cord 1.1 billion DM total of new Eurobond issues for April. The effect of many of these loans is West German assistance in forestalling cuts in European state projects to cover deficit financing, as exemplified by the Bayerische Vereinsbank handling of a private placement for the Elf-Norges French-Norwegian North Sea oil development venture.

A rather amusing footnote to the Eurobond picture was added April 6 when Deutsche Bank board chairman Wilfried Guth announced that part of the bank's capital expansion would be raised through a Eurodollar bond issue whose price would be calculated at the average market price of Deutsche shares 10 days before the issue is floated, and converted into dollars at the median exchange rate on the date of price resolution. This, said Guth, should enable the bank "to raise medium-term funds for refinancing of our group's dollar business at the most advantageous cost," since the dollar is bound to be pushed down by President Carter's "diffuse economic policy."

IMF Bailout Flops; Banking Crisis Looms For 2nd Quarter Of 1977

BANKING

Strident opposition from the U.S. Congress, Western Europe, and Japan has grounded plans for a $20-80 billion International Monetary Fund — Organization for Economic Cooperation and Development bailout of Third World and other debt owed primarily to the Rockefeller-dominated New York commercial banks. The impending flop forced one highly placed Chase Manhattan Bank official to admit this week that the banks may not be able to refinance an estimated $17 billion in Third World principal payments and an equivalent amount of interest that falls due during the second and third quarters of 1977.

Confidence in the New York banks so far has depended on the expected IMF takeover of part of the refinancing burden, and on the banks' facility at luring unsuspecting U.S. regional, European, and other foreign banks into assuming part of the bad debt via joint syndication loans with the New York banks.

Such confidence is now non-existent. At an April 7 press conference, Bank of Japan Governor Morinaga stated quite unequivocally that should the purpose of the proposed new IMF facility be to "replace the assets" of U.S. international banks, it would not be acceptable to Japan. Japanese banks recently refused to participate in two large syndication loans totalling $400 million for the Brazilian state oil company, Petrobras, which were managed by the Chase Manhattan and Wells Fargo banks, because the Japanese considered the loans to be pure roll-overs of existing debt and therefore unsound.

Anti-bailout sentiment has also been expressed by the leading Western European press, including the conservative West German *Die Welt*, which warned April 6 that "not only have debt moratoria occurred in the last several years — their frequency threatens to increase as well." On the same day, the Italian daily *Corriere della Sera* revealed that "general debt moratorium has been advanced in various international meetings, and this portends the collapse" of the banking system. *Corriere* correspondent Marco Borsa further noted that support for the proposed IMF expansion was limited mainly to the U.S. international banks which have a heavy stake in Third World loans.

A top British banker commented wryly in an interview: "If you really want to bankrupt the New York banks, damn, it is easy: Just get one or a couple of Third World countries to default."

According to Japanese banking sources, the OPEC countries — which have been requested by IMF managing director Johannes Witteveen to supply the bulk of the additional funds — are extremely reluctant to do so and have decided to submit a counter-proposal for IMF "reorganization". The Japanese Finance Ministry has delayed the unveiling of its own reorganization plan in order to coordinate it with OPEC.

Bergsten: All Roses and Whine

One of the lone voices defending the integrity of the New York banks this week was C. Fred Bergsten, Assistant Treasury Secretary, who told the House Banking Subcommittee on Financial Institutions on April 5: "We reject the view that the international lending activities of American banks are posing grave risks to the American economy or banking system....We can find no adverse effects on our own economy, the soundness of our banking system, the availability of credit for domestic purposes, or the entire world economy."

In his next breath, however, according to a report in the April 5 *Journal of Commerce*, Bergsten went on to specify the need for the IMF and OECD to get a total of $83 billion from the oil-producing and industrialized nations to help "backstop" the private banking system. This would include:

— A $15 billion special IMF facility, known in Washington as the "Witteveen facility" which would solicit loans to the IMF from countries with "surplus" reserves such as Japan, West Germany, and the OPEC states. IMF Director Johannes Witteveen is currently shuttling from Riyad, Saudi Arabia, to Tokyo discussing this plan.

— A fresh $43 billion increase in general IMF member quotas (contributions as members to the IMF.) This sum would be a "Seventh" or new quota increase, above and beyond the $11 billion "Sixth quota review" increase proposed at the IMF conference at Jamaica in January of 1976. This sixth quota review itself has been ratified so far only by the U.S. and a few other nations, and is being held up particularly by vehement opposition from the Gaullist party in the French Parliament. Bergsten now proposes $43 billion more.

— The resuscitation of the Financial Support Fund, safety net proposed by Henry Kissinger, for which the OECD governments would contribute $25 billion to an OECD-managed fund outside the IMF.

Bergsten also suggested that the Carter style of energy conservation should be undertaken by other nations as "measures toward better payments balances." But Bergsten is running into as much opposition in the U.S. Congress as IMF officials have encountered in Japan. Conservative members of the House Banking Subcommittee, which is chaired by Rep. Fernand St. Germain (D-RI), plied representatives of Chase Manhattan, Citibank, and other international banks who testified alongside Bergsten with embarrassingly direct questions. Rep. Hansen (R-Idaho) asked if it wasn't true that "bank policy influences government policy" and that "certain individuals involved in world trilateral groups and bankers are involved in these efforts" to influence government policy.

In an April 5 interview, the chief international economist at Chase, Robert Slighton, commented defensively on the refusal of the regional and foreign banks to keep joining international loan syndications. "Their decisions could be influenced by all the scare talk at these congressional hearings. We have a pretty good portfolio. We're quite happy to explain what we've done and why. But all the headlines can influence the minor (U.S. regional and foreign banks -ed.) participants. In that case, there could be major difficulties in funding debt for, say, Brazil."

The Planned IMF Takeover

The banks are suffering from a bad press as the details of the intended IMF bailout make clear. John Gerrity, the editor of the elite Wall Street publication, *Money Manager*, leaked word in an article this week that the IMF would "assume obligations owed to private banks." Gerrity later revealed in an interview that "the idea is that not only would the IMF make new loans as already openly discussed, but in addition, they would take commercial banks' loans onto their (the IMF's) books at face value, in the case for example when payments were lagging and the banks were squeezed." (This plan is generally associated with Wisconsin Democrat, Sen. William Proxmire.)

"Furthermore," Gerrity said, "although Carter squelched it the other day, there is plenty of talk of debt moratorium and if for example, a consortium of U.S. banks had a $2 billion loan defaulted on them, the IMF would take it on."

This week's *Money Manager*, which circulates among conservative business circles, reported in a front-page article by Gerrity that IMF managing director Johannes Witteveen had hoped the U.S. Congress would commit dollars to the bailout fund in time for the critical April 28 IMF interim committee meeting. This would assist Witteveen in twisting arms of the West Germans, Japanese, and Arab oil producers to chip in the rest of the money for the bailout fund before the May OECD "Economic Summit" in London. Gerrity said that not only was it extremely doubtful that Witteveen would meet his urgent deadline but that U.S. banking experts had suggested that "failing the establishment of the IMF lending facility, several of these debtor countries would either have to default or seek a moratorium on their obligations." Gerrity further cited estimates by "knowledgeable officials" that "in the second and third quarters of this year some $17 billion of debt owed by oil-consuming countries to the U.S. and other banks will fall due — exclusive of accrued interest."

Gerrity identified the Germain subcommittee as a "major obstacle" to the IMF expansion plan and cited the questions put to President Carter at a recent press conference, where an embarrassed Carter felt obliged to deny the fact that U.S. allies are considering the debt moratorium option.

But getting the principals together by the April 28 IMF meeting will be impossible if the current state of organization of the IMF expansion plan is any indication; most IMF, U.S. Treasury, and Federal Reserve officials are unclear or contradict each other on what the proposal is. Dr. Charles Schwartz, Deputy Director of the Research Department of the IMF, noted for example in an interview that the question of the IMF "assuming obligations" of the New York banks directly "is being developed and formulated now." Then he quickly added, "You realize, I have no comment on this."

Mr. Gold in IMF Director Witteveen's office insisted that such a thing was "totally outside the articles of the Fund, which stipulate it can only loan to governments." The IMF's Director of Public Affairs, Jay Reid, meanwhile stated that idea "was being heard about from the direction of the Washington Federal Reserve." The Fed's Director of Public Affairs refused to confirm or deny this and suggested Dr. Burns would clarify the issue at a Tuesday, April 12 speech at the Waldorf Astoria in New York.

Similarly, while the IMF's Mr. Gold insisted that an additional $43 billion increase in the IMF quotas (above the one currently being pushed) could not possibly take place for years, Bergsten's office and journalists present at his testimony confirmed the Treasury was talking about a $43 billion figure nonetheless.

Tell-tale Bank Stocks

Meanwhile, bank stock analysts all down Wall Street, who for months have been pressured by their management not to rate the large international New York banks stocks poorly, are beginning to come out against the stocks in earnest, so bad is their outlook. Although until now the international income component of major banks has been their only growing business (due to stagnation of U.S. loan demand), precisely that international component is expected to go when first and second quarter earnings are reported, analysts told the *Journal of Commerce* April 8. "The more internationally oriented a bank is, the less attractive," said George Salem, of Reynolds Securities, who feels "there will be a material amount of erosion in international (bank) margins in 1977."