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Times warns of "a North-South confrontation and the perhaps even greater danger of a split between the western industrial powers on the whole question of the approach to the Third World." In Italy, Gianni Agnelli's daily Repubblica complains that Kissinger's con games will likely fall through at the Nairobi meeting, and rails against the threat of a solid Third World front for debt moratorium.

The conditions for a general European break with Kissinger are now all in place. Switzerland's defection from the U.S. camp places the largest financial power independent of the U.S. — and the principal European ally of the French Gaullists — on the Third World's side. Great Britain is in the midst of the final stages of financial collapse, and leading political circles have put forward contingency plans for a sharp turn towards the Third World. West Germany, the principle enforcer for the State Department, has thus far resisted U.S. proposals that it jointly present the State Department's commodity con-game at the Nairobi meeting. If sufficient pressure builds up in France and Switzerland, the internal fight in West Germany on the country's stance at Nairobi will swing against Kissinger.

New Institution?

At this point the Europeans are divided on one critical issue: whether the question of the Third World's debt will be taken out of the hands of the International Monetary Fund, the financial policeman for the New York banks and the Eurodollar market. While a spokesman for the Dutch foreign ministry said that his government endorses the creation of a new institution partly controlled by the Third World to handle this problem, the French and West German governments still back the IMF and the World Bank.

World Bank president Robert McNamara — the great proponent of slave-labor, labor-intensive "development" prover, of the tenuousness of IMF-World Bank control, and is trying to come up with some new gimmick to placate the Third World. McNamara, sources close to him say, is terrified that the Third World countries are about to move out of U.S. domination.

Pound Sinks As Currency Crisis Enters New Phase

NEW YORK, April 24 (IPS) — Yesterday afternoon's abrupt slide of the British pound sterling to a record low of $1.80 together with the announcement of the previous day of double digit money supply growth rates for the United States and West Germany have sent the dollar-based monetary system into a more advanced, irreversible crisis stage. The surfacing of monetary disintegration in both Great Britain and West Germany all but eliminates both the pound sterling and the deutschemark as buffer currencies for the dollar - at the precise moment that the U.S. currency itself is in the first phases of a hyperinflationary spiral and an uncontrollable liquidity crisis.

Left to its own defenses, the only short-term solution for the dollar is an abrupt contraction of credit within the United States. One is quickly reminded of the consequences these same actions produced in 1929 under less severe liquidity pressures: then, the credit contraction instantly fed into a stock market crash, chain reaction corporate bankruptcies, and an inflow of capital, whose accumulated 2 year effect was to bankrupt the Austrian Kreditanstalt bank, the pound sterling and produce by 1931 a complete breakown of all currency-monetary-trade arrangements. With liquidity pressures roughly four times greater than in 1929, such monetary contraction will produce more devastating effects in a far shorter period of time — a full scale currency panic could occur within a week of the Federal Reserve Bank's decision to go for contraction. As in 1931 the sinking pound will be the first to go down the drain, followed shortly thereafter by the dollar itself and all currencies associated with the dollar monetary system.

The Pound Sinks

The significance of the renewed sterling collapse is that it occured after the Bank of England raised the minimum lending rate (MLR) by an astonishing 1.5 percent. This rise in the MLR was itself prompted by sterling liquidation by Arab countries such as Kuwait, which hold the greatest proportion of foreign-held sterling. On April 22 alone the pound dropped a whopping 4 cents against the dollar. The decision by the Bank of England to raise the MLR to 10.5 per cent thus had absolutely no effect on halting the run on the pound. Instead, many investors, expecting the MLR to rise by a full 2 per cent, were disappointed and liquidated their favorable positions in sterling.

The excess liquidity crisis within England itself prevented the Bank of England decision from taking effect among the vast proportion of British clearing house banks. In fact, three of the five clearing banks announced on the same day, that due to their excess liquidity positions they could not raise their own lending rates. This means that the MLR rise will have no effect on the run.

This situation is caused primarily by the absence of profitable lending outlets in sterling denominated assets — a symptomatic feature of the collapse of the dollar system itself and world trade and production it influences. It leaves the Bank of England with three short-term choices. The first is to do nothing and let the collapse of sterling take its "natural" course. With only $5 billion in foreign reserves to cover a potential run on $14 billion in sterling deposits, the Bank of England would in a matter of weeks, if not days be forced to shut down its foreign exchange markets and freeze sterling assets.

A second option would be to soak up internal liquidity that has let the clearing house banks to resist even a substantial rise in the lending rate. Such a move would quickly accelerate the pound collapse. The first effect of soaking up such excess liquidity would be a collapse of the so-called gilts market, the market for British treasury securities. The decision to raise the MLR threw the gilts market into panic in stock capitalization. The MLR rise instantly wiped out $1 billion. Beyond this, credit tightening would put the already weakened secondary banking and clearing house banks to which they are indebted from previous bail out operations, in

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complete jeopardy — if not in instant bankruptcy. The internal disintegration of the credit markets and banking system would itself be enough to bankrupt the pound sterling once and for all.

The third choice available to the Bank of England is to introduce appropriate inconvertibility measures with respect to sterling deposits themselves. Such suspension of convertibility would be accomplished by freezing the roughly $14 billion in official foreign sterling deposits in London. The move which would have to be politically acceptable to the Commonwealth countries who hold these deposits, would immediately shift all monetary pressure onto the dollar and the Eurodollar market. There is good reason to believe that the Bank of England is considering such a course. A senior Bank of England advisor said April 21 that if the current incomes policy of the Callaghan Government falls through because of union resistance, the Old Lady would be left with no alternative but to declare the sterling inconvertible.

Given the pressure against the pound over the last two days, it is reasonable enough to state that even if the incomes policy is successfully implemented, there would still be no alternative choice. The Economist, the Rothschild controlled financial weekly, smelling an inconvertibility move being cooked up, went into a fit. The Economist editors insisted this week that any type of controls would immediately lead to total exchange controls and the immediate destruction of all domestic credit issuing mechanisms.

This latter statement contains more panic than truth. The effects of eschange controls would be directed outwards: the volume of externally-traded sterling is too small by itself to have any serious impact on Britain's internal credit system. The question of convertibility is totally political - a question that bears directly on the immediate if temporary survival of the dollar itself. The removal of the pound as a buffer currency would wreak havoc on the dollar forcing all pressure onto the already weak U.S. currency. Regardless, the current collapse of the pound, which banking sources have indicated is potentially "bottomless" will, intensify such pressure on the dollar.

The Monetary Balloon

Yesterday morning the Bundesbank, West Germany's Central Bank, reported a 16 per cent money growth rate per annum during the first quarter of 1976 - a defacto announcement of the deutschemark's inability to function as a buffer for the excess liquidity of the dollar without destroying the West German range. Unlike in 1972-3 when the Bundesbank absorbed roughly $20 billion through support operations for a crisis ridden dollar, it is in no position to do so now without touching off Weimar style inflation. With wholesale prices already rising at a double digit rate, the fear of runaway inflation is already too real for West German financial leaders.

Significantly, the dollar is in the first tumultuous phases of a full blown hyperinflationary liquidity crisis. The announcement by the Federal Reserve Bank in its weekly bank statement April 22 that the U.S. money supply (total currency in circulation plus demand and time deposits) had grown by an astounding $4.4 billion in one week is by far the most damning evidence that the dollar-based monetary system is building toward a hyperinflationary explosion.

According to the New York Fed, this growth is not merely a one week "temporary" phenomenon. In the last quarter, the money supply has been growing at a per annum rate of 14.4 per cent. Wall Street "money watchers" explanations of this development as a passing "technical" phenomenom, should be summarily dismissed as the ravings of fools. The spurt in the money supply is directly attributable to several years of accumulated Federal deficits which have produced an outstanding indebtedness of almost $700 billion. Such deficits tend automatically to add to the deposits of the banking system. The Treasury raises money on the credit markets to cover its debt and then uses the proceeds to pay all bills. The money thus works its way back into the banking system. This

A New Universe

This latest spurt in the money supply, however, is occuring prior to the surfacing of two factors which normally balloon money supply growth rates: monetization of Treasury debt by the Federal Reserve Bank and the expansion of loan demand.

Since the first of the year, the Fed has actually contracted its purchases of Treasury debt - a move which under other circumstances would tend to reduce the money supply. By selling off its holdings of Treasuries, the Fed actually absorbs deposits and reserves from the banking sm. Over the same period the loans outstanding of the banking system have **fallen** by over $4 billion. Under normal circumstances this would also tend to contract the deposits and reserves of the banking system by the reverse multiplier effect of a fractional reserve system presently existing in the U.S.

The significance of these developments is the following. If the loan demand begins to pick up, as the prophets of recovery are saying will happen, the current phenomenal growth rates will **increase exponentially.** Banks and corporations who have helped finance over $160 billion in Federal deficits over the last two years, will begin to cash them in to finance such things as inventory build-up and the operating expense increases. As this occurs, either interest rates on Treasury debt will rise quickly to the double digit range and-or the Fed itself will have to absorb the costs by running up its printing presses.

The so-called Wall Street money watchers are nonetheless worried sufficiently about these developments to start considering tightening the credit reigns. There is reason to believe that the Fed has already decided upon such a course. According to the chief economist of Irving Trust, it is his belief that the Fed made such a decision at its monthly open market committee meeting on April 20, and that the slight rise in the fed funds (inter-bank market) rate on yesterday afternoon reflected it.

If the Fed goes ahead with this in any significant way it will have immediate negative repercussions on the pound, on other soft European currencies and on the Japanese yen. The reason given by some financial analysts why the Fed has not tightened up already and print dollars is because it was worried about the effects this would have on the battered pound and lira.

But it now seems clear that Federal Reserve Chairman Arthur Burns has gritted his teeth and will opt for hyperinflation. Domestic U.S. effects of this decision will be equally catastrophic. The current stock market bubble, which pushed the market up over the 1000 mark, will burst as the higher ingerest rates induced by such credit tightening will drive money into debt instruments. However, if the Fed decides not to tighten the credit, the effects will be equally disastrous: monetization of debt will produce an inflationary spiral that will feed into higher interest rates.

In this case, there will be a simultaneous collapse of the dollar and the pound sterling and all other dollar-linked currencies. Burns' dilema thus signals the fag end of the bankrupt monetary system.