Political Economy **by Dave Goldman**

Panic Over NYC Heralds World Break with Dollar

NEW YORK, Oct. 18 (IPS) — The now-guaranteed default of New York City this week propelled a majority of the capitalist world —including many pro-U.S. "Atlanticists"— into opposition to continued domination of the markets and trade by Rockefeller's dollar. To the West Germans, French, Japanese, and formerly pro-Rockefeller oil producing countries, whether New York City pays its noteholders has become immaterial. The mere threat of a New York default irregardless of the possibility of a Federal bail-out has permanently settled all doubts in many finance ministries and party headquarters as to whether the dollar credit sector could survive the next period without destroying the most basic aspects of economic life worldwide.

In West Germany, in the last 24 hours, the growth and openess of attacks on the dollar by financial, press and political figures is without precedent — with the country's banking community swinging almost unanimously over to the "break with the dollar" position.

In Frankfurt, West Germany's financial captial, the country's most respected bankers gathered on Thursday to denounce the $220 billion "Eurodollar" market, the international dollar lending pool. Otmar Emminger, the central bank's vice-president, and the Deutsche Bank's Hermann Abs, the most powerful financier in West Germany, warned of the impending collapse of rollover credits on the Eurodollar market — the $60 billion of unpayable Third World debt in particular. Finance Minstry official Darl-Otto Poehl added that he was "doubtful" about the Eurodollar market's ability to survive the coming wave of debt moratoria by Third World countries.

"A government bailout of New York City would undermine world capital markets just as effectively as a New York City default," the conservative West German daily Die Welt added yesterday. Anticipating Federal Reserve paperprinting to prop up the New York banks, the West German financial daily Handelsblatt announced Thursday in banner headlines, "Inflation Endangers U.S. Recovery."

But Social Democratic leader Hebert Wehner's release this week of a study on the role of the transfer-ruble, the stable Comecon currency unit, established the anti-dollar line-up as a point of no return and created the parameters of further discussion. The study, which appeared in the Wehner-edited Social Democratic monthly Neue Gesellschaft under the authorship of former finance minister Alex Moeller, praises the financial successes of the socialist countries. Sources close to Moeller, say the article is a response to demands among pro-East-West trade industrialists.

For the first time, there is unanimity among European bankers that the dollar empire must crumble. (KHF)-Bank in Frankfurt predicts "a catastrophe — everything will go overboard." Sal Oppenheim, a leading merchant bank, calls the situation "a disaster for the dollar." Dresdener Bank's Kurt Riehebaecner, who told IPS that the "situation is far worse than the 1930's," was called yesterday by the U.S. Federal Reserve protesting his "pessimism." He answered the Fed with uproarious laughter, according to informed sources.

There is no choice for Europe except to take this position, and the agreement of the West German finance ministry, the country's last bastion of Atlanticism, is a fair measure of the shift that has occurred during the last three days. The New York City crisis — after which crises threaten in Britain, Italy, Denmark, Japan, Australia, dozens of municipalities, Zaire, Indonesia, Egypt, Brazil, South Korea, and a score of Third World countries — obliterated the last illusions in circulation.

Immediately, world financial markets responded to the crisis in a way which will shut down international trade within weeks if they persist. European foreign exchange markets shut down on Friday, because banks refused to extend one - day credit to each other — the situation prevailing during the height of the crisis that wracked the Eurodollar market following the Herstatt Bank failure in June 1974. The cost of foreign exchange transactions, accordingly, rose by one thousand per cent overnight. Meanwhile, banks everywhere massively sold dollars for future delivery — an elementary transaction banks use to cover themselves against bills coming in in other currencies which may rise against the dollar — dropping the value of dollars to be paid three months hence by four per cent against the cash dollar (see p. 6). This raises prohibitive costs to foreign trade, which depends on free exchange between currencies. All the hedging devices developed to preserve trade since fixed rates between currencies disappeared in the wake of the August 1971 dollar collapse stopped working, as of yesterday.

The situation has compelled every manufacturing and trading interest in the world to look for the nearest alternative. Chicago politicians spent today canvassing support for debt moratorium proposals in the lobby outside Congressional hearings on the New York City situation today, while First National Bank of Chicago President Chauncey Schmidt spoke in London of circumventing the Eurodollar market in Mideast investment. In a speech Thursday, Schmidt called for an investment authority for the Mideast, to prevent a protectionist outbreak and declining world trade. The Chicago banker made the call on the return leg of a trip to Rumania, where he cited expansion of East - West trade as the basis for ongoing "sensitive political negotiations."

Assembled at the annual meeting of their manufacturing association, Confindustria, Italian industrialists meanwhile circulated demands for a moratorium on almost 100 billion in industrial firms' debts, now threatening to close down large sections of Italian major industry, including the chemical giant Montedison, the base of Rockefeller opponent Eugenie Cefis.

These developments set the political pre-conditions for a moratorium on the 12 billion foreign debt of Great Britain, and the 14 billion of Italian external debt, the primary reason for the strangulation of both economies. Chauncey Schmidt's speech in London outlines the basis for an institution which would unite European and Japanese industry with developing oil-producing countries, outside the medium of Eurodollar debt. A moratorium by Italian industries against a mainly state-owned banking structure would, in turn, force a moratorium on Italy's foreign debt burden, which requires 2.2 billion a year in debt service.

An even more far-reaching development is in progress now in Asia, the old Sterling Zone, Japan, and the Mideast. London Financial Times columnist G. Gordon Tether has called on the Japanese, the oil-producing countries, and developing nations to turn the Asian Development Bank into a bona - fide international development institution. Previously, the ADB has functioned as a Japanese-run franchise of the Rockefeller-controlled World Bank in Washingt, D.C.But the Tether call, reprinted in other European newspapers, comes in a special context. A major national bankruptcy is in the works now in that region, as yet unidentified; it has created a banking panic as of the end of last week, with interbank dollar rates pushed up to more than 22 per cent, three times the normal rate. This threatens a virtual shutdown of Japanese exports to this critical area, already down 20 per cent over the previous year.

A hotbed of diplomatic activity indicates that the Tether proposal was intended for immediate realization. Pro-development West German political leader Gerhard Stoltenberg is now in Japan, speaking to large business audiences on German-Japanese cooperation, particularly the shipbuilding industry, which Stoltenberg is closely allied to in Northern Germany. A French Communist Party delegation is in Japan simultaneously, following closely a visit by a British sympathizer of Stoltenberg, Energy Minister Anthony Wedgwood Benn. A Bulgarian trade delegation is now in Moscow en route to Tokyo, while Indian government representatives are also in Moscow discussing India's next five-year plan with top Soviet officials.

New York City's insipid cliffhanger is not the cause of these developments. It was merely the last straw for a world facing economic ruin. Since the International Caucus of Labor Committees' circulation of the International Develpment Bank proposals in April 1975, the solution to the crisis, viz., the freezing of current debt-service attached to productive activity, and the creation of alternative credit-issuing institutions, has surfaced first among Third World nations, and now in the industrialized sector.

Rockefeller Is Instigating An International Trade War

Oct. 18 (IPS) — From U.S. Federal Reserve Chairman Arthur Burns to right-wing and Second International European and U.S. agents alike, Rockefeller's associates internationally this week raised obscene calls for trade war on a scale sufficient to send European and Japanese production back to the Middle Ages via destruction of market demands. In his October 14 speech to the International Iron and Steel Institute, George Stinson, President of the U.S. National Steel Corporation, called for national protectionism — import controls and production cuts — "basic rules . . . toward a more stable steel trade."

New York banking sources meanwhile revealed yesterday that the Fed is firing the first real shots by pressuring U.S. banks to dump their investments in European and Japanese industry.

Every penny thus "freed" from production cuts is to be sucked into New York to prop up the dollar — for one more day. The operation depends on exploiting the worst — every-man-for-himself tendencies of capitalist mentality in an international collapse — "to hell with production, give me liquidity!"

More fundamentally, the trade-war scare is a purely defensive reaction to wholesale European moves this week to decouple from the rotting dollar. Given the overwhelming international preference for expanded production and trade over sinking with the dollar, no one in Europe or Japan is buying protectionism but Rocky's discredited agents.

Banking sources report that Fed chairman Arthur Burns is now ordering U.S. bank-holding companies to sell off their holdings in foreign companies since "these will not provide us with the kind of profits we expected" when the U.S. rushed Europe in the early 1960s. Particularly under pressure is the First National Bank of Chicago whose President Chauncey Schmidt was recently described by the Soviet press as an example of pro-detente and East-West trade forces.

This has already torpedoed Italian and Japanese production. The financial paper Il Sole reports this week that prices on the Italian stock market have collapsed due to U.S. investors' dumping of stocks. Japan, after previously high growth rates, lost a full $80 million in foreign securities investments in September alone, producing a negative balance of payments for the month.

Beggar Thy Neighbor and Thyself

National Steel's chief Stinson signifies an explicit U.S. intervention into a riot around steel trade war in the European Coal and Steel Community (ECSC) orchestrated to crescendo this week. Key agents in the war are right-wing CNEP (French Employers Association) Vice-Chairman Jacques Ferry; the Second International's Sir Montague Finneston, Chairman of the Labour government's British Steel Corporation; and European Economic Community Commissioner for Italy Altiero Spinelli, openly affiliated with the Institute for International Affairs of the CIA and Italian Communist Party.

Ferry has reopened his year-old call for national import controls, production cuts, and artificial price supports known as "declaration of manifest crisis" under founding Article 61 of the ECSC hoping to suck desparate steelmakers into insane calls for government protection. This would in fact Balkanize EEC trade, bankrupting companies right and left as markets shut. Undaunted, Spinelli with Finneston's support, has had himself commissioned by the EEC to produce recommendations for implementation by Oct. 22.

West German steelmakers, which the U.S. Treasury claims are the "most outspoken proponents of protectionism in Europe" as well as being heavily involved in East-West trade, are particularly targeted. As West German firms go broke under conditions of cut throat price competition, the government Kartelamt trustbusting agency is investigating Krupp, Thyssen, and other Soviet business partners for illegal high price fixing. This is again geared to make the firms clamour for "legal" government protection.

Behind this European paranoia is six months of U.S. Treasury witch-hunt investigations of European and Japanese auto exporters, on charges of "dumping" instigated by the CIA's auto union chief Woodcock. The Treasury has threatened all EEC exports with tariffs by charging that the EEC tax rebate system constitutes "price support."

Pro-development forces, however, are not sitting still. Handlesblatt, newspaper of BRD industrialists, leads the attack on the mutual cannibalization of protectionism in its Friday headliner. Attacking the Rockefeller-Ford Administration for "losing control" over protectionist forces, it branded the Treasury dumping charges "a protectionist superweapon." Dr. Dieter Spethmann, Chairman of Thyssen stressed that although BRD steel demand had fallen by 30 per cent "You haven't heard a word that international restrictions should be imposed," according to the Financial Times. First National Bank of Chicago's Schmidt, in a London speech Thursday, similarly called for international cooperation to avoid "an avalanche of protectionism."