agreement between them today. Their course long ago diverged. It was the same with the great Italian industrialist Mattei and his former associates Cefis and Marcora.

As early as 1956, Mattei noted an unpleasant aroma around Marcora. Cefis had been retired from Mattei's executive staff a relatively short time prior to Mattei's murder—a murder that benefited the policies of the Kennedy Administration and that Administration's backers (including Lazard Freres and allied interests). After Mattei's death, Cefis was placed in the leadership by Agnelli-trained Prime Minister Fanfani.

Therefore, although Andreotti's insights into the overall political-intelligence problem and related strategic problems may be inferior to ours in those terms, on points of detail, Prime Minister Andreotti knows very well—better than we—what Marcora is, a snake in his cabinet.

However, Italian realpolitiking being what it is, Marcora is the Agriculture Minister. Prime Minister Andreotti obviously judges that it is prudent on balance to tolerate that arrangement. We recognize that Marcora is a knife poised at Andreotti's back...the knife of Cuccia and Lazard Freres.

IMF Plans Rout Of Portuguese Industry

Portugal has become a pilot project for the strategy of looting prepared by the International Monetary Fund for the rest of Western Europe and the developing sector. The country's Socialist Party Prime Minister, Willy Brandt's close associate Mario Soares, has announced a "second austerity package" that will gut Portugal's industrial capacity in exchange for a mere $50 million loan from the Fund. Going into effect Sept. 1, the new measures augment the "first austerity package," which abolished the 1975 agrarian reform and then scheduled restoration of nationalized property to its former owners.

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The IMF demands on Portugal, which present one of the most immediately unmanagable debt rollover emergencies in the world, have met militant opposition from the powerful Portuguese Communist Party (PCP) and skepticism and apprehension from European business circles. The West German daily *Handelsblatt* noted last week that Portuguese business recognizes that Soares' program will wreck the economy and the Portuguese escudo. The Paris daily *Les Echos* commented that the Soares minority government may prove politically unable to implement the program.

The details of the "deflationary" second package were revealed Aug. 28 by the deputy governor of the Bank of Portugal, Victor Constancio. He announced plans for a phased devaluation of the escudo, which will be allowed to float downward 1 percent each month. This "dirty float," as Constancio called it, is similar to the IMF's treatment of Brazil's currency. Secondly, interest rates are being raised from 4-4.5 percent, with an 8 percent surcharge on loans for consumer goods.

Portuguese now paying 14.75 percent interest for a car loan will pay 27 percent, while gasoline prices jump to $2.70 per gallon. The escudo's float, meanwhile, will also rebound on consumer prices, as its resulting constant rise in import costs will affect virtually every item of household consumption.

Although the IMF package was accepted allegedly to curb an anticipated $1.2 billion trade deficit for 1977, unemployment of 15 percent of unionized workers alone, and 30 percent inflation, the Bank of Portugal barely concealed its actual implications for Portugal's real economy. The package will generate bankruptcies of industry, admitted Constancio, and for state-run firms dependent on government subsidies for their survival it could mean pay cuts and layoffs. "Non-essential areas" are slated for outright bankruptcy, while "new employment policies" will achieve a 10-20 percent cut in public spending.

The context of those employment policies has been exposed by the Communist-linked daily *O Diario*, which reported that the new employment law planned by Soares' government will "shelve" so-called unnecessary workers, without unemployment compensation. 20,000 workers, counting unionized industries only, have been "shelved" already this year, bringing the total of unemployed union members to one-half million. The Ministry of Industry and Technology has proposed large layoffs next month in the steel sector.

The Portuguese Communist Party countered with a strong propaganda campaign and mass mobilization against Soares and the IMF. On the eve of a three-week stay in the Soviet Union, Secretary General Alvaro Cunhal told an Aug. 2 Lisbon press conference that the Communists will settle for nothing less than the resignation of the Soares government. An Aug. 29 Central Committee declaration updated the Communist perspective by offering two possible paths: either formation of a transitional government until new elections (90 days thence) — with suspension of the recent austerity laws in the meantime — or immediate formation of a "democratic government" by the Communists and other forces. Fundamental to Cunhal's argument is that the Soares austerity legislation and "action in unity with the rightist forces" violates the Portuguese constitution and therefore delegitimizes his government.

During August, CP Central committee members fanned out through the countryside to address rallies against the IMF, carried out together with a drive to recruit 10,000 new members to the party this year. The Soviet press, which in the second half of August began to run prominent supportive coverage of the CP mobilization and to identify the IMF as its target, reported

Cunhal's call to "mobilize the entire people to fulfill the task of expanding production."

It appears that violent confrontations will be inevitable in Portugal. Clashes have already occurred between farm workers and police in the CP stronghold of Alentejo. Yugoslav press reports of stepped-up activity by fascist bands — including the "Portuguese Freedom Army" of intelligence operative General Spinola, which has begun issuing its own "new escudo" notes — indicate that those clashes will not be the last incidents in Portugal caused by IMF debt collection.

Britain: Can Pound Boom Be Turned Into Industrial Recovery

The much-heralded "recovery" of the pound sterling and capital markets has placed Britain's Labour Party government in the midst of one of the most hotly contested economic debates in recent history. Prime Minister James Callaghan is being pushed by the trade

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unions and left wing of his own party to undertake a domestic reflation program to spur Britain's lagging economy, and simultaneously by conservative elements in industry and banking to retain tight monetary controls. However, any solution to Britain's economic problems which does not include primary emphasis on a general strategy for boosting world trade is inherently incompetent. Attempts to locate the debate in terms of a reflation-austerity framework will only trap the government, and the country, in a traditional "stop-go" syndrome.

The Economic Paradox

The paradox facing the government can be seen clearly in the discrepancy between the capital markets and the real economy. To borrow former Prime Minister Macmillan's phrase, the City of London financiers have "never had it so good." Since its break with the dollar at the beginning of August, the pound has continued to gain strength, reaching a yearly high on Sept. 1 of $1.7429. The country's reserves have shown an astronomical recovery as a result of steady inflows of money from abroad. At the end of July, Britain had a total of $13.4 billion in reserves as compared to $4.1 billion at the beginning of this year.

So far, this huge influx of money has not inflated the money supply but has been sopped up by the stock exchange and gilt markets. Stock prices on the London Stock Exchange, in exception to virtually every other market in the world, are now at their highest point since January 1973, breaking the 500 mark on Aug. 31. Demand for gilt-edged stock has also remained very strong: the government had already financed over two-thirds of this year's Public Sector Borrowing Requirement at the end of the first half of this year, and the Treasury had no trouble in finding buyers for two new issues last week, despite the fact that interest rates continue to fall.

In the real economy, as the trade unions and Labour Party are all-too-willing to remind the government, the situation is disaster. Unemployment hit a post-war high of 1.4 million in July, or about 6 percent of the total workforce. Industrial production in manufacturing industries

Exports: volume indices Overseas Trade Statistics basis

Seasonally adjusted — Indices 1970 = 100

					Manufactures							
						Machinery and transport equipment †						
	Total	Food, beverages and tobacco	Basic materials	Fuels	Total	Total	Machinery †	Road motor vehicles and other transport equipment	Chemicals	Metals and miscellaneous metal manufactures	Textiles	Other manufactures
Weights	1 000	64	34	26	844	410	276	134	97	119	49	169
1976	139.4	156	122	108	140	133	135	130	171	108	124	168
1976 3rd quarter	137.3	152	118	115	139	130	132	124	171	114	126	161
4th quarter	144.6	161	131	122	144	134	134	136	180	111	130	176
1977 1st quarter	144.3	165	138	134	144	129	131	126	176	118	132	184
2nd quarter r	155.0	164	122	144	154	139	138	137	185	131	129	204
1977 May	150.8	165	111	125	152	139	137	154	179	125	124	205
June p	158.7	176	126	168	156	140	143	130	192	135	132	195
July	161.5	167	128	153	165	156	167	138	208	126	127	199
1977 February-April	147.8	160	134	136	147	132	131	130	179	123	131	191
May-July	157.0	170	122	149	158	145	149	140	193	129	128	200
Percentage change	+6	+6½	9½	+9½	+7	+10	+14	+8	+7½	+4½	-2½	+5

p Provisional estimates. r Revised estimates. † Includes North Sea production installations.

Source: *Trade and Industry*