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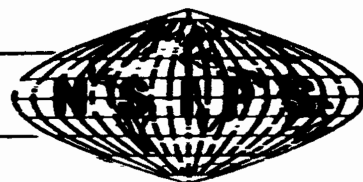

International Markets Newsletter

# Currency Collapse Springs Political Crisis For Atlanticists

July 17 (NSIPS) — Yesterday's dramatic collapse of the French franc on international currency markets began the final phase of disintegration of the dollar monetary system, with the Italian lira, the British pound sterling, the Dutch guilder, and the Japanese yen next in line. Unlike the March 31 round of currency attacks, which the New York City banks and their "Eurodollar" affiliates provoked to force austerity onto Western Europe, this week's events are out of New York banks' control.

The currency breakdowns have sprung a political crisis on Western Europe on the worst terms possible for the Atlanticists. The crisis gives European pro-development factions every chance to seize the political initiative, and leaves them no out but a general moratorium — before September — on over $90 billion in Western European debts to the Eurodollar market.

France's currency fell a staggering 2 per cent in trading July 16, when panicky French businesses and Eurodollar speculators dumped several hundred million dollars' worth of French francs. The run against the franc began after the government announced a $200 million trade deficit for June, indicating a vertical drop in French industrial exports. Despite $100 million in intervention by the Banque de France, which brought up discarded French francs with dollars out of its narrowing foreign exchange reserves, the currency took its worst fall since early April, when France withdrew from the West German-centered group of closely-pegged European currencies.

Earlier last week, French branch offices of New York banks began a trickle of speculation against the franc, with the aim of "inoculating" French capitalists in preparation for a sharp devaluation during the August holidays, when Paris is almost deserted. "Otherwise," one top banker said, "there will be demonstrations in the streets." Instead, panic broke out Friday morning July 16 after news broke that the economic crisis had caught up with French President Giscard.

Since September 1975, France has borrowed $2.7 billion on the international markets, and is borrowing this year at an annual rate of $5 billion, far exceeding its accumulation of Eurodollar debt after the 1974 shock when oil prices quadrupled. Officials at Morgan Guaranty Trust, which last week put together a $500 million loan for the French treasury, explained privately that President Giscard had begged them for cash in order to save his political hide. Neither French workers nor French industry will tolerate austerity program, the bankers complained, and French Prime Minister Chirac last week agreed under pressure to cancel taxes and debt payments of drought-stricken French farmers. To maintain production credits to industry, Giscard has had to go to the international banks.

Now the wolves are at Giscard's door. Writing in the Paris daily Le Monde today, Gaullist commentator Paul Fabra says that Atlanticist French finance minister Jean-Pierre Fourcade "can neither control his mouth nor the fate of the French franc." In a press conference last week, Fourcade explained that France needn't worry about its debt, which Wall Street put at close to $25 billion — France can always collect on its outstanding loans to the Third World! Due to international commodity speculation and the decline in international value of the French franc, Fabra reports, the price of imported raw materials for French industry rose by 63 per cent over the past year. Either a sharp drop in the franc's value, or the buildup of further indebtedness, Fabra warns, means disaster.

In reaction to the franc's collapse, the Austrian government announced it would drop out of the dwindling European currency union, in order to maintain a close parity between the Austrian schilling and the West German mark to preserve the trade relationship between the two countries. Hysterically, the West German daily Die Welt charged the Austrians with "giving the kickoff" to a new monetary crisis.

### Bankruptcy Stalks Europe

But the atmosphere of panic has less to do with the deteriorating French situation, grim as it is, or the currency jumble in Europe, than the almost immediate threat of a forced default on $40 billion of Italian and British foreign debt. Saved at the last minute by $5.3 billion off the printing presses of the United States and West Germany last month, the British treasury has already spent $2 billion of the mammoth bail-out loan. The country will be broke again by September. British politicians, including a ranking member of Prime Minister James Callaghan's cabinet, are making contingency plans to freeze payment's on the country's $25 billion foreign debt.

Pre-empting the next collapse of the pound sterling, which fell this year by over 10 per cent to $1.78, the Arab oil-producing state Abu Dhabi announced last week that it would withdraw its assets from sterling.


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Italy, which has been bankrupt since March, has avoided default on its $16 billion foreign debt through a ferocious squeeze on essential imports and under-the-table credits from Saudi Arabia and other Arab oil-producing countries. The flimsy arrangements which have momentarily stopped Italy from bringing down the Eurodollar market and its New York banking creditors will not last until September.

The European Community Commission, the core of Europe's Atlanticists, this week forced Italy to maintain import controls scheduled to be lifted Aug. 3 for another three months, which virtually guarantees the bankruptcy of the state sector of Italian industry. These controls, which require the deposit with Italy's central bank of half the value of all goods traded, have prevented Italy's industry from stocking up of vital raw materials. Current stocks will run out by the beginning of August, forcing a make-or-break confrontation between Italy's creditors and Italian industrialists.

Already, the Italian oil giant ENI is on the verge of bankruptcy through the combined effects of the import-deposit scheme and delayed payments from the equally-bankrupt state hydro-electric authority, ENEL. Despite repeated demands from ENI's management, the Italian treasury has refused to release funds to keep the country's main importing and refining operations functioning. ENI, founded to give Italy an alternative to dependency on the Rockefeller oil multinationals, is the vehicle for a series of oil-for-technology exchanges which Italy's state industry struck with the Soviet Union, Iraq, Algeria and Libya. Guilio Andreotti, the country's newly-appointed Prime Minister, will view any threat to ENI as a menace to Italian national security.

Japan, meanwhile, has beaten off a speculative attack of the Japanese yen, which banking sources pinned directly on the New York banks. U.S. Treasury officials had insisted that Japan let the value of its currency rise and price its exports out of the world market. The world financial situation, the officials insisted, demands that other countries spend their available cash on debt payments rather than on imports from Japan! Japanese business leaders are factionalizing directly with Chicago and other Midwestern U.S. industrialists, bypassing William Simon's Treasury. Signicantly, a high-level delegation from Japan's business association leaves next month for the Soviet Union to work out the contribution of Japanese industry to the Soviet Union's upcoming five-year plan.

Taken as a whole, the outbreak of crises for a half-dozen leading currencies exposes the flimsiness of the Atlanticists' paper empire. A simple declaration of debt moratorium could bring down the whole structure. And with the Soviet recent offer of the transfer ruble as the basis for a new world monetary system, the Soviet Union has handed anti-Atlanticist forces in the European Economic Community the political weapon they need to force the replacement of the bankrupt dollar empire.

# European Livestock Herds Slaughtered As Continent-Wide Drought Continues

The most severe drought to hit since the 18th century has continued this week without relief. Fodder, corn and potato crops, which are primarily livestock feedstuffs are most seriously damaged. Due to water shortages, the potato crop, in normal years used for human consumption, this year consists of potatoes so small that they are fit only for animal feed.

The lack of feedstuffs has caused the slaughter of livestock at unprecedented rates. As the European herds are slaughtered, the governments of Common Market (EEC) countries have been unable to intervene sufficiently to support market meat prices, due to the already existing mountains of meat in the EEC-sponsored stockpiles and lack of further room for storage. The result has been a plummeting of meat prices over the last few weeks. In France, poultry and rabbit meat prices fell nearly 50 per cent in one week.

The danger of the herd slaughter is obvious. Beef and dairy herds, which are being destroyed virtually overnight, cannot be rebuilt in a short period of time. Due to stepped-up rates of butchery, France is already reporting shortages of milk. According to the Paris daily Le Monde of July 6, French dairy production is dropping at the rate of 4-5 per cent per week. (It should be noted that the EEC has been attempting to reduce dairy production for years to clear away massive stockpiles of butter and powdered milk. French cows eat more butter and milk than most Frenchmen.)

The drought extends into eastern Europe and though reports conflict, Poland, whose farmers normally produce nearly as many potatoes as all of Western Europe combined, seems to be particularly hard hit. Poland's potato crop is used as feed for pigs which are processed and shipped primarily to the U.S.A. and West Germany, and represent a major source of Western currency. The slaughter of Polish pig stocks has been intense in recent weeks and there will be substantial losses of foreign exchange because of reduced herds if the reports which forecast continued drought are correct.

Though it is too early to tell how much grain Europe will have to import, it is clear that imports will be necessary. It would be rash to totally deplete European reserves in a year when most of the world is enjoying record harvests and if credit or disaster relief are provided, total depletion of the reserves can be expected. Food for human consumption will be needed, particularly to replace potatoes. The West German working class will be particularly hard hit since potatoes are a staple of the West German diet. Feed grains are crucial as well if the decimation of the livestock herds is to be halted.

Press coverage downplaying the severity of the drought situation has slowed the flow of aid. According to the Baltimore Sun of July 17 all but the farmers will remember the drought "as a succession of unpleasantly hot days."

The only "official" recognition of the severity of the situation has thus far come from the government of the West German state of Nordrhein-Westphalen, which declared a one-year debt moratorium on farmers' agricultural debt and interest. The French Government is 'now negotiating aid for farmers' organizations.

Estimates of total drought damage have run as high as $50 billion. The London Financial Times estimated the loss for France alone at $5 to $6 billion in foreign trade balance-of-payments, aid to farmers, and lost hydro-electric power.