save the banks at all costs. A survey of Republican delegates at the Kansas City convention last week showed that there is overwhelming opposition in Republican ranks to generating hyperinflation to bail out Wall Street.

Identical sentiments prevail among regional bankers, who have for the most part steered clear of the Eurodollar swindle. "What I think of the Third World debt problem is that these banks were in for a fast buck, and now they're going to get what they deserve," declared the international department chief of a big Indiana bank. "We know why the Wall Street banks are backing Jimmy Carter," says a Chicago-based bank economist. "He's promised to bail them out." One Chicago banker estimates that 80 per cent of U.S. bankers are dead set against a bailout.

After President Ford's convention statements against big government, and Vice-Presidential nominee Robert Dole's call 'get the government out of the money markets," the New York banks have few friends left at the White House.

Exclusive Interview

Wall Street Insider Reveals New York Banks' Contingency Plans

Aug. 18 — A highly placed Wall Street investment banker revealed the following contingency plans drawn up by the New York banks should the Third World "go for a general declaration of moratoria on their debt obligations to the U.S. banks."

First, let met tell you that the banks expect a declaration (of moratoria — Ed.) in the near future. If not today, then tomorrow, if not tomorrow, then the day after. Now, bankers are very smart people when it comes to sniffing trouble, and they damn well know they're in trouble. They have done two things. One, they have an early warning system in case of big defaults and all disbursements will stop when the alarm signal is activated. Banks for at least three to four months have balanced out their interbank lendings with interbank borrowings. Any banker who has a big differential here on the lending side is a damn fool.

Second, Arthur Burns will give a guarantee to the OPEC depositors that they'll get back their deposits if they only withdraw as per plan. The guarantee, as you can well imagine, isn't worth much but it is a guarantee. Uncle Sam, that is Kissinger, will tell the Saudis, Kuwaitis, the Shah, etc., "Look you guys, you wanted those missiles didn't you? We'll deliver'em to you as long as you don't withdraw for a while."

The whole strategy you see is based on the premise that the thing (debt moratorium — Ed.) will come in stages. Now as long as Ford is talking about moratoria with groups of countries, group I, group II, etc., then it can be handled. The whole idea is to keep the loans on the books until Carter gets into the White House. Then, things will be arranged such that the financial center banks will be bailed out on the "rob Peter to pay Paul" principle. At the expense of the smaller banks.

Europe, Japan At Breaking Point

Europe

Atlanticists Concede Defeat On D-Mark, Yen Revaluation

Aug. 21 (NSIPS) — New York bankers were forced to concede defeat this week in their efforts to force revaluations of the West German mark and the Japanese yen when political opposition in those countries proved too strong. According to the scenario cooked up by Brown Brothers Harriman banker Robert Roosa and Brookings Institution economist C. Fred Bergsten, the revalued deutschemark and yen were to have emerged as secondary international reserve currencies in Wall Street's $100 billion bail-out of the bankrupt Eurodollar market planned for this Fall. The deutschemark and yen would thereby act as "buffers" for the bloated dollar by "sharing" the hyperinflation.

The turning-point in New York's speculative offensive came Aug. 19, when the word went out on the world's foreign exchange markets that West Germany's Social Democratic government — normally totally subservient to Wall Street dictates — would fight revaluation tooth and nail, at least until the West German elections in October. Citing interviews with unidentified BRD bankers, Journal of Commerce currency expert Alena Welles warned business readers Thursday morning that the European "snake" — the monetary union of the deutschemark and other European currencies which has been a target of the Atlanticist speculative attack — would remain "viable through the Bonn elections."

"It's a battle of nerves between us and the West German government," commented one trader at a top New York City bank. "They're fighting revaluation because it will hurt their exports...They don't want the deutschemark to be made an

Japan

Wall St.'s Yen Revaluations Won't Work

Aug. 20 (NSIPS) — The New York banks have been forced to retreat from their effort to force a 10 per cent revaluation of the yen to 270 yen per dollar. Today the yen fell for the first time in weeks from 288.0 to 289.6 when the New York banks sold yen in Tokyo. The immediate cause of the retreat was the fact that the strenuous efforts of lower Manhattan force upvaluations of the yen and the West German mark provoked an attack on the dollar on Wednesday, Aug. 18, when the dollar fell even against the British pound. The banks were forced to retreat in Tokyo and in Europe to avoid further attacks on the dollar.

Last week U.S. Treasury Undersecretary Edwin Yeo met in Tokyo with government and business leaders to force them to agree to revaluation of the yen and have Japan run a current account payments deficit. According to a high Treasury official, the Japanese monetary authorities were willing to comply with Treasury dictates. Economic Planning Agency head Takeo Fukuda was singled out as "understanding Japan's responsibilities in maintaining the stability of the world monetary situation." Following Yeo's visit, the Bank of Japan let the yen rise, and today's Journal of Commerce reports that the Bank intends to increase yen-denominated imports.

With Japanese leaders apparently compliant, why did the plan fall apart? Japan is now in an economic-political conjuncture — defined by a sudden explosion of inflation in June and July — which determines that, no matter how willing, Japan is in no position to carry out the U.S. policy. Any attempt to do so will produce 30 per cent-plus inflation and precepitous declines in production.

Europe, continued...

international reserve currency because they saw what the dollar went through...They have plenty of reserves and they can last at least until the elections."

"The West Germans will leave (hyperinflationary-Ed.) bail-outs of weaker countries to the dollar," admitted the chief economist at another New York bank.

As the world spread, the upward pressure against the deutschemark subsided dramatically, strengthening the weaker European currencies, such as the Belgian franc, Danish kroner, and French franc.

New Dollar Crisis Threatened

There was another reason for Wall Street's sudden retreat in the revaluation battle: the currency turmoil had revealed the dollar's Achilles heel. As European central bank intervention made it increasingly expensive for banks to take "short" positions on the weaker European currencies, speculators were forced to sell dollars instead in order to obtain deutschemarks. As a result, the dollar collapsed precipitously against even such "basket cases" as the British pound and the French franc, forcing the U.S. Federal Reserve to intervene in support of the dollar on Aug. 17.

It is now an open secret in international financial circles that the U.S. economy is on the verge of a production collapse which will be even worse than the 1974-75 depression, as consumer sales grind to a halt and inventory stockpiles mount. Any sign of weakening of the Atlanticists' political grip, like the setback on the deutschemark-yen internationalization question this week, is likely to precipitate dollar-dumping.

Precisely this conclusion was drawn by Il Fiorino economist Vitangeli who labeled the dollar as so much "recycled toilet paper" in his Aug. 20 column. Vitangeli warned that if the U.S. economy crumbles, those countries which have most supported the dollar — West Germany and Japan — will be in the most trouble. The influence of Paris and Rome — centers of European motion for a new monetary system — will be correspondingly strengthened.

Schroder Bank Projects BRD-Japanese "Slow-Down"

Confirming Vitangeli's analysis, the economics department of the British-based Schroder Trust outlined a major economic "slowdown" in West Germany and Japan beginning this Fall. "The BRD and Japanese are mirror images of the U.S. economy," Schroder's spokesman noted. Both economies have been propped up by exports, mainly to the U.S.

Indicating the extent to which the BRD capital goods sector has been decimated, the steel industry reported this week that their orders fell 6 per cent during the first half of this year; domestic orders alone fell 22 per cent.

Japan, continued...

The reason for this is that exports, directly or indirectly, have been the only source for final demand and corporate liquidity since January. Consumer spending has stagnated, with June retail sales 1 per cent below the June 1975 level after discounting inflation. Capital investment has never recovered, with April-June machinery orders 24 per cent below the level of the same period in 1975.

In December through March, exports rose at a 40 per cent annual rate leading to a 2 per cent monthly rise in industrial production from January through April. Since April, exports have stagnated leading to stagnation in production as well.

In addition to providing final demand, exports have also been the main source of corporate liquidity up through May. Trade and capital flows sent $3-4 billion into Japan in January through May. With the multiplier effect, this turned into $12 billion in the banking system and was the predominant source of corporate liquidity. The money went not only into bank deposits, but also export-related firms used the cash to purchase 3-6 month bonds of illiquid, deficit-ridden non-export corporations. As a result, new bank loans declined in February through May; thus, the government was able to float hube amounts of deficit bonds without the central bank purchasing them.

The liquidity of deficit-ridden firms enabled them to comply with the government pressure not to raise prices — until June. Then, the roof fell in. The mere stagnation of exports meant that the non-export corporations could expect neither a near-future rise of their own production nor continued loans from the export-related firms. To avoid the spectre of imminent illiquidity, the firms suddenly began raising prices, speculating in commodities and increasing their borrowings from banks. New bank loans in June were 36 per cent above the level of June 1975, the first year-to-year increase since January.

These price increases demand an acceleration of easy credit to finance them, leading to more price increases, more easy money, ad infinitum. Thirty per cent -plus inflation, as in 1973, can be revived within a couple months, along with drastic production cuts.

The New York banks' policy to revalue the yen and cut Japanese exports would send the economy reeling. Nonetheless, the Rockefellers demand it, and insanely imagine that Japan will somehow still be able to increase imports to give income to the debtors of the New York banks!