

back burner.

Second, in response to the explosive growth in money supply which he created, Fed chairman Burns has had to raise interest rates. Whereas such moves normally dampen borrowing and lending, and therefore money supply growth, the reverse has thus far happened.

Nonetheless, short-term money market instruments, whose interest rates Burns pushed up, have suddenly become very attractive investments. Money is flowing increasingly into speculative sink-holes, which drain funds from needed real capital investment, and actually feeds inflation.

During this period industrial expenditures for new added capacity, when corrected for inflation, are virtually flat. At the same time, approximately one-half of all business spending for new equipment has in fact been for the purchase of new truck and car fleets, the purchase of computers, and used for paperwork, not production. The remaining equipment purchases went for machinery replacement, but not expansion.

Dollar on the Block

The offshoot of these developments is another run against the dollar. Gold, the hard-commodity fallback option against the dollar, has risen in price dramatically over the last few weeks: from \$144 an ounce two weeks ago, to \$151 an ounce today. At the same time, *Handelsblatt*, the German industry newspaper, warned this week that continued U.S. hyperinflation will lead the Arabs to accelerate their flight out of dollar holdings, and all the nasty repercussions that follow.

Within the U.S., Irving Kristol, a member of the *Wall Street Journal's* board of contributors, soberly wrote this week, "If the American economy should now slump, the world economy would come close to collapse. International trade and investment — the major force behind our postwar economic expansion — will dry up. Protectionism will become rampant. Many of the poorer countries will demand a moratorium on their debts. Bankers will become more nervous than they are now."

Citibank, Swiss Gain Edge In Race For Euro-Funds; Commentators Moot 'Cold, Hard Reality'

The \$300 million medium-term Eurobond to be floated Sept. 29 to raise funds for the New York-based commercial banking giant Citibank is being watched with exceptional interest. It will be the biggest issue ever for a non-governmental borrower; moreover, it has been tailored by its lead managers, Citicorp International and White Weld-Crédit Suisse, to draw OPEC and Western European placements. The bond comes in the \$1,000 slices preferred by these investors, while its spreads — the amount of interest paid by the borrower above the

European financiers want to use their funds to enhance their own deposit bases. For their part, the New York banks are forced to hustle for volume Eurolending, as witness Chemical's willingness to put more stakes into the hapless London Multinational in order to possess itself of a fully-owned London merchant bank. In this scramble, Citibank's attempt, through its Swiss connections, to shore up its assets against imminent loan losses on bad Third World debt and domestic holdings of the shaky real estate type, is a decidedly defensive move; but it has the corollary effect of pushing Chase Manhattan and London's lifeboats into even stormier waters.

BANKING

London interbank lending rate — are extremely low, to Citibank's advantage. Citibank is expected to mop up the brimming liquidity on the Euromarkets to an extent which may well make things tougher for subsequent borrowers, including the prospective Eurosterling bond issuers newly mobilized by the City of London, as well as the City's Eurodollar bond clients. "Citibank is coming into the market just in time," said several top bond international bond analysts; if Chase and Bankers Trust et. al., try it next, they will have problems.

At the same time, along with Barings of London and Northern Trust, Crédit Suisse has just happily relinquished to chemical Bank its share in an unprofitable Euromarket operation, the London Multinational Bank. Crédit Suisse "prefers its other connection," observed one analyst, "I mean White Weld" — the London-based money-market bank with ties to Citibank. Recently, the British-bank Kleinwort and Benson and the French bank Paribas also sold their interest in Bank of America Ltd., another European-U.S. joint venture. In perilous times,

The Swiss banks will have extra resources to aid their allies, because of this very instability. Last week U.S. money-supply hypertrophy and Mideast war signals impelled a significant flow of short-term investment into both gold and swiss francs (also creating a bull market for gold mining shares). Swiss central bank chief Fritz Leutweiler announced Sept. 23 that his governing board is "quite willing to see a further appreciation of the franc" — an invitation to further speculative outflows from London, New York, and Frankfurt. The City of London, counting on a strong pound sterling to backstop domestic deflation and heightened international lending, could face a sinking pound instead.

The necessity of broad international monetary and credit solutions was meanwhile acknowledged from diverse quarters last week. A most uncharacteristic feature article appeared in the Oct. 3 issue of *Business Week*, headlined "Floating Rates — Invitation to an Economic Storm"... without the *pro forma* question mark. Despite recent calm on the foreign exchange markets, warns *Business Week*, "cold, harsh reality" must be itemized, including grave unemployment, in-

flation and trade deficits around the world, soon to be exacerbated by a new U.S. slump and the "sudden slowing" of world trade already visible. After quoting maverick monetarist Robert Triffin against the floating-rate monetary system imposed by the U.S. in 1971-73, *Business Week* hopes, with sad, self-affirmed implausibility and a fine disregard for questions of productive investment, that "some sort of grand realigning of world economies" could pull things together through a combination of reflation, austerity, and fixed exchange rates.

Much the same warning, again with no commanding remedies offered, came from financial commentator Alain Verney in the Sept. 23 issue of the conservative

French daily *Le Figaro*; and the Japanese bank Dai Ichi Kangyo went so far as to advertise in the Sept. 23 *Wall Street Journal* calling for an unspecified new world economic order to replace the "broken down" Bretton Woods system and its General Agreement on Trade and Tariffs (GATT) adjunct. These jeremiads confirm the prospect of a very animated, very painful International Monetary Fund gathering in Washington next week; they should also remind the broader international public that at this point banking and monetary restructuring are too crucial to be left to commercial and central bankers alone.

'From Austerity To No-Growth'

The following are excerpts from an article by L. Lamers, published in the Sept. 16 issue of Energies, a publication related to the French employers association, the CNPF.

There will probably be no new major monetary crisis in 1977... It is very unlikely that a strong attack could be launched during the last quarter...

Avoid Monetary Decomposition

This does not mean that all is well. Far from it. It is precisely because the situation has reached a crucial point that no one wants to take the risk of unleashing a wind that could turn into a storm. The monetary bomb is like the nuclear bomb: one should think twice before using so destructive a means.

INTERNATIONAL FINANCE

... There has been much talk recently concerning the role as watchdog of monetary orthodoxy played by the International Monetary Fund (IMF). Emphasis is placed on the "inhuman" conditions imposed by it. True, striking examples can be cited: Egypt, Peru, the United Kingdom, Portugal, Italy, Zaire, Mexico, Pakistan, etc., have all announced that they have taken the sanitization measures demanded by the IMF... All have had to precipitously cancel these measures, as the result of the political action these measures set off...

This element indicates the seriousness of the situation. No one can alter a social or political structure, the economic model accepted by a society, simply because of the requirements of accounting orthodoxy.

In other words, what is not being said is that in the last 18 months, leading figures have become aware of the danger of a situation created by the measures taken and implemented throughout the world economy over the last 15 years, and particularly those concerning the financing of Third World growth.

Third World indebtedness has reached \$300 billion, and the obvious inability of the Third World to settle its ex-

ternal accounts and reimburse these sums even in the long term, is a cause of concern for big Western banks as well as countries which are net dollar creditors. For a long time, the U.S. has used its foreign exchange surplus to relend to deficit countries, and if the latter were incapable of repayment, the creditor countries could demand reimbursement from the U.S.... In sum,... today the U.S. banking system and Western banks linked to the dollar could be faced with the impossibility of standing up to the accumulated risk.

What would happen if, at the onset of a major monetary crisis, in the context of international economic difficulties, as is the case now, the U.S.'s leading creditors demanded reimbursement? No bank or group of banks could stand up to it, and the United States would go bankrupt.

Such a threat cannot be tolerated much longer... The question of the cure is essentially a question for the U.S.

The IMF imposition of general deflation, with all its very risky implications,... is an incentive for revolutions... But if inflation, indebtedness and so on cannot be controlled, other new monetary solutions should be envisaged. This is what is being done in the United States.

A Choice With Incalculable Consequences

The only means of restricting monetary demand is to limit the requirements for it, and for that, to limit growth. But such a policy must be worldwide if it is to be accepted by hook or by crook. This seems to be the conclusion of the present U.S. Administration.

A fundamental analysis of that option leads to the conclusion that the limitation of growth is seen as an exclusively monetary necessity, an absolute necessity to save the dollar and keep the United States hegemonic. Fundamentally, it has nothing to do with any ecological, scientific, economic or resources necessity or financing potential...

Two tendencies are confronting each other: one which wants to limit growth to save the present monetary structure, because it is unable to find a solution that would not undermine the essence of the present system. The other (tendency) rejects such an artificial limit to growth... and therefore wants to do away with the dic-