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Commerce index of 15 industrial materials prices rose 11.6 percent; but early March through mid-May the index was flat, and in the last four weeks it has lost 4.9 percent. The *Journal of Commerce* index of 15 industrial materials puts current dollar prices today over ten percent below where they were a year ago.

The effect of falling industrial materials prices is already evident in the copper industry, where the U.S. producers are clearly trying to provoke a lengthy strike — with an offer of ten cents over three years and indexing of the workers' COL to the plunging copper price — to work off world copper stockpiles and raise the plunging price. During the Great Depression, the copper cartel was one of the first to break.

In his latest market letter J. Roger Wallace of Gilbert Haas, Inc., the only Wall Street economist to predict the 1974 inventory bust, points out just how miserable corporate profits really are. Adjusted for inflation, first quarter 1977 earnings of $87.6 billion (seasonally adjusted annual rate) were slightly below similarly adjusted fourth quarter 1976 earnings! "This was the first such decline since the first quarter of 1975, where business was in a tailspin," writes Wallace. Wallace also points out, incidentally, that the much touted rise in business equipment expenditures in the first quarter (the bulk of "plant and equipment" expenditures) was approximately 70 percent due to purchases of new autos and trucks for business use!

Our own analysis shows that during the first quarter of the year the internal cash flow situation of U.S. nonfinancial corporations continued to worsen. While the aggregate of nonfinancial corporations were running a negative cash-flow position of approximately $20 billion over 1976, in the first quarter that figure jumped to over $25 billion. This exercise, which measures retained earnings against plant and equipment and inventory expenditures, where both are adjusted to reflect inflated replacement costs, underlines the effect of inflation on corporate operations. Under conditions where corporations are forced to pass along price increases to each other, their plant and equipment and inventory expenditures outstrip their earnings at an accelerating pace.

The only way out of this bind is a new credit system and conditions of worldwide development and demand for U.S. capital goods exports. Short of this, there are only a variety of swindles. One leading New York investment house is investigating the legality of selling foreign securities to pension funds — presumably, bailing out their foreign investments.

More conventional is the push to extract profits out of wages — stop "COL-induced inflation." But this is no less a swindle than the above scheme to universalize the Big MAC principle. Depressing the standard of living of the workforce will at the very best produce a short-term, one-time boost to profits — at the expense of long-term destruction of productivity and real profits.

Mediterranean, Scandinavian Countries Bankrupt; OECD Paralyzed

FOREIGN EXCHANGE

The annual ministerial meeting of the Organization for Economic Cooperation and Development (OECD) has started in Paris with the insoluble problem of debt affecting the smaller member countries of the Mediterranean region and Scandinavia at the top of its agenda. There is now no way for some of the 24 more developed nations of the West to pay their debts in 1977 without ruining whole sectors of their economies and destroying their ability to survive as industrial entities. The official debt-service ratios in 1977 — percentage of annual debt-payments to annual exports — cannot be met by such OECD countries as Turkey, Greece, Spain, Portugal, Finland, or even Norway, whose figures vary between an incredible 93 percent for Turkey to 23 percent for Norway. (*See Table on Page 8*)

Mediterranean Bankruptcy

The more spectacular cases are Greece and Turkey, but Spain and Portugal are not in a much better shape.

Up to the 1973 oil embargo hoax, those countries were building up a relatively viable industrial sector, balancing their imports of equipment goods for that purpose with exports of "Mediterranean" agricultural products and resources based upon tourism and remittances sent by guestworkers employed in Western Europe, mainly in France, Belgium, and West Germany. Since then, the increase in oil prices has sent their trade balances into high deficits, and their current account resources have been drastically cut as a result of the world crisis. Tourism has decreased and guestworkers bear the heaviest burden of unemployment in Western Europe.

Countries making the greatest industrial effort have reached unbearable balance of payments deficits: Turkey's is estimated at $2.5-3 billion and Spain's at $4-4.5 billion. In the case of Spain, this is an amount equivalent to that of its foreign exchange reserves; in the case of Turkey, five to six times the reserve. Portugal and Greece are in a relatively better financial position, only due to the fact that their industrial effort has been in the preceding period. Greece's debt is therefore more evenly distributed in the future than Turkey's, which has for the past two years based its industrialization and long-term infrastructure equipment on short-term capital inflows through accounts in "convertible lira" favorable to speculation which now come due. Portugal has a heavy $1.1 billion balance of payment deficit and a quickly expanding debt, but its debt-service ratio is still

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comparatively limited due to the policy of no indebtedness and no industrialization of the Salazar regime.

Nonetheless, this means that both Greece and Portugal will need increased borrowing to build up a viable industrial structure and therefore be soon compelled to face similar or worse situations than those affecting Spain and Turkey. Greece's debt-service ratio is already very high in 1977 (30 percent) and the percentage of its total debt to its annual exports of goods and services is over 100 percent.

For all these countries, the increase in the debt-service ratios between 1976 (Source: World Financial Markets, Morgan Guaranty, June 1977) and 1977 (Source: Bank for International Settlements) measures the deep impact of the collapse: Turkey is up from 9.9 to 93 percent, Spain is up from 9.1 to 29 percent, Greece is up from 11.1 to 30 percent and Portugal is up from 12.5 to 17 percent. To these countries should also be added the case of Yugoslavia, whose debt-ratio is down to 13 percent in 1977 from 15.3 percent in 1976, but whose total debt represents 85 percent of its annual exports, a figure superior to those for Portugal and Spain (75 percent in both cases).

Moreover, the foreign exchange reserves of those countries is either close to nothing ($0.8 billion for Greece and $0.5 billion for Turkey) or relatively limited compared to the current account deficit as in the case of Spain.

End of the "Welfare States"

The worse psychological aspect of the crisis for the OECD governments is that the debt squeeze is not limited to the borders of the Third World or contained in the Mediterranean region, but spreads into the so-called welfare states of Scandinavia and threatens the existence of the "Swedish model."

In the short term, the two more affected countries are Norway and Finland, with debt-service ratios of 23 and 25 percent respectively in 1977. Norway's total debt represents approximately 180 percent of its annual exports, and its balance of payments deficit in 1977 is at about two-thirds of its total exports. Despite such obvious problems, the May 17 *Financial Times* of London describes Norway as "an unusual saga of economic success" because the growth rate progression of the country has reached 5.7 percent in 1976 and is expected to reach about 8 percent this year. But the real saga is one of "oil bet," an uneven economic development based on commodity speculation: while 90 percent of the net capital investment had been covered by savings in 1973, more than half had been financed externally in 1976.

Finland, which has limited foreign exchange reserves, is confronted with a 150 percent increase in its debt-service ratio between 1976 and 1977, up from 10.3 to 25 percent. Its total debt is at about 130 percent of its annual exports, while a progressive reduction of its balance of payments deficit — still at $1 billion in 1977 — would only foster the economic collapse, being mainly based on import cuts.

Denmark and Sweden, reputedly the more solid economies in the North, are facing high balance of payment deficits: $2.5-3 billion for Sweden and around $1.5 billion for Denmark in 1977. Their total debt represents around 75-80 percent of their annual exports, a rate equivalent to that of Spain and Portugal! Worse, their rate of increase of the debt is extremely high, precisely because of the current account deficit.

As mentioned by *World Financial Markets* (Morgan Guaranty, May 1977), "one striking fact about the current account deficits in the Scandinavian countries has been not only their fairly substantial absolute size, but their exceptionally large dimensions in relative terms."

The case of Sweden in exemplary. After having been in surplus in 1973, Sweden's balance of payments has recorded deficits of 4.2 billion Swedish Kröner in 1974, Kr. 6.7 billion in 1975, Kr. 10.5 billion last year and, according to the latest Economic Ministry estimate, should reach Kr. 12.5 billion this year. Swedish foreign exchange reserves, at about $1.7 billion, are at 50-60 percent of what they were two go three years ago. The traditional symbols of Swedish excellence — the shipbuilding, steel and paper industries — are all in shambles under general conditions of economic contraction in Europe.

A devaluation of the Scandinavian currencies has been avoided only because of West German and Dutch support. Relatively low domestic interest rates imposed by the government and ample liquidity have prompted vigorous lending to nonresidents by West German banks, while Dutch authorities also have lowered their interest rates and eased the conditions applying to nonresident bond issues in the Netherlands since the autumn of 1976. Much of the capital outflow from Germany and Holland has been directed to Scandinavian countries. The Nordic members of the "European snake" have induced correspondingly large-scale inflows by the traditional means of maintaining high interest rates and tight credit conditions in domestic money markets which are largely isolated from international markets by extensive exchange controls.

It is precisely such a mechanism of regulation through ever-increasing indebtedness which has reached its ultimate duration of efficiency.

Italy and France

Even such big Western European countries as Italy are now being affected by the debt disease. Italy's percentage of total debt to annual exports (66 percent) is not far from the 75 percent of Spain and Portugal. France is now at 45 percent, and both countries have to fall more and more into foreign indebtedness to finance the development of the public sectors of their economies and compensate the negative capital formation of their private sectors.

True, both countries still have relatively high foreign exchange reserves — $13.5 billion for Italy and $18.5 billion for France — and their 1977 balance of payment deficits are supposed to be cut to nearly zero for Italy and to about $4.5-5 billion for France. But, such a relative regulation would be done at the expense of economic growth. It is scheduled to be based on import cuts and the limitation of indebtedness — which means a process of deindustrialization and self-imposed or International Monetary Fund-imposed austerity. In other terms, France and Italy are on the verge of reaching debt-service ratios comparable to those of Portugal and

Debt Situation Of The Mediterranean And Scandinavian Countries

(BILLIONS OF DOLLARS)

	Balance of Payments Deficit, in 1977 (estimations)	Long-Term Debt (over 1 year)	1977 Debt Service and Short-Term Debt to Banks	Total Debt	1977 Debt Service, Short-Term Debt and Future Trade Debt (up to the end of 1977)	Percentage of Total Debt to Approximate Annual Exports of Goods and Services	Foreign Exchange Reserves (gold and currencies)	(A) Official Debt-Service Ratios in 1976 (% of exports)	(B) Official Debt-Service Ratios in 1977 (% of exports)
MEDITERRANEAN									
GREECE	1.1	4.5	1.0	5.5	1.1	115%	0.8	11.1%	30%
TURKEY	2.5-3	5.0	2.0	7.0	3.0	150	0.5	9.9	93
PORTUGAL	1.1	3.0	1.0	4.5	1.1	75		12.5	17
SPAIN	4-4.5	12.0	3.0	15.0	4-5	75	4.5-5	9.1	29
ITALY	0 - 4	20.0	10.0	30.0	11.0	66	13.5 *	5.4	
FRANCE	4.5-5	26.0	9.0	35.0	10.0	45	18.5 *	7.7	
YUGOSLAVIA	0.5-0.8	8.0	0.6	8.6	0.5-1.0	85		15.3	13
SCANDINAVIAN									
SWEDEN	2.5-3			12.0		75	1.7		
NORWAY	3.5-4	10.5	2.5	13.0	3.5-4	180			23
DENMARK	1.5	9.0	3.0	12.0	3.0	80		7.5	
FINLAND	1.0	6.7	1.8	10.0	1.8	130		10.3	25

NOTES:
* GOLD REVALUED AT MARKET PRICES
(A) NEW YORK BANK ESTIMATIONS AND WORLD FINANCIAL MARKETS (PUBLISHED BY MORGAN GUARANTY)
(B) BANK FOR INTERNATIONAL SETTLEMENTS ANNUAL REPORTS

SOURCE: N.Y. BANKS, OECD ANNUAL REPORTS

Greece in 1976 or start a process of economic collapse. Up to now, both countries have maintained their industrial sectors — not without collapsing such branches as steel and machine tool — only through indebtedness on the international markets and relending to the East Bloc and Third World to foster exports in those areas at the expense of the "strong currency" economies like West Germany.

Now, the ultimate duration of efficiency of such a borrowing and relending system has been reached with the collapse of the Third World countries (Mexico, Brazil or Turkey, with debt service ratios of respectively 170, 51, and 93 percent cannot import and pay their debts), and the import cuts of the East Bloc. This means that even independently of their unstable political situation, France and Italy have to be dragged into the spiraling breakdown.

The vulnerability of the whole world monetary system is exponentially increased by the effects of the crisis on the OECD countries. The extension of the crisis occurs precisely at a point when eurocurrency bank credits are shifting from exhausted Third World countries to the OECD industrial countries. For the January-May period, the developing countries (non-OPEC) got $4.67 billion in 1976 and only $3.63 billion in 1977, while the industrial countries increased their share from $3.62 billion in 1976 to $5.38 billion in 1977. France, the United Kingdom and Spain have been the key borrowers: France went from $700 million up to $1.3 billion, the United Kingdom from $661 million to $1.57 billion, and Spain from $274 million to $495 million. The increases in the shares of the Scandinavian countries are comparable. As it always occurs in periods of breakdown crisis, the highest increases in indebtedness hit the countries which are becoming the most vulnerable. Moreover, those countries "carry the disease" by relending as long as it is possible to nations unable to meet the standards of the international markets themselves.

OECD Paralysis

Faced with such direct, now internal threats, the OECD countries are unable to act by themselves.

The presence at their meeting of U.S. Treasury Secretary Michael Blumenthal and Secretary of State Cyrus Vance has apparently paralyzed all initiatives and public discussions about debt-freezing, a new world monetary order or gold-based monetary arrangements. Therefore, the senior officials and international economists in Paris have been reduced to think in their own old terms: "heighten pressure on them (indebted countries) to devalue their currencies in hope of giving their exports a competitive price edge," or "tighten budgetary belts against inflation." But, they themselves know very well that this is absurd. They acknowledge, as put by the June 23 *Wall Street Journal*, that "with unemployment already high, slower growth raises the risks of protectionist curbs against imports." In other words, there is no way to increase export-incomes for a sizeable number of currently indebted countries, even at the cost of the most murderous austerity, under con-

ditions of trade and production contraction.

Moreover, the New York banks and their associates fear expanding political resistance to their moves. In the Scandinavian countries, says the *Wall Street Journal*, "workers have come to take their lofty living standards very much for granted." What the *Wall Street Journal* does not say but that senior economists at Citibank know very well is that a double-digit devaluation imposed on Sweden would trigger a process of unemployment and wage collapse, and therefore give the final blow to the "Swedish model" of social control through relatively high wages and self-induced social obedience. In turn, this would immediately weaken the agents of the dollar system in the West European social democracies, and accelerate the move toward a new monetary system.

As for countries like Spain, Portugal or Turkey, international bankers are terrified by the potential resistance against their austerity policies. The government of Turkey is refusing the conditions of austerity and deindustrialization that the International Monetary Fund and World Bank are trying to impose upon its economy, while the newly elected Spanish government is multiplying diplomatic initiatives toward the East Bloc and the Arab countries to such an extent that the June 21 *Financial Times* already sees in Spain a "nonaligned" country. The fears of the international bankers have been properly expressed by an economist quoted by the *Wall Street Journal*: "there isn't much margin for squeezing people without getting a revolution."

Paralyzed by their conflicting fears of the U.S.-based international bankers and their terror to see their economies looted and have to face social upsurges, the OECD governments have tried to compromise and find such expedients as the $750 million loan to Portugal — accepted after much discussion by the Western European governments and bankers under the leadership of their U.S. counterparts. Such an amount of money represents, at best, a breathing space of some months; at least $1.5 billion was needed only to maintain the industrial infrastructure and the rural equipment of Portugal for one year. Such impotent hesitations are extremely dangerous at this point. They leave room to the New York banks for a desperate counteroffensive by all means and at any costs.

How To Buy Gold In Today's Markets

GOLD

The following statement was released on June 20 by Lyndon H. LaRouche, Jr., U.S. Labor Party chairman and Presidential candidate.

Some significant gold purchasers are presently assessing the problem of how to buy large amounts of gold bullion without contributing to a speculator's market. There is no fundamental difficulty to be feared. Some will be astonished that I explain the solution publicly (rather than in sealed, confidential memo by special messenger). The opposition could not gain against an intelligent application of the method I now openly explain.

Principles of Gold Price

Under a world monetary system based on a gold reserve principle, the price of gold is based on the following considerations. First, one must estimate the amount of gold reserves required. Second, one must determine the average price of purchase of gold from producers in terms of world production levels based on those volumes.

For example, the case of gold from the Republic of South Africa. This will require improved (higher-cost) mine maintenance and development than is presently prevailing, and will also have to absorb a significantly higher average wage for mine workers. Otherwise this nation is not a stable source of gold production according to its potential. In general, under those stipulations, southern African gold would tend to set the world-price level, and would determine or tend to determine the extent at which other mining comes into production.

Under a new monetary system, gold will move between the current trend-price and the South African price-level to be stabilized approximately five years hence. Thereafter, that gold-price five years hence will tend to become the permanent price of gold, for obvious and principled reasons.

Large buyers of gold bullion should therefore concentrate on looking up producer sources of bullion stocks, and falling back to secondary markets as a secondary, supplementary tactic. In the case of South Africa, this dealing with producers must be tied to a political solution of the southern Africa issues. In general, the objective should be to stabilize a present and forward price-level for gold bullion based on purchase agreements with large-volume gold-producers, with operations in secondary markets to balance this primary tactic.

The Speculators

With a sufficiently firm and astute policy, large-volume gold purchasers deploying hard reserves for this purpose can amuse themselves by bankrupting any monetarist who attempts to foul the market for gold with various speculative antics.

I illustrate a few sample cases. These do not cover all variations, but the examples given are sufficient to indicate the range of measures to be followed.

The basic principle to remember, once the principle of long-term price is understood, is that gold hoards are useful only to large-volume purchasers who intend to employ bullion stocks for hard-commodity reserves in a new, gold-based world monetary system. Anyone who attempts to hoard gold for any other purpose under any other policy is intrinsically vulnerable, and can be given a financial bath by any powerful combination of the pro-