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International Fight Breaks Out Over the Debt Question

New York, Feb.21 (IPS)—Between the meeting of the Group of 77 Foreign Ministers in Manila two weeks ago and this week's meetings of the Conference on International Economic Cooperation in Paris (CIEC) and ministers of Commonwealth countries in London, a consolidated grouping of Third World nations has emerged which is committed to a policy of debt moratoria for the Third World as a whole. This group, which includes the nations that have taken a leading political role within the Group of 77, is in contact with the Italian supporters of debt moratorium, the French Gaullists, and other active and potential supporters in the industrialized countries, and the Socialist sector.

This potential coalition between the Third World and parts of the advanced sector has already undertaken concrete measures to insure the continuity of international trade in raw materials for Italy in particular, which until now has been the testing point for international resistance to the austerity policies demanded by Wall Street financiers and the International Monetary Fund.

Most significantly, the Soviet Union and other Council for Mutual Economic Assistance (Comecon) countries have left the sidelines and taken a direct role in the battle. In addition, not only the Algeria Iraq group within OPEC, but now Nigeria and possibly Kuwait, have given assurances to both Western European countries and oil-importing Third World countries that they will maintain oil shipments to countries who have declared moratoria.

The main threats that the financiers hold against the debtor-countries that have prevented the declaration of moratoria are disintegrating quickly. For example, Italy, subjected to a de facto embargo by multinational oil companies that depleted its stocks to the 4 to 10 days' level has now established alternate sources of supply. These include the Soviet Union, certain North African countries, and, in process of negotiation, a large independent oil firm operating in the Persian Gulf.

While there are a number of countries or groups of countries who are now considering taking "the first step" in declaring moratoria, the significance of this process does not depend on any individual nation. What is emerging is an international environment in which the level of political agreement between the potential constituents of a New World Economic Order is rapidly approaching "critical mass."

At this moment $800 billion in uncollectable dollar denominated debt now threatens to collapse the world monetary system. Countries owing money to the Atlanticist-controlled banks are lined up like a row of dominoes. Should any one of these dominoes fall—should any national sector signal its determination to survive by declaring a debt moratorium—then the entire interlocking debt structure comes tumbling down. In fact, even the discussion of debt moratoria by a significant political faction in Italy, in India, in Zambia, in Chile, etc.—equivalent to a "wobbling domino"—has cumulatively the same impact, creating overwhelming pressure for general debt moratoria and the establishment of the International Development Bank.

There has been no lack of policy support for debt moratoria among Third World countries, or leading Western European factions, during the past six months. What has been missing is an array of an appropriate number of political agreements between the Third World, the oil-producing countries, and an appropriate number of advanced-sector countries on maintaining trade in the absence of commercial banking or International Monetary Fund (IMF) refinancing. These agreements are now the immediate subject of discussions taking place among these countries.

One reflection of these developments is their impact on the New York financial community, on the Ford Administration and the U.S. Congress. One leading international banker characterized his approach to the debt crisis as follows: "These countries are going to have to cut back. Many of them will have to return to subsistence agriculture. If they declare debt moratoria, we will immediately cut off all short-term trade credits. Then they will just go out of business." But the financial community is broadly aware that the current approach of the Third World has already pre-empted this strong-arm approach. One State Department economist complained, "These countries are using a new sophisticated approach on the debt question, and they have outflanked us."

An accurate measure of the degree of panic over this state of affairs in Washington is the inability of the State and Treasury Departments to brief even Congress on the contingency plans they are formulating. In particular, the unofficial standpoint of State is "if the situation ever came close to debt moratoria, the governments would step in and make up the gap." Both State and the banks are committed to emergency refinancing through government channels, and commodity price arrangements of a related character. Yet the fear at the State Department is that if it announced its agreement with a general formula approach to the debt and related questions, the Third World would accurately perceive this as a sign of weakness, and take pre-emptive measures by declaring moratoria on their debts before negotiations began.

Italy's status, which the finance ministers of the European Economic Community (EEC) attempted to settle earlier in the week with a $1 billion loan guarantee swindle remains entirely up in the air, as of the close of last week's business. "Nothing will go through," said a banker engaged in negotiations for a loan to Italy under the EEC's backing, "until the Moro government has formed its cabinet and imposes some form of austerity policy." The EEC finance ministers had attempted to exact some form of austerity program from Italy in return for the unprecedented loan guarantee, in the opinion of a senior executive at a New York-based international bank, "not Draconian austerity, just some kind of austerity." This apparent "compromise" had the intention of duping the Italian opposition into relaxing their work towards a debt moratorium. Although several opponents of Moro, Gianni Agnelli, and co. seemed prepared to take the bait, (e.g. the editors of Il Giornale) in general, the EEC's attempted swindle has been treated with contempt.

On the contrary, the Italians have escalated efforts to prepare the groundwork for a debt moratorium. Two initiatives are key in this business. The first is a joint Italian-Soviet maritime consortium, established this week for the purpose of controlling the physical movement of goods between the two countries. Commerce Minister Gioia, who negotiated the agreement, took pains to announce that his national shipping plan intends to insure the flow of raw materials to Italy under all circumstances. The government-owned chemicals combine Montedison has taken a leading role in these negotiations. Its foreign affairs director Sr. Ratti last week proposed the rapid expansion of Soviet-Italian trade along the lines of raw-materials-for-technology, with explicity reference to "integrating Italy industrially into Comecon." In Cuba this week, Ratti created the first technical-scientific agreement that Cuba has ever signed with a Western Country. Finally, Montedison has proposed to supply refining and related capacity to OPEC countries in exchange for oil.

This last effort parallels negotiations reportedly conducted by Christian Democratic leader Giulio Andreotti with the Kuwaiti-based J.P. Getty oil interests for importation of oil outside of lines dominated by the "Seven Sisters" cartel. Italy depends, directly or indirectly, on the cartel for most of its oil. An increase in the price of oil sold in Italy is currently under negotiation with the multinational companies, leaving Italy's capacity to import oil in an uncertain position.

Highly qualified sources in the Italian nationalized oil industry identify these moves as part of preparations for the declaration of debt moratoria.

Incomplete reports indicate that the oil cartel perceives a similar danger in France: according to French press and radio reports this morning, Royal Dutch-Shell has interrupted oil deliveries to France on grounds identical to the pretext for the Italian embargo, i.e. that the price levels permitted in the French market are too low to be profitable.

Although information is incomplete at deadline, there is clear motion from the French Gaullist barons to support their Christian Democratic colleagues in Italy. Exemplary of this support is the statement of Gaullist leader Michel Debre in the pages of Il Fiorino Feb. 18. Debre denounced "the dollar's voice in European affairs," the use of the inflated dollar as an international monetary standard, and opponents of world development generally. The Gaullist congress this week denounced French President Giscard's provocative actions in Djibouti, a French outpost on the Horn of Africa, demanding instead negotiations with a local pro-Gaullist independence party. DeGaulle's former financial advisor Jacques Rueff this week added to Debre's denunciations of the dollar-based international monetary system, attacking as well cuts in working-class living standards.

In Kuwait, meanwhile, Arab central bank governors met this week to discuss plans to replace the dollar as the basis for oil payments. A major factional battle is being waged between forces led by Iraq, which proposes a regional currency mechanism and by Saudi Arabia which is pushing for a scheme linked to the Special Drawing Rights (SDRs) - the IMF's funny money - which is backed up by the State Department. A follow-up meeting will take place May 3.

Simultaneously, there is a flurry of international activity centered around Kuwait, to give backup to this Arab motion away from the dollar. The Kuwaiti oil minister has just returned from Moscow where he worked out an agreement for Soviet participation in development of Kuwaiti oil resources, while an East German delegation just left Kuwait.

The Soviet Union has brought additional pressure to bear on Western Europe through a proposal made last week for the establishment of full relations between the European Economic Community and the Council for Mutual Economic Assistance. The Comecon plan, which European experts regard as unprecedented, includes the establishment of full trade relations and the removal of all barriers to trade, as well as joint discussion of international monetary questions. Since the Comecon as a whole is now more than $20 billion in debt to the West, a severe depressing factor on East-West trade, this last proposal is highly significant. Neues Deutschland, the German Democratic Republic party daily, hailed the Comecon plan as the most important proposal since the conclusion of the Helsinki security conference last summer.

The immediate focus, meanwhile, for Third World discussions of the debt issue is the meeting of Commonwealth countries in London. Following the most advanced formula adopted at the Manila meeting, the Commonwealth countries' agenda proceeds from a choice between two alternatives: either freezing the debt service on Third World debts generally, or cancelling it altogether. The pressure this puts on Great Britain, the staunchest partner of the United States in the Atlantic alliance, has already been reflected in the British press. Financial Times columnist C. Gordon Tether endorsed Feb. 16 the proposal for a general moratorium on Third World foreign debts, adding that "this idea is gaining acceptance within the advanced sector." A Feb. 18 London Times op-ed column by Melvin Westlake warned that U.S. Secretary of State Henry Kissinger's hamfisted approach to the Third World will backfire.

The British government has already hedged its bets. Chancellor of the Exchequer Denis Healey has privately told Third World leaders that if they declare debt moratoria, Britain, with $15 billion in external debt obligations, will follow.