World Staggers Under Impact of Worst Economic Collapse in 400 Years

by David Goldman

NEW YORK, Aug. 2 (IPS)—Disorganized, late and unequipped every capitalist government and political faction in the advanced sector is trying to find its ground against the full impact of a new great depression. U.S. Federal Reserve chairman Arthur Burns this week made the slide toward world-wide economic chaos official this week, by bailing out the U.S. Treasury through the World Bank, the main world lender to the Third World. Burns' sale of $1 billion in U.S. government debt securities to the World Bank this week, uncovered by IPS, places the United States in the position of a Third World nation hovering at the verge of bankruptcy. The Fed chairman drew on cash earmarked for the world's poorest countries in order to take pressure off unstable U.S. credit markets, already shaken by New York City's impending default.

More than this, the world's chief monetary institutions have officially written off the underdeveloped sector of the world economy, and with it $225 billion of world trade. The collapse of the Third World's ability to repay more than $30 billion in short-term debt—which came to a head around the June 30 international payments bottleneck—threatened to detonate a chain-reaction collapse of international trade within the next days and weeks.

Terrified by the threat of immediate credit panic stateside, the U.S. monetary authorities have sucked the rest of the world dry of means of cash payment. West Germany took its turn in the barrel earlier in this month, when its bond market collapsed on the heels of huge and sudden outflows of money. West German state and local governments, post office and railroads, are threatened with New York City-style bankruptcy as an immediate result. France is now taking the brunt of the dollar collapse, which could immediately break several major industrial firms to bits.

This week's outbreak of mutual cannibalization within the capitalist class has ripped every deal and working arrangement between different capitalist groups to shreds. Western Europe now has no choice but to dump the dollar and make immediate arrangements with the Soviet Union for expanded trade and financial relations with the Comecon group: the dollar is strangling the continent, already suffering from 15 to 25 per cent production cuts across the board. Agents of the now-defunct U.S. Rockefeller faction such as French President Giscard and West German Chancellor Helmut Schmidt are hysterical at money-juggler Burns, authoritative sources report. At the Helsinki summit, they demanded in vain that the U.S. come up with something, anything, to throw water on the fire that pro-Soviet trade factions at home have lit for Europe's agent-leaders.

Without immediate steps towards the formation of an International Development Bank, European industry **will not re-open** after the August holidays. Schmidt's and Giscard's reflex-reaction to their sudden cash crisis—to turn the monetary printing presses to "full"—will do no more than add Weimar-levels of hyperinflation as an accompaniment to industrial shutdown. Europe relies on trade; West Germany, the core of Europe's industry, relies ultimately on exports for half its industrial sales!

America's Own Workers

But the former puppet-masters of Wall Street and Washington have their own pressing worries: the liquidity pressure that has built up throughout the dollar-based monetary system will provoke **a simultaneous** hyperinflationary explosion and chain-reaction debt defaults within weeks—the two ultimate horrors which capitalists once thought they could choose between.

All talk of "economic upswing" has been pushed back to the status of gallows humor. The capitalist class is too busy grabbing at emergency solutions. In Washington, they are divided between a group headed by Federal Reserve Chairman Burns and Treasury Secretary William Simon, which wants to restrain capitalists from going on a looting binge through hyperinflationary price increases, and a group headed by the New York Times and key members of the Trilateral Commission, which wants to finance such a binge. Both these "alternatives" lead immediately to a general bankruptcy of the dollar-based credit system, as the majority of capitalists understand very clearly.

Symptoms of collapse are now springing to the surface. Chase Manhattan's own Real Estate Investment Trust this week announced that it declared a moratorium on half its debts to New York City banks. The Chase announcement followed word earlier this week that another REIT, Continental Mortgage Investors, had gone into default on $640 million in bank debts. Litton Industries, one of the largest U.S. industrial conglomerates and a major defense contractor, threatened to default on $30 million of short-term debts coming due and file for bankruptcy unless the Navy Department sped up payments.

After six months' attrition of industrial production, U.S. corporate profits have fallen by 40 per cent of their last year's levels—discounting inflatable and unsaleable inventories. This level cannot support current corporate debt payments. Corporations cannot raise industrial production, when potential customers are more concerned with disposing of bloated inventories and working-class families are compelled to tighten their belts. Their only way out is to raise the price of already-inflated goods.

But one capitalist's price gain is another capitalist's cost. There is no cash in corporate coffers to absorb such increases, and no access to bank credit to defer inflationary costs. A free-for-all in which capitalists try to loot at random through price increases would immediately destroy the credit system!

Loaded up with "soft" undependable loans to the extent of 40 to 50 per cent of their total lending, banks cannot finance a renewed inflation, much less the level of hyperinflation required to bail out corporations. They have used incoming funds—$20 billion in new deposits since the first of the year—to refinance bank debt, in the form of short-term paper investments.

But corporations' demands for emergency relief to their cash flow are so pressing that the Cost of Living Council gave the green light to price increases in aluminum, steel, auto, and airline fairs, goods and services for which demand continues to collapse!

Among "leading" capitalist groups, there is general confusion about the impending disasters. Fed chairman Burns, who wants to slow the flood of unused monwy going to the banks, prefers to close his eyes, tighten credit, and go over the falls. Simon, Ford, and Nelson Rockefeller want to limit inflationary looting-rights to the capitalist sector they are closest to, the oil industry. Ford's plan to "de-control" energy prices in the United States would charge the economy $40 billion through oil price increases. The New York Times and Yale Professor Richard Cooper, a leading member of the Trilateral Commission, want to keep Standard Oil in its place, but also want to pump enough cash into the economy through new Federal budget deficits to finance the hyperinflation.

Cooper and his Trilateral colleagues believe that tossing out this inflationary line is the only way to prevent "Atlanticists" in Europe like Giscard and Schmidt from disappearing over the edge of economic ruin. "The United States is the core of the world economy. We should expand demand and get out of the recession." Cooper adds regretfully, "Most of our problems are in Western Europe."

But the U.S. capitalists' position—at home and abroad—will not pull through on the basis of such stupid waffling. The Soviet program for peace and development, the basis for last week's European Security and Cooperation summit meeting, is the only ongoing offer Europe has.