

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 arm-twisted 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 over-subscribed 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 Commercial 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 surprise 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 a 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!

The collapsing West German economy is in danger of going into payments deficit, having chalked up a deficit of \$200 million in July. Faced with such hard economic facts of life, it is no wonder that West German industrialists are increasingly willing to jump the Atlanticist ship.

Who Needs It?

The gravest threat to the Western European economies at present is the inflationary growth of the Eurodollar market now spreading into West Germany like a cancer. Informed market sources report that the Eurodollar markets have been "strained" to the breaking point due to the huge volume of roll-over loans (much of them unpublicized) now being arranged to stave off a September collapse.

During the month of August alone, the Bundesbank was forced to mop-up \$1.2 billion in useless Eurodollars to beat back New York-directed speculation against a deutschemark

revaluation, which would have meant the destruction of West German exports. This huge inflow of dollars will shortly show up in an exploding West German money supply leading to Weimar-style inflation rates, sources at Citibank indicate.

To fend off the inflation threat, the Bundesbank, along with most other West European central banks, allowed domestic interest rates to rise sharply during July-August. This credit squeeze, in turn, only exacerbated the collapse of European stock markets — making it even more difficult for firms to acquire the capital necessary to continue production. As of Aug. 31, the West German stock market index had fallen 5.4 per cent since the beginning of 1976, the French stock market had fallen 9.4 per cent, and the Dutch and Belgian markets, 11.8 per cent, and 8.7 per cent respectively.

With such prospects for "growth" under the dollar empire, the Europeans reason, who needs it?

Japan's Exports Slipped 6.4% In Month Of August

Sept 10 (NSIPS) — The current condition of the Japanese economy show that the wide moves by Japanese industrialists and businessmen to back the Colombo demands of the Non-Aligned Nations is, for them, a question of survival.

Every major economic indicator in Japan shows the downturn. The Ministry of International Trade and Industry estimated industrial production in the manufacturing sector to have fallen 0.8 per cent in August, and predicts a 2.1 per cent fall in September. Certified exports fell 6.4 per cent in August to a level 9 per cent below the March, 1976 peak and export letters of credit fell 13 per cent in August. Consumer spending and real income in July were both 3 per cent below 1975 levels in real terms. Domestic machinery orders fell another 11 per cent in July. So intense are the resulting liquidity pressures that consumer prices **dropped** 1 per cent in August, the biggest decline since 1971, as retailers struggled to maintain sales.

As a result of this situation, the Ministry of Finance has now ordered "a complete reassessment of the Japanese economic situation", according to the Aug. 31 Tokyo daily Mainichi. Normally the ministry, headed by Atlanticist Masayoshi Ohira, is the strongest bastion of Wall Street's influence in Japan, and hitherto was the foremost proponent of the lie that the mythical U.S. upswing would save Japan.

The renewed downturn that began early last winter was postponed into 1976 with a deal worked out in a secret Sept. 1975 meeting between Economic Planning Minister Takeo Fukuda and David Rockefeller. Under the deal, inflationary credit policies in the U.S. allowed a fantastic growth of Japanese exports to the U.S. of consumer durables. This kept the rest of the economy afloat, but only through early spring of this year. Wall Street's international austerity policies caused an overall decline in Japanese exports beginning in April and an overall production decline beginning in May. By July, Rockefeller was no longer able to maintain inflationary credit mechanisms within the U.S. itself, and lines of consumer credit were pulled back. As a result, Japan exports to the U.S. fell 3 per cent in July, letters of credit for exports to the U.S. in August were only 22 per cent above 1975 levels compared to 45-50 per cent increases in previous months.

The end of the Rockefeller-Fukuda gimmick not only caused the economic current downslide, but it precipitated a severe liquidity crisis among Japanese corporations beginning in June and July. Up to that point, the booming export-oriented corporations supplied liquidity to other firms through the com-

mercial paper market while bank loans declined. This ended in June when new bank loans were 36 per cent above year-before levels, the first year-to-year monthly increase since January. In July, there was a record decline in corporate bank deposits because the firms lacked the cash to pay summer bonuses, and other immediate bills. With deficit-ridden, illiquid corporations unable to pass along wholesale price increases (now at 10-12 per cent annual rate) to either consumer or export markets, corporations can only survive through massive bank borrowing. However, the Bank of Japan, which fears the 30 per cent plus inflation that would quickly result from this process, is tightening, not loosening, credit.

Battle For The Yen

Concomitant with this intensifying illiquidity pressure caused by the decline in exports to the U.S., the New York banks and the U.S. Treasury Department have stepped up pressure on Japan to bail out the dollar by revaluing the yen and increasing imports from other countries deep in debt to the New York banks. Hitherto, what had been labeled the economic policy of Prime Minister Miki's administration was in fact a Fukuda policy which dragged Miki along. As of this summer, however, Miki decided that Japan could not obey the U.S. dictate on yen revaluation-trade deficit. Fukuda insisted that Japan must, and launched a drive to oust Miki from power.

Subsequent economic developments have shown that no matter how much Rockefeller's agents in Japan — such as Fukuda, Ohira, and the editorial staff of the Asahi Shimbun — might like to comply, they cannot. Following the unsuccessful visit to Tokyo of U.S. Treasury Undersecretary Edwin Yeo to enforce the yen policy, the Finance Ministry — under industrialist pressure — sent Vice-Minister Michiya Matsukawa to Washington and Europe to explain why Japan could not carry out the policy. A document released by Yeo as a joint communique with Matsukawa — which Yeo later claimed was an internal U.S. Treasury memo — shows that Matsukawa did not concede to the revaluation, according to the text printed in the Sept. 5 Yomiuri Shimbun. Now, it is announced that Yeo and Treasury Secretary William Simon will visit Japan both before and after the October International Monetary Fund meeting in Manila in yet another attempt to force Japan to comply.

It should be noted that the current rise of the yen above 288 to the dollar is not an implementation of the Rockefeller policy, but a consequence of the worldwide fall of the dollar, and does not help the New York banks.