bolstered this week by a sudden inflow of $40 million in Arab funds, indicating that the Japanese also are involved in negotiations with the Arabs.

Italy Torpedoes U.S. Bail-Out Schemes

The U.S. Treasury Department's efforts to persuade the West Germans and Japanese to print up more money for international bail-out loans have been met with stony silence. *Journal of Commerce* columnist Alena Welles leaked today that the U.S. will push for a "super-tranche" system for countries like Italy, and a reinvoking of the General Agreement to Borrow (GAB) for Britain, at the Group of 10 meeting in Washington next week.

Italy has chosen this moment to announce that the $500 million loan it had previously requested from the European Economic Community is "no longer urgent". Italy's move effectively torpedoes the austerity-based "super-tranche" scheme, allowing the West Germans et al. to argue that Italy "no longer needs the money."

In reality, Italy's new found "confidence" in its financial strength is based entirely on the sheer magnitude of its projected trade deals with the Soviets — including the Italian proposal for an "international rediscount bank" to finance East-West trade, dovetailing neatly with IBEC's plans for the transfer ruble.

Italy's campaign for a new world economic order will have to be realized quickly; U.S. Treasury officials are predicting a run on the Italian lira beginning in mid-February, when the 7 per cent foreign exchange tax expires. Italian importers have been circumventing the tax by arranging four-month suppliers' credits, which will come up for payment in February.

Gold Strength Based on Use for New Monetary System

GOLD

The strength of gold today does not stem from what most gold newsletters describe as "industrial demand" for the metal. Rather — as events over this week have confirmed — this so-called industrial demand or purchases of the metal by speculators in anticipation of a continued rise in the market price, is coming mainly from the correct perception that the metal is bound to become a major monetary asset in the immediate future.

The Moscow Narodny Bank's press bulletin issued Dec. 8 proposed the much-awaited expanded utilization of the gold-backed Transfer Ruble by non-IBEC (COMECON's International Bank for Economic Cooperation) members for international settlement of commercial and non-commercial accounts. Authoritative City of London sources report that the Pan-Arab gold-backed currency under discussion for two years is to be launched early next year.

These steps by the Arabs and the Soviets will accelerate the ongoing conversion of dollar reserve assets into gold by Western European and Japanese central banks. This will have to be followed shortly by the pegging of the currencies of these nations to gold. The reason for this is straightforward. Under the present conditions of collapse of Western European and Japanese trade — at an approximate 15 per cent annual rate — and wild currency fluctuations, the only out for these trade-dependent economies is the emerging pattern of heavily-weighted trade in the direction of the petrodollar rich oil-producing nations and the vast trade markets for high technology goods in the Soviet sector. Both Western Europe and Japan will have to agree to the stated preference of the oil producing and Soviet sector nations for a gold-backed monetary regime in order to seize these new opportunities.

The Soviets have backed up their transfer ruble proposal with a major attack on the International Monetary Fund-U.S. Treasury operation to demonetize gold in the latest issue of the *Economic Gazette*. The Gazette bluntly points out that the U.S. statements on the demonetization of gold are absurd when the rest of the capitalist world fully understands that gold must continue to function as a reserve asset in the interest of stable world trade.

The Gulf states' unity on currency does not bode well for the dollar based financial system; this unit will clearly be backed by gold. This monetary union will mean that their oil will be paid for in either the gold-backed Arab monetary unit or other gold-backed currencies having a stable relationship with that unit. The Arabs see a gold-backed monetary arrangement as the best guarantor for stable prices for their oil as well as their imports of technology from the industrialized nations.

Otherwise, the market price of gold is holding well as today's London closing price, $134.40 per ounce shows. However, the market has yet to realize the implications of the Soviet-Arab moves towards a gold-backed monetary system.