week that there will be no bailouts or debt moratoria — for either Western Europe or the Third World. Such windbagging spits in the face of the Europeans who have stated to this news service and elsewhere that the only hope that they have for getting past the late June rollover crunch is by at least some form of systematic case-by-case Third World moratoria coupled with a concerted currency support operation on behalf of the European currencies by the U.S. and West German Central banks.

The following developments served to reinforce the Europeans and sane Americans assesment of the depth of the crisis and loss of confidence in the dollar-based monetary system:

*** The British pound sterling began to sink like a lead weight, falling to successive new historic lows around the $1.70 level. Bank of England and IMF officials then began "predicting" that sterling would go inconvertible, along with the imposition of post-World War II-type currency controls — a move which would wreck the London-based Eurodollar operations.

*** The announcement by Banca d'Italia Governor Baffi of a "state of siege" for the Italian economy and a 60 per cent annual inflation rate. The impossibility of implementing Baffi's austerity program in the face of resistance from both working class and anti-Atlanticist industrialist layers will result in an Italian debt moratorium, IMF sources admitted.

***The West German government's announcement of a 1.5 billion deutschemark deficit for April and the concurrent flight of capital out of the West German currency into the gold-backed Swiss franc. This development finishes the West German central bank, the Bundesbank's, ability to support Italy and the rest of Western Europe.

*** The effective remonetarization of gold through central bank purchase in the IMF's "gold auction."

Such developments intersected U.S. Secretary of State Henry Kissinger's fiasco at the Nairobi meeting of the United Nations Conference on Trade and Development at which the Third World and Soviets rejected his plan to bolster the $250 billion in Eurodollar loans to the Third World through the so-called International Resources Bank.

Two other international meetings which the Atlanticists planned to use to launch their schemes for Schachtian world economy — the International Labor Organization Geneva Conference and the UN's Habitat conference in Vancouver developed into total routs for the Atlanticists.

Similarly, the so-called "Rambouillet 2" summit of six western heads of state that Kissinger and Simon have called for June 27 in Puerto Rico, is falling apart before the conference hall can be booked. The Western European press is reacting to the conference like a drowning man who is being offered a bucket of water. The prestigious Frankfurter Allgemeine Zeitung predicts that the conference will never take place while the leading Swiss daily the Neue Zuericher Zeitung pegs the summit as a Kissinger ploy to recoup his losses at Nairobi — out of the hides of his allies. At a press conference two days ago, Simon warned journalists to expect no results from the meeting. He then tried to pin the blame for the disastrous proposal on President Ford's electioneering.

End of Confidence Game

For the last several months, and especially since the March 30 rollover date, there has been nothing even vaguely resembling an actual international monetary system. The bankrupt dollar-based monetary system has been psychologically held together by political threats and tricks aimed at creating the proper psychological climate to keep the swindle going. As several sources had admitted, the crisis could not be averted but only postponed — postponed until maybe someone would come up with a plan to deal with it. One candid source had described the present laws of international capitalist finance as the "greater fool theory:" there has to be a greater fool somewhere down the line who can be made to pick up the tab on the debt.

But now the hour of reckoning is approaching and Wall Street is scared to death that they don't have the muscle to hold the line and force the burden for supporting the debt-bloated dollar system on someone else. The psychology of panic is beginning to set in on the markets. This has led more sober financial minds than the Wall Street swindlers to realize that the confidence game is now over.

A ranking spokesman for one European government at the International Monetary Fund office in Washington admitted that the irretrievable fall of the pound, the disintegration of the Italian economy, and the certainty of a half dozen or so Third World bankruptcies and defaults during late June and July could bring down the shard of the monetary system in a matter of weeks.

"We only have until the summer to put together a new monetary system," said Prof. Robert Mundell, chairman of the Sienna Group of international economists. "I must admit that the International Caucus of Labor Committees' analysis of the Third World debt problem has been right all along," stated a member of the West German government's group of five economic advisors. "The dirty thing about all this situation," complained a think-tank economist at the Kiel Institute for the West German government, " is that everything is hitting us at once."

Stripped of all alternatives, a section of leading Atlanticist circles is privately if not yet publicly acknowledging that the world economy and the dollar and its institutions can no longer continue to co-exist. Sources report that several leading economists for these circles are now underinstructions to do "high—priority", "what-is-in-it-for-us" evaluations of the ICLC International Development Bank and related debt moratorium proposals.

Internecine Warfare

Some capitalists are still trying to play by the rules of the game — i.e. we all had better stick together or we'll all sink (or hang) together — only to find out the rules have already been thrown out. Internecine capitalist warfare is developing — a falling out of thieves, in which it is "every man for himself." The British authorities, according to reports, are counting on some $3 billion in U.S. Federal Reserve swap loans with which to further support the sinking pound; they already have next to nothing left in their own currency reserves.

But the Fed in Washington is ready to let the pound sink and damn the consequences.

Contrary to the realistic assessments of British need, Scott Pardee of the Federal Reserve International group told the press June 2 that swap lines from the Fed are not intended for anything but "retrievable" and short term (30 day) purposes. Pardee noted that the Organization for Economic Cooperation and Development (OECD) central banks had already spent some $21 billion during February — April support operations alone

The Fed plainly does not include the pound, the Italian lira, or any other Western European currency in the "retrievable" category. This was made plain by an officer in the Treasury's International Monetary Affairs group, who stated, "There is no line below which these currencies (the pound and the lira) cannot fall. There is no such thing as a breaking point. It is reasonable to see these currencies falling, if the Italians and British don't stop this inflation and implement appropriate economic policies, nothing will help them."

In total agreement with the sober Europeans, the New York Federal Reserve and related other realistic U.S. circles "want massive funding of the weaker currencies," according to inside sources, "otherwise, "total breakup of the Euromarket is likely." They consider Burns and Simon "crazy."

The Third World are not the only countries who need a debt moratorium a former member of the IMF's "Committee of 20" and a leading British banker said this week: "The developed countries need one too, including Britain and Italy and a little bit for France."

Britain: The Pound of Flesh

The British pound sterling fell to a low of $1.70 June 3, closing the week at $1.72 after heavy Swiss and British central bank intervention. Predictions of a $1.60 or $1.50 level by month's end abounded in the financial press.

Such a rate of collapse would force the imposition of complete currency controls modeled on the post World War II freezing of sterling deposits, according to Bank of England and Wall Street investment bank sources.

The only way to avoid this, conceded the ex-IMF Committee of 20 members, is for the government to implement the IMF's outrageous austerity proposals — proposals which are politically unacceptable to even the normally supine British.

The proposals included cuts of up to £3 billion or a 25 per cent cut in the public sector deficit and subsumed slashing of government industrial support programs and mass plant closings and layoffs in the steel, auto, and shipbuilding sectors. The current 27 per cent annual rate of growth of the money supply must be cut in half and interest rates to industry in general severely hiked.

The rejection of the government's 4.5 per cent pay increase freeze by the construction industry this week and Chancellor of the Exchequer Dennis Healey's ruling out of further budget cuts in a June 2 nationally televised speech are but two examples cited by IMF sources to show the absolute impossibility of implementing the package.

Thoroughgoing currency and capital controls are therefore inevitable. The closing out of the Euro-market dollar deposits and the shutdown of other Euro-operations will result immediately from such severe restrictions, the same IMF sources insist. In fact, the fear of such measures may trigger a "premature shutdown." Such moves would constitute a moratorium on the estimated $12 billion worth of foreign-owned sterling deposits now held in London banks.

The rush of funds out of the West German mark which began in April accelerated this week (see below) such that the Bundesbank is no longer in a position to refinance the deficits of the rest of Europe. With the U.S. Federal Reserve's emphatic refusalto do so, Italy, Denmark, and France will follow Britain into default.

In fact, Italy has already said "we can't pay" the $3 billion in foreign debt which comes due in September, $2 billion of which is owed to the Bundesbank. Handelsblatt and Il Fiorino the West German and Italian financial papers reported on June 4. The papers went on to indicate that the West Germans "understand" Italy's position and are discussing postponement. IMF sources indicated commercial Italian debt might be included in what would essentially be a moratorium, since it would be politically impossible to impose further austerity conditions on the country.

The IMF Gold Sale

The IMF June 2 gold auction marked a nodal point in the ongoing collapse of currencies. Bids for three times the amount of gold up for sale were received. The Bank for International Settlements (BIS) bought 20.8 per cent of the amount offered on behalf of European central banks, while the Union Bank of Switzerland bought 22.9 per cent largely on behalf of Mideast customers. A large bloc was purchased by the USSR and Yugoslavia.

The next day, the Fed and Bundesbank had to intervene heavily to support their currencies as a mass exodus of funds