OECD Ministerial Meeting: A Flop For Atlanticists

This week's meeting of the Organization for Economic Cooperation and Development (OECD) in Paris shaped up as a flat failure for U.S. Secretary of State Henry Kissinger, who had originally planned to bludgeon the rest of the industrial world into supporting his "International Resources Bank" swindle there. With major defaults on the $250 billion of Third World debt threatened for the end of this month, the IRB was to be the centerpiece of the Atlanticist faction's strategy to bail out their banks' investments in the Third World through a system of "international guarantees." But President Gerald Ford's objections to the IRB forced Kissinger to tear up the original speech he had planned to give in Paris, and he ended up giving only passing mention to his hated scheme.

Kissinger's second setback came when the British government waged an unusually spirited fight against the U.S. Atlanticists' demands for austerity within Western Europe itself. Following U.S. Assistant Treasury Secretary Gerald Parsky's blunt "reminder" that the $5.3 billion bailout loan to Britain must be repaid within six months, and is therefore contingent on drastic British budget austerity in the meantime, British Treasury Secretary Healey replied cooly, "Strictures do not help." Healey later told reporters that the U.S. government was "totally isolated" and "out on a limb" at the OECD conference. Healey openly ridiculed the Atlanticists' plans to bully Western Europe at the "Rambouillet II" summit, saying he planned to "have a jolly good time in Puerto Rico."

Ford Rebuffs IRB Campaign

Early last week, Kissinger and his flunkies at the State Department began a campaign inside and outside the Administration to make Western Europe crawl, using the "IRB" plan as the test issue. After the breakup of the United Nations Conference on Trade and Development in Nairobi earlier this month, where the industrial nations split on the issue of debt moratoria for the Third World, the State Department has desperately tried to slap the Western Europeans back into line.

At a top-level White House meeting June 15, Kissinger aides Charles Frank and Julius Katz demanded that Ford take up the "IRB" as a point of honor at this week's meeting of the Organization for Economic Cooperation and Development (OECD) in Paris, and next week's seven-nation economic summit in Puerto Rico. State Department officials prowled Congressional offices and the press galleries putting out word that the bank would be the Administration's biggest-ever policy initiative.

But Ford — who bypassed Kissinger to sound out European and Japanese views directly — threw the scheme out.

"Ford knows a loser when he sees one, and he doesn't have to know anything about international economics to see that the IRB doesn't have a chance," a knowledgeable source said. Rather than let Kissinger march into the Paris OECD meeting and create a public scandal, Ford decided to placate the Europeans and Japanese. In return, Ford got the informal agreement of European leaders to make next weekend's summit meeting into a virtual Republican party campaign rally, centering on "Republican go-slow economics," as the Wall Street Journal put it yesterday.

Third World and Soviet votes defeated the "International Resources Bank" when it was first proposed at the Nairobi United Nations meeting, provoking Kissinger into a public infantile tantrum. In its current form, the "IRB" constitutes an international "guarantee" for multinational corporations' investments in Third World commodity production. More important than the scheme itself is Kissinger's attempt to use it as a "foot in the door" for a range of Schachtian looting schemes to bail out $250 billion in Eurodollar and related loans to the Third World. As European capitalists point out with some vehemence, the "IRB" and similar swindles are variants on the Brookings Institution's old plans for "commodity indexation." The latter involves raising the price of commodities shipped by the Third World to Western Europe and Japan, creating more Third World export income to meet debt-service costs of $30 billion a year.

Rout at Paris

After Ford had pulled the rug out from under the IRB scheme, Kissinger was forced to deliver a greatly subdued version of his original speech planned for Paris. He demanded that the 24 member-nations of the OECD form a common front against the Third World and the socialist countries — an attack against the open defections of some European countries, particularly the Scandinavians, who have said they are willing to go along with Third World debt moratoria. Complaining that East-West trade had risen by four times in as many years, Kissinger hinted at top-down Atlanticist controls over trade with the Soviets to "ensure reciprocity," that is, extract political concessions. But Kissinger fell short of making specific recommendations, aware that any substantial attack on East-West trade would provoke a vicious counterattack from the Europeans.

After months of armtwisting and shady maneuvers. Kissinger and his stooges in Western Europe have no organizational muscle to enforce the demand for solidarity inside the industrial nations' club. The final communique of the OECD meeting reflected this fact. Nowhere was there any mention of the IRB, nor of any method for dealing with the impending wave of Third World and Italian defaults. Instead the communique expressed vague "agreement" that the OECD countries must restrict their economic growth to an average of 5 per cent, ostensibly to combat inflation. However, U.S. Treasury and State Department spokesmen took great pains to "explain" to inquiring callers that the 5 per cent figure was "not a lockstep...it could be four, it could be six," and that the communique, was not binding on the individual countries.

In addition, the communique enunciated "four principles" with which the OECD governments are to guide their national economic policies, in a watered-down call for Schachtian labor recycling and looting of workers' incomes:

*"Governments should make firm use of fiscal and monetary policy to achieve the general stability in their economies that non-inflationary growth implies. This means that action taken to dampen short-term fluctuations in demand must be formulated.

*"In many countries, continuing efforts to develop a better social consensus as to the aims of the economic policy will be needed, which may involve various forms of prices and incomes policy.

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*"Selective policies should be taken to cope with sectors and areas with particularly acute employment problems.

*"In most countries, policies should be directed more towards promoting investment rather than consumption."

At the end of the week, the Atlanticist faction was still smarting from its tussle with Healey. "The British say their unemployment rate is too high and they can't cut public spending until there is an economic recovery," a Federal Reserve spokesman noted ruefully, adding that the British are also "resisting" cuts in money supply which would force such budget cuts eventually. U.S. Assistant Treasury Secretary Edwin Yeo was forced to apologize publically for Parsky and Secretary Simon's attack on Britain, claiming their remarks were not intended to "focus on a single country."

Excerpts from the House Banking, Currency and Housing Cttee Report on "International Banking"

June 26 (NSIPS) — The following are the conclusions (Chapter 12) of the House Banking, Currency and Housing Committee report on "International Banking." The chapter is reprinted in full.

The material in the previous section was compiled to illustrate the degree of integration between national and international financial markets and the mechanims through which it occurs. Such integration results in greater uniformity of credit availability among countries through flows of funds between them and helps to explain why the business cycles in more developed countries now overlap. But it also makes it more difficult for domestic monetary policy to influence the course of the business activity in national markets.

The international financial market also influences the international monetary policies of nations. The use of balances denominated in external currencies as investment assets may have an impact on exchange rates which is at variance with economic events. Economic and political events would ordinarily serve as determinants and prognosticators of exchange rates under a floating rate system. But as an investment vehicle, the market could reflect speculative activity as well as become a vehicle itself for power politics. The development of international capital markets is not necessarily an undesirable but it does mean that, like domestic capital markets, the international exchange market should be subject to regulation in order not to damage economic activity.

Regulation of foreign exchange and foreign capital markets is all the more desirable because these markets are dominated by large banks which also serve as depository institutions. Participation by U.S. banks in currency speculation was made easy by the absence of regulation and disclosure. The rapid build-up of foreign currency assets and liabilities in their foreign branches which occurred in 1973, as well as the substantial increase in forward foreign exchange contacts weakened future bank soundness. Rapid entree into activities that require a high level of expertise and involve substantial new risk should have been discouraged. But the kind of monitoring necessary to discover the level of activity did not take place. Policy makers, therefore, had no data with which to assess some of the most remarkable international economic and monetary developments in the post-war era.

The absence of data applies also to the more traditional banking business of multinational banks. Recent disclosures have indicated that these banks have strayed beyond the U.S. regulatory framework in a number of areas. The absence of overt regulation of overseas activities and of disclosure has contributed to this trend. Loan concentrations — to countries, to industries, to customers, especially when those customers are other banks — and a widening gap between the maturities of loans and liabilities represent specific areas in which U.S. banks overseas branches exceed limits which the same banks scrupulously observe within the United STates. And yet, as has been argued, these are not separate banks but, rather, a part of the parent network and of the U.S. banking system.

The failure of the Franklin National Bank demonstrated the degree of integration of domestic and international operations of U.S. banks. It also indicated that U.S. regulators could take a *laissez-faire* attitude toward failures of large banks because such a high proportion of their liabilities are uninsured and because a substantial portion of uninsured liabilities are to other banks. It has been suggested that not only lack of disclosure, but the implied guarantee against failure which seemed to be confirmed by the way Franklin was handled may encourage unsound banking practices.

This suggestion seems particularly applicable in assessing the concentrations of loans to individual countries extended by the largest U.S. banks. It appears likely that banks have assumed that these loans are in some sense guaranteed — that some form of governmental assistance will be given to a country to prevent a default that might threaten major banks. If such an outcome is likely, then there should be some public policy input to determine where, how and in what amounts the funds are to be used. If decisions involving the allocation of credit to other governments are to remain subject to the judgment of the private sector banking system there must be some assurance that the private sector will bear the brunt should default occur.

Analyses of interbank lending and capital adequacy have indicated that deposit insurance is no longer an effective means of instilling confidence in the banking system since so small a portion of the liabilities of large banks are insured and these banks — because of their size and interrelationship with other banks — have such an actual and potential impact on the banking system. Thus, for the private sector to bear the brunt of failure of one of these institutions without suffering major disruptions, some new method of providing a margin of safety must be devised.

Any solution should involve increases in bank capital along with regulation and control of the interbank markets. Another solution is for banks to pay insurance premiums in relation to the amount of uninsured liabilities. This latter suggestion may seem unreasonable since it would appear that banks with less insured deposits as a ratio to the total should pay proportionately less insurance. But, as the Franklin experience demonstrated, the reverse is true. Banks have assuemd large uninsured liabilities with no commensurate increase in the collateral acquired by the