CREDIT COLLAPSE IS ON!

NEW YORK, May 15 (IPS) — The near-bankruptcy of Franklin National Bank, America's twentieth largest, and storm warnings from top financial circles, confirm that history's biggest credit collapse is underway.

Amid other indications, the circumstances of the Franklin difficulties underscore IPS' warning that the Rockefeller financier interests are playing the collapse for all it's worth, intending to buy up their fellow capitalists for a nickel on the dollar.

Meanwhile, heads of the central banks of major countries extended their monthly meeting in Basel, Switzerland. Reports leaked to the press indicate that bankers fear a credit collapse in the near-term, along the same lines described in IPS, Vol. I, No. 2.

But reports from Basel also reveal that the Europeans are not yet ready to put their heads on David Rockefeller's chopping block. Cornered, the Europeans are threatening to use their massive gold reserves at the free market price — four times its official valuation — and shift the brunt of the coming collapse onto the U.S. dollar and the Rockefeller interests.

Senior officials at Franklin National confirmed that the bank may have been victim to a Rockefeller psywar operation in international currency dealing.

In a Tuesday morning telephone interview, a public relations officer for Franklin National, shaken by IPS' analysis of Franklin's situation, stammered, "This is too big for me to handle. This is very important. Let me connect you to someone higher up." The senior official discussed the Rockefeller operation with IPS and requested further information. He confirmed that Franklin's losses of up to $39 million in foreign exchange dealings (betting on the rise or fall of different currencies) might be the result of market rigging by Rockefeller allies.

Rockefeller Set-Up

In an article dated May 13, IPS described how the Rockefeller interests are setting up their domestic and European banking rivals for a fall on the international currency markets. The article explained that David Rockefeller in the New York Federal Reserve Bank and Helmut Schmidt, then German finance minister, were depressing the value of the dollar on the international market to force other banks to sell their dollars for other currencies. Once the dollar rebounded upward, these banks would be left to pay back dollar debts with devalued European currencies.

While Franklin is receiving intravenous injections of cash from the Federal Reserve, the nation's central bank, vultures are already circling over the prostrate financial institution. The financial press this week carried rumors that Franklin National Bank might be absorbed by Manufacturers Hanover Trust or by Morgan Guaranty Trust, close allies of the Rockefeller interests. Two months ago, Franklin took out a three-year loan from Manufacturers.

Vatican Bail Money

As an "alternative," Michele Sindona, the Italian financier who controls 21% of Franklin National, has pledged to buy up to $50 million worth of new stock issues and bail out the ailing bank. IPS Intelligence staff have identified Sindona as a front-man for the Vatican's immense cash empire. A survey of Vatican financial holdings reveals a preponderance of investment in Rockefeller-controlled banks and corporations.

Apart from manipulation, Franklin suffers from the depression symptoms outlined in IPS coverage. During the first quarter of 1974, the bank's earnings fell from $3.028 million in the same quarter last year to a mere $77 thousand. Bank spokesmen said the decline was due to a $2.5 million loss in the bank's bond trading activities and to a squeeze on profits due to high interest rates.

Rising short-term interest rates push up banks' borrowing costs faster than they can adjust the rate of interest upwards on their loans to customers. In addition, the jump in interest rates to all-time record highs shreds the value of bonds, which pay a fixed and long-bypassed interest rate.

As one U.S. banker told the **Journal of Commerce,** "The market is sufficiently jittery so that if there's a problem in one place it spreads elsewhere."

The Franklin near-collapse coincided with warnings that bankers will "pull in their horns," as a spokesman for Rockefeller's Chase Manhattan told the IPS.

For once, David Rockefeller, in a speech last week to the Business Council conference, and the terrified European central bankers, agree on the same scenario for the next few weeks.

According to the **London Financial Times:** "Uppermost in the bankers' minds are likely to be the payments difficulties of certain countries, notably Italy, but also of Britain and Denmark (due to Rockefeller's oil hoax — Ed.), which last week, in its turn, was forced to take severe corrective measures."

Refinancing Doubts

"The situation of all three is serious enough to give rise in many quarters to doubts that they will easily be able to finance their deficits by borrowing from the Euro-dollar pool (the $150 billion market in dollars held outside the U.S. — Ed.), despite large deposits now being made by their Arab oil producers."

The **Financial Times** continued, "On the Euro-dollar market, for instance, economists point to a reluctance to lend long to any but the most cast-iron borrowers — as a result of runaway inflation which makes investors anxious to keep their funds as liquid as possible, but which also keeps short-term rates very high."

While corporations and countries alike demand huge doses of new credit, banks are beginning to refuse to extend themselves any farther.

When banks "pull in their horns" — refuse to supply new cash for the debt spiral — a credit collapse begins in earnest. With the mass of bad credit in the world economy today — credit has more than doubled worldwide since 1970 as real production has declined — such a collapse will dwarf that of 1931.

Hysterical mutterings this week from the U.S. Treasury confirm that the Rockefeller interests are terrified of nothing more than a European "golden snake" currency and trade arrangement.

As IPS (along with **Corriere della Sera,** the top Italian bourgeois daily, and **Pravda)** described it, the Europeans can cushion themselves from the worst effects of the collapse by mobilizing their 500 million ounces of monetary gold behind their sagging currencies. This would open the way for expansion of real production through expanded trade with the Soviet Union, also a major holder of gold.

The effect of a gold-based European currency system on the dollar would be to show up the U.S. currency as a worthless piece of paper, destroying the Rockefeller interests.

In response this week, U.S. Treasury Secretary William Simon, formerly Rockefeller's chief domestic operative for the energy hoax, threatened to wreck this

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