Europe Stalling On Break With Dollar; Make 'Contingency Plans' For Collapse

BANKING

Financial leaders and government policymakers in Japan and Western Europe have continued to stall on delivering a flat "no" to a Rockefeller bailout. The Carter Administration, the New York banks, and the International Monetary Fund directorate are demanding that the OECD balance-of-payments surplus countries and the Arab members of OPEC provide an immediate cash infusion to cover the default-prone debt payments of Third World and other debtors. The cash, it is proposed, would take the form of a new $10-15 billion lending fund, the so-called Witteveen facility, to be financed half by the Arabs and half by Japan, West Germany, the U.S., Switzerland and Holland. Without it, the IMF has only $4 billion left in "hard" currency to lend, roughly a six-months' supply.

This proposal was left hanging at last weekend's gathering of the "Group of Ten" (G-10) leading advanced industrial nations in Paris. After insisting for weeks that Saudi Arabia had approved the plan, IMF director H. Johannes Witteveen was obliged to report that he had received no reply from the Saudis to his request that they supply $4 billion to the new facility.

The non-U.S. members of the G-10 had made it plain that they would not press the plan without Saudi commitment to it, and they accordingly let it drop until the April 28-29 meeting of the IMF's Interim Committee in Washington, which will be attended by 20 key finance ministers. The G-10 meeting also told the Treasury Department-led U.S. delegation not to raise the other immediate bailout proposal — the $25 billion "safety net" for advanced-sector debtors originally proposed by Henry Kissinger — until the Treasury could show some semblance of support in Congress, which axed the enabling legislation last year. The editors of the *New York Times*, however, called again for the safety net this week — because "what is urgently needed is a new institution that could be a lender of last resort for the industrial nations but independent of political control by others." The "others," the April 22 editorial explains, are the OPEC countries, who should merely continue providing bank deposits for the OECD to allocate to bailout recipients.

The *Times*' sensitivity to OPEC policy interventions reflects the fact that Saudi Arabian leaders and their contacts and advisors in British banking circles are not merely stalling on the problem of what to do about the Chase Manhattan group's resolve to salvage its balance sheet at the expense of world trade, production, and peace. While they stall, they are drawing up contingency plans based on the premise that the bankruptcy of several major Wall Street commercial banks may soon be exposed by some combination of defaults on principal installments, requiring a restructuring of the world financial system.

The head of the Middle East department at one of the London investment banks most heavily involved in the region said in an interview this week that Saudi Arabia will not support the IMF bailout plan. "It is unfair to advise them to do so, to tell them to take any initiatives to help the Western banking system. It would create an intolerable situation for them."

Instead, he added, the New York banks should be allowed to collapse, and "We should do to the dollar what was done to the pound" — presumably, remove its role as the chief international reserve currency and assign it a limited, subordinate role. What it would be subordinate to was not explained, but this banker-diplomat believes "it is inconceivable to let the whole Eurodollar market go." He indicated that his Anglo-Arabian group's preference is to restructure the International Monetary Fund and the Eurodollar market after excising New York's domination of them. Debt rollovers would be granted, but according to the pleasure of non-Wall Street creditors; this is already happening to some degree with, for example, Kuwaiti loans of Saudi currency to the Philippines, Algeria, Yugoslavia and Poland.

Some Arab policymakers are cautiously moving on an institutional level. Last week 20 member-nations of the Arab League formed an Arab Monetary Fund with $1.4 billion geared for "mutual assistance." While Wall Street sources claimed that the fund would be an adjunct to the IMF, the election by the Arab central bank governors of the former Iraqi planning minister to head the institution showed an orientation toward regional development rather than bailouts by the small fund. The fund intends to make the Arab dinar (previously a simple unit of account) into "a fullfledged currency independent of the international money market," according to the West German daily *Die Welt*. The Moscow Narodny Bank's Middle East department believes that the fund will be directed toward Third World development even *beyond* the region, and will gradually move toward basing the dinar on gold, a topic of discussion at the May meeting of Arab central bank officials.

Moreover, Saudi Arabia and Kuwait have granted Egypt a five-year moratorium on several billion dollars in debt owed to the Gulf states, according to Washington IMF sources. The Saudi action seems designed to forestall revolutionary agitation in Egypt by relieving Egypt of the austerity conditions tied to IMF debt-refinancing loans. The Saudis are also under pressure from forces throughout the Arab world, as well as elements within their own government, to use their petrodollar resources for industrial development.

Europe Hedges Its Bets

The Arabs, at all events, are moving within the poli-

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tical and financial parameters set by what Western Europe and Japan are ready to do to maintain and expand that real international economic activity now jeopardized by the policies of the U. S. government, Federal Reserve Board, and IMF. Among advanced-sector policymakers, there exists a broad common-denominator agreement (bracketing hard-core Atlanticist operatives like French President Valéry Giscard d'Estaing) that the Carter Administration is a public menace. Beyond this, a positive anti-Carter policy is still absent, and might remain so until the enormous U.S. opposition to Carter becomes visibly organized.

On April 18, following the G-10 meeting, the finance ministers of the European Economic Community (EEC) announced that they had approved the Witteveen facility "in principle." British Chancellor of the Exchequer Denis Healey commented to the press that "in principle" means merely that the Fund has EEC permission to "carry on exploring the sort of scheme that might be put in place." Healey, himself a pro-IMF factioneer, "will have to restrict himself mainly to generalities" when the subject comes up at the Washington Interim Committee meeting, wrote the London *Financial Times* April 19, perhaps reflecting the opposition of lynchpin British bankers to the bailout. Their opposition to a clean scrapping of the IMF and the Eurodollar market simultaneously finds a sympathetic reflection in West Germany, which holds a decisive swing vote on the question of a new international monetary system. Leading Franfurt bankers do not actively favor a bailout. On the other hand, they neither foresee a New York banking collapse not plan the near-term kind of withdrawal from the Eurodollar market, which, if made in tandem with Anglo-Arab interests, would "pull the plug" on New York without further ado.

The British are suffering from the stupidity of mere cleverness in imagining that the world economy as a whole, with or without David Rockefeller, can begin to run at a net profit. That is quite impossible so long as "policy" emerges from this kind of maneuvering to salvage short-term particular interests — as opposed to a fierce drive for expanded development of a world economy relieved of the obligation to devote capital resources to debt refinancing.

For their part, West German financial circles are remaining "slow and steady," as one Commerzbank official put it, reacting rather than acting. So are Swiss bankers, though some of them wax unusually profane on the subject of the U.S. President.

The Press Reaction

The Italian financial daily *Il Sole 24 Ore* minced no words in its criticism of the EEC for paying lip service to the IMF proposal. The Witteveen push, wrote *Il Sole* April 20, should be identified out loud as a U.S. attempt to impose a monetary order "whose high priest of recycling would be Chase Manhattan." Following Carter's failure to force hyperinflationary fiscal and monetary policies abroad, the article charges, New York and Washington simply want the IMF to assume the burden of the Wall Street banks' "overextended debt."

The French financial journal *Les Echos*, alongside an interview in which U.S. Treasury Secretary Blumenthal calls once more for worldwide "stimulation" — editorialized April 19 that Carter must now be confronted directly and across the board by the EEC. Blumenthal and Zbigniew Brzezinski are using a variant of the "human rights" ploy, writes *Les Echos*; they hope to put the EEC on the defensive by screaming about its import protection, then make Europe swallow Carter policy on the IMF, inflation and energy. Behind the Carter smile is an "unprecedented intransigence" toward Europe which puts EEC leaders in the same position as the Soviets during Cyrus Vance's SALT mission. At the London summit of advanced-sector heads of state, *Les Echos* concludes, the EEC must take a unified stand on behalf of its "legitimate interests."

On the subject of the IMF, the West German business daily *Handelsblatt* merely stressed this week that nothing has been agreed upon regarding the bailout. In its scathing coverage of Carter's energy program, however, *Handelsblatt* emphasized that, having antagonized every segment of the U.S. population, Carter has lost all credibility for the May summit meeting — a reminder to West German policymakers that they need not negotiate with him as if he headed a legitimate government.

Japan Considers Moratoria

In Japan, concrete steps have been taken to explore the alternative to a Rockefeller bailout, namely, an official suspension of repayments from Third World and other debtors. Japanese bankers told NSIPS this week that, having extensively reviewed Japanese bank loans to the developing sector, the Japanese Finance Ministry is reluctantly allowing suspensions of up to two years for both principal and interest payments by countries "with a basically sound basis for industrialization," potentially including Argentina, Brazil, Peru and Mexico. These bankers — fearful for their trade with Third World partners as well as defaults — are even willing to grant new development-project loans to the recipient of a moratorium, again on a case-by-case basis, the sources said. Meanwhile, Japanese financial authorities continue to resist the Witteveen proposal, as the *Wall Street Journal* and *Journal of Commerce* have acknowledged. A U.S. Treasury spokesman blithely commented off the record, "Sometimes we have to explain things to them more than once."

The most vigorous European voice on behalf of debt moratoria came in *Le Monde* April 13, when Angelos Angelopoulos, chairman of the largest private bank in Greece, the National Bank, proposed that Third World nations be granted a general debt moratorium for seven years, linked to 15-year development credits at low interest rates. Angelopoulos, whose statement converges on the International Development Bank proposal initiated by the U.S. Labor Party in 1975, said that, by raising demand for exports fromt he advanced sector, the Third World could "become the engine that gets the West out of the depression." His bank has extensive Arab as well as Western European ties.

Throughout the postwar period, but especially since the dollar crisis that finally scrapped the Bretton Woods fixed-parity monetary system, there have been periodic efforts abroad to organize a gold-backed, trade-and-

investment-oriented monetary system, new energy-development policies, and so forth. The Mideast war and oil crisis of 1973-74 were the reward for the retarded velocity and oblique direction of such efforts. Now, with a new conjuncture forcing a revival of such plans, the favorable nature of world conditions is unprecedented: the political and financial vulnerability of the New York banks and their Trilateral Commission executors; the new leverage of the Arabs, ironically due to the New York banks' own earlier bailout strategy; and the breadth of popular support internationally for sensible policies on the explicit basis of scientific and economic progress. Whether full advantage is taken of this potential by Western Europe and Japan appears at this point to depend on what they see happening in the U.S. itself.

Progress On T-Ruble Negotiations

SPECIAL REPORT

Use of the transfer ruble as in international reserve instrument is still on the front burner as a European financial option, indicated senior Italian officials. According to authoritative Italian government sources, the visit to Italy last week of Soviet foreign trade minister Komarov produced some progress on transfer-ruble trade financing between Italy and the Soviet Union, although results will not be know until the visit to Moscow in June of Italian trade minister Rinaldo Ossola.

A transferable ruble agreement between Italy and the Comecon, which would involve Italian acceptance of T-rubles in payment for Italian exports to the East bloc, and Soviet and other East European willingness to make a pool of goods available for sale for T-rubles, has been mooted in Italian official circles, with a start-up deadline of June or July. But Italian sources, who say they were encouraged by last week's round of negotiations, emphasize that a major factional battle inside the Soviet leadership will determine the outcome. One stumbling block, an Italian banker reported, is fear among a stratum of Soviet planners whom the banker referred to as "agriculturalist faction," that more Soviet economic integration with Western Europe would disrupt internal planning controls. There is also stiff opposition to the internationalization of the T-ruble on the part of the "pro-Carter" faction in the Soviet leadership, Italian sources said.

Following a meeting of its governing council, the International Bank for Economic Cooperation (IBEC), the Soviet sector's central financial institution, issued a cautious restatement of its policy on making the transfer ruble available internationally. Contrary to rumors circulating in the West, IBEC said, plans to make the T-ruble directly convertible into Western currency or other financial assets, or to create a "Euroruble" market, "do not conform to the reality of the situation." However, IBEC stated on what terms non-IBEC members would be permitted use of the T-ruble, on approval of all present IBEC members. These include financing of 100 percent of the value of a trade transaction through transfer ruble issues at nominal interest rates, whereas the T-ruble could only be issued previously to cover 25 percent of the value of such transactions; and provision to allow payment in T-rubles of only one side of a trade transaction, where previously IBEC demanded full balancing of transactions before non-members could pay in transfer rubles.

In addition, the German Democratic Republic newspaper *Neues Deutschland* reported, observers from banks in Latin America, Asia, and Africa, were present at the IBEC council meeting. This development is not totally unprecedented, but still extremely unusual. Although the banks participating were not identified, the move probably indicates negotiations in an advanced stage of completion for use of T-ruble in trade between Comecon and Third World countries, or in triangular arrangements with Western European countries, such as Italy. There is some speculation among Western observers that the 14 billion transfer ruble development fund at the IBEC's sister institution, the International Investment Bank, may finally be tapped in a significant way, especially since development credits from the West are becoming virtually unobtainable. However, for the Soviets to undertake major development efforts in the Third World, they would require Western European participation to provide a significant share of the flow of infrastructural goods.