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Eurodollar Market Hits The Skids

Sept. 18 (NSIPS) — Reacting to the Third World's unwavering commitment to general debt moratorium expressed at this week's reopening of the "North-South" negotiations, Western Europe, Japan, and Canada have already given up the New banks' Eurodollar market for dead. These countries — including former Wall Street backers in England and West Germany — are engaged in frantic preparations to protect themselves from the sideeffects of the imminent Eurodollar market collapse. These preparations include a European agreement on a gold-backed monetary system, trade agreements with Arab oil producers in energy-for-development exchanges, and outright dumping of Eurodollars on the open market by Western European central banks.

The U.S. dollar was battered all week on the foreign exchange markets, after European central banks unanimously agreed to stop swallowing Eurodollar inflows of billions of dollars a week. Led by the West Germans, who formerly acted as the backbone of European support for the Eurodollar, the central banks began to unload their holdings of unwanted dollars, producing chaos on the markets.

Friday's dramatic rise in the international gold price to a closing $118 — from a bare $100 two weeks ago — was a signal that the bottom had finally dropped out of the Eurodollar market swindle. The jump in the gold price, occurring immediately after the Sept. 15 International Monetary Fund (IMF) gold auction which would normally have depressed gold prices, scared the wits out the U.S. money markets, and summed up two developments towards the deflation-collapse of the U.S. dollar sector.

U.S. Financial Sector Starts Deflation

The first is a panicky run out of Eurodollar and pound sterling assets into gold, including large direct purchase of South African gold by Arab oil-producing countries, who have backed up the Eurodollar swindle with tens of billions of oil dollars since 1974.

But the second is the popping of the credit-bubble in the U.S. economy, the immediate result of the unravelling of the so-called "recovery" after months of stagnation.

Credit System Shot Through

On Thursday, Sept. 16, the Federal Reserve announced that the money supply (checking accounts and cash in circulation) had fallen by a whopping $3.2 billion during the three weeks to Sept. 8. This tremendous — and unexpected — shrinkage of the money supply swing the credit markets from anxiety over hyperinflationary money supply growth in August to fear over deflation by the end of last week.

Until the end of August, the Federal Reserve had been expected to tighten interest rates to prevent credit-expansion from getting out of control, as the rate of growth of the money supply ran above Arthur Burns' stated upper limit. Within three weeks, the rate of money supply growth — calculated over the last six months — had collapsed below the Fed's lower 4 per cent limit.

This unprecedented blowout in the credit system shows that the battered, sagging U.S. economy can no longer support the fungus-like growth of credit that has kept the financial sector going. To put the problem crudely: the stagnating U.S. industrial sector, with flat real output and declining capital investments, has supported a monstrous 12 per cent annual rate of growth in the reserves of the U.S. banking system for most of this year. But the debt-service that the Wall Street banks and life insurance companies have been able to impose on U.S. industry, agriculture, and consumers has provided the only debt-service income they have been able to extract for two years.

In particular, the New York banks, whose entire loan expansion during the past five years has been in the bankrupt Eurodollar markets, are only earning interest on their loans to U.S. corporations. The Third World with $250 billion in debt to mainly the New York banks, has, for the most part, not paid a penny in interest during the past six months, in the estimate of United Nations economists.

Even a small downward shift in the depressed U.S. economy — marked this week by the first major wave of steel layoffs since early 1975 — throws the entire dollar financial sector for a loop, since the U.S. economy is the last **paying** looting-base of Wall Street financiers. Immediately, this came out in the furious howls of the financiers when a small St. Louis bank lowered its lending rate for business customers by a fraction. A drop in the

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interest rates of the dollar sector — already taking place in the bond markets — reduces the total debt services and wrecks the stability of the entire bankrupt swindle. Although the New York banks uniformly refused to reduce their prime rate below its present 7 per cent, the ecnomy is so depressed that business loans are still shrinking at a $15 billion annual rate. The banks are quietly lending money to "prime customers" at barely over 5 per cent — or precisely what they pay for money themselves. Deducting "administrative" costs, the U.S. banks are running in the red.

The parasite has finally weakened its host past the point of its own survival. This last downward notch in the underlying U.S. economic picture has had the lever-effect of damaging the profitability of dollar financial investments in general. The U.S. now has a choice. Either the collapse of the Eurodollar market will bring down the rest of the U.S. financial system with it and collapse of the U.S. economy — or the political surgical removal the worthless Eurodollar sector and the Wall Street banks will open the way for the creation of credit to rebuild the world economy.

"Everybody Knows The Dollar's Weak"

The following are the responses from the international financial community on this week's collapse of the dollar and the corresponding rise in the price of gold:

Bankers Trust: Wednesday's sale (of gold by the IMF) was probably the last. Speculation is now into gold.

T.J. Holt Co.: The tremendous illiquidity in Europe and the Third World has created a time-bomb sense of insecurity on the Euro-markets.

A New York gold trader: The rise in price (of gold) is even more significant in light of the lack of central bank purchases, and in that the Germans are buying where they were dumping before. Everybody knows the dollar is weak, the European recovery is shot, and gold is going up.

A State Department economics specialist in European Affairs: (on European move to end the IMF gold sales) Yes, the problem is broader than just the Italians trying to protect their gold reserves....It's a basic change in the international monetary system to get rid of gold...and with the European recovery faltering as it is, there is real anger about this. Even in Germany they seize on the gold issue as the reason.

A high official at the International Monetary Fund: This oil supply situation...is the key to the entire monetary situation. Last week the Germans went against the U.S. on gold, this week Italy, Germany and Europe are trying to assure their independent oil supplies. The U.S. opposes this absolutely, because what the Europeans are really doing is the basis for an attempt to dislodge the dollar. The Japanese are also involved in some way of course...

The chief of the gold department at a Swiss bank: Europe is gold-minded. No matter what recent traditions are. (Asked why, if this is son, the Bundesbank is so hostile to gold) This is the voice of America. The real problem is that the Americans dominate the IMF board...and if this fails, they'll restart their own auctions.

Bankers Respond To North-South Talks

Sept. 17 (NSIPS) — The following remarks from members of the international financial community were made in response to the Group of 19's demand for general debt moratoria and a new world economic order at the Paris North-South talks this week and the present unfolding disintegration of the international monetary system.

A high-level spokesman for Manufacturers Hanover Trust: Financial center banks will not survive a general debt moratorium. The U.S. government has no right to discuss these issues (at the North-South talks) since the creditors are the banks and not them. The Europeans should stay out of these matters as well. We'll try to keep them out.

An International Monetary Fund Expert on debt: (asked by the Schroeder Bank if pressure from Italy and France had forced the U.S. to negotiate on the debt issue at Paris.) I just can't comment on that. No official can be expected to say anything on this...it's too touchy. Call the American Labor Party if you want information.

James Hall, Loeb Rhoades: There's not a damn thing the U.S. government or any of the Group of 8 governments can do; they don't have the money in default. It's the U.S. banking system which is deeply in trouble. They changed the rules of accounting for New York City, but for the whole world?.....All they can do is cut off the U.S. banks' liabilities to their Euormarket subsidiaries, just cut out the Euromarket, by act of Congress.

A spokesman for Bankers Trust: The Italian delegation is trying to swing the Group of 8 to back the Third World's position, and trying to settle their own problems in the process.

Claude Cheysson, EEC Commissioner for Cooperation and Development: (on the threat of general debt moratorium by the Third World) I don't remember having heard of this threat....I doubt they have it in their minds...Look, they keep on coming to the Eurodollar markets....which would close down, I admit, if they do that, immediately.

P.H. Vance, European head of Brown Bros. Harriman: The Third World has no clout. They have no muscle, they have no muscle friends. A number of them will stick to the lolly, but they won't get more than they need. And they won't be able to help the others. And in any case, they're not keen on helping each other....Rollover can go indefinitely....The USSR is no muscle friend...Italy? Nobody's anxious in the West to see them go, but I'd prefer the Soviets to stay around, even if I'm only one of the few saying that...No matter what, the Third World needs money on current account. Now. Some aren't ever getting trade credit. Put yourself in the shoes of North Korea five years from now...

The international chief of a major New York bank: (Negotiating on the Third World's terms) will wreck havoc on the money market if it becomes known. We just have no machinery to deal with this thing. Any discussion of a flat-out default is absoltuely unprecedented. There has been no preparation...

An Ivy League expert on Latin America: The Third World may pay to creditor A and not to creditor B. For example, they might pay only American banks and not French. Don't quote me, but if the public realized how shakeable the debt is, they might be shaken up and thrown into hysterics.

Another Ivy League economist: Italy and Japan are nothing....France will never go along with transfer of technology and debt moratorium....but yes, there are factions in France who support this.

The chief of European opertions at a major Dutch bank: Such sweeping measures (as debt moratorium) could be very dangerous for the Third World. Nobody will lend to defaulters; it's a pipedream, unthinkable from beginning to end...like setting your own house afire to bother the neighbors....It's absolutely unthinkable that anyone in the U.S. thinks such a thing could benefit anyone in the U.S. Such a breakdown would affect the big U.S. banks and therefore the public that gave them money....the Euromarkets would be taken in a Herstatt ef-