NEW SOLIDARITY INTERNATIONAL PRESS SERVICE

International Markets Newsletter

Economic Warfare Breaks Out In Europe; Gaullists Demand New Monetary System

July 31 (NSIPS) — Open economic warfare broke out this week in Europe, when leading French Gaullists and their Italian supporters demanded a new gold-backed monetary system and cooperation with the socialist countries of Eastern Europe.

These demands, issued by Gaullist spokesmen Michel Debre and Jacques Rueff, are in answer to a new currency crisis across the European markets which threatened to force major devaluations onto a half-dozen leading currencies.

In an interview on French National Radio yesterday, Gaullist leader Michel Debre issued a three-point emergency program: expanded cooperation with the Third World for economic recovery; return to a gold-backed monetary system; and priority to fighting inflation inside France, now predicted to reach an annual rate of 20 per cent.

Gaullist economic spokesman Jacques Rueff told the Italian magazine L'Expresso that the United States had "orchestrated" last week's collapse of the market price of gold, "in order to preserve the hegemony of the dollar in the international monetary system." To expand production and trade, Rueff said, the world must return to a gold reserve basis for international payments.

Indicating strong Comecon support for such proposals, one of Hungary's top central bankers called for the advanced-sector nations, the Comecon countries, and the Third World to join negotiations under the auspices of the United Nations to put the new system together.

Attack and Counterattack

U.S. and West German banks combined last week to knock the market price of gold from over $120 an ounce to a low of $105 an ounce. This was an undisguised act of economic war against France, Italy, and the Soviet Union, which depends on gold exports for part of its foreign exchange needs. Atlanticist sources, notably the Financial Times of London, boasted that the gold price drop would force hardship onto the Soviet economy and give Kissinger's State Department leverage to twist Soviet arms on major policy question.

In retaliation, French and Swiss banks have combined to shore up the gold market and announced their intention to rid themselves of the bankrupt dollar. Swiss National Bank President Fritz Leutwiler yesterday attacked the United States and the International Monetary Fund for "being in such a hurry" to drive the gold price down through open-market sales of the metal. The French central bank has been purchasing gold heavily during the past two weeks.

But New York bankers announced their intention to step up the attack on European currencies, which sent foreign exchange markets into turmoil on July 29-30. The West German central bank had to spend over $100 million to absorb a speculative attack against the French franc, the Belgian franc, and Dutch guilder. "There will be a general European crisis by the middle of next week," boasted the chief of currency trading at a top New York City bank. "We're going to make it so hot for the West Germans that they won't be able to support the other European currencies. You might call it kicking the Europeans while they're down on the gold issue."

"However," the banker added, "we can't risk a frontal assault against the French. We're going to have to force the franc down in dribs and drabs between now and September." The reason for caution, the banker said, is that the French Gaullists are preparing their ultimate weapon of economic warfare — supporting the new Andreotti government of Italy in a debt moratorium against the New York banks. A dramatic collapse of the French currency, which would quickly wreck the French economy, would give the Gaullists the edge against Atlanticist French President Giscard.

The banks' objective is to force austerity policies onto Western Europe by chopping up the purchasing power of the currencies of debtor countries — preventing consumers from buying imported goods and squeezing industries' ability to import raw materials.

The Eastern Front

Although Atlanticist economists had bragged of building an austerity-forcing "axis" between the U.S. dollar, the West German mark, and the Japanese yen, the Bank of Japan announced July 29 that it would not permit the yen to be used as an international reserve currency as backup for the U.S. dollar. Calling the proposed "internationalization" of the yen "inflationary," the Japanese authorities repudiated the direct demand of Trilateral Commission economists who had demanded the Japanese print money to keep the dollar afloat.

The European factions who line up against the New York banks are simultaneously making strong overtures for an economic union with Comecon. The Italian daily Il Fiorino, a conduit for Prime Minister Andreotti, July 28 praised the Comecon's economic and monetary integration program, citing the "extremely useful transfer-ruble" as a reason for the success of the alliance. Fiorino called on the Comecon countries to "extend their economic planning to the area of trade with Western Europe," and proposed convertibility of the transfer-ruble as a means to accomplish this.

Hungarian central banker Janos Fekete, in a recent speech, indicated that the Comecon countries were wholly committed to a new world monetary system. There can be no capitalist recovery without a new monetary system, Fekete said, ridiculing the so-called recovery as a "one-shot" operation based on deficit spending. Rather than the dollar and so-called Special Drawing Right, the International Monetary Fund's funny-money, gold must be at the root of the new system. The Hungarian official called on the industrial capitalist countries, the Comecon nations, and the Third World to join negotiations in the frame-work of the United Nations to put the new system together.

This perspective has brought foam to the mouth of the editors of the New York Times, who devoted an editorial today to an attack on the transfer-ruble — whose existence the Times has not hitherto reported. "Comecon nations do business with each other in terms of a national (sic) currency or unit of account called the transferable ruble. Useful as that may be for bookkeeping purposes, it is no substitute for a genuinely convertible currency that is welcomed everywhere as are, say, the dollar, the West German mark, etc."

The Times editors believe that a currency is something to be held and squeezed. In contrast, the transfer-ruble is a **transferable international credit** between nations to finance whatever trade Comecon nations agree is economically useful. European nations, whose trade is collapsing under a burden of $90 billion in European dollar debt, want access to it.

New York Banks Declare Currency War On Europe

July 31 (NSIPS) — The major speculative attack on European currencies launched by the New York banks on July 29 had the avowed purpose of forcing severe austerity policies throughout Western Europe. According to the chief foreign exchange trader at Chemical Bank in New York, "a general European crisis" will erupt "possibly by Monday or sometime next week." The Atlanticists' immediate objective is to break up the European currency "snake" — the close union of major trading currencies —and compel a revaluation of the deutschemark, immediately raising the cost of imported goods to all West Germany's European trading partners. Asked whether this currency warfare was not "kicking the Europeans" while they're down," coming on the heels of the Rockefeller-orchestrated gold price collapse, the Chemical Bank spokesman answered in the affirmative.

In heavy trading on July 29-30, every "weak" European snake currency, including the Belgian franc, Dutch guilder, Swedish kroner, Danish kroner, and Norwegian kroner, hit the "floor" against the deutschemark — that is, the lower limit within which currencies are allowed to fluctuate in the snake system. The Bundesbank, which has been fiercely resisting a deutschemark revaluation due to its destructive effect of West German industrial exports, was forced to intervene massively in support of these currencies, buying 1.04 billion Belgian francs and more than 20 million Swedish kroner. At the same time, heavy speculative pressure built up against the British pound and the French franc. The latter is to be devalued another 8 per cent, Business Week "predicts."

Ironically, the currency chaos in Europe has boomeranged against the dollar itself which dropped 1.8 per cent against the deutschemark between Tuesday and the end of Friday's trading. Although the Atlanticist bankers had intended to build up the deutschemark as part of their strategy for subjugating Europe, a panic set in following new Commerce Department releases showing a slowdown in the U.S. economy belying the recovery myth. Thus, the Atlanticists unwittingly triggered a major "crisis of confidence" for their own worthless currency.

Their provocations have merely served to harden the resistance of the French Gaullists and other anti-Atlanticist European capitalists who aim to build a new monetary system backed by gold. The French Central Bank announced on Friday that it had bought more gold at the latest International Monetary Fund auction. In an interview with the Italian periodical Expresso, Gaullist economist Jacques Rueff exposed the U.S. role in organizing the gold price drop, and called for reintroduction of gold into the monetary system to provide the basis for productive investment and trade. Also on Friday, French radio broadcast every hour on the hour an interview with Michel Debre, prime minister under DeGaulle, who advocated expanded economic relations with the Third World on the basis of a new monetary system.

Austerity Compounds Crisis

But the Europeans must take decisive action against the dollar soon, before Atlanticist-dictated austerity reduces their economies to an economic "trummerfeld." Already, as a result of Friday's battering of their currencies, the Dutch were forced to raise their bank lending rate by one half percentage point while the Belgians hiked short-term rates, moves which are bound to choke off any remaining potential for industrial growth by making credit too expensive.

Italy, currently the Atlanticists' chosen model for "how austerity can work," actually proves the exact opposite. As result of draconian import controls and "reverse capital flight" orchestrated by the Atlanticists since the elctions, Italy will be able to meet its debt obligations, New York bank officials brag. The import deposit scheme, requiring industrialists to deposit 50 per cent of the cost of all imports with the Bank of Italy interest-free, has sucked $3 billion out of the Italian economy, allowing the BOI to repay $500 million to the U.S. Federal Reserve — **in advance** of the September deadline — and $2 billion to the West German government.

In reality, the austerity regimen is driving Italian productive industry and labor power back into the Dark Ages. According to Italian press accounts, the import deposit scheme has cost the Italian chemical and oil giants, Montedison and ENI, hundreds of millions of dollars in interest charges and forced the latter into virtual bankruptcy. ENI has had to restrict its oil imports to a bare minimum, while its seeks to prop up its major customer, the equally bankrupt Italian electrical firm ENEL, by selling the latter oil on credit. New York banks insist that the import deposits must be extended indefinitely, but if they continue much longer, raw materials and food shotages will shut down the entire economy.

Meanwhile, last week's London Economist exposes the fragility of the New York Atlanticists' "solution," pointing out that the Bank of Italy must begin reimbursing Italian capitalists for their initial import deposits starting August 3, that the "reverse capital flight" has come to an end, and that the "slowdown" in the rest of Europe will preclude any Italian "export boom" on the basis of the devalued lira.