European plan by dumping American gold reserves on the open market and driving down the metal's value. This presumably would prevent the Europeans from using their gold at the high market price, now over $160 an ounce.

Indications are, however, that the Europeans will not be so easily duped. Simon would not dare to sell large amounts of U.S. gold, since this action would spark an uncontrollable collapse. Economists have recognized for centuries that capitalists will swap paper for gold during periods of inflation — destroying paper-based capitalist economies.

A CHASE ECONOMIST VIEWS EEC POLITICS: "IT REALLY DOESN'T LOOK VERY NICE FOR SOUTHERN EUROPE"

May 13 (IPS) — In the wake of the Common Market's break-up — signalled by the resignation of West German Chancellor Willy Brandt and Italy's decision to restrict imports — IPS interviewed Larry Brainard, Chief European Economist for the Chase Manhattan Bank.

IPS: How will Europe look to Chase Manhattan Bank without a European Economic Community [EEC]?

LB: Germany and France are going to try to work things out. There are two considerations to be taken into account. The first is the discussions in the IMF (International Monetary Fund) and around GATT (General Agreements on Tariffs and Trade), also the discussions on gold. There is also the domestic climate of these countries. Now, all these European countries are screaming for stability, they want to remonetize their gold. However, they really place little emphasis on economic stability. They let domestic political needs take precedence. The real mainstay of the EEC has been Germany. They have been willing to pay the cost of keeping some semblance of economic community. For example, they subsidized the Common Agriculture Policy for so many years. Now, Germany is offering to subsidize other currencies. Probably they will work out some kind of program to save Italy. I think the Germans have been overly willing to finance these adventures or misadventures. But it is possible to see why. The EEC has had a tremendous impact on these economies, for example, in the free flow of labor. On the other hand, the Common Agricultural Policy has been a terrible drag.

IPS: European nations have stated their requirements for continued large-scale international borrowing. How does Chase view this?

LB: We've had our arms twisted recently on a major loan. Italy asked us for $100 million recently, and lined up every big bank in the country; and it was clear that our branch in Italy was at stake.

IPS: Was this the recent loan for which Italy was reported having trouble finding participating banks? [See IPS, Vol. I, No. 2.]

LB: I wouldn't say they had that much trouble. But from Chase's standpoint, we were worried about the political, not so much the economic, situation in Italy. Italy isn't much worse off economically than England. But Italy has had to pay a spread of 3/4 per cent above the interbank rate, and England only has to pay 3/8. If Italy comes to the international market, it will face a large spread.

IPS: How do you foresee Franco-German cooperation developing?

LB: Germany has emphasized stability and lower inflation, while everyone else is inflating like mad. Germany is unwilling to call a halt to it all — by revaluing the mark. West Germany can let inflation run its course, or revalue the mark and give the authorities the freedom to restrain inflation. It cannot keep the mark inside the European snake and still restrain inflation.

As for general political perspectives, Brandt's move was unexpected, but the Bundesbank and the finance ministry have control over their areas and have the right kind of conservatism — not like in Britain and France. Germany will bend over backwards to save the EEC. The question is, how far will things have to degenerate before they move to patch things up? My scenario is the following. All of the countries are in a boom now, and are reluctant to change this. During 1974 the situation will get worse, and 1975 will be an extremely difficult year. Right now, West Germany's approach is all wrong. The common float is the wrong way to approach the problem. What has to be done is to harmonize monetary and fiscal policy throughout Europe. There has to be a German approach to stability in all of this. Of course, the social consequences of restoring stability will be exported to Southern Europe. Spain, Greece, and Turkey have military governments or dictators — well, Turkey isn't a military government now, but the military is very close to the scene. Portugal is still unsettled. It really doesn't look very nice for Southern Europe. Germany will have to meet them halfway, by exporting factories to the South. As I said, the soundest way to rebuild the EEC is harmonization of fiscal and monetary policy. Prospects for this in terms of political instability were not that good, the EEC could not take on the vague notion of harmonization against all the domestic political pressures. The direction the EEC could move in has been clouded by the weakness of the governments concerned. My scenario is that the benefits of cooperation will become more forceful when the crisis is really upon them. And now the crisis is in the making. In the near term, the French and Germans may try to come up with some sort of program, but they are not quite at that stage. Many people expect a breakdown in the form of trade restrictions. The next move will probably come from Britain.

IPS: It's almost as if someone was saving that for last.

LB: Yes. You have a Labour government looking for short-term economic gains. If the U.K. moves to capital and trade restrictions, it will be a serious threat to the EEC. Then, Germany can't just sit back. It has to be part of the solution, and reduce its surplus. For the time being, it will squander its dollars to maintain the float, going along with emergency loans. It will resist pressure to revalue the mark.

IPS: What is your opinion of a possible crawling-peg "golden snake" currency system, with a European central export-import bank discounting bills of exchange against gold, and linked to expanded trade with the Soviet Union?

LB: I estimate the Soviets' gold at $12 billion, or about 2,000 tons. In 1973, the Soviets sold 283 tons for $1 billion. They are very careful to balance their books. Any trade would have to be linked with expanded exports. There is very good potential for trade.

IPS: Isn't a gold agreement necessary to overcome the subsidized credit problem, particularly with West Germany?

LB: I don't think the credit issue is a big problem. My impression is that credits will be available at market rates. It's a question of price, not supply. And 12 per cent is not a bad price for money considering the rate of inflation. The Soviet Union is anxious for government-subsidized credit. The strain is on the Soviet side. Our bank and others are perfectly willing to lend them money at market rates. They are a good risk.

IPS: Last year, the Financial Times estimated that at current rates of debt accumulation, the Soviets would pay half their export earnings in the form of debt service

by 1978. Aren't they afraid of having their domestic economic policy dictated by debt-service needs?

LB: The **Financial Times** estimate was way out in left field. First of all, the Soviets have a surplus, since their deficit of $500 million was balanced by $1 billion in gold sales. Also, the **Financial Times** assumed that all the gas deals with Japan would be signed, and they haven't. The Soviet Union has a $600 million surplus with Japan, for example. I'm very impressed with their ability to increase exports. We've told the Soviets of their interest in getting in on the discussions around international monetary reform. But so far they've done nothing. They wouldn't have to join the IMF, only get in on the discussions. Right now, we are discussing the issue with Congress, defending the trade bill. We're for subsidized credit for everyone if possible.

IPS: I have one final question, Mr. Brainard. How do you assess the current world liquidity situation? Many observers have spoken about a possible 1929-style collapse.

LB: As far as liquidity is concerned, it is adequate currently. The difficulties will come with the reluctance of major banks, such as Chase, to go through with major loans. You can't lend out long-term loans on the basis of highly liquid short-term deposits. There is some reluctance among banks now to accept deposits on the short-term. Banks are also concerned with the very competitive situation. I haven't seen spreads rise on loans, and they are too low. Banks are therefore in a riskier position. I could conceive of a growing reluctance of banks, including Chase, to pull in their horns. Then there would be trouble.

CIA PLANNED PORTUGAL COUP

May 17 (IPS) — Fofana Cheik, personal representative of President Sekou Toure of Guinea said that the CIA had ordered the coup in Portugal and had planned it as far back as 1970, when the CIA reported to Nixon that Portugal's premier Marcello Caetano could prove embarrassing because of losing efforts in Guinea Bissau, Mozambique, and Angola (The **National Herald**, India).

BELGIAN VIEW OF THE FRENCH ELECTIONS

May 17 (IPS)— In a May 8 article titled "For Washington The Essential Thing Is Not Who Wins, But Will France Be Stable?," **Le Soir** comments: At this point Washington is not really saying anything about the elections, mainly because no one other than Henry Kissinger dares open his mouth; but rumor has it that Giscard d'Estaing will come out on top. Any way it works, the U.S. expects closer French cooperation in NATO and in economic matters. As far as the possible red threat which Mitterrand might be, no one is too worried. In fact, even if Mitterrand should adopt some sort of nationalization policy, "What he would nationalize would undoubtedly deserve to be nationalized."

CANADIAN FORCED LABOR

May 17 (IPS) — When flooding occurred in Canada's western provinces, welfare recipients were ordered to take flood-fighting jobs at $3.67 an hour or lose their welfare benefits. The Commissioner of Environment in Winnipeg said that many other civic jobs (snow clearing, street cleaning, etc.) were filled in the past by recipients — under the threat of cutting off their benefits. Commissioner Henderson praised the forced work program saying: "It is designed to encourage people to get off the welfare rolls and we feel it is proving effective." (**Toronto Globe and Mail**).

INSTEAD OF EXPANDED FOOD PRODUCTION... MEATLESS DAYS

May 17 (IPS) — Harvard nutritionist Jean Mayer recommended yesterday that adults in wealthy countries observe two meatless days a week to increase food supplies for famine-threatened areas.

The meatless days also would serve as a health measure, the nutritionist told a meeting of the UN Children's Fund.