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The Sept. 10 issue of the Italian daily Corriere della Serra indicates that "The balance of payments problems of many countries have already been solved by "de facto debt moratoria." Austerity and reduciton of living standards will not work as a solution so the debt moratoria approach should be generalized. Under such conditions, Correire concludes, "a minimum price for gold is necessary," as a fall back medium of international exchange in a period of inevitable dollar monetary collapse.

The Italians proceeded to elaborate their positon. Under U.S. presusre to down value its gold assets and to put up additional gold as a condition for a roll over of Italy's $2 billion loan from the Bundesbank, Italian treasury instead repaid a portion of the loan in dollars. This "shows the relative esteem that the Bank of Italy has for gold and for dollars," wrote the Italian financial daily Il Fiorino. A commentator for that newspaper had recently termed the dollar the "toilet paper currency."

The Italian press today widely acclaimed the EEC decision. The rome daily Il Tempo termed it an "Anti-American" move to stop the dumping of gold and "the supremacy of the dollar." Il Fiorino notes that the move acts as a brake on the destructive expansion of dollar liquidity generally, by giving clear warning of the lowered confidence in the U.S. currency.

Panic Hits Euromarkets; Pound And Dollar Battered

NEW YORK Sept. 10 (NSIPS) — Both the British pound and the U.S. dollar were hit with panic selling this week, as international "hot money" fled the Eurocurrency markets in search of safer havens in advance of the expected declaration of debt moratorium by the Third World. The once "imperial" pound sterling dived nearly four cents yesterday to $1.7325, then "stabilized" at $1.7525 today when the Bank of England raised its minimum lending rate to one-and-a-half percentage points to a 2 year high of 13 per cent.

According to foreign exchange traders both here and in Europe, the unanimous agreement of European Common Market finance ministers meeting in Copenhagen today to demand that the International Monetary Fund (IMF) end its gold-dumping policy dealt a decisive blow against confidence in the dollar. The "toilet paper" currency, as the dollar is dubbed in Italian financial circles, dropped sharply against the West German deutschemark, Japanese yen, and most European continental currencies yesterday and early today, prompting U.S. Federal Reserve intervention. The price of gold, meanwhile, soared $9 an ounce during the week.

Arab investors are leading the run out of the dollar and pound. They are rapidly liquidating their short-term Euromarket deposits and putting them into gold, equities, and other currencies. Wall Street has failed in its efforts to contain the panic by persuading OPEC investors to put their petrodollars into the stocks of the most bankrupt New York City banks. The OPEC countries are also backing the Europeans' anti-gold dumping stance, Arab IMF sources report, as part of a broader Arab-European commitment to junking the dollar for a gold-backed monetary system.

According to money market experts, it is highly "abnormal" for the dollar to fall at this time. September 15 is a U.S. corporate tax deadline, a point at which the multinational corporations are compelled to convert hundreds of millions of dollars worth of foreign currencies into dollars. That the dollar should be collapsing under these conditions indicates that an uncontrollable panic has set in. Sept. 13 marks the scheduled opening of the Paris North-South talks, where general Third World debt moratorium is the likely outcome.

The British pound was a casualty of this scramble to get out of the Eurocurrency markets — in which the "City of London" banks play a central role. During the second quarter of 1976, investors, representing mainly OPEC countries, pulled their short-term overseas sterling deposits held at British banks to the tune of $1.7 billion. This rate of withdrawal from the pound, the so-called surrogate dollar, accelerated during August and early September. The British seamen's strike slated to begin tomorrow, threatens to rip apart the wage austerity pact negotiated by the agent-led Trades Union Congress and the Labour Party government last spring to appease Britain's Wall Street creditors, provided only the immediate **psychological trigger** sparking the run on the pound.

By mid-week, the Euro-market crisis had so alarmed Lower Manhattan bankers that they decided to cut the pound off from support operations and let it sink. It was hoped that the pound's "sacrifice" would draw attention away from the sinking dollar. Acting on Wall Street orders, the Bank of England abruptly ended its massive support for the pound on yesterday morning, and the currency immediately tumbled almost four cents. Prior to that, the British central bank has spent a whopping $600-$700 million on support operations in the course of the week — more than 12 per cent of the $5.3 billion bail-out loan which the U.S. and the OECD countries handed Britain in June.

According to New York bank sources, Britain was warned to end this expensive intervention immediately, since any further credits would be made available only on the most brutal austerity terms. Asked whether the U.S. government had directly ordered the British to let the pound go, one trader said, "They don't have to be told. The handwriting is on the wall...Britain will have to go to the IMF in December and the IMF is not just going to hand out another $5 billion without conditions."

Traders now report that the Bank of England, with Wall Street gun at its head, will attempt a "managed" pound collapse to the $1.70 level, in hopes of reducing the drain on its reserves.

But as post-Colombo financial panic builds, all such gambits are apt to get out of control. Despite the best "objective" conditions in its favor — the September 15 corporate tax deadline, the IMF gold auction also still scheduled for September 15, and the diversionary pound devaluation — the collapse of the dollar has continued unabated.

For Wall Street and the dollar both, their time has just about run out.

Financial Community Assesses Europe's Demand For Halt To IMF Gold Auctions

Following are the reactions by the financial community to Italy's demand for a cessation of the International Monetary Fund's gold sales, with assessments by leading observers of the significance of today's unanimous vote by the European Monetary Commission of the EEC to back the Italian demand.

Thomas J. Holt, President of T.J. Holt and Sons gold trading firm: The reason for the drop in the British pound is that Arabs are getting out, and not into dollars, but into some gold and into other currencies which allow them to avoid dollars. The Arabs don't necessarily want to buy (gold) now, they want to wait till the price hits the bottom where all the speculators have been shaken out, but they want to buy. A lot of corporations and other clients we have say that the Arabs are very close to the Third World situation and they know that the debts are not and cannot be paid, so that the state of the major banks and thus of the dollar — and the Arabs' own deposits in those banks — is very

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bad. Furthermore, the general market has known the Third World, REIT (Real Estate Investment Trusts), situation for some time now and they are beginning to get nervous about the dollar generally, that we're getting closer to the time bomb.

The Japanese and the Germans, holding all those dollars, have been heavily armtwisted by Washington on buying gold and the Japanese have not so far. But the EEC announcement indicates that the entire European Commission is really fundamentally gold-oriented — the fact that the Germans participated in an open break between Washington and Bonn. The Sept. 15 auction is likely to be the last one, and likely to be oversubscribed on a wide margin.

Prominent pro-gold financial journalist: The situation does look very serious at the moment. The key thing is that the EEC in Copenhagen unanimously decided that the U.S. and IMF gold policy is wrong....That's right, even the West Germans went with the rest... No, I didn't know that Karl Klasen (head of the West German Bundesbank-ed.) had made a statement on gold saying he would like to see the price go down. That makes it even more interesting, doesn't it. This thing is obviously quite serious. Immediately Reuss (Rep. Henry Reuss (D-Wisc.) Chairman of the House Banking and Currency Committee) made a statement to the effect that the IMF gold sales should go as planned. (A 180 degree turnaround for Reuss, who called for a halt to the IMF gold sales earlier this summer-ed.). The Treasury said it will make its response known when it has further studied the EEC Copenhagen proposals on gold. The State Department said Kissinger had made no concessions on gold with the South Africans in exchange for acceptance of this shuttle diplomacy in that part of the world. So, I don't have to tell you that the gold bloc including West Germany means much more than opposition to the IMF's gold sale procedures. There are underlying and much more deep-rooted issues involved and Europe's basic disagreements with the U.S. on monetary affairs are surfacing in this form.

Official at the International Monetary Fund in Washington: The smaller Gulf states (i.e. Kuwait) in my delegation supported the Italian initiative (for suspension of the gold sales-ed.) when it first came up at the IMF executive board three weeks ago, but the bigger states (i.e. the Saudis) did not, so we could not go with full support for the EEC. Mexico, as well, supports the EEC. The U.S. has still pressured the Saudis into line. Anyway, they just want to see the price drop so they can buy cheaper. Egypt is too dependent on the U.S. and will have to go along....But Europe does want to make a big political deal on this, if they just wanted to keep up the price, they could buy some.

What about the moves by Italy to work out direct crude oil deals with Algeria and Libya?

Italy is organizing this too — they are in direct deal negotiations with not only Algeria, Libya, Iraq, but Saudi Arabia too, in spite of U.S. pressure to stop it — the Saudis insist on some issues. The French and others are behind Italy, but they can't get the Germans into it because of U.S. pressure, so the EEC-Arab negotiations are stalled. The U.S. does not want these petroleum deals with Europe, just as it opposes gold.

Economist at a major New York Commerical bank: My information is that Germany is sitting on the fence on both the gold and the Third World debt issues. The continental European countries are presently opposed to the U.S. position on gold as well as debt. That's all. If there is anything I know beyond that I am not going to tell you.

Spokesman at Deak Perrera in New York: Not only the French, Swiss, and Italians but even the West German Central Bank are for cancelling or postponing the IMF gold auction — the West Germans ostensibly because they want to maintain the value of their gold-backed loan to Italy... It wasn't the Swiss who were selling gold previously, but other people who were then forced to cover their short positions.

Bankers Trust (NY) official: The IMF's handling of the gold auctions was assinine. If the IMF changes its policy the price of gold will go back to $125 to $150....We expect the dollar to weaken for the rest of the year, but I don't believe that a Third World debt moratorium will wreck the Euromarkets.

European Production Sags Under Weight Of Dollar

Sept. 10 (NSIPS) — The sudden about face by leading West German Atlanticist circles on the question of East-West trade exemplified by a letter supporting trade credits for the Socialist sector by Trilateral Commission member Wolff von Amerongen and Heinz Gunther Sohl, should't suprise anyone.

Sept. 10 (NSIPS) — Industrial production indices for West Germany, and for Western Europe and Japan as a whole, have been flat-to-declining ever since the decisive late-March payments crisis. Orders for heavy capital goods, stemming primarily from the Comecon, oil-producing, and other Third World contries, are the only remaining prop for the West European economies — for West Germany in particular.

In July, West German industrial production fell nearly 2 per cent from June with a disastrous 5.5 per cent collapse in the capital goods sector, which includes machine tools and other machinery essential to a healthy, expanding economy. Domestic industrial orders — reflecting production trends for the next three-month period — fell 0.5 per cent.

However, foreign orders soared by an astonishing 51 per cent for the month, after rising at an annual rate of 21-30 per cent during the previous three months. Comments a perplexed Financial Times correspondent, these figures "provide a sort of caricature of an economy in which internal demand is static, but export demand still provides growth."

The great bulk of these new foreign orders are high-technology exports to the Comecon sector and oil-producing Third World countries; but they represent, in the main, previously-negotiated trade deals which are still "coming through." Existing dollar-dominated world credit structures cannot handle expanded trade financing, and, unless developed within the context of an New International Economic Order, these export orders will begin to taper off.

According to a report prepared by the Wall Street investment house Drexel Burnham, West Germany and the rest of Western Europe and Japan have no hope for a domestic-based recovery of their economies due to the "restriction of personal consumption" stemming from Wall Street-ordered austerity policies. Capital investment has yet to revive, reports Drexel Burnham, and if it does, it will be only to purchase "labor-saving equipment," not to expand plants as such.

At the same time, the New York banks' line that a U.S. "recovery" accompanied by huge U.S. trade deficits would bail-out the Western Europeans by providing a market for their goods has been shown up to be another "Big Lie." Not only has the U.S. economy stagnated, but U.S. deficits have not benefited the Europeans in the least. In reality, the U.S. has run a trade **surplus** with West Germany, France, Britain, and Italy since February 1975!