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lower Manhattan is more or less inherently incapable of understanding the implications of those combined points, because he can not accept an economic analysis of the current OECD situation in terms of the methods uniquely appropriate to study of the Soviet-CMEA sector. The Soviet economy as an economy is more or less comparable to the kind of U.S. economy implicit in the proposal for the Third National Bank. That is, the Soviet economy operates on principles directly analogous to a pure industrial capitalism. Monetary processes are of course superimposed as an essential complement to industrial processes, but those monetary institutions and their functions are subordinate to the primary industrial interest — whereas, in the USA, industrial development is subordinate to the primary interests represented by financial institutions.

This difference between the U.S. and Soviet economies, treating them as if both were capitalist economies, is that accumulated monetary instabilities in the Soviet economy can be settled politically by a stroke of the pen. Hence, the strength of TR-linked monetary systems depends not upon the current financial practices but upon the possibility for establishing a workable, durable monetary system on the basis of the net rate of real capital formation of the Soviet and CMEA economies.

In general the Soviets and CMEA can absorb relatively indefinite amounts of credit, to the extent that the growth in the resulting net rate of real capital formation is greater than the rate of payments so incurred.

In practice, such growth is bounded by the advances in Soviet productive technology and the ability to expand the Soviet industrial labor force. Increased capital formation itself will accelerate Soviet productive technology. The principal internal source for increasing the industrial labor force is agriculture. In general, modern technology applied to Soviet agriculture determines the rate at which the industrial labor force can be expanded.

This could be augmented if the Soviets could realize the objectives of the emergent TR policy: stable agreements which would permit the CMEA sector to plan long-term division-of-labor rationalization of Soviet development with respect to European OECD and key developing nations.

U.S. Dollar Hits 18-Month Low, New Monetary System on Horizon

FOREIGN EXCHANGE

The U.S. dollar fell to an 18-month low against several European currencies this week. Although there are "market" factors operating against the dollar — most notably, the rapid decline in U.S. interest rates caused by depressed business loan demand and Federal Reserve efforts to shore up the liquidity of certain leading New York institutions — the overriding reason for the dollar's weakness is the political convergence of the Soviets and allied OPEC and European business interests around the building of an alternative gold-based monetary system.

On the morning of Dec. 21, a major Soviet international bank dumped some 500 million U.S. dollars on the Zurich foreign exhcnage market, slashing the dollar's value in Swiss france by 1 per cent in 15 minutes. The same day, the top East German policy magazine IPW announced that the Soviets were undertaking "the responsibility to reconstruct the world economy." Startled Swiss bankers described the Soviet intervention as a "very well-performed coup." "We would not rule out a conspiracy," stated an executive of the New York Federal Reserve in response to widely circulating rumors that this was a deliberate Soviet signal to hasten the dollar system's demise.

Saudi Arabia, Algeria, Iraq, and Qatar will make mass withdrawal of their short-term deposits on the Eurodollar market during 1977, the Italian newspaper *Il Fiorino* reported on Dec. 23. London banking sources also predicted an "accelerating" Arab pull-out from short-term dollar assets into gold and European equities, according to the Associated Press.

The West German government has so far refused to buckle under to the demands of Jimmy Carter's "transition team" to bolster the dollar via West German reflation. The Bundesbank has moved to tighten domestic credit during December at the same time that the U.S. "Fed Funds" (overnight bank deposit) and bank prime rates have been dropping precipitously, driving interest rate-sensitive capital out of the dollar sector. Although the Bundesbank maintained minimal support operations for the dollar during the past week — amounting to some $13 million — and New York commercial banks have been "putting out the word" that the Bundesbank will ease credit in January, it is by no means a foregone conclusion that the West Germans will toe the Carter line. Rather than risk further inflation, West Germany could simply "let the dollar go," thereby sacrificing some exports to the U.S., but preparing the way for an independent European monetary policy and expanded trade opportunities with the Comecon and OPEC countries.

Group of Ten — Debacle for Dollar

The most telling sign of an impending European "break away" from the dollar was the pathetic failure of the U.S. government at the Group of 10 meeting in Paris a week and a half ago to raise more than half the $6 billion required for the "General Agreement to Borrow" bail-out fund. West Germany and the other industrial nations which comprise the G-10 have balked at printing up any more currency for purposes of bailing out U.S. banks' international investments.

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"The IMF is bankrupt," cried the U.S. financial press in visible agony, including such respected organs as the *Journal of Commerce* and *Wall Street Journal.* With Britain, Italy, Portugal, and Third World nations lining up for funds, the International Monetary Fund's could come up with only $579.5 million in hard currency for the "General Agreement to Borrow." Switzerland, a non-IMF member, had to put up an additional $347.7 million as a loan to the IMF!

What makes the G-10 flop so critical is the fact that U.S.-based private international banks are dangerously overextended, with an estimated $450 billion in "problem" loans outstanding to European and Third World nations. According to Morgan Guaranty's "World Financial Markets" survey which received prominent coverage in last week's financial press, international loans rose by a record $78 billion in 1976, one-and-a-half times the previous year.

Without international bail-out and guarantee mechanisms, the U.S. banks will simply sink under the weight of carrying out this immense refinancing operation. It is already an open secret in international financial circles that the drop in the "Fed Funds" rate is a deliberate effort by the U.S. Federal Reserve to shore up the liquidity of Chase Manhattan and other New York commercial banks. The plight of Chase et al. is now considered so dangerous, that the Federal Reserve is willing to risk another run on the dollar in order to keep them afloat.

Role of European Debtors

The development of independent European policy will depend largely on the success of heavily indebted Britain, Italy, and France to combat their own currency crises by challenging the very basis of the existing world monetary system. The Italian lira, for example, sunk from 865 to the dollar to 875 this week, when the Italian government began to phase out its foreign exchange tax. Although the Italians have placed further stringent controls over the exchange markets — even instructing U.S. multinational oil companies that they could convert lira into foreign currency only at central bank-dictated rates — these are, at best, temporary measures. More significant is the Italian government's proposal that European and Arab countries pool their reserves in a central institution in finance East -West trade, their stated willingness to guarantee trade financed in Soviet transfer rubles, and the "symbolic" revaluation of Italian gold reserves to the world market price.

France may shortly be in Italy's shoes — financially speaking. The country racked up a stunning $4 billion trade deficit this year, and it is rumored France will soon have to request an IMF loan.

The dollar is even more bankrupt than the British pound, Gaullist financial columnist Paul Fabra charged on the front page of *Le Monde* Dec. 22. Britain's insistence that it not be held responsible for the pound sterling holders of foreigners — that is, Britain's paper IOUs to the rest of the world — "adds fuel to the arguments of the Third World countries that demand a moratorium on their debts. It sheds cruel light," Fabra added, "on the vulnerability of the dollar, which is no less loaded with immense foreign commitments." After all, with three trillion dollars in international liquidity representing claims on the U.S. economy which cannot possibly be repaid, the U.S. is the world's biggest debtor.

GDR: Western Capitalist Nations Have Interest in New Economic Order

The German Democratic Republic's Institute for Politics and Economics (IPW) asserted in its December monthly bulletin that the founding of a new world economic order has become a priority issue for all nations, including both the capitalist world and the socialist countries. In motivating this assertion, the IPW-journal relates the role of the Soviet Union, since the Bolshevik Revolution, in promotion of worldwide economic growth. In 1920 Lenin stated, "We are assuming the task of putting forward a plan for the reconstruction of the entire world economy."

A major portion of the article is that all advanced capitalist countries have self-interest in promoting the transformation of the world economy, in collaboration with the Socialist sector, even if they are acting in favor of strictly capitalist goals. Reprinted below are excerpts from the journal.

What has been manifested since 1973 in the demands of the developing countries is nothing more than the objective needs and tasks of our age, as defined by present conditions of the growing strength and influence of socialism on world politics and the world economy...The resultant, enormous growth of the productive forces (in the Soviet sector...ed) and the tempo of their development have effected, simultaneously an ever greater internationalization (of the world economy). Thus, no nation can remain outside of this framework — whether it be socialist or capitalist, industrially advanced, underdeveloped, or mainly in the initial stages of industrial development.

The orderly and growing exchange of activities between peoples is no longer just a necessary precondition for expanded reproduction within national sectors, but within the global system in its entirety....In the same fashion in which changes are expressed in the international relationship of (political) forces, the forms and mechanisms of these nations constitute objectively necessary elements of a world economy which bears a transitional character, within which capitalist, socialist and developing countries have effects upon one another within a complex network....A change in this structure lies therefore, first of all, in the interests of the exploited and looted developing nations, which no longer desire to sacrifice their own development to the welfare of their exploiters. However, it would also lie in the interests of the highly developed capitalist countries, even if from the standpoint of their accomodating themselves to the changed conditions of capital valuations, or for the purpose of securing an expanded reproduction of capital on an international scale.