

appearance of support from the Third World. A two-year study made on behalf of the British Commonwealth was issued March 21, characterizing the proposed IMF bailout fund as a "far-reaching reform" that should satisfy advocates as well as opponents of a new world economic order. The fund would lend more on longer terms with greater "flexibility," circulating Special Drawing Rights (a proxy U.S. dollar with hitherto marginal scope) as "an international central bank." "Some financial discipline" of debtors would be involved. The "central bank" formulation, the SDR emphasis, and the promotion of the fund as the alternative to a new world economic order are transcribed from the Trilateral Commission's January report.

The *London Times* and *London Financial Times* have taken a generally favorable view of the proposal on the grounds that there is no alternative, since the use of the transfer rouble to initiate a new world monetary system is only "a theoretical possibility" unless the USSR promotes it, as the *Financial Times'* Eastern European correspondent comments. These two British papers, Italy's *Corriere della Sera* and other continental press have described a conflict over the form of bailout, with the Federal Republic of Germany supposedly insisting on short-term facilities with prompt return by borrowers to balance of payments equilibrium, while other Europeans are described as wanting a new, permanent lending arrangement with easier terms. These reports may indicate West German maneuvers to wreck the bailout proposal, or simply another propaganda attempt to portray broad consensus on IMF ascendancy over world finance.

Japanese authorities have apparently taken a fatal-

istic view of the proposal, although opposition is reported in government and central banking circles, and Brookings Institution strategists see "tremendous pressure from more nationalist business circles" on Prime Minister Fukuda.

The remaining key potential "surplus nation" partner in an IMF bailout is Saudi Arabia, who, along with the United Arab Emirates and Kuwait, has been counted on to provide as much as a third of the new debt financing. It is probable that the Saudis would go along with a worked-out political package involving IMF loans, as opposed to the kind of unilateral bailout gifts they prefer to minimize on their own. One well-placed London merchant banker claims that Saudi Arabia is prepared to give \$4 billion to a \$14 billion total fund, with \$3 billion from the U.S., \$1 billion from West Germany, and the rest from Japan et al. *Business Week* had reported that IMF chief J.J. Witteveen had persuaded them to participate, and Nelson Rockefeller this week paid a personal visit to Riyadh. The State Department denies that the Saudis have agreed to anything as of yet; an IMF executive director calls them favorable. It is not known whether the Saudi government believes it might win concessions by Carter toward a more peaceful Mideast policy in exchange for IMF contributions. Last year the Saudis rejected an invitation to assist in forming the debt "safety net."

The death blow to that safety net, however, was U.S. congressional opposition. At this point it is clear to Europeans, Arabs, and at least a minority of Americans that another veto of such schemes will not suffice unless active policy alternatives to the bailout are negotiated.

—Susan Johnson

New York Bank Bailout Draws Congressional Fire

At a close cross-examination during hearings of the House Banking Committee's Subcommittee on Financial Institutions on the role of domestic banks in international financial operations, Henry Wallich, of the Federal Reserve Bank, drew the ire of subcommittee members. On several occasions Wallich found it difficult to answer questions regarding the banks' illiquidity or their influence on U.S. foreign policy. For that reason his answers appear only when informational. Another round of hearings from this subcommittee is scheduled for April 4 and 6.

St. Germaine (D-NH), (Chairman of the Subcommittee): Should international regulations be left to the banks? Do you classify foreign loans like you do domestic loans, for example, loans to New York City?

Annunzio (D-Ill): I inserted in the Congressional Record on March 16 a statement on "Redlining" —cutoff of loans — to Italy...Has there been a drive on the part of the banks to stop making loans to the government and

private sector of Italy? Has the Comptroller of the Currency conferred with the Federal Reserve on the ban on Italian investments? Has there been, then, no discussion with the Comptroller regarding the ban on loans to Italy?

Wallich: (denies redlining.)

Annunzio: We have been trying to deal with redlining in problems of housing and in local neighborhoods in the United States, are we redlining our friends and allies?

Wallich: No Comment.

Hansen (R-Idaho): What did the Federal Reserve do when Franklin Bank went into difficulties?

Wallich: We opened the discount window. We are the lender of last resort.

Hanses: So you did act as the insurer of last resort. What effect did this have on the consumer? What effect did this have on inflation?

Wallich: We let it out through the window and took it back through the market, so there was no effect on inflation.

Hansen: Is this always the case?

Wallich: Well, there are countries where this was not always the case. But we have the largest open market in the world. We can handle this sort of thing.

Hanley (D-NY): I notice a great deal of foreign investment in Great Britain. I am concerned, noting Britain's financial position and the effects on U.S. banking if Britain should default...Burns has suggested that the International Monetary Fund (IMF) takeover international regulations. How would this be accomplished?

Wallich: Burns' suggestion was to slow down the pace of international borrowing. One way to do this is for countries to sign a standby agreement with the IMF in which they accept IMF conditions on the organization of their internal economies and have IMF backup in the international market.

Hanley: Then Burns is concerned about the momentum of international borrowing. He is expecting trouble, right?

Wallich: That is correct.

Hansen: The Federal Deposit Insurance Corporation's (FDIC) list of problem banks increased in total amount of assets from \$25 billion to \$75 billion including two major New York banks, Marine Midland and Banker's Trust. Many more are coming into this position...Many of these banks are exposed in both the Less Developed Countries' (LDC) debt and New York City debt. In order to protect their position many of these banks are exerting strong pressure on U.S. foreign policy to protect that position. (Hansen reads from an article in the March 3 *London Daily Telegraph* on the role of Chase Manhattan in the Panama Canal Zone.)...Chase Manhattan is pressuring President Carter to give the canal to Panama so that Panama can use the canal revenues to pay off its debts to Chase Manhattan...Does the State Department or Treasury ever confer with the bank supervisors regarding our foreign loans? Aren't the bankers trying to dictate U.S. foreign policy? Are these loans creating a drain on U.S. capital?

Wallich: (*denies ever having heard of such things.*)

Hansen: Mr. Wallich, you're up there in the money swim, I thought you might have heard of this.

Rousellot (R-Cal): Mr. Wallich has never heard of these things. Oh? Just put it in writing, Mr. Wallich.

Hyde (R-Ill): The total amount of debt in Mr. Wallich's report is \$207 billion. Doesn't that amount trouble you, Mr. Wallich?

Wallich: No trouble...

Hyde: Are the laws adequate to protect individual banks that are overextended?

Hansen: Regarding Panama again, banks from various nations are in this operation...Don't you think this could get so big that no one has control over what's going on?

Annunzio (D-Ill): What is the experience of Italy with U.S. banks' investment in Italy? It's good isn't it? Isn't it?...What can be done to rectify the good name of Italy?

Wallich: Well, the IMF is in there negotiating now with the Parliament. This involves difficult negotiations with the trade unions. It is up to Italy itself to put its internal situation in order.

Annunzio: Will they get the loan?

Wallich: Well, if they can meet the conditions...

Annunzio: That doesn't fit political reality. The whole Mediterranean could go communist and we are being squeamish about a loan to a country with a good record.

St. Germaine: "Mr. Wallich, did I hear you say that Federal regulators do not have to examine branch offices of U.S. banks. Then how do we know if their *collateral is fictitious*?"

Leach (R-Iowa): The concentration of LDC loans are in the banks where there is also a concentration of New York City loans, Real Estate Investment Trust loans, Euro-dollar market loans, and tanker loans. And these are also the banks most dependent on short-term deposits. Now what is the policy on bailing out these banks?

Hansen: I'm concerned about the fact that the Federal Reserve is the insurer of last resort...Is the U.S. taxpayer going to pick up the tab, then, on the entire LDC debt?