to turn a share of their dollar reserves into euro after 1999. If that happens, "get ready for a shock," Washington economist C. Fred Bergsten warned in a recent interview with *European Voice,* a Brussels paper covering EU affairs.

Bergsten predicts that as much as $1 trillion could shift out of dollars into euros in the near term, producing an "earthquake." If that takes place, it could force the Federal Reserve to raise U.S. interest rates to at least the 15-20% levels of 1979-80, in order to defend the dollar and prevent a collapse of the U.S. government bond market. The impact on the fragile U.S. economy would be gruesome. "Americans are going to be shocked by the impact," Bergsten said.

Bonn fiscal emergency

That all seems far distant, given the present political crises in Bonn over meeting the EMU targets. On July 3, Kohl's chief of staff, Friedrich Bohl, announced that the government likely will be forced to declare an official "budget emergency." Under Article 115 of the German Constitution, annual government borrowing cannot exceed annual spending on investment. If it does, the government must declare a "grave disruption of the economic balance" as the reason. This emergency declaration, an admission of intellectual bankruptcy if not official state bankruptcy, has only been invoked a handful of times in the postwar period. Estimates of the current deficit which must be financed by new borrowing, is 70 billion deutschemarks (about $40 billion), far beyond the DM 53.5 billion projected last January. Investment spending is DM 59 billion, leaving a gap of some DM 11 billion to be filled.

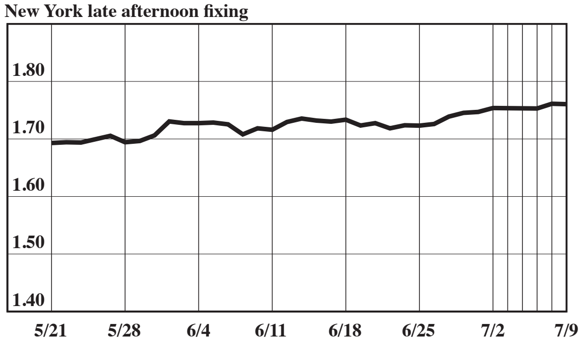
Ironically, the main source of the gap is soaring government spending on unemployment, itself a consequence of the savage budget austerity of the past three years to meet the EMU targets. This year alone, Bonn will spend DM 180 billion on unemployment benefits for the 4.222 million jobless, a record not seen since the depression peak in 1932-33. The government must pay DM 41,000 for every jobless worker, though the worker sees only DM 12,095 of that. The rest is bureaucratic and social security overhead. On July 7, German trade union federation (DGB) Vice Chairman Ursula Engelen-Kefer threatened that German unions will reject the EMU, if "the nice formulations of the recent EU summit at Amsterdam are not followed by concrete measures against unemployment now."

The other side of soaring unemployment is falling state tax revenues. The scissors cut of the two has created the present crisis. But to date, Chancellor Kohl has shown no sign of flinching from the EMU goal. Kohl met recently with Bavarian Christian Social Union state Gov. Edmund Stoiber, a hard-euro advocate, and assured him Germany would hit the 3.0% deficit target. In a debate in parliament, Kohl also repeated that "the Euro will come on time and the criteria will be met." Little wonder that rumors of Kohl's possible political collapse are growing.

Currency Rates

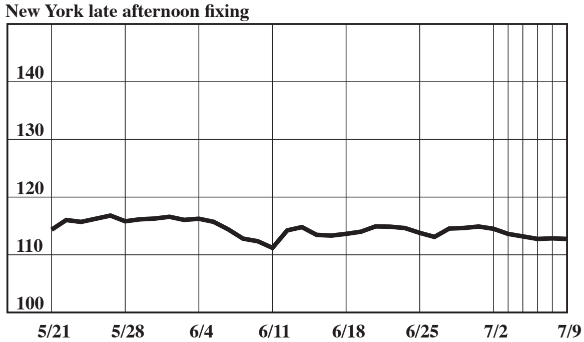
The dollar in deutschemarks

New York late afternoon fixing



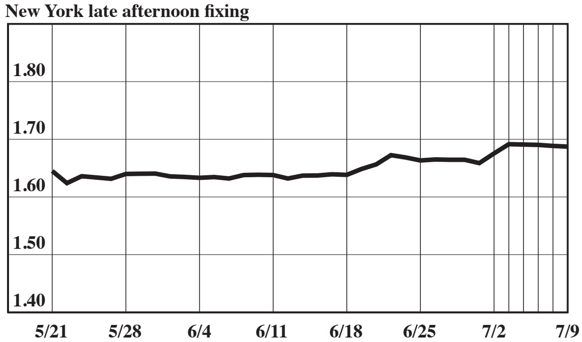
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing