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Mexico, Venezuela Break Out World Debt Fight

April 24 (IPS) — Key leaders of the Venezuela government have thrown their weight behind the global fight for Third World debt moratorium, dending ripples throughout political circles in the Third World and Western Europe.

Reinaldo Figuerado, president of Venezuela's Foreign Trade Institute, told reporters this week that Venezuela's delegation to the May 4 conference of the United Nations Conference for Trade and Development (UNCTAD) would press for "a decided and practical solution" to the problem of Third World debt "and even a moratorium." This marks a sharp break with Venezuela's past role as "Trojan Horse" for the U.S. State Department among Third World countries, and could tip the balance of Third World forces towards a tough stand on the debt question at UNCTAD next month.

Mexican President Luis Echeverria's strong mobilization for a new world economic order program both within Mexico and internationally, plus the devastating collapse of world trade and production since the March 31 debt rollover date has spurred Venezuela to bolt the State Department's control, Latin American political sources report.

In his speech to the World Parliamentary Union in Mexico City last week, Echeverria warned that the debt burden of the Third World was becoming "intolerable." The Mexican press is running a constant buildup of pressure on the debt question. In its April 23 editorial, the Mexico City daily Excelsior calls "the longstanding indebtedness of the Third World countries one of the most ominous problems facing those countries." The newspaper adds, "it is urgent to face this already disastrous reality before it turns into a major catastrophe. Moratoria could provide a respite for dealing with this problem." The other leading Mexico City Daily, El Sol, attacked the Third World's "perpetual indebtedness," adding, "the Nairobi meeting must find a formula for solving this problem and address what is imperative: a more just, new economic order in the world."

The repercussions of Mexico's fighting approach to the debt and related development questions have upset U.S. efforts, led by Undersecretary of State Charles Robinson, to "contain" the Third World delegations at the critical UNCTAD meeting in Nairobi. Panama's diplomats are saying that their government will push for a full moratorium on Third World debt at Nairobi.

Socialist Bloc May Move

There are also preliminary indications that the socialist countries are coming to understand that their support is crucial and may do more than give lip-service to the Third World position at the UNCTAD meeting. Cuban media gave broad coverage to Venezuelan spokesman Figueredo's statements on debt moratorium, and the Cuban government is reported to be strongly sympathetic to the Mexican and Venezuelan initiatives. In an April 7 broadcast, Yugoslav radio issued a direct challenge to the Soviet Union: "The approach of the socialist countries is becoming increasingly less satisfactory for the developing countries," the Yugoslav news agency Tanjug said. "This was manifested at the recent conference of ministers of the Group of 77 (Third World) in Manila," where Soviet representatives stupidly cautioned Third World leaders against taking too "provocative" a stand on the debt issue. "The only solutions for the currently important problems of the developing countries," the broadcast concluded, "can be sought only within a plan for the general development of the world economy." The Soviets have given no indication yet of their current thinking.

Shock Waves in Europe

While the line-up at Nairobi is still being fought out, Western Europeans are still trying to maneuver between Echeverria and Kissinger, with no clear stand on precisely what kind of debt moratorium they will go along with. Swedish trade minister Lindholm announced Wednesday on Swedish Radio that four European countries — Sweden, Switzerland, Holland and Norway — will support a moratorium on **at least** government-to-government credits at the UNCTAD conference. An open fight broke out among the industrialized countries' governments at preparatory talks last week in Paris, when these four countries broke ranks with the United States.

The previous week, State Department officials muscled the 20 industrial counreies of the Organization for Economic Cooperation and Development into agreeing to quash the debt question at the Nairobi negotiations. By April 19, the OECD club had splintered. A senior advisor to the West German Development Ministry said that for the moment West Germany would follow its orders from Washington, but added: "The Americans are completely crazy. All they can think of is short-term tactical advantage. Meanwhile the whole economic situation is collapsing around us." An editorial in the pro-NATO daily, Die West, pleaded for the U.S. to drop its "confrontationist attitude."

The French are also having public second thoughts on the U.S. position. This week, the influential magazine Le Monde Deplomatique reported that UNCTAD Secretary-General Gamani Corea wants the Nairobi conference to center on debt. Corea, a strong exponent of the U.S. State Department's "commodities indexation" swindle, is under much pressure to come out behind a moratorium position; Le Monde Diplomatique's extensive coverage on debt is a clear effort to push him to do so.

Meanwhile, the closest allies of the State Department in Europe are in full defensive position. The London Financial

Times warns of "a North-South confrontation and the perhaps even greater danger of a split between the western industrial powers on the whole question of the approach to the Third World." In Italy, Gianni Agnelli's daily Repubblica complains that Kissinger's con games will likely fall through at the Nairobi meeting, and rails against the threat of a solid Third World front for debt moratorium.

The conditions for a general European break with Kissinger are now all in place. Switzerland's defection from the U.S. camp places the largest financial power independent of the U.S. — and the principal European ally of the French Gaullists — on the Third World's side. Great Britain is in the midst of the final stages of financial collapse, and leading political circles have put forward contingency plans for a sharp turn towards the Third World. West Germany, the principle enforcer for the State Department, has thus far resisted U.S. proposals that it jointly present the State Department's commodity con-game at the Nairobi meeting. If sufficient pressure builds up in France and Switzerland, the internal fight in West Germany on the country's stance at Nairobi will swing against Kissinger.

New Institution?

At this point the Europeans are divided on one critical issue: whether the question of the Third World's debt will be taken out of the hands of the International Monetary Fund, the financial policeman for the New York banks and the Eurodollar market. While a spokesman for the Dutch foreign ministry said that his government endorses the creation of a new institution partly controlled by the Third World to handle this problem, the French and West German governments still back the IMF and the World Bank.

World Bank president Robert McNamara — the great proponent of slave-labor, labor-intensive "development" prover, of the tenuousness of IMF-World Bank control, and is trying to come up with some new gimmick to placate the Third World. McNamara, sources close to him say, is terrified that the Third World countries are about to move out of U.S. domination.

Pound Sinks As Currency Crisis Enters New Phase

NEW YORK, April 24 (IPS) — Yesterday afternoon's abrupt slide of the British pound sterling to a record low of $1.80 together with the announcement of the previous day of double digit money supply growth rates for the United States and West Germany have sent the dollar-based monetary system into a more advanced, irreversible crisis stage. The surfacing of monetary disintegration in both Great Britain and West Germany all but eliminates both the pound sterling and the deutschemark as buffer currencies for the dollar - at the precise moment that the U.S. currency itself is in the first phases of a hyperinflationary spiral and an uncontrollable liquidity crisis.

Left to its own defenses, the only short-term solution for the dollar is an abrupt contraction of credit within the United States. One is quickly reminded of the consequences these same actions produced in 1929 under less severe liquidity pressures: then, the credit contraction instantly fed into a stock market crash, chain reaction corporate bankruptcies, and an inflow of capital, whose accumulated 2 year effect was to bankrupt the Austrian Kreditanstalt bank, the pound sterling and produce by 1931 a complete breakown of all currency-monetary-trade arrangements. With liquidity pressures roughly four times greater than in 1929, such monetary contraction will produce more devastating effects in a far shorter period of time — a full scale currency panic could occur within a week of the Federal Reserve Bank's decision to go for contraction. As in 1931 the sinking pound will be the first to go down the drain, followed shortly thereafter by the dollar itself and all currencies associated with the dollar monetary system.

The Pound Sinks

The significance of the renewed sterling collapse is that it occured after the Bank of England raised the minimum lending rate (MLR) by an astonishing 1.5 percent. This rise in the MLR was itself prompted by sterling liquidation by Arab countries such as Kuwait, which hold the greatest proportion of foreign-held sterling. On April 22 alone the pound dropped a whopping 4 cents against the dollar. The decision by the Bank of England to raise the MLR to 10.5 per cent thus had absolutely no effect on halting the run on the pound. Instead, many investors, expecting the MLR to rise by a full 2 per cent, were disappointed and liquidated their favorable positions in sterling.

The excess liquidity crisis within England itself prevented the Bank of England decision from taking effect among the vast proportion of British clearing house banks. In fact, three of the five clearing banks announced on the same day, that due to their excess liquidity positions they could not raise their own lending rates. This means that the MLR rise will have no effect on the run.

This situation is caused primarily by the absence of profitable lending outlets in sterling denominated assets — a symptomatic feature of the collapse of the dollar system itself and world trade and production it influences. It leaves the Bank of England with three short-term choices. The first is to do nothing and let the collapse of sterling take its "natural" course. With only $5 billion in foreign reserves to cover a potential run on $14 billion in sterling deposits, the Bank of England would in a matter of weeks, if not days be forced to shut down its foreign exchange markets and freeze sterling assets.

A second option would be to soak up internal liquidity that has let the clearing house banks to resist even a substantial rise in the lending rate. Such a move would quickly accelerate the pound collapse. The first effect of soaking up such excess liquidity would be a collapse of the so-called gilts market, the market for British treasury securities. The decision to raise the MLR threw the gilts market into panic in stock capitalization. The MLR rise instantly wiped out $1 billion. Beyond this, credit tightening would put the already weakened secondary banking and clearing house banks to which they are indebted from previous bail out operations, in