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took place from the deutschemark, dollar and along with the pound into Swiss francs (which rose to a record high) and then closed lower following Swiss central bank intervention.)

"Swiss is a synonym for gold, that's why people are buying it," admitted even the zealously anti-gold director of the international group at a top Wall Street investment bank.

Gold has been virtually totally remonitized by the sale, and any severe turbulence such as Euromarket tremors could provoke mass European dumping of dollars, marks, etc. for gold itself as proposed last month by former French finance minister and leading Gaullist Michel Jobert. "If I were a central banker, I would certainly want MY reserves in gold now," a West German bank branch officer in New York told NSIPS yesterday.

The IMF "dump gold" option to demonetize the metal has been eliminated. by the sale and its aftermath. The old U.S. Treasury threat to dump gold if a run on the dollar began has also been eliminated. Thomas J. Holt, the respected foreign exchange analyst, was quick to point out to Journal of Commerce reporters "It is highly unlikely the U.S. Treasury will announce future gold auctions... (since) the U.S. gold would wind up in European central bank vaults."

## Italy: Model for Destruction

The fascist economic onslaught which the Rockefeller faction hopes to unleash as "Rambouillet Two" summit is already underway in Italy. While NATO's senior economic statesman, Bank of Italy ex-governor Guido Carli, prompted from the wings, bank governor Paolo Baffi this week demanded the immediate dismantling of nearly half of Italian public sector industry. Predicting a government budget deficit almost double last year's, Baffi demanded a Bank of Italy financial dictatorship over Italy above the parliament and the Italian constitution, including a veto power over public spending.

Under present Italian law, the Bank of Italy is compelled now to finance all expenditures voted by parliament: Baffi demanded central bank "autonomy" to refuse this financing. In addition, the NATO puppet proposed elimination of cost-of-living escalators to provide cash to meet foreign debt payments. An Italian gold sale, opposed by every previous Italian government, would eliminate the country's "escape hatch" from its $16 million foreign debt.

Italian Communist Party "economist" Eugenio Peggio endorsed the Baffi plan as "revolutionary," suggesting only one change: he substituted the Brazilian wage indexing scheme which ties cost-of-living escalators to productivity.

The pace of economic breakdown in Italy has roughly doubled since the international banks forced an austerity policy on the country in late January. Wholesale price inflation is now running at an annual rate of 62.4 per cent compared to last year's annual rate of 20 per cent. The Bank of Italy projects a government deficit this year of $10 billion, almost double the previous year's.

Meanwhile, the foreign exchange controls slapped down by the Bank of Italy last month under IMF orders are putting a severe financial squeeze on the Italian oil and chemical industry, controlled by the anti-Atlanticist Cefis grouping. Under the controls, every time a company imports goods it must deposit 50 per cent of the cost of the contract in non-interest bearing deposit at the central bank in advance; the same goes for exporters, which must deposit 30 per cent of their expected export earning. In order to meet these deposit requirements, corporations must borrow the funds at double-digit interest rates. As a result, the chemical industry will lose $110 million a year in interest charges on its import account; $30 million on its export account. The oil industry is expected to lose a total of $180 million.

## The Rise and Fall of the Deutchmark

The West German Deutschemark can no longer act the deficit financier of the last resort for Europe — since its account is itself in deficit. The government announced a DM 1.5 billion balance of payments deficit for April, after a DM 9.7 billion surplus in the first quarter — DM 7.8 billion of which came in March. This is no short term fluke. The DM 2.6 billion in hot money which fled the country in April went straight into golden Swiss francs.

Long-term confidence in the deutschemark's stability is the issue — the once invincible deutschemark is simply now as inflated as the rest of Western Europe's currencies. The Bundesbank printed up some DM 12 billion in long-term trade credits in 1975 as part of an estimated DM 200 million in deutschemark-denominated export credits. To this was added some DM 10 billion in deutschemark loans to European central banks in 1976 to support those currencies. The countries were then able to use their reserves to pay dollar debt to the New York banks. A DM 60 billion Euromark market has been created by this process. It is made up mainly of deposits in Luxembourg banks outside of Bundesbank control, and subject to typical Euromarket multiplier effects. The size of this market equals more than one-third again of West Germany's M1 money supply.

The German economic recovery on which the deutschemark expansion was based is simultaneously evaporating. Exports in April actually fell 9 per cent from the previous month for the first time since the export blitz of last summer. Overall industrial orders in April fell a full 4 per cent domestically. Coupled with a 5 per cent drop in foreign orders, this produced a 1.5 per cent drop. The Machinery Producers Association, spokesmen for the capital goods industry, announced June 2 that new orders for January-April are running less than half of those in 1975 at annualized rates. 1975 was a year in which capital investment spending plumeted.

Domestic industry, in particular, is being squeezed. The initial confidence crisis is reducing market demand for deutschemarks, flooding and further inflating the deutschemark banking system, and thereby forcing the Bundesbank to tighten credit. This in turn, shuts corporations off from the credit markets, stopping production. The production decline causes deutschemark dumping to accelerate. Following an August through December 23 per cent annual rate of expansion of M1, the Bundesbank cut back to 2.4 per cent annualized growth over the first quarter. This produced an actual decline of DM 1.3 billion during April. After a DM 22



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billion expansion in loans to industry during the fourth quarter of 1975, the January-April total fell to DM 9 billion (the seasonal trend is normally the reverse). Industry got what credit it did by grace of the Treasury cutting its DM 18 billion fourth quarter borrowings down to DM 6 billion in the first quarter.

These developments account for the total collapse of the West German bond markets in mid-May, when the Bundesbank was forced to support private issues heavily. In fact, the Treasury came back in May selling 3-month high interest IOU's and soaked up all liquidity.

"Industrialists are screaming at the state for wrecking the stock and bonds market," said the New York German banking source. Even after Treasury sales were banned later in the month, "there is no sign of confidence returning to the markets," said the source.

Deutschemark bond coupons have shot up from 7.5 per cent in March to 8.5 per cent on June 4. "If it goes over 9, we're finished," stated a leading German banker recently. The banks are stuffed with low-interest bonds which they will have to dump at a loss. No issues of Euro-mark bonds have fallen from 6—8 per month rate the first quarter to one new issue for June. Interest rates on one, three, nine, and twelve month time deposits have risen a full percentage point each since March.

"I'm surprised more people have't gotten out of deutschemarks into gold itself," concluded a Germany specialist at a leading New York investment bank.

## Third World Debt Default Looms

Attempts to use the Club of Paris as a coordinator of debt collection are failing as negotiations about Zaire debt problems stagnate. This, combined with the failure of the Nairobi UNCTAD conference to accept the International Resources Bank, has created a crisis of confidence about the entire spectrum of Third World debt on the Euromarkets.

The West German daily Die Welt says in a June 5 article entitled "Shocked Euromarket" that "the trade conference, UNCTAD, in Nairobi, which ended a few days ago, shocked the Eurocredit markets, because the developing countries are demanding, for the first time, cancellation of their debt to the industrialized countries." Die Welt goes on to say that these problems obviously cannot be solved within the private banking system.

### Zaire Today ...

The International Monetary Fund's takeover of the Chairmanship of the Club of Paris bankers' round table was expected to bring some kind of international coordination in case-by-case debt negotiations. High-level UN sources described the IMF move as "going from being the policeman of the Third World to being the torturer." What has happened has not been nearly so dramatic. The Club of Paris has not been able to adapt to the rapidly disintegrating capability of Third World countries to meet their increasing debt or even debt service, exemplified by Zaire.

Zaire went before the Club of Paris in March with absolutely no possibility of meeting its current debt obligations. The resulting debt negotiations have taken place at a snail's crawl, starting out with an exchange of statistics and, thus far, going virtually no further.

The problem is simple: nobody wants to take the fall for Zaire's debt. Until Zaire actually defaults on portions of its debt the creditors will not accept the responsibility of rescheduling.

The second reason for this stalling is the absolute terror on the part of creditors and Euromarket traders of the broadening discussion of debt moratorium by Third World leaders. The bare thought of broad negotiations on Third World debt is seen by top Rockefeller policy-makers as signaling the end of Western civilization.

### Everywhere Tomorrow

Without debt rescheduling in the immediate weeks ahead, at least six Third World countries will have to default or declare debt moratoria by the end of the summer, according to top European banking sources. The IMF hopes that creditor governments will put massive pressure on these countries to reschedule rather than see their banking systems fold, hoping that creditors will not insist on being paid right away. The volume and rate at which the debts fall due, however is phenomenal, estimated to be $30 billion at the June 30 rollover date.

Argentina has become an example of the type of austerity needed to pay debts and get rollover credits as seen clearly in the last few months. There the construction industry suffers 95 per cent unemployment. Production of steel, steel products, and pig iron is down 30 per cent from the same period last year. Both Ford and Peugeot have shut down, with FIAT soon to follow. Although no reliable figures are available, between 80 and 90 per cent of Argentina's economy is estimated to be unemployed. The annual inflation rate is over 1,000 per cent.

The devastation of the Argentine economy is proceeding at such a rate that workers have no disposable personal income left. Unfortunately for the creditors, the more meat they cut from the bones, the less blood there is available to suck: despite the Argentine government's eagerness to pay, the IMF is still worried that more unrenegotiated debt will pop up.

Similarly, Brazil recently hosted a visit from U.S. Treasury Secretary William Simon who laid out exactly what Brazil had to do to get its debt refinanced: dismantle the state sector and loosen up the restrictions on repatriation of foreign multinational companies' profits. Agreement on such genocidal policies by the fascist Brazilian regime may be the reason for Simon's "optimism" about Brazil's chances of debt repayment.

Other, more fortunate, countries have come into — monetary — windfalls. For Colombia, for example, high world coffee prices combined with its deindustrialization and decentralization and low-wage public works projects have resulted in an easy debt rollover. But when the coffee windfall collapses, the cleaver will fall.

Thus the situation faced by the Third World is a clear choice: either demand immediate debt moratoria or destroy their own populations.

destabilize the governments of non-aligned countries in Latin America." Wills was backed up by the Foreign Ministers of Cuba and Peru. Algerian Foreign Minister Bouteflika also charged that "the imperialists are trying to divide the Third World." In a final communique, the non-aligned foreign ministers declared their solidarity with the Palestinian movement in the Middle East against U.S. imperialist policies there, as well as the "neo-colonialist alliances in Southern Africa and U.S. plans to militarize the Indian Ocean."