World Payment System Will Fold Without Gold, Ruble Measures

Sept. 13 (IPS). — The world financial system's ability to handle payments between nations, the basis for international trade, will break down within the next three months — unless the world community chooses to break from the dollar credit sector. Not merely the trade of the developing countries, which is already near strangulation, but the trading lifeline of the industrialized world, will be wrecked by financial chaos.

This conclusion emerges from between the lines of reports of the Internationaly Monetary Fund and World Bank. The information they make public removes all surprise regarding Western Europe's sudden and virtually unanimous move to replace the dollar with gold as a principal monetary asset. In summary:

*The collapse of industrial countries' exports in the context of shrinking world trade — grossly underestimated by the IMF at a 10 per cent yearly rate of decline — leaves most of the industrial world with a devastating deficit on their balance of payments.

*This comes on top of a $447 billion deficit on the account of producers of primary commodities, i.e., the underdeveloped countries, before their $20 billion debt service for 1975 is taken into account.

*During the past year, these international deficits have been financed through the world's major money markets, in New York City, Western Europe, and the international, or "Eurodollar" market. Now the same capital markets that financed national deficits during the first six months of this year have been sucked dry, by the more than $100 billion a year borrowing requirements of the U.S. Treasury, and similar borrowing requirements by the West German government.

Teetering on the Brink

In summary, the same wave of illiquidity that is hitting national credit systems will engulf the world monetary system as a whole. Its immediate impact will be to force France, Italy, Scandinavia, Japan, Australia, and New Zealand to adopt "Third World" import policies, in order to stop the outflow of payments to their suppliers. In turn, the collapse of these countries' imports — added to a drop in Third World imports of roughly 50 per cent over the second and third quarters of this year — will obliterate West German's foreign trade, on which half its industry depends.

Last year, the deficit of the weakest industrialized countries ran close to $30 billion on trade account, principally the result of the oil price rise engineered by the Rockefeller petroleum cartel:

1974 Balance of Trade (Billions of Dollars)

Britain	-12.9
France	-3.9
Italy	-8.2
Others	-5.7

This year, the IMF expects "considerably smaller — although still sizeable deficits for France, Italy, and the United Kingdom," the result of a more than 20 per cent collapse in industrial output and similar declines in consumption, which reduced imports of industrial raw materials and consumer goods. These deficits drew on the international markets which drew their funds from liquidity generated by the collapse of production worldwide. Third World countries, in turn, financed their deficits through a $20 billion increase in short-term bank lending over the same approximate period.

Liquidity Sources Dry Up

This same monetary ratchet-process began to repeat itself during the summer: the collapse of production and trade "frees" excess funds which are then lent out through the banking system and bond markets to finance the resulting deficits.

But the present ratchet-collapse is exponentially greater than the last one. The reduction of industrialized countries' deficits from $30 billion last year to roughly $20 billion this year reflects bare-bones levels of imports; sufficient to maintain minimum levels of working-class consumption and industrial stockpiles of raw materials. The current round will produce economic holocaust.

During the first half of this year, the volume of international bond issues rose to $5.5 billion, compared to merely $4.5 billion during all of 1974. Three principal sources provided funds for these issues, which provided the critical margin of financing for advanced-sector countries' deficits between January and June: the New York capital market, the West German capital market, and, to a much smaller extent, the capital markets of France, Holland, and Switzerland.

But these markets are now virtually closed off to international borrowers, due to the massive squeeze on liquidity in the national sectors which were, in better days, able to "spill off" liquidity onto the international markets. International bond issues fell from $912 million in June to $512 million in July, and to still lower levels in August. The first casualty has been the French franc, Dutch guilder, and other credit markets: "August has witnessed the virtual disappearance, albeit temporarily, of all sectors of the international bond market with the exception of the dollar bond sector," reports one of Europe's largest market-makers in a recent commentary. Then, in August, the West German Federal Bank slapped controls on the sale of bonds in West Germany on behalf of foreign borrowers, in order to provide funds to buy the West German government's own paper, issued at the stupendous rate of 2 billion marks per week. The German sector of the international market provided one-fifth of all funds issued.

Finally, the largest sector of the international market, New York City's money pool, has been devastated by the cancerous growth of U.S. Treasury borrowing requirements; initial estimates of a record $40 billion borrowing requirement for the duration of 1975 are being revised upwards at the rate of several billion dollars a week, due to the collapse of Treasury tax revenues and other sources of Federal income.

Equally, the medium-term Eurodollar lending market, in which up to several hundred banks chip in for large international loans, is exhausted. Advanced-sector countries, hit by the oil price increase and the collapse of trade, covered more than half their deficit last year, or $17 billion, through Eurodollar loans. But during the first half of 1975, they borrowed a mere $1.9 billion. Those funds remaining in the Eurodollar pool after the bankruptcy of West Germany's Herstatt Bank nearly brought down the lot in the Summer of 1974, went to emergency re-financing operations this year; Brazil, Mexico, and Indonesia alone absorbed most of international lending.

Most international loans are funded

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by 6-month money obtained by the banks in the U.S. market, then re-lent to foreign customers through bank branches in London, Frankfurt, and other international centers. But the fierce competition for short-term money in the U.S. has dried up the banks' sources of funds stateside, since available cash is pouring into high-interest U.S. Treasury paper.

What has occurred is that the gutting of the productive sector of the world economy to create the means of refinancing debt began to backfire over the June 30 payments deadline. Starting from debt-strapped national and local governments in the U.S., Germany, France, Great Britain, Japan, and Italy, the requirement for debt-financing has leapt upwards, as a direct consequence of the previous period of looting. As IPS predicted in January 1975, the available financial means would be exhausted before the year was out.

The next stage is national bankruptcy, a point which Great Britain and Italy have reached, whence Japan will follow, to be joined soon by the Scandinavian countries. If the present trend continues, the upshot will be a rapid drain of national reserves, the collapse of national currencies, import controls and other protectionist devices — a virtual cessation of international trade and paralysis of the majority of the advanced sector's industrial capacity. This is the algebra of the dollar system.

There is a simple alternative: the use of the gold reserves of Western Europe and the socialist countries to generate a new kind of international trading credit while the old, dollar-based credit system falls to bits. There would be no one to mourn but Wall Street.