cutting aid or like the U.S. Congress in long resisting fresh appropriations for international development agencies.

The point for the developing sector, however, is that a crisis is programmed into the next six months—given trends in the world financial system—whether or not the intervention of adverse events such as an oil shutoff or protectionist trade barriers starts a crisis.

The only reason that countries such as Brazil, the Philippines, and others did not run into an impossible payments bind during mid-1980 is that dollar interest rates fell by half between April and June, from almost 20 percent at the peak to under 10 percent. That is the difference between $50 billion and $25 billion in annual interest charges on Third World bank debt.

However, the rise in interest rates—continuing through the next several months—will create insufferable conditions by the year's end (see Banking).

There are, indeed, major indications that Euromarket institutions are girding for a liquidity crunch and a crisis.

During the past month, banking sources say, commercial banks have suddenly increased their issue volume of certificates of deposit, short-term money market paper that banks use to raise funds. To a great extent, the issue volume of such paper is responsible for the rise in the interest rate on CDs by more than two percent during the past two weeks.

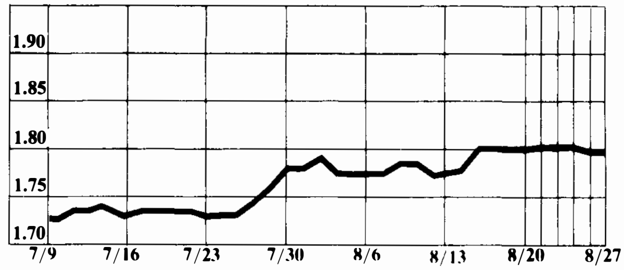
"There has been some pickup in lending," a commercial bank economist explained, "but the banks are rushing to the money markets for the same reason that corporations are rushing to the credit markets—they are afraid that it will be much more expensive to get not very long from now. It may well be that the rush to get liquidity is related to the international strategic situation."

On the international markets, gold has been the beneficiary of the unstable Polish and Mideast situations, and is likely to continue to be. At *EIR*'s deadline on Aug. 27, it stood at about $635 in all the leading markets. West German bankers, who believe the dollar's underlying value is less than the current market price of DM 1.80, worry that both gold and the dollar will rise together for the moment—because an interruption of Mideast oil supplies would devastate the Western European economies.

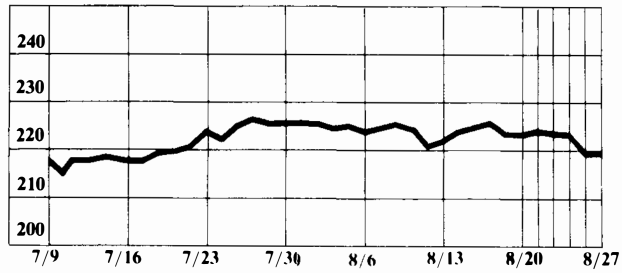
*"A degree of *controlled disintegration* in the world economy is a legitimate objective for the 1980s and may be the most realistic one for a moderate international economic order. A central normative problem for the international economic order in the years ahead is how to ensure that the disintegration indeed occurs in a controlled way and does not rather spiral into damaging restrictionism," wrote Fred Hirsch, Michael W. Doyle, and current State Department official Edward L. Morse in *Alternatives to Monetary Disorder*, published by McGraw-Hill in 1979. The "controlled disintegration" vantage point was endorsed by Federal Reserve Chairman Paul Volcker in a series of speeches starting with a commencement address at Warwick University in January 1979.

Currency Rates

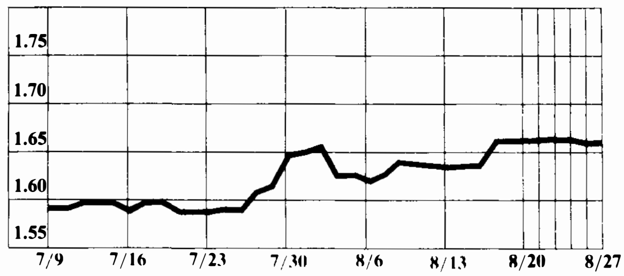
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing