variously estimated at $7 to $9 billion or lower, the country was not until recently a candidate for financial problems; but flight capital in excess of $100 million per day—triggered in part by fears of the implications of an oil revenue decline—are depleting those reserves at a staggering pace.

At this rate of deterioration, Venezuela could be broke by May, perhaps earlier. Oil exports have sagged to almost 1.3 million barrels per day—the lowest level in three decades—because of the global collapse of industry and an unusually mild winter in the U.S. Northeast. Eight international banks have sued the Venezuelan government for default because of late payments by the Venezuelan Development Corporation, just as Finance Minister Arturo Sosa was preparing to visit New York and European banking capitals to try to renegotiate government-backed short-term debt. Venezuela fell short by about $1 billion the last time it sent a finance minister abroad on such a mission, and that was when the government only needed $2.7 billion. Sosa now wants to refinance the entire $8.7 billion coming due this year—$3.5 billion of it by the end of next month. Bankers argue that Sosa doesn't have a chance, unless he accepts a "pre-emptive IMF program."

Venezuela, the major Ibero-American nation closest to the United States historically, has become the focus of debate over the "debtors' cartel" proposal circulated in one form by Colombian President Belisario Betancur, and in slightly different form by *EIR* Contributing Editor Lyndon H. LaRouche, Jr. Recent headlines discussing variants of this proposal, including that of LaRouche, belie reports that the "debtors' cartel" has disappeared from the political map. On the contrary, the new elements of unpredictabiility in the situation have convinced many developing-nation leaders that they have no choice but to take initiative themselves.

A brief selection from the intensive media coverage during the past two weeks includes:

On Jan. 25, *El Mundo*, an afternoon daily published by Miguel Angel Capriles, published a front-page editorial calling for formation of a debtors' cartel and a three to five-year debt moratorium.

On Jan. 28, *El Mundo* and *Ultimas Noticias* published a press release on LaRouche's policy proposal to the summit conference of Non-Aligned nations to begin March 7 in New Delhi, in which LaRouche details the necessity of the debtors' cartel tactic. The item was *El Mundo*'s lead banner headline.

On Feb. 5, *EIR*'s Ibero-America Editor Dennis Small, was interviewed at length on Venezuelan national television on prospects for a debtors' cartel.

Sections of the developing world's leadership are slowly becoming convinced that a crisis cannot be delayed, and the prospects for an accelerated oil-price drop add to the argument. There may yet be hope that industrial nations' leaders will learn this before they are called upon to sign away sovereign power over national economic policy to the International Monetary Fund.

The IMF advances its a global dictatorship

by Kathy Burdman in Washington, D.C.

The Feb. 10-11 meeting of the Interim Committee of the International Monetary Fund significantly advanced the IMF's timetable to establish a Malthusian "new Bretton Woods" monetary system by focusing on bringing the mightiest sovereign nation of them all—the United States—under supranational IMF policy control. The major subject of the closed-door meeting was the need to place the United States itself under an IMF "surveillance" program and to establish stringent control over U.S. banking regulation. If these programs are carried out, the IMF, as has been proposed by New York Fed President Anthony Solomon, former Lazard Frères banker Felix Rohatyn, and the British government, will be turned into a true "world central bank."

Publicly, the Interim Committee acted to ratify "Phase I" of the IMF program, the expansion of IMF quotas and the General Agreement to Borrow (GAB), to give the IMF the financial resources (at world taxpayers' expense) to bail out the private British, Swiss, and U.S. banks of the offshore Eurodollar market. The Interim Committee's final communiqué called for a 47.5 percent increase in IMF quotas—some $33 billion—and a boost in the GAB from $7 billion to $19 billion. If, as expected, Saudi Arabia caves in to the IMF's design, and as Saudi Finance Minister at the meeting Aba Khail announced he will do, the Saudis are expected to lend the GAB an additional $2.5 billion, and to lend the IMF a further $3 billion in general funds. It all adds up, even on the surface, to a $50 billion expansion of the IMF. The quota agreement, originally due to come into effect at the end of 1985, will be rammed through world parliaments, IMF officials said, by the end of 1983.

"All in all, the total effect is a very large and rapid increase, indeed, in our total resources of the Fund," British Chancellor of the Exchequer and Interim Committee Chairman Sir Geoffrey Howe told the press.

The script for the Interim Committee meeting was written the previous weekend at an exclusive meeting of bankers and financial officials at Ditchley Park, near London. According to participants, the 50 top financiers in attendance agreed that the world banking system could only "squeeze through" if American interest rates were to fall, if the American economy were to recover quickly, and if the process of debt reschedulings now underway were to go smoothly. "It was agreed

timetable for over credit flows

this was unlikely," said one participant. "The consensus is that the next twelve months will produce a mounting wave of debt moratoria and outright repudiation."

The Ditchley bankers' group expressed fear of two major reverses on the political front: the American Congress might refuse to provide the required funds for the IMF, whose added contributions are still subject to legislative approval; or, the developing nations on the IMF's hit list might form a "debtors' cartel" to bargain with the West, using the threat of repudiation to ensure terms of rescheduling that would allow economic growth to continue.

With this background, the Interim Committee events took on the character of a race against time. Late on Feb. 10, the Committee still had not agreed on a proposal for a quota increase, with Treasury Secretary Donald Regan holding out for a comparatively low 40 percent increase, and the developing nations threatening to veto such a proposal as inadequate. Indeed, British press accounts appearing Feb. 11 warned of a collapse of the deliberations. The *London Times* quoted a British official who warned that in the event of a failure to agree, "It is possible that some of the more militant Third World countries will follow through on their threat to form a debtors' OPEC by refusing to pay their loans to commercial banks." A late-night session, called by Sir Geoffrey Howe Feb. 10, managed to put a compromise into place at the last minute.

The quota increases that were voted up managed to "keep the players in play for a while," as one top London banker put it. Meanwhile, behind closed doors, the principal topic of the meeting was a coordinated assault against the United States. Discussion was focused on the Reagan administration's projected budget deficit, as demanded by IMF Managing Director Jacques de Larosière and a number of national delegations. De Larosière's assault, Italian central bank governor Lamberto Dini explained, is intended to "put the United States under IMF conditionalities," that is, subject the United States to the same brutal austerity already accorded a large part of the Third World. Breaking the economic sovereignty of the United States, the IMF believes, is indispensable to subject the world economy to a supranational financial dictatorship under a world central bank.

De Larosière's attack was even included in the final communiqué, which stressed at its outset "the importance of reducing fiscal deficits in a number of countries."

De Larosière himself, confronted at the final press conference, refused to deny that the IMF intends by this to put the United States itself under an IMF austerity program within a year. U.S. Treasury Secretary Donald Regan, loyal to his Wall Street colleagues such as Peter Peterson (who under IMF orders, complained about the U.S. deficit) was much more explicit. Asked whether the United States itself needs an IMF austerity program, Regan stated, "That's not a bad idea. We used to have one, you know." Regan was apparently referring to 1977, when Jimmy Carter's Treasury Secretary Michael Blumenthal succeeded in collapsing the dollar to the point that America had to beg the IMF for funds to support its currency. Asked if he did not object to de Larosière's lecturing the United States about its own domestic affairs, Regan said, "No. Every country has gotten a lecture at this meeting except the Chinese."

In this atmosphere of IMF manipulation of one nation against another, a call by U.S. Democratic economist Lyndon H. LaRouche, Jr. for American rejection of IMF control created a furor at the conference. LaRouche stated that the United States must not only reject all IMF programs, but must immediately move to "regain control" over the world monetary system by re-monetizing its ample gold reserves at the current market price of $500/oz. Rumors that President Reagan was considering this option, which would include reducing the U.S. trade deficit to nothing by issuing billions in gold-backed bonds to finance exports, were eagerly noted by those world leaders opposed to IMF dominance over every nation state. "I don't think the time is ripe for the use of gold, because nations should hold onto it as a last resort," Haruo Maekawa, Governor of the Bank of Japan, told me. "But an IMF program for the U.S. would be a terrible thing. Not good at all. The U.S. must have national independence." West German Finance Minister Gerhard Stoltenberg noted that while use of U.S. gold seemed to be a "wild last resort," the subordination of the United States to the IMF would be "not good at all" and should be resisted by Washington by whatever means necessary.

Behind closed doors, at the main sessions, however, the real topic of the meeting was how to turn the IMF into a true world central bank, the "Phase II" of Britain's plans for a "new Bretton Woods." The major topic of the meeting, OECD Director Stephen Marris told me, was de Larosière's demands for IMF austerity. "De Larosière has been brutally frank," he said, "telling the U.S. that it must cut the budget, and cut fast, because the fate of the world economy depends on rapid U.S. action."

De Larosière has organized a block of Third World and OCED governments against the United States, Marris stated, which has in a single stroke made the IMF butcher the hero the Third World, and isolated America. "De Larosière has set the Group of 24 (developing countries) and the entire meeting against the U.S." the OECD man confided. "In fact, the only thing upon which the finance ministers of the world agree at this moment is that the U.S. budget deficit is the gravest threat to the rest of the world." De Larosière is saying that unless the U.S. deficit is cut, U.S. interest rates will rise to the point that they threaten to bring a crisis to world banking.

Conversely, Lamberto Dini, of the Bank of Italy and a spokesman for the old Venetian families who back the IMF, was apoplectic at the idea of the United States reasserting its national sovereignty. "Remonetization of gold is totally ridiculous," he shouted. "It would solve nothing. The U.S. Treasury may have trouble financing itself and the dollar may drop. Remonetizing gold won't help," he said. "The U.S. simply must cut the deficit! They must cut it, they must, there is no other way! If not, the U.S. may need an IMF program very soon indeed."

Creditors' cartel hit list

De Larosière's and Regan's statements correspond to reports circulating earlier this week among British and U.S. bankers of the "Ditchley Group," the bankers' creditor cartel, that the "secret agenda" of the meeting is a plot against the United States. "The major question for the meeting," the representative of Chase Manhattan Bank to the Ditchley Group said Feb. 4, "is, what will the IMF do with the U.S. to force it to cut its budget deficit?" On the same day, Sir Geoffrey Howe told Parliament in London that "The U.S. must get its budget deficit under control" and cut defense if necessary.

The plan of the IMF, the Bank for International Settlements, and the Ditchley Group private banks—who are acting together as an illegal creditors' cartel—is to pick off the nations of the world, one by one, and bankrupt them to force them under IMF austerity programs—*whether the country is viable and healthy or not*. The process began after the April 1982 Malvinas War, when the banks suddenly, without any economic justification whatsoever, pulled in their $32 billion credit lines to Argentina. Next, Mexico suffered a run by bankers, and then Brazil was given the same treatment this December.

IMF officials reported the week of Feb. 7, that the perfectly viable nation of Venezuela, having some $8 billion in reserves, is about to get the "Mexico" treatment. "Venezuela is certainly not bankrupt yet," an IMF official stated, "but the creditors' policy now is to force every nation, bankrupt or not, to come to the IMF for an austerity program. Venezuela is going to set a precedent. *From now on every country must have an IMF program, before* it goes bankrupt."

The plan, a top official of Morgan Guaranty Bank said "is not a theory. It's already in practice. The banking community can no longer lend a cent to any developing country without an IMF program as a prerequisite. Virtually no country which does not have a preventative IMF program will get any credit."

The next countries on the list may be Colombia and Iraq. In the former, the Betancur government is now under threat of a coup for its opposition to the IMF. Rumors are already circulating in the French press by Swiss-connected journalist Paul Fabra of *Le Monde* that Iraq is bankrupt, egging on creditors to cut their financing lines. Fabras's *Le Monde* this week attacked the French government for supplying planes to Iraq to defend itself against the Khomeini regime, and charged that Iraq "is a country far from any guarantee of stability *or solvency*."

Within one year, the IMF plans to add the United States to its list of victims. Just like the viable LDC nations before it who have been deliberately targeted by the IMF and the creditors' cartel, the United States will be forced—either because of troubles with the U.S. Treasury debt, the dollar, or the banking system—to submit to the IMF.

Attack debtors' cartel

A top IMF official said that the new IMF offensive is based on the need to "eliminate" the threat of a debtors' cartel, which could use the political power of its $200-500 billion in debt to overturn the IMF world order and demand large-scale new credits for international trade and development. "The major topic of the IMF Annual Meeting last September in Toronto was Mexico," the IMF official said, which at the time nearly declared a foreign debt moratorium together with Argentina. "Everyone was very concerned. At this Interim Committee meeting, we intend to set up a system to get every country under a "preventative" IMF program before they go bankrupt. We are looking to eliminate occurrences such as Mexico and Brazil."

To do this, the IMF strategy is to call for "equality" of sacrifice, and tell the Third World nations, now reeling, that the United States must be made to sacrifice, too. If the United States and other industrial nations agree to "sacrifice," the Chase banker said, then the Third World will stick with the IMF. "The U.S. has to be more realistic about its budget," said Brazilian Central Bank chief Carlos Geraldo Langoni to the press. "If the U.S. wants us to tighten our belts, we must have a quid pro quo" of austerity in the United States, he said.

Judging from the delegations' behavior at Washington, the IMF has a good estimate of how low morale is in the Third World. Jacques de Larosière, who has personally butchered a dozen nations, was hailed by both IMF Interim Chairman Sir Geoffrey Howe and Monmohan Singh, the Governor of the Central Reserve Bank of India, as "the man of the year" and the "best friend of the Third World." The rationale, even among the Egyptian and Brazilian delegations, who should know better, is that de Larosière alone has faced up to the big bad commercial banks and demanded that they stay in on the IMF-run refinancing packages which each bankrupt nation is being put through. That is the equivalent of hailing as your savior a man who helps to mug you, waits until his accomplices leave, helps you to your feet, and then kicks you down the stairs. But Singh and other Third World leaders hailed de Larosière in published speeches as "a dynamic leader. His recent initiatives," Singh wrote in a major speech, "in encouraging flows of commercial bank lending to developing countries has contributed greatly to the restoration of a measure of stability in the international financial system. We have always looked upon him as a friend of the Third World."

Similarly, the Group of 24 communiqué has dropped all of the attacks it made last September against high interest rates, stringent bank lending, and tough IMF conditionalities. Instead, they call for a vast expansion of the powers of the IMF, including 100 percent quota increases.

IMF: world central bank

For the IMF to become a true world central bank, however, it must control not only the budget of the United States but the sovereign right of the U.S. banks to issue credit, now controlled by the American Congress and the Federal Reserve. Although Congress has foolishly ceded much authority in this area to the Fed, the Fed is still nominally accountable to Congress.

Under the British plan for a world central bank, however—dubbed the Lever Plan for its author Lord Harold Lever—the IMF would be re-chartered to have international control over all credit issuance by U.S. banks and by the U.S. Fed. This plan was surfaced at the IMF Interim Committee meeting by Brazilian Central Bank head Langoni, spokesmen for the Federal Reserve, and the Washington press.

Under the first part of the Lever Plan, American banks would be forced to exchange their short-term debt holdings of Third World debt for long-term bonds modeled on the Big MAC bonds of New York. The Lever Plan has been made famous in the United States by Lazard banker Felix Rohatyn, the author of the Big MAC program, on which it is modeled. Working in cooperation with the Volcker Fed, which has written a series of secret reports on bank restructuring, congressman Charles Schumer (D-N.Y.) and House Banking Committee Chairman Fernand St. Germain (D-R.I.) have prepared legislation demanding that banks "stretch out" the debt longer term.

This plan is totally distinct from Lyndon LaRouche's Operation Juárez in that it would provide no new credits for Third World development.

The plan was endorsed editorially by Hobart Rowan in the *Washington Post*. "Much of the total outstanding debt of the LDCs of 500 to 600 billion dollars will never be repaid," he wrote. "Everybody had better start the process [of the Rohatyn plan] for time is running out."

In addition, New York's Federal Reserve President Anthony Solomon is promoting the idea that the last decade of "free market in world lending no longer functions." Solomon believes that the U.S. banks should no longer be free to lend as they choose, but only under "global arrangement" with the IMF, which should have the power of world credit allocation. The IMF, he says, should have the power to "decide world levels of lending necessary or desirable." That is, once the banks' existing loans have been restructured, all new lending will be dictated by the IMF."

Bank restructuring

This program was endorsed at the IMF meeting by Brazilian central bank chief Langoni. Langoni, is promoting Solomon's argument that we do not have individual debt crises, but a breakdown which requires an entire new monetary system. "This is not a liquidity problem, it is a solvency problem," Langoni said. "The Mexican case has proven that the free market does not work. It spilled over into Brazil and other countries and shows that we need new institutional mechanisms for the restructuring of debt."

Once the current individual debt crises of Mexico, Brazil, and Argentina have been stabilized, a European IMF official told *EIR*, "then more extensive regulation of the U.S. banks, which has long been promoted by the Bank for International Settlements, must be undertaken."

From the Financial Times

Below are excerpts from an article by Anthony Harris in the Financial Times *of London on Feb. 10, titled "The Micawber Approach to Debt."*

"Brazil, Mexico and Argentina are close to collapse, and bank shares are rising." This bitter observation comes not from the new report of the Brandt Commission, out today, a left-wing City-basher or a spokesman of the New Economic Order. It comes from a high official, who must be nameless under house rules, who met with some 50 other central and commercial bankers, politicians and officials at Ditchley last weekend to discuss the debt crisis. . . .

Anti-banker emotion was quite widespread at Ditchley, with one speaker after another calling for financial penalties, tighter rules and generally more seemly behaviour—and there would indeed be something deeply offensive about the current spectacle of bankers boasting about the profits they make out of rescheduling, if one seriously believed that the debts would ever be repaid in full. Howeever, the fact is, as Lord Lever has pointed out, that rescheduling is simply a way of postponing the day of default, at the cost of a bigger default when it comes. . . .

The current account of these countries would have recovered smartly if the developed world had not slid into recession two years ago. . . . After the severe austerity programmes in these countries have been imposed, if there is a reasonable recovery in the West, the borrowers will quickly return to a sound position; but if stagflation continues, they will make no progress at all. . . .

Financial strain is not a symptom of recession, but the fundamental cause; our malaise is financial. The austerity programmes adopted by Third World borrowers will depress world demand by $17bn this year, according to the OECD. Similar austerity imposed by overstretched commercial borrowers will have a bigger effect, because their debts are bigger. Capital formation in the U.S., for example, is 9 per cent down. . . .

The much discussed credit contraction, which all the pragmatic arm-twisting in the banking world at present is supposed to prevent, was already a fact before the bankers took fright. For the most dynamic developing countries, the interest burden caught up with the flow of new capital two years ago; the much-criticized "explosion" of lending has made virtually no new resources available to them as a group, and the new programme implies rapid net repayment of debt. . . .

The real problem is to arrange finance on manageable terms, and unless we are quickly able to resolve our policy crisis in the West—an unlikely outcome, according to the participants at Ditchley—this must mean a break from market-related money interest rates. The British Government has made this break with its indexed gilts (and thereby reduced money rates on conventional long-term borrowing). Loans indexed to the commodities which the borrowers export might also be floated at relatively modest rates, if not the 2½ percent achieved here.

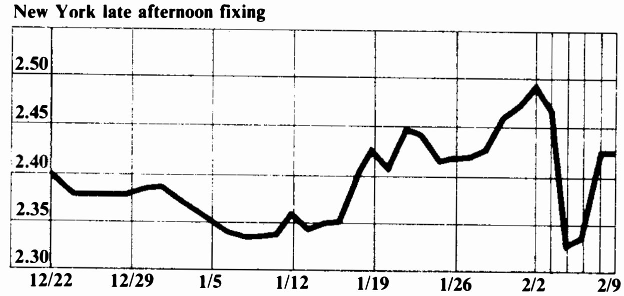
Such proposals are resisted on three grounds, two of which are openly declared. First, the time is not ripe—the classic bureaucratic evasion. Second, it would "let borrowers off the hook," and even prove inflationary—which is pernicious nonsense. There need be no "hook"—the debts, as bankers are the first to protest, would be perfectly reasonable in a reasonable economic environment. And funding itself is not inflationary—on the contrary, it is the principal weapon used by our governments to fight inflation. What is inflationary is to pile more bank debt and more IMF and other resources on past lending. Have the central bankers secretly opted for the the generalised bankruptcy which is called inflation?

The final, unmentioned, problem is this: refinancing sound borrowers in the long-term market will leave the banks with an even more questionable bunch of assets, and somebody might notice. So the banks, too, may need refinancing—a prospect which should depress the share prices found offensive at Ditchley. . . .

Currency Rates

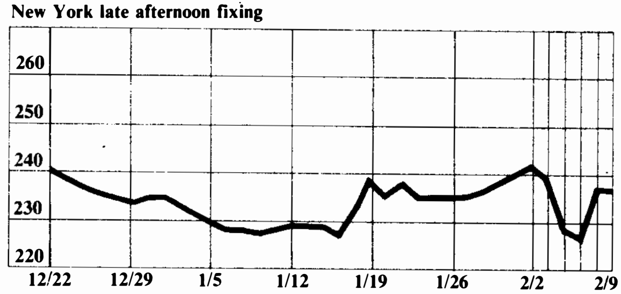
The dollar in deutschemarks

New York late afternoon fixing



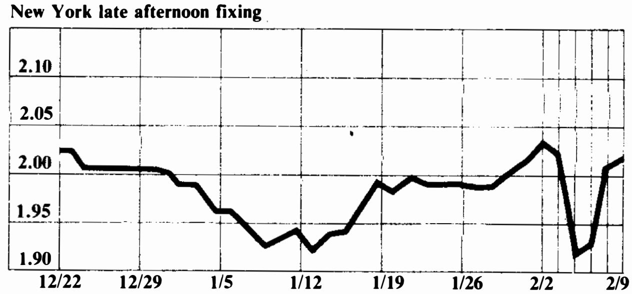
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing