of locking up their money in medium and long-term investments, when yields would be shooting up in response to a new outbreak of inflation.

The Journal's attack on Klein was motivated by discussions with First National Bank of Chicago. Eugene Birnbaum, chief economist there, recently reiterated his support for fixed exchange rates and a gradual return to a gold-based monetary system in testimony before the House Banking Committee. Birnbaum, like the rest of the fixed-rate, anti-inflation crowd in Chicago, fantastically believes that the solution to the current problems of the monetary system is the coordination of rates of money supply increase among countries!

At the same time there is more widespread opposition to the hyperinflation policy from business and financial people outside the money centers. A source at the Kansas Federal Reserve Bank revealed that there was likely to be a fight over inflation at the Oct. 19 meeting of the Federal Reserve Open Market Committee, with a number of the regional Fed people opposing New York. The regional interest groups are increasingly realizing that when Arthur Burns talks about easing money to get the U.S. economy going, he is really talking about printing money to paper over the international financial crisis.

Europe:

Production Figures Show Do-Or-Die Crisis

Oct. 18 (NSIPS)—The official trade figures released for Western Europe for the months of August and September tell the story behind Europe's resistance to the most recent demands of their Atlanticist partner.

After two to three months of ominous stagnation, Western Europe's industrial production plummeted in both months running; in Britain, industrial output dropped 3 per cent. Auto and other consumer goods production, whose plus statistics supplied the evidence for the early 1976 upswing myth, fell, while the drop in the capital goods accelerated to 5 per cent in even the West German machine sector. As West Germany's trade surplus slipped by two-thirds, France, Britain, Italy, and the rest of Europe registered trade deficits at a rate of 25 to 50 per cent a month.

Beyond the August-September conjuncture, Wall Street now demands a projected more than **$20 billion** in austerity consumption cuts in Europe for the rest of the year, half of which has already been implemented in October.

It is widely recognized in Europe that the August-September downturn is no mere statistical blip but an historic conjuncture. Since 1971, real investment has been falling at an annual rate of 20 per cent. Added to this is the fact that the volume of trade adjusted for inflation has ever 1975-76 actually fallen.

Furthermore, the downturn of all indicators of trade, production, and investment has been logarithmically advanced by the round of devaluations, foreign exchange controls ,and other austerity measures already taken in Western Europe in a futile attempt to stabilize a non-existent dollar monetary system after the "lira crisis" of January 1976.

Coinciding with this was the first recorded real downturn in European exports to the Third World, which since the 1973 Oil Hoax had been growing at decreasing annual rates. The new public debt crisis of the Euromarket banks has virtually shut off both long-term loans for capital equipment and a large percentage of the short term trade credits on which the Third World subsists.

Between European austerity measures and Third World credit strangulation alone, 65 per cent of Europe's trade has been fatally hit, multiplying the linear effects of mere isolated domestic austerity programs.

What is actually desperately needed at this point in time if Europe is to survive as an industrialized economy, is a crash program of investment in high-technology plant and equipment and large scale credits for trade, for both Europe and the Third World. The August-September downturn has already betrayed fatal underlying weakness of the productive network; only such a program can insure break-even levels of production and investments.

No wonder the Europeans are balking at Wall Street's proposed additional $20 billion austerity cuts. The monetary crisis, they rightly pronounce, is not their's but the Eurodollar market's and the dollar's.

Trade Contraction

The crucial margin on which the growth of European industry depends decisively is the margin of acceleration of trade within Europe and with the Third World. While this includes rising consumer goods and health, education and other public service consumption, the key is rising industrialization, particularly a rising level of technological development.

The averaged European Economic Community (EEC) nation, the top Nine, sends some 50 per cent of its exports to the rest of the EEC, and at least 15 to 25 per cent to the non-OPEC Third World: France, 51 per cent and 17 per cent; Italy, 42 per cent and 18 per cent. Exports to the OPEC countries and Comecon, despite the recent boom, remained below 10 per cent each, while average exports to the U.S. have fallen steeply from 10 per cent to 6 or 7 per cent.

By strangling industrial and technological investment, by prohibitive interest rates and downright refusal to lend, the Euromarket banks have since 1971 put overall production into zero growth, and industrial capital goods into logarithmic decline. The so-called recovery in overall production under government inflation programs during the last quarter of 1975 and the first quarter of 1976 was based entirely on sonsumer goods inventories and credit sales.

Whatever spending took place resulted in massive government deficits and consumer debt which has made another such program impossible in terms of consumers' willingness to take on further debt alone. In West Germany and France, the governments instituted huge housing and public works programs which created jobs in construction industries and related fields but had no effect on productive jobs in heavy capital goods industry. Their budget deficits doubled. On the consumer front, France, Germany, and the Benelux and Scandinavian countries underwent an unprecedented auto and appliances spending boom, while the central banks force-fed liquidity to the banks for 15-25 per cent interest rate consumer loan programs. Bank loan business for production and capital investment was collapsing dangerously. Even the auto manufacturers, at the height of the boom knew it was temporary and absolutely refused to add one square foot of extra plant or equipment.

The entire consumer production boom from the last quarter of 1975 through the first quarter of 1976 did not even bring overall production up to 1973 levels. The overall figures began flattening out in May.

© 1976 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Consumer Bust, Plus

On this basis the August-September consumer goods bust and the current $20 billion austerity programs are like driving a nail into a balloon.

France is exemplary. Last fall, on the basis of a $5 billion government spending "relaunch" program and huge consumer loan volume producing 30 per cent annual rates of increase in the money supply, all France went on a consumer spending orgy. Housing, appliances, and most of all car sales shot up — until April, when everything went flat. The franc was collapsing, and the Giscard government began to call in the liquidity. In July, car sales began falling by 1.2 per cent, and by August, production was off by 1 per cent and inventories were piling up; in September production fell another .9 per cent. New orders for future production during August and September dropped even more, 1.5 and 1.7 per cent per month.

French, West German, and other steelmakers, seeing their orders fall by 10 to 25 per cent over the past three months, are now talking about laying off 25 per cent of the workforce.

Running Backward

Under these circumstances the economic policy decisions being taken this month in Europe can deal the death blow to the economy. Kicking themselves off the cliff, Britain, Italy, and France have carried out credit squeeze programs now removing $3 billion, $4.7 billion, and $4 billion from the loan making capacity of the respective national banking systems. The International Monetary Fund and the New York-Euromarket banking community, since the monetary system remains chaotic despite these measures, is however demanding further such cuts again in Britain and Italy, bringing the total up to over $20 billion.

Italy's current $4.7 billion program, imposed two weeks ago, pulls exactly that amount of money out of loans to consumers and industry. Furthermore, related measures hiking the central bank discound rate to 15 per cent bring the effective interest cost of money to prime industrial customers up to 25 to 30 per cent.

As a condition for a $500 million loan which is itself a precondition to further international borrowing, the International Monetary Fund is demanding that Italy make as much again in cuts in government spending on education, hospitals, public transportation, and utilities. Subsidies to the vital state sector of industry are to be cut. The Italian workers' wage contract, which allows them to keep up with inflation, is to be scrapped.

With demand for the industrial production of Europe the problem, lopping another $20 billion off net demand (not even counting the multiplier effect through economies) in the midst of the current production crisis should be enough to put Europe back to the wreckage of 1945.

Andreotti Clamps Down On Currency Speculators, Oil Multinationals

Oct. 23 (NSIPS) — Andreotti's imposition of currency controls and selective debt moratoria on the oil multinationals immediately followed the conclusion of this week's Central Committee meeting of the Italian Communist Party (PCI) during which support for Andreotti's minority cabinet was reaffirmed by a substantial margin of the party's leadership. At the meeting, the party's centrist bureaucracy, grouped around General Secretary Enrico Berlinguer, followed old-line pro-Soviet spokesman and PCI President Luigi Longo in support of Andreotti's development programs, effectively isolating the right-wing PCI factioneers under NATO operative Giorgio Amendola. The rotund Amendola is well known to the PCI's working-class base as the champion of the austerity policies which Wall Street hopes to force on the Andreotti government.

The strenghtening of Italo-Soviet relations — signaled by Longo's speech in support of the government program at the Central Committee meeting — is a major source of support for Andreotti's break with the bankrupted dollar; such developments, in fact, are second in importance only to the PCI's willingness, also signaled by Longo's remarks, to mobilize the mass base of the PCI in defense of Andreotti's anti-dollar policies.

An article by the Soviet Communist party daily Pravda's Rome correspondent Prozhogin, which was picked up by the major Italian press, traced Italy's history as a leader of East-West collaboration. Pravda stressed Italy's key role as a peace keeping force, instrumental in the realization of the Helsinki accords.

The broad-based support of the Italian working class for a declaration of general debt morattorium and development can be obtained for the Andreotti government only through a popular mobilization of the major working-class parties — the PCI and the Italian Socialist party. At this week's Central Committee meeting, PCI leadership cleared the way for this mobilization by isolating Atlanticist agent Amendola. Party President Longo's scathing criticism of Amendola's bourgeois economic policies — that is, his acceptance of austerity — led to a discussion of the policy to be adopted by the PCI: full mobilization in support of Andreotti's development programs. Longo's speech indicated that the PCI was preparing to mobilize to pressure the government from the left in order to counterbalance the considerable pressure for austerity measures which is hitting Andreotti from the right.

In the concluding session of the Central Committee meeting PCI Secretary General Berlinguer was forced to take up Longo's demands for such a mobilization. The party indeed has already begun to move. La Stampa, Turin's leading daily, yesterday reported that the communist mayor of Turin and former slave labor advocate Diego Novelli stated to the Central Committee meeting that the debt situation of the cities has forced the municipal administrators to mobilize for moratoria. He warned the administrators "would lead the working class into the piazzas" unless the government complied with the PCI's debt consolidation proposal for the cities. Within the week, the government will meet with city leaders, and if at that time the "consolidation" proposal is not worked out, mass mobilization will begin.