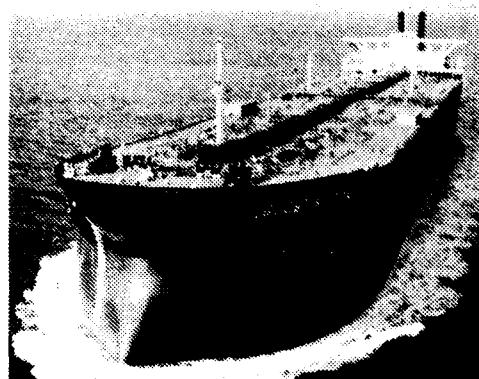


INTERNATIONAL MARKETS NEWSLETTER

Italy Imposes Lira Inconvertibility; D-Mark Revaluation Backfires Against Dollar



Oct. 23 (NSIPS) — The Italian government imposed de facto inconvertibility of the lira this week, in a move widely interpreted as a transitional measure towards a moratorium on Italy's \$17 billion foreign debt. The Bank of Italy has virtually taken over all foreign exchange transactions in Italian lira in the past few days. According to yesterday's Journal of Commerce, representatives of the Andreotti government and Bank of Italy have ordered U.S. oil multinationals, such as Exxon's arm Esso Italiana, to forego the conversion of half a billion dollars' worth of lira these companies hold into dollars until the end of the month, "and perhaps longer." In effect, the Italian government is declaring its right to suspend dollar payments on the \$8 billion's worth of crude oil imports it receives from the Rockefeller-controlled oil multinationals each year, while moving to ensure that alternative oil supplies are available via bilateral oil-for-technology deals with the Soviet Union and OPEC countries.

Andreotti's latest measures have confirmed the worst fears of International Monetary Fund (IMF) officials who warned earlier this week that the Italians would institute an "East Bloc currency arrangement", taking their currency out of the hands of the speculative foreign exchange market, and setting up large-scale barter deals with Arab oil producers and the Soviet Union. Italy has negotiated provisional oil-for-technology and raw materials trade deals with Iraq, Libya, Algeria, and the USSR. Libya alone has 1.5 million barrels per day of excess oil capacity, enough to meet 75 per cent of Italy's needs, and an underwater pipeline direct to Italian refineries. Providing critical back up to Andreotti, the Soviet newspaper Pravda praised Italy's victory of East-West collaboration in a major article this week, beginning with Enrico Mattei — the former head of Italy's national oil company who inaugurated the policy of bilateral deals over the violent opposition of the multinationals during the 1960s.

Lower Manhattan Bank officials warned of "international panic" should the true import of the Italian measures be broken in the world's press. Chase Manhattan's chief economist, Larry Brainard, protested: "We're not hysterical about this. It's the companies (i.e., the oil multinationals — ed.) who are hysterical; they're the ones who hold all the lira!"

The Italian initiative, the Atlanticists fear, could set the precedent for an even more devastating British pound inconvertibility and the freezing of 11 billion in sterling balances held by foreigners, which could crash the Eurodollar markets in a matter of days. "Lira and pound inconvertibility is looming," a European IMF director warned in an interview yesterday. Bankrupt Britain is under the gun to repay \$5.3 billion in emergency credits back to the U.S. and OECD countries by early December. Italy itself has a mere \$1.3 billion in foreign

currency reserves left — enough to cover only two months' trade deficits — and is being pressured to repay a \$500 million loan to Britain.

But the Spanish central bank chief Morra warned the Atlanticist think-tank Center for Strategic and International Studies, at Georgetown this week, not to attempt an "economic shock" treatment for Italy, since this would push the Italians into "the other camp."

"Pearl Harbor" Backfires

Italian inconvertibility was the final "kick in the teeth" to New York bankers, who earlier this week saw their efforts to boost the U.S. dollar through a European currency "realignment" prove a miserable flop. On Oct. 18, the central bankers of West Germany, Belgium, Holland, and the Scandinavian countries acquiesced to Lower Manhattan demands for "readjustment" of the Six-nation currency bloc known as the European "snake". The realignment consisted of devaluations of the other snake currencies against the deutschemark, an austerity measure to force these countries to cut necessary imports. The forced realignment was "our monetary Pearl Harbor" against the Europeans, a Lazard Frères senior partner admitted, the prelude to an all-out assault on the lira. A high official of the U.S. Federal Reserve board of Governors reported early this week that Federal Reserve Chairman Arthur Burns was encouraging a policy of "total anarchy" in the foreign exchange markets, directed against the lira, French franc, and possibly the British pound, in order to force Andreotti's capitulation to the IMF-NATO austerity program. An official of the Federal Reserve Bank of New York added, "That's what Burns and (Treasury Secretary William) Simon are pushing for. We're not happy about it — we think it's too risky politically."

By mid-week, however, it was clear that the ploy was backfiring and that, without a political victory for Wall Street's austerity programs, the inflated dollar would not stand up. For weeks, New York foreign exchange traders had blamed the weakness of the dollar on "technical factors" due to the heavy speculation on deutschemark revaluation, confidently predicting a dollar resurgence once snake realignment occurred. Instead, the opposite occurred, the dollar slumped against the weakest European currencies early this week, including even the Danish kroner.

Rather than giving the dollar a "dose of oxygen" in the French financial daily Les Echos' phrase, the revaluation came off as an obvious political fraud to give short-term support to the Eurodollar market. The reluctant West Germans, whose industrialists have bitterly fought the concession to Wall Street, only devalued the other snake currencies by two to six per cent, not the 20 to 30 per cent the New York banks demanded. The run on the dollar further prompted the French financial daily Les

Echos to demand "a second Bretton Woods conference" to create a new monetary system, and "strict controls on the Euro-dollar market, the main source of inflation."

The dollar collapse also forced the Federal Reserve to delay its plans to lower the "Fed Funds" (interbank) rate from 5 per cent to 4.75 per cent, which Burns had planned in order to flood the Eurodollar markets with new liquidity to roll over defaulted Third World debts to the New York banks. The postponement of Burns' hyperinflationary plans allowed the battered dollar to "stabilize" at the end of the week.

IMF Says Italy May Make Lira Inconvertible

WASHINGTON, D.C., Oct. 18 (NSIPS) — Italy has three choices to deal with the current collapse of the lira, a high official of the International Monetary Fund said today, and the only tenable one may be to render the lira inconvertible, "East bloc style." This would mean an immediate move to greatly expanded trade relationships with the socialist sector and OPEC states, he said.

"First, he stated, "Italy can do what we are asking as conditions for her loan application to us of \$530 million. Above and beyond the \$4.7 billion cuts in credit for private consumption made last week, the government must cut its spending, especially on nationalized industry, raise public service prices and taxes significantly, and deal decisively with the wage agreement (which now guarantees Italian workers wage hikes at least commensurate with inflation). I might add that the major nations have agreed that Italy gets no large credits until she complies with the IMF conditions — it's a 'seed-money' loan."

Given the extreme opposition to this program in Italy's working and industrial population, he admitted, this is "untenable, the government simply won't be able to do it."

"Secondly, Italy could have a Latin American style inconvertibility. Just as they did in January, the central bank simply ceases to support the currency — and it seeks its own level. But if this goes on for long, there will be such hyperinflation as to bring a dictatorship to power, as in Chile."

The only other choice, he said, is "rumors we have heard about an East bloc style inconvertibility. No more lira are sold for foreign exchange, the markets close, and Italy must finance all imports by export sales, or borrowing, like the Soviet Union. Of course, no one in New York or London will loan to her. But, theoretically, Italy could ally with the East bloc, and the OPEC states if Italy has barter deals there and trade in kind."

Rockefeller Advisor: "Italy May Join Ruble Bloc"

NEW YORK, Oct. 18 (NSIPS) — Curtis H. Hoxter, a top currency advisor to David Rockefeller's Trilateral Commission said today, "Sure, maybe Italy will join the ruble bloc. Then Italy and the Soviets would have all the gold and they could set up a new gold clearing system." Hoxter made the comment after he was asked today what his reaction was to rumors in Milan and at the IMF in Washington that Italy may declare the lira inconvertible in the manner now done in Eastern Europe.

Asked whether this would mean a declaration of debt moratorium by Italy, he said, "Italy already has a debt moratorium. So what. Look at all the projects Montedison can then finance in the East bloc. The Germans will be able to collect their gold on their \$1.5 billion loan to Italy from the New York Federal Reserve where it's held," he continued. "But you're right, that probably won't stop the Italians."

Lazard Freres:

The Debts Must Be Paid

Interview with member of Board of Directors (M), Lazard Freres. The interview began with M's reminiscence about his recent trip to Brazil.

M: Brazil is a wonderful place. Now that's a place where I could really have fun.

NSIPS: You are lucky that you did not catch any deadly diseases.

M: That's silly. You could catch diseases in Mexico too...Of course people are starving and being tortured in Brazil, but there's real growth going on. People's lives are being controlled for the greater good, for the sake of productive growth. You can rest assured that twenty years from now fewer people will be starving in Brazil...You could say this is immoral; perhaps amoral is a better word. I'm not a politician, I'm a businessman. You have to understand how I look at it. I'm in this for fun!

On War

NSIPS: (explains present war danger)

M: ... There's always such a danger... No, we have never discussed it at meetings at Lazard. I have no reason to believe war is so close.

NSIPS: (explains connection of present war danger with how Hitler regime led to war.)

M: Well, my point of view is that I intend to avoid being fried. I don't think I'm in danger of that now, but if I were, I would just go somewhere else.

On Debt

NSIPS: The chief war danger is the Rockefeller banks and their employee Kissinger's view on debt collection. Kissinger has said that debt moratoria will be viewed as a military strategic question.

M: Debts must be paid. They are a contract, you might say a sacred contract. The Soviets wouldn't challenge that. Debts must be paid, and people must tighten their belts in order to assure that once again there is a balance between inflow and outflow of funds.

NSIPS: But as you may know, there are a large number of countries who have taken the step of a *de facto* debt moratorium

M: Yes, that's right. That's the fault of Citibank and Chase Manhattan in particular. These people are stupid and they deserve all the difficulties they have! They decided to give loans to these countries like Guyana and Tanzania when anyone could tell that they would not be able to get payment. Our policy is to give no loans to countries like these — it's just throwing money down the drain.

NSIPS: What about the advanced sector? Italy, for example, has a very bad debt situation, and at this point the Andreotti government is very actively considering moving into the Comecom orbit to restart its economy.

M: The Italian situation is terrible — to solve their problem they must have austerity. If they do not, what with the bad rate of inflation and everything, they will end up having either a dictatorship of the left or of the right — no difference. That will be very painful for them; I hope it doesn't happen. Perhaps up to 10 million Italians would go under such circumstances. But it will happen if they don't take the necessary austerity measures. And perhaps it, like Mussolini, is necessary — after all, he did make the trains run on time.

The worst thing about Italy is Montedison and that character Cefis. He should be put in jail, and perhaps executed, for being responsible for that nightmare of inefficiency. My model of the kind of person needed to pull Italy together is Cuccia, president of MedioBanca. Now if Italy only had 40 or 50 Cuccias....

NSIPS: What about the rest of Europe?

M: Well, we have a problem in Britain. There is political resistance to the kind of austerity that is necessary, just like there is in Italy. Austerity has to be imposed, or the population will suffer greatly. At least in Britain under emergencies the population usually pulls itself together to do what it must.

NSIPS: What's your impression of the future of the pound?

M: It's reached its bottom. At least it better have, because I have a lot of money invested in the pound.

NSIPS: What about France?

M: France is a very rich country, and (unspokenly, unlike Italy) its people are willing to work. The economics advisor to Mitterrand is a very good friend of mine. He is quite brilliant, although of course a dangerous man. Under a Mitterrand government he would be the Finance minister.

On New York

NSIPS: Do you agree with Mr. Rohatyn's plans to eliminate welfare and set up people to be relocated to areas where "productive" work, like stripmining, is possible?

M: Mr. Rohatyn is a PR man — he's a softie. That's why he keeps talking about putting off debt payments for up to 10 years. The city must pay its debts, people have to tighten their belts. The reason it's gotten this bad is that all those unskilled Puerto Ricans and blacks came here, and they ran into a declining economic situation. So now New York has to learn its lesson for all those social services - overhead — that began with Mayor Wagner. Austerity must be imposed until inflow equals outflow. With the money we save, we must give incentives so that businesses come back into the city.

NSIPS: Why hasn't the current austerity done any good then?

M: We haven't begun to cut the way we have to. And the city's population has to be reduced. They must go where they can get jobs. People I met out in the mines of Colorado didn't mind what they were doing.

NSIPS: The only time that austerity such as what you are talking about occurred, there was no "increase in productive investment." In fact you are cutting the throats of the productive investors. The only outcome of such austerity was war.

M: You're right. But that's just a chance that we have to take.

Izvestia Says:

'Not Tanks and Guns But Oil and Gas Pipelines'

Oct. 21 (NSIPS) — V. Matveev is the top political commentator for Izvestia, the official government daily of the USSR. The following are excerpts from Matveev's Oct. 19 article in Izvestia entitled, "Europe; Problems and Prospects."

... Economic foul weather, the currency, trade, and stock market storms, is permeating all spheres of life in the capitalist world. Western Europe is one of the most serious foci of such difficulties.

True, in recent months something of an invigoration of industrial production has been observed in several Western countries. The increasing military allocations in the budgets of most NATO countries artificially stimulate this activation. Such "medicines" do not heal, but only drive the disease deeper into the ailing organism. After all, the crises in the capitalist economy arose not least of all because of the expenditure of enormous funds and resources for non-productive purposes. Guns have never served as a replacement for butter.

Recently published data show that in almost all the countries of Western Europe except the FRG (Federal Republic of Germany - ed.) unemployment in the past year rose compared to the previous year. Inflation has become just as persistent and chronic. . . . The situation in this regard has noticeably wor-

sened in France in recent months. This immediately affected the position of the franc. It is now taking as feverish a course as the British pound and the Italian lira. The dollar and the West German mark are trying to dictate their laws to the capitalist markets, while at the same time competing between themselves.

Bourgeois officials stress the need for urgent measures to improve the economic situation, dropping phrases, for example, to the effect that "the nation is living beyond its means. . . ." But who does not live beyond his means? When, for example, in one night of roulette at Cannes recently some rich people sitting around the gambling table devoured 5 billion francs, it is clear that for these people such phrases are water off a duck's back.

The harsh economic measures announced recently in Britain, Italy, and France do not hit these gentlemen, but the mass of workers.

It is indicative that the initiators of such measures themselves, pointing out their extraordinary character, cannot promise any substantial improvement of the situation in the near future. . . . At the Congress of the SPD (Social Democratic Party of West Germany -ed.) in Mannheim last November, one of the central questions was how to end unemployment. None of the leaders of the Social Democratic Party of the FRG who spoke were able to give a convincing answer. . . .

Also, note the fact that leading politicians of the western countries, admitting the pressing urgency of existing economic problems, keep silent on that sector of the economy which is devouring the most funds and resources of all — burgeoning military production. . . .

Shifting the weight of the economic difficulties onto the shoulders of the working masses, attempts to pressure the developing countries — such policies indicate the inability of the strategists of capitalism to blunt the sharpness of the contradictions rending this system.

Western Europe and the United States of America are its two fulcrums. And the nature of capitalism is such that the overseas partners of the West European bourgeoisie have no qualms about using the latter's difficulties for their own narrow, egotistical goals, in an attempt to strengthen the position of the USA in Western Europe. To carry out these goals, the U.S. is seeking not only strategic bridgeheads in Western Europe, but also points of political leverage which the USA can use to exert influence and even outright pressure against those countries whose internal development causes alarm in certain American circles.

This line appeared, in particular, during the recent meeting in Puerto Rico of leaders of the major capitalist countries. During the meeting its participants from the USA, Britain, France and the FRG reached an agreement not to grant Italy economic aid if Communists enter the government.

This episode shows how certain politicians from overseas are trying to press their partners in Western Europe to take a course of action towards progressive, democratic forces, which would lead to measures of physical repression against these forces — reprisals against them under the banner of anticommunism. This arrangement finds full support in NATO headquarters and not infrequently is directly inspired by them. . . .

Hence the policy of the communist and workers' parties of Europe for cooperation with all other democratic and peace-loving forces. . . . The question of the position of the Social Democratic parties has no small importance in this regard, the more so as they are in power in several Western European countries.

The defeat of the Social Democrats in Sweden (albeit as a result of a slight preponderance of votes received by the coalition of bourgeois parties) was an alarm signal for other member parties of the Socialist International in Western Europe too. . . .

Several parties, comprising the backbone of the West European Social Democracy worked with NATO Generals, ultra-

right forces, and big capital against the Portuguese revolution and its development. A definite split arose within the ranks of the Socialist International in this connection, reflecting the heterogeneity of that alliance and of the parties that comprise it. . . .

The program (of the SPD - ed.), passed at the Mannheim congress last fall, says that "under the cover of the principles of democracy and freedom, enormous economic and also political power is being concentrated in the hands of a few. . . ." What then is the way out? That "private ownership of the means of production and market competition are still inevitable"!

Such — mildly speaking — equivocation leads to the fact that workers who follow the Social Democrats end up disoriented, off the track. Where are they being called upon to go? How are they to get there. . . ?

The SPD's lack of clear orientation on the burning questions of the economic situation and domestic policy could only play into the hands of the CDU-CSU, leading to the decrease in votes for the Social Democrats in the elections. . . .

Even the most prejudiced organs of the Western press, those most hostile to the results of the all-European Conference on Security and Cooperation, have not been able to ignore the first anniversary of the historic meeting in Helsinki.

But although public figures as well as various famous state leaders marked this date with statements reviewing the first results and speaking of the perspectives for the near future, the enemies of detente have tried to poison the atmosphere any way they can.

Thus, for example, the editor of the West German paper Die Zeit, Theo Sommer, claiming the role of an oracle, came out along these lines in an interview in the American magazine Newsweek. Out of the pages of the article there peered the sour, cheerless physiognomy of the journalist. He dumbfounds the reader with assertions such as: "The USSR is organizing a plot for socialist transformation of Western Europe. . . ."

We mention this article only because it is typical of the antics of such "critics" of the process of detente. First of all, as Comrade L. I. Brezhnev said at the Berlin Conference (of European communist and workers' parties - ed.), they are trying to attribute "responsibility" for domestic political events in other states to the socialist countries. Secondly, they would like, as was said at the tribune of that same conference, to frighten the man in the street with "hordes of Russian tanks," to impress upon them that supposedly Western Europe is threatened by danger from the East, from the USSR and the other Warsaw Pact countries. . . .

We and the other socialist countries counter this grist for the mill of the enemies of detente with a steady, principled struggle for clear realization of all the principles and proposals of the Final Act of the all-European conference. Sometimes in the West in this connection one hears complaints from people who support the goals of the conference, who allege after its conclusion that no "striking changes" have occurred. . . . But we never said that the situation in Europe would miraculously change over night as a result of this meeting. The principles agreed upon at Helsinki are the program for a whole historical period. And to realize it has demanded and will continue to demand great efforts by all its participants!

Our country is ready to cooperate in practice not only for the political, but — no less important — for the economic improvement of the situation on the continent. Following what was said at the XXV Congress of the CPSU, the Soviet delegation at last spring's session of the UN European Economic Commission in Geneva proposed to include on the agenda a point on all-European congresses or inter-state conferences on questions of cooperation in the areas of environmental protection, the development of transport and energy. All of these are questions of great importance for Western Europe. The situation there is that the region's dependence on imported fuel is now 63 per cent, and in the future will be even larger. The countries of the CMEA (Council for Mutual Economic Assistance - ed.) can and do propose to Western Europe cooperation projects on a mutually beneficial and equal basis, which can help to solve many of Western Europe's most severe economic problems. (Emphasis added - ed.)

There are many such examples of the possibility of developing fruitful cooperation between states with differing social systems on the continent. The Soviet Union and the other socialist countries are not proposing to pave the way to Western Europe for tanks and guns, but for oil and gas pipelines! (Emphasis added - ed.)

As for armaments, including nuclear armaments, our country is demonstrating the most businesslike, practical approach to efforts to stop the arms race. Central Europe is the region in the world most saturated with weapons — and the entire continent will benefit tangibly from motion forward, towards disarmament.

A Europe of progress and peace must not be a utopia, not a dream, but a reality, achieved by the efforts of all to whom the peaceful future of the planet is precious.

U.S. Opposition To Hyperinflation Grows

Oct. 23 (NSIPS) — Conservative financial circles in the U.S., exemplified by First National Bank of Chicago, Pittsburgh National Bank, and their spokesmen at the Journal of Commerce and the Wall Street Journal, are now directly attacking the New York banks' insane policy of bailing out the bankrupt international monetary system through hyperinflation.

On Oct. 18 the Journal of Commerce editorially opposed the proposed bailout of crisis-ridden developed countries such as Britain and Italy through the International Monetary Fund's General Agreement to Borrow and other loan facilities, and denounced the so-called stabilization of the monetary system through austerity as completely unworkable. "Adjustment of the monetary system would seem much more urgent than further tinkering with the British economy, the Italian economy or the (West) German economy. It is the nature of democratic governments that they can only have limited success in bringing

their economies to 'equilibrium' with those of their neighbors. It is quixotic to base a monetary system on virtues that don't exist and won't exist."

The Wall Street Journal followed up its Oct. 15 attack on the inflationary economics of Carter advisor Lawrence Klein this week by knocking French Prime Minister Barre's austerity program for not doing anything to restrain money printing and — tongue in cheek — the Journal supported workers for striking against the program.

On Oct. 15, the Journal had argued that in all but the shortest run, Klein's proposal to lower interest rates and ignore money supply growth would lead to tremendous inflation and a surge in interest rates.

The U.S. bond market is reflecting the same thinking. In anticipation of a Carter victory and the resurgence of inflation, bond prices were slashed this week, as investors became wary