Business Week speaks of a "dramatic rebirth" — is a response to a series of events which has placed the Western banking system, and over-exposed institutions like Chase Manhattan, on the chopping block. First, both Western European and oil-exporting countries showed at this week's meeting of the United Nations Conference on Trade and Development in Geneva that they could not be cowed into accepting UNCTAD's price-fixing plans, despite the Carter Administration's swing in favor of the program. Secondly — as a special report by a Senate Foreign Relations subcommittee warned this week — West Germany has made it plain to the Carter Administration that the latter's demands for "coordinated reflation" are totally unacceptable. These two developments are related, since the continued rollover of about $300 billion in Third World debts depends on high commodity prices and high rates of inflation in the leading industrial countries. Third, as the David Rockefeller address before the Economic Club of New York states bluntly, the Western banking system will not make it through without the intervention of the international institutions.

Carter, Rockefeller, Blumenthal and Co. are making a final demand on Europe, Japan, and the oil-exporters: the credibility and bailout-power of the IMF must be kept together at all cost. The IMF presently has almost no funds for additional loans whatsoever. The Fund's authority to impose additional levels of austerity against Third World debtor economies, which all spokesmen of the Rockefeller group agree is a pre-condition for the survival of the Eurodollar market. Last year the Eurodollar banks survived because they were able to convert close to $30 billion of volatile short-term Third World debt into long-term debt, but the premise for this was a 15 percent cut in imports in real terms.

A further round of such cuts means the application of the Chile "solution" to virtually the entire Third World, and is not possible without the top-down control of the IMF as the world's monetary policeman.

Numerous plans are in circulation (see EIR Vol. IV no. 11) including a pet project of Zbigniew Brzezinski to revive the old OECD "safety net" formula, and a $10 billion special IMF kitty cited by Secretary Blumenthal in a March 16 interview with the London *Financial Times*. The content of these various "options" is identical: Rockefeller desperately wants a few more months' of time to extend covert operations and open armtwisting against uncooperative governments, in order to break European and other resistance to his program. In effect, he is telling Europe that he only wants the Sudetenland, and that the question of Poland can be postponed.

Sophisticated Wall Street estimates say that the main financial conjuncture this year will come towards the end of the third quarter, at which point even the proposed IMF scheme, if it succeeds, will be inadequate to hold the financial situation together. The Third Quarter represents the bulk of the approximately $20 billion in Third World amortization, and also the seasonal high of U.S. Treasury financing. Getting through until then demands the cooperation of the Europeans, Japanese and Arabs to "restore" confidence in the bankrupt dollar monetary system, and provide cover for U.S. "enforcement" against the Third World — as in the case of Cyrus Vance's intervention into the Zaire events. "Keeping the ball rolling" also depends on high levels of price inflation in the U.S. economy, in order to maintain Third World export earnings (see Business Outlook).

Western European governments know that if they crack under the pressure they may not survive in power this year. The case of the IMF's austerity terms to the Italian government of Giulio Andreotti is the most important test case. If Andreotti accepts the public-spending limitation the IMF has demanded, his working alliance with the Italian Communists will be endangered. But none of the governments is yet willing to publicly reject the IMF plants, and directly provoke a collapse of the dollar. So the Europeans are employing elaborate stalling and disinformation tactics to keep Carter at bay until the IMF's Interim Committee meeting in Washington April 28. "Absolutely nothing concrete has been proposed or agreed to, and there is no concerted agreement of any sort" on IMF funding, says a European Executive Director in Washington. But the time the Europeans have left to stall is measured in days.

David Rockefeller Demands A Bailout

The following is excerpted from the address by David Rockefeller, chairman of the Chase Manhattan Bank, at the Economic Club of New York on March 15, 1977.

...You will recall that last year at about this time, America's newspaper headlines and nightly T.V. news shows were dominated by a spate of dramatic stories about banks allegedly in trouble — all over the country. Understandably, these stories shook the confidence of the American public in our financial institutions at a time when confidence was badly needed.

More recently, the subject of banking problems has reappeared in the press in the form of *bank lending to foreign borrowers.* And as before — if not yet as dramatically — this story too has made its way to the front page, in an increasingly foreboding tone.

To gain some perspective on these issues, let's look back briefly to the "problem bank" story of January 1976. It began with an article emblazoned across the front page of the Sunday *Washington Post*, which centered on the Chase and Citibank. Basically, the story concerned a then 18-month old confidential report of the Comptroller of the Currency — obtained through unnamed sources — which allegedly labeled both institutions as "problem banks" due primarily to classified loans. Reaction from the banks, the Comptroller and the chairman of the Federal Reserve Board was immediate and unified in its denunciation of the newspaper article and the implications it suggested for the soundness of the U.S. banking system. Nonetheless, the damage was done, and the media across the country joined in on what appeared to be a blockbuster story.

Two days after the *Post's* revelations, *The New York Times* rushed to print with a one-year-old Federal Reserve Board list of 35 "problem" bank holding companies. Some days later, an FDIC list of 300 "problem banks" was revealed. Television anchormen warned of the — quote — "impending erosion of confidence in the banking system." And on Wall Street, where the gallows humor always runs high, local bars introduced a new recession cocktail — banking on the rocks!

To the casual newspaper reader and TV viewer — and I should add the foreign financial markets — these stories could not help but indicate that the banking system was clearly in a shaky condition. To many, in fact, it probably appeared that the press had uncovered a scandal in financial terms which was the equivalent of Watergate in political terms....

Three years ago, you will recall, the media raised the specter of imminent disaster for the oil-importing countries and consequently for the international banking system due to the huge surpluses which were piling up in the oil-exporting countries. The more extreme voices in the Fourth Estate predicted the system's collapse under the enormous recycling burden.

There were a number of us at that time — lone voices in the crowd I'm afraid — who argued that the private market could bridge the financing gap for some time, but that over the longer-run, greater assistance would be needed from public sources — as well as strenuous efforts by deficit countries to reduce the need for financing. When the predicted petrodollar catastrophe failed to materialize due in no small part to the immediate and skillful role of the private banking system, the media seemed to lose interest in the subject...

Recently however, the issue of recycling the surpluses of the oil producers has reemerged — as debt-servicing problems have occurred as external indebtedness has grown. A number of journalists and congressmen have voiced concern over the extent to which the private international banking system is committed to loans to less-developed countries.

A careful reading of these reports suggests two separate lines of concern. The *first* is the claim that the large volume of foreign lending by U.S. banks has resulted in the denial of credit to borrowers in the U.S. and thus delayed the U.S. economic recovery. The *second* is the allegation that banks have made large numbers of unsound foreign loans with the expectation that the federal government will bail them out when foreign debtors run into payment difficulties.

On the first concern, the lending officers of the Chase and the other major New York banks will, I'm sure, find a certain ironic amusement in the charge that they have denied credit to would-be U.S. borrowers. The fact is, with a 15 percent decline over two years in loans from major U.S. banks to commerce and industry, bank competition for business in recent months has been particularly fierce...

The second concern — that banks have dangerously overextended themselves in making foreign loans to chronic debtor countries, particularly the lesser-developed countries — requires a more extended response. For the reality of the role of the private banking system in helping to finance LDC deficits is far more complex than the alarming headlines or glib statements would have us believe...

New loans to governments for straight balance of payments purposes will still be taken up by banks, but I believe lenders will be increasingly selective and cautious in adding such credits to their portfolios. Certainly it is *our* posture at Chase. If there is any serious question as to the ability of a loan to be adequately serviced, whether for balance of payments or other reasons, that loan is simply not extended.

In this regard, it often is forgotten that the largest proportion of overseas loans by American banks — about 70 percent of our total at Chase — is to industrial countries, including the OPEC surplus nations. Moreover, among LDCs, the greatest volume of credit has been extended to what the World Bank calls "high- or medium- income" nations — countries like Mexico and Brazil. Comparatively little bank lending has flowed into so-called low-income countries — India, Pakistan and many African nations. For example:

There is no denying ths fact that bank loans to LDCs as a group have expanded significantly since the oil price increase in the winter of 1973-74. All told, the exposure of U.S. and other foreign banks to these countries has risen from $39 billion to $77 billion in little more than three years. But the capacity to service debt also has been increasing, albeit at a slower rate. Over the past three years the exports of the LDCs have advanced by nearly 6 5 percent — not a bad performance, considering the state of the world economy.

The heart of the potential LDC debt problem is not an unwillingness or permanent inability to service contracted debt ..... but a temporary shortage of supply of the foreign exchange required to make debt payments. The normal remedy for LDCs in trouble is not default. Nor does it generally mean even debt moratorium. More usually, it involves a refunding or rescheduling of debt. Obviously, banks prefer not to reschedule, but even in cases when they must, such action neither impairs bank capital nor decreases bank earnings. Again, this critical point seems largely to have been overlooked in the current dialogue.

Clearly, some LDCs have performed better than others, and each has to be judged on its own merits. Bank debt to a number of these countries has been expanding at a rate that should not — and cannot — be sustained.

This does not mean that loans to these countries at present are excessive; nor that banks need *bailing out.* It does mean, however, that bank lending will need to slow down, and that public policies must be directed at correcting the problems that give rise to such lending — most particularly, the persistent deficits in the balance of payments of many nations, both industrial and less-developed. It is on these public policies, in my judgment, that the attention of the press and the Congress should now be focused.

Unfortunately, many countries in the world, both those in deficit and those in surplus, have not yet undertaken the tough adjustments that are required to bring their structure of international payments into better balance. As I mentioned earlier, the deficit countries — particularly the LDCs, but also some industrialized nations — need to expand their exports. They can only do this as the economies of the principal industrial nations grow and prosper. Germany, Japan and the United States occupy center stage in this respect, and thus far none has accepted the full role it must play. Germany and Japan have failed to provide stimulus for economic expansion, or to show a willingness to incur deficits in their own current accounts. The U.S., on the other hand, has failed miserably to fashion an adequate energy policy — one that will curb its appetite for oil imports thereby helping to cut down the OPEC surplus.

Meanwhile, many of the LDCs cannot escape taking difficult action to reduce their own deficits, even though this involves the painful process of slowing economic growth. Inflation must be brought under better control, over-valued exchange rates eliminated, and a more positive policy adopted toward encouraging foreign private investment. Internally agricultural sectors need to be given greater encouragement, even at the expense of higher costs for urban areas. Because it takes time for the effects of policy changes to be felt, even an LDC that boldly undertakes reforms is likely to need international financial support at least for a period of time.

So an adequate supply of *public international credit* — credit that could be conditioned on the adoption of government policies promoting efficient adjustment — becomes a key prerequisite. This is particularly true now that bank lending will likely slow down.

While action to accomplish this could take many forms, one appropriate solution to the present deficiency in public credit might have the following four characteristics:

First, enlargement of existing public credit lines or guarantees. This may mean adding to the resources of international agencies such as the IMF and World Bank.

Second, increased public credit flows to each of the major classes of borrowing nations.

Third, extension of these credits subject to rigorous conditions that assure domestic policies which promote efficient adjustment.

And *fourth*, a substantial part of the funding should be obtained both directly and indirectly from the OPEC nations themselves....

'International Agencies' Will Force Third World Debt Service

The following is the testimony of Harlan Cleveland before the Senate Committee on Foreign Relations, considering large Carter Administration pending requests for the World Bank. Cleveland testified on behalf of New Directions, the arm of David Rockefeller's Trilateral Commission which is outside of the Carter cabinet.

... It is well-known, it is indeed a global scandal, that the oil price increases and the recession of the 1970s have created serious balance-of-payments problems in most Fourth World countries. As a consequence, many developing nations have been forced to increase their borrowing from public and private lending institutions... The result has been the creation of an enormous debt overhang which threatens further economic programs in many developing countries and raises unanswered questions about the health of the international banking system.

Emergency measures, including increased grant aid and concessional lending, will have to be taken to maintain the credit and purchasing power of countries until a more fundamental attack on the underlying problems can be mounted.

Among the most important emergency measures is a new transfusion for concessional lending, to reduce the further accumulation of unpayable debt (and hard-to-meet interest payments) and defer the obligation to repay the capital...

The instinctive objection, particularly from affluent elites in the "poor nations," is that any international pressure to do something about poverty inside their own borders would violate their new-found national sovereignty. In the flush of just-won independence, that is a powerful objection indeed. But if the contributing countries cannot get their own people to support measures to help the "poor nations" because the help somehow winds up in the hands of an affluent urban minority, then some device will have to be found to reassure the contributors without intervening in the internal affairs of the recipients. There are, of course, precedents. When (in 1948) the United States tossed to the European countries the task of dividing up the Marshall Plan aid, the Europeans empowered their recipients' club, the OECD, to hold hearings in which each European country came up with its national economic plans and request for U.S. aid, and the other European countries probed and questioned and criticized — and even got some changes made in national plans. Even today, the procedure for seeking stabilization assistance from the International Monetary Fund involves submitting to the IMF a rather full analysis of a nation's economic prospects and monetary policies — and standing still for unsolicited advice from the other IMF members and the organization's professional staff...

Newly independent, newly developing, newly proud nations cannot accept such conditions from the world's strongest power without seeming to knuckle under to what they would see as a new kind of imperialism. But they can accept such conditions from an international institution, as the experience of World Bank group has already demonstrated.

My suggestion, therefore, would be to write into U.S. law not a unilateral take-it-or-leave-it condition, but a mandate to the Executive Branch to negotiate an international system of standards for the meeting of minimum human needs, and an international mechanism for relating such standards to the loans, grants, and other kinds of international cooperation the developing countries need...

A new consciousness-raising process on human rights is in evidence not only in President Carter's expressed attitudes but in the seriousness with which they have been taken abroad. But the unilateral expression of American good-heartedness risks making us feel good without affecting the behavior of others. The United States should without delay initiate a wide consultation, starting with our natural friends and allies, designed to build a "community of the concerned" that would together develop a viable standard for the protection of human rights, and a mechanism for acting together to make sure that the rewards of international economic cooperation are especially available to those who subscribe to such standards....

Citibank Bucks Chase : Don't Inflate

The following are excerpts from the March Monthly Newsletter of Citibank, which rejects the Carter Administration's inflationary policy for the U.S. and its attempt to force currency revaluations and inflation on West Germany and Japan.

According to the new view, West Germany and Japan can spur world growth by pursuing more stimulative monetary and fiscal policies. The reasoning is that a more rapidly growing Germany and Japan would absorb a higher level of imports from Britain, France, and Italy, countries confronted with high inflation, rising unemployment and severe balance-of-payments problems. But that strategy suffers on two scores. First, officials in both Bonn and Tokyo fear — and with good reason — that further stimulus will lead only to another round of accelerating inflation. Second, even in the absence of the inflation threat, it is doubtful that this linked-stimulus strategy would work.

...A country that adopts an expansionary line of monetary policy now runs the risk of getting back aboard the inflation rollercoaster. For if there's one economic lesson that was driven home in recent years, it's that accelerated money growth leads to higher inflation over the longer term.

...How much faster can Germany be expected to drive its economy in 1977?...Judging by the usual response of German imports to its real growth rate, a 1 percent gain in real GNP would probably lead to a 2 percent rise in imports. Since the total value of German imports ran about DM220 billion last year, present policy would add some DM30-31 billion to that figure, at 1977 prices. The additional stimulus then would raise 1977 imports by DM5 billion. Based on the 1975 shares (of the West German import market-ed.), Britain's slice of a DM5 billion rise in German imports would come to DM0.2 billion or something like £48 million....

The following table shows how each country's gains would measure up as a percent of its total 1976 exports and GNP, valued at 1976 prices:

	Britain	France	Italy
% of exports	0.20	0.40	0.60
% of GNP	0.05	0.07	0.15

No real economic gains, but real dangers could result from this state of affairs...

In 1976, the U.S. money-growth rate was some 6 percent measured in terms of the narrow money stock, or M1 — that is currency plus demand deposits. It was 11 percent in terms of M2 — the broad money stock, which adds time deposits to M1. By both measures, it was consistent with an annual rate in excess of 5 percent. And the rate of inflation would now be higher than it actually is were it not for the cushion of idle people and machines. So if money growth persists at last year's tempo, the inflation rate — and with it, expectations of future inflation — is bound to pick up sooner or later.

Now that pressures are mounting to loosen the pursestrings, the Fed will need to summon up all its strength to avoid erring in this direction...

Bundesbank: Rockefeller Speech 'Sheer Nonsense'

The following is part of an interview with an official of the Bundesbank, West German's Central Bank.

Q: What is your reaction to David Rockefeller's speech at the Economic Club of New York, where he urges West Germany and Japan to reflate their economies to increase the capacity of Third World countries to in turn, pay the New York banks?

A: Sheer nonsense! Nonsense! The Carter Administration is not aware of the actual problems. Therefore, people talk too much. But we have good reactions in New York. All the New York banks are not saying the same nonsense. Have you read the *Monthly Newsletter of Citibank*? They understand perfectly well our position. To reflate would only be, as they say, a "cosmetic operation." We are going to be very firm. West German bankers are against monetary reflation. Period! We are trying to convince the other countries that we are right. We are again and again going to repeat the same things. Even at the worst of the recent depression, West German exports and imports were growing in real terms. That is true assistance to other countries. It has nothing to do with monetary reflation.

Q: What are you going to do to help the Third World?

A: The only good thing to help the Third World is capital investment. To develop industry, grants....But let me tell you that the Third World situation is much better in 1976 than before, and this has nothing to do with commodity-prices. Increases in commodity prices are only an immediate problem for the industrial countries. It does not help the Third World. That's all. The rest is sheer nonsense.

Q: How do you see the role of international agencies?

A: The role of the International Monetary Fund could be very positive. They intervene to solve payment problems. There is nothing wrong with that.

Q: Aren't West Germany, Japan, and the oil-producing countries being asked to increase their financing of the IMF, and isn't this going to channel West German funds toward the New York banks through Third World debt repayments?
A: The problem is the East Bloc. The aid of the communist countries is close to zero. Zero. It is only military aid. They should be compelled to share their part.

Q: Do you mean that East Bloc countries should participate in such international institutions as the IMF?
A: Yes, yes. They should pay.

Q: But the only way to achieve this is to create a new gold-backed monetary system, based upon credit to capital-intensive projects, isn't it?
A: ....The world being what it is, it could not work. Because of the New York banks, but mainly because of the Soviets. Yes, I have heard about the transfer ruble, supposedly to be based upon the Soviet gold reserves. But there is nothing official, nothing concrete. I know how the Soviets behave. They don't want to help the Third World. They are egoistical.

Chase: Europe Will Cooperate After 'Confrontations'

The following is part of an interview with a Chase Manhattan Bank public relations officer.

Q: When Mr. David Rockefeller told the Economic Club of New York that some developing countries should suffer "a painful process of slowing economic growth," did he mean that those countries should pay their debts at the expense of their economic growth?
A: Well, whether those countries are going to be able to sustain their levels of growth is under question. We are confident that they are going to be able to pay their current debts. But we want no more exposure in the future. International agencies should step in.

Q: Are you confident that countries like West Germany or Japan would agree to fund the International Monetary Fund to that purpose?
A: Of course, there is a problem. But Mr. Rockefeller is confident that West Germany and Japan will lend money to the IMF.

Q: Do you mean that after this, the IMF will re-lend that money to the Third World, which will use it to pay its debt to the New York banks?
A: Yes.

Q: But it is said in Europe that overall policies of the Carter Administration — trade protectionism, inflation, and anti-industrial measures — is leading toward worldwide confrontations. The French financial daily *Les Echos* is very clear on this. So, do you think that in this context, the European and Arab countries will increase their contribution to the IMF as demanded by the U.S.?
A: They will, but maybe after what you call "confrontations." It is a political question. It is a matter of will from our side.

Q: The Brookings Institution and the World Bank classify the Third World countries as good and bad borrowers. Do you agree?
A: Yes, it is Mr. Rockefeller's approach. Brazil, South Korea, Tawian are good borrowers. But our banks have nothing to do with countries like Upper Volta or Zaire. The solution for those countries should be international. Projects should be worked out by international agencies. The only resource of these countries is manpower. Cheap manpower is their commodity.

Q: Do you agree with Treasury Secretary Werner Blumenthal when he says: "I see no hazard from them (the Arab countries) for the United States?"
A: Well, I see problems. But we are going to take care of them.

Q: What about the East Bloc? Aren't there plans to integrate East Bloc countries into the IMF?
A: I am not optimistic on that. East Bloc countries were purposely left out of his speech by Mr. Rockefeller.

Q: Mr. Rockefeller said that "Germany and Japan have failed to provide stimulus for economic expansion." Does that mean that the policy of the Carter Administration is the same as that of Mr. Rockefeller?
A: Yes.

Brookings: There Is A General Fear Of Bankruptcy

The following is part of an interview with Mr. Lawrence Krause, a Fellow at the Brookings Institution.

Q: How do you see the evolution of commodity prices?
A: I do not see a general price increase. Just one-shot moves. Commodity price increases cannot last very long in a period of moderate industrial growth. Of course, you will have here and there some spectacular reactions to certain particular situations: cocoa, coffee, copper....Some specific commodities will react quite strongly, but it cannot be long term operations. Some prices will be rising, then others, and it will go on like this up to 1978-1979.

Q: As an expert in "world inflation," do you think that West Germany and Brazil should reflact their economies?
A: The two countries are in different situations. West Germany refused to reflate, and maybe they are right.

They see a 5 percent rate of growth. If their figures is correct, they are right to reject reflation. But if, on the contrary, the 3 percent rate of growth announced by the OECD was right, they should put in a new program now.

The case of Japan is very different. Their official target is a 6.7 percent rate of growth for 1977. They are not going to succeed. They have already stimulated their economy a great deal, but still, it is not enough. They can be an export-led economy only during cyclical recoveries, which is no longer the case. Therefore, they will have no other choice than to stimulate their domestic demand. I was in Japan last week, and the opposition agrees with this approach. Public works spending has already been increased by 20 percent, and it is a good beginning. But they should go further. The opposition is favorable to tax abatements, and you know that the present Japanese government is not as stable as its predecessors....

Q: How do you see the UNCTAD negotiations in Geneva bearing on the future of the Common Fund?
A: It is possible to design a broad commodity agreement, but only one based upon the idea of price stabilization. It is not possible to reach an agreement to raise prices. It makes no sense. Commodity prices are already rising, and a Common Fund would add nothing to this. A Common Fund only makes sense in a period of world depression, as a stabilizer. There is no urgent need for such a thing now.

As for the Geneva negotiations, you can very well outline the basis for a general agreement. No problem in this. A general agreement would be a good cosmetic operation. West Germany is only reticent because the purpose of the Common Fund has never been really spelled out. But the Germans would agree to an idea of stabilization, excluding speculation. The only problem is that it will take a number of years to negotiate the practical conditions, determine how it works. It will not and cannot function before 1978-1979. No way. Yes, I see a general agreement quite soon, but it will take a lot of time to make it work. I do not see it working before 1978-1979. It does not make sense before.

Q: Some people are very worried by a second wave of inflation....
A: I am not too pessimistic for 1977. The U.S. is not going back to double digits. Italy and the United Kingdom will make some progress. I see a stable situation up to 1978-1979.

Q: You keep mentioning the dates 1978-1979 as a limit....
A: By then, the economy will be close to full capacity. Inflation will become an immediate threat. It could happen that we would have to restrict internal demand much faster than ever before by then.

Q: Why do you think that the economy will be close to full capacity? If there is a period of expansion in 1977-1978, as you say, won't productive capacities be developed?
A: Well, this is not an investment-led expansion.

Q: Isn't it exactly the reverse?
A: Right....Everybody is scared to invest. The world recession has been so sharp that there is a general fear of bankruptcy. Traumatization has removed optimism. But there is also a special reason in every country to hold off. West Germany and Japan have overinvested in the past. In France and Italy there is political uncertainty....Nobody is investing, and I see a real problem by 1978.

Q: What about the problem of the Third World debt?
A: The Third World debt is not a fundamental problem. The OPEC surplus has only to be oriented in a more efficient way toward the Third World. There are some good borrowers, such as Mexico, Brazil, South Korea, Taiwan, Singapore....But there are so few good borrowers. See the case of Zaire....This is the reason why international institutions should step in. The IMF is an efficient and flexible agency. It should intervene.

German Atlanticists Into Gaullists?

The following is part of the article, "The Time Bomb Is Ticking in the Underbrush," from Die Zeit, *March 17. Its author is Trilateral Commission member Theo Sommer.*

The question is if the Carter Administration has enough patience to cool down the conflict, or will trigger an explosion. It is correct to speak of a crisis in West German-U.S. relations. Both partners are separated by deep philosophical, almost theological problems... Carter's policy contradicts itself: On the one hand he wants to give more aid to the Third World, but on the other, he wants to block their access to high technology. The Federal Republic, however, wants to prevent an explosion in the Third World, and therefore wants to deliver high technology... The U.S. is not credible. So why should Europe trust the U.S. more than Brazil?... The followers of Wüstenhagen (environmentalist leader) will greet Carter's cuts in the budget allocation for fastbreeders and for reprocessing. Even if it may have been an accident, Carter in fact cut the allocation by $200 million. But what is that supposed to do? The President has to do some thinking about whom he wants to make politics with: with the Chancellor or with his opponents?... At this stage, I can only advise the Chancellor to stand firm... If Carter does not restrain himself, he could bring things to the point of changing German Atlanticists into Gaullists. The time bomb is ticking in the underbrush.

Bailout? Yes, But How?

The following is an interview with a staff member of the Senate Subcommittee on Foreign Economic Policy whose report endorses David Rockefeller's and other various schemes for bailout of the New York banks but questions whether these schemes will work:

Q: Do you agree with the *New York Times* and *Washington Post* approach to your staff report for the Senate committee?

A: Well, what we meant is that the International Monetary Fund (IMF) cannot impose a tougher financial discipline on the borrowing countries. It is not really powerful in that regard. Look what happened with the United Kingdom... And when the IMF tried something more serious, look what happened in Egypt... There is a tendency in the U.S. government to think that because of their "neutral" status, the IMF and the World Bank can impose conditions that we never could. This is simply not true. Everybody knows that the IMF and the World Bank are not really "neutral". There is not way for the U.S. government not to be involved. It has to step in.

Q: What about the UNCTAD Common Fund and the Carter Administration favorable approach to it?
A: As for the Common Fund and other possibilities, they are going to be examined by our Subcommittee in the next two weeks. But let me tell you that there is still a long way to go at the UNCTAD.

Q: How do you see the position of West Germany?
A: West Germany is going to be very firm on the issue of reflation. They are very reluctant. I had not read the *Citibank Monthly Newsletter* supporting their resistance to the Carter Administration on this, but I am not really surprised. A lot of people think that to reflate would be a cosmetic operation in West Germany. But the problem is that the West Germans are not even going for pro-investment measures.

Q: What do you mean when you say pro-investment measures? Has this something to do with reflation?
A: Oh no, no... We mean stimulating domestic demand.

Q: Other people will call that opening the money valve, won't they?
A: Call that what you want.