Europeans And Congress Oppose IMF Bailout: Banks Announce Credit Cutoff

Virtually no chance exists under present political circumstances that the Carter Administration will be able to steer the April 28 meeting of the Interim Committee of the International Monetary Fund into support of a new deficit-financing facility. Although most leading newspapers, including the *New York Times*, the *Manchester Guardian*, and the *Neue Zuercher Zeitung*, continue to report that a $12-20 billion IMF facility has won international support, no such support exists. West German finance ministry sources identify various "trial balloons" issued by Finance Minister Hans Apel and others in the direction of expanded IMF activity as a "diplomatic cover-up" for West German inaction. The same sources apply the term "cover-up" to the language in the communiqué of European heads of state at their Rome Summit meeting March 26, which spoke of a "common position on international financial issues."

Even more damaging, in the view of both the U.S. State Department and the New York City international lenders, who most want the IMF program to go through, is the view of Congress (see also EIR March 29, 1977). Although the liberal-controlled House Banking and Currency Committee, chaired by Rep. Henry Reuss (D-Wisc), gave initial support to a $5.4 billion appropriation for international lending agencies, an EIR "head count" of House and Senate offices which must pass on the legislation indicates poor chances of ultimate clearance. The *London Times* March 29 claimed that OECD and OPEC countries meeting in Vienna had given support to a major World Bank-International Development Agency appropriation, of which $5.4 billion was to come from the U.S. But West German Development Ministry sources say that negotiations are far from complete, and that the West Germans intend to stretch them out indefinitely.

Following last week's accusations from Congressman Hansen (R-Id) and others in subcommittee hearings that banks were trying to manipulate U.S. foreign policy to cover their bad debts in the Third World, the political atmosphere in Congress is overwhelmingly hostile to the banks. Seasoned Congressional observers say that part of the reason for the sudden line-up in the Senate against the Administration's proposed $11 billion tax-rebate program is that the program is viewed as part of a bailout for the banks (in the indirect sense of raising money aggregates, commodity prices, and thence export-income of Third World primary producers).

The corker this week came from the Japanese, who until recently had given numerous indications of subservience to Carter Administration financial policy. Japan's leading business daily *Nihon Keizai Shimbun* reported March 27 that the Japanese finance ministry would not sanction an IMF bailout for the banks. The article bore the headline, "New International Monetary Fund Capitalization Up in the Air; U.S. Banks Troubled by Unsound Credits." The article cited Ministry of Finance sources who said, "if it is for the purpose of bailout of the unsound credits of the U.S. banks, we cannot agree." The *Nihon* asked whether the IMF plan "isn't just for the sake of the U.S. banks who are in trouble due to their over-extension of loans to the less developed countries?" Rather than squeeze Japan into refinancing their debts, *Nihon* proposed, the banks should extend repayments periods on loans instead, which the banks are not in good shape to attempt.

High-level Japanese sources told EIR that "there is growing momentum in Japan against the IMF plan," and predicted that the Japanese would not accept it. Previously, West German press sources, e.g. *Die Welt's* Washington correspondent Siebert, noted that West Germany's capacity to resist Carter Administration pressure depended heavily on what Japan would do. The West German-Japanese consensus on the IMF plan is a virtual guarantee of its failure. And, as a senior State Department official noted in an interview, "The Germans and Japanese take one look at (opposition to the IMF plan in) Congress, and run in the other direction."

A New Mandate

The overall rejection of the IMF plan puts the New York banks' chance of surviving the current year, and particularly the heavy amortization schedule for LDC debt during the second and third quarters, in extreme jeopardy. Response of their spokesmen, e.g., Leonard Silk in the *New York Times* of March 28, is straightforward: either the IMF receives a "new mandate...nothing less than rescuing the world monetary system and with it the world's commercial banks" — or something will have to "crack: the world monetary system, the patience of the industrial West, or peace itself." In the context of the breakdown of the U.S.-Soviet SALT negotiations this week, Silk's meaning requires no explanation.

In the short-term, the banks have been sharply reducing their rate of lending to the Third World, partly to force debtor countries to squeeze into trade equilibrium, partly to exert pressure on governments to provide bailout loans, and, not least, partly because they have difficulty funding additional loans to the Third World. According to figures released by Morgan

Guaranty Trust, the rate of publicly-announced lending to the Third World fell from $4.6 billion during the fourth quarter of 1976 to only $2.2 billion during the first quarter of 1977. U.S. regional banks and European banks, with few exceptions, will not touch new LDC paper, and the large New York banks who dominate the lending market are terrified of getting in deeper.

Even if the banks force countries to wipe out their trade deficits, as Chase Manhattan economist Robert Slighton and Manufacturers Hanover Trust economist Tilford Gaines proposed in interviews with EIR, the Third World will run a deficit on current account of at least $35 billion due to debt service payments alone. The banks cannot make it through without governmental support. The next weeks will see an extreme aggravation of the world payments situation, probably no later than the end of the second quarter.

—David Goldman

'Cut Until The Pips Squeak'

The following is an interview with Mr. Slighton, chief international economist at Chase Manhattan Bank:

Q: Have the commercial banks reduced net lending for consumption and investment — real lending — to the Third World to light a fire under plans for a $20 billion expansion of the International Monetary Fund?
A: The problem is Congress. They are dubious on the IMF; they insist it is just a bailout of the banks. We're going to show them that the banks can survive without the IMF expansion — it's the countries who will have problems. We will reduce lending and reduce the real proportion as the rollover proportion grows, and these countries will just have to honor the debts, cut growth, cut imports — until the pips squeak. We have to convince Congress that the banks' needs are no problem; it's these debtor countries they better worry about and forcus on, and stop focusing on "bailing out the bloody banks." If they don't, they will never vote for the IMF. They have to decide what kind of world they want to live in.

Q: What about European, Japanese opposition to the IMF plan?
A: Sure, they would go along if we were together here. Japan is dragging its heels all right but they'll go along *if* Congress does. That's what really killed the safety net. Sure, the Germans are upset about Congress too. They could pass the IMF bill by June 1 and get plenty of money out there by the second half of the year.

Our Responsibility Is To Stay In Business

The following is an interview with Tilford Gains, chief economist at Manufacturers Hanover:

Q: Have the commercial banks reduced net lending for consumption and investment to the Third World?
A: The banks have *had* to cut back; they have gone as far as they can go. Look at these huge figures. Zaire has no problem, but Brazil, Mexico, the Philippines together are situtions for caution where we could reach the breaking point. Our first responsibility is to stay in business. You are right: to the extent increase borrowing goes for debt service we are talking about consumption cuts....The Europeans, Germans, and OPEC countries are dragging their feet on the IMF extension proposal.

Q: Don't the Japanese and Germans feel it's a tax on their taxpayers which goes straight to the New York banks?
A: Yes. Especially the OPEC countries because they have been depleting their resources and they want to put their money into an investment which will be paid back...*this won't be.*

Isn't Bailout Just For Banks?

The following are excerpts from an article appearing in the March 27 Nihon Keizai Shinbum *entitled "New IMF Capitulation Up in the Air: U.S. Banks Troubled by Unsound Credits; Japan, against Bailout, Proposes Own Plan":*

A recently proposed expansion of the capital of the International Monetary Fund to deal with the foreign debt problems of the less developed countries (LDCs) has the following opinion being circulated about it: "Isn't this just for the sake of the U.S. banks who are in trouble due to their over-extension of loans to the LDCs?"

It is not just the IMF, it seems, but the U.S. banking community which has lately been calling for the expansion of IMF capital.

...Japan's Ministry of Finance says "If it is for the purpose of bailing out the unsound credits of the U.S. banks, we cannot agree," and Japan is proposing its own plan for the advanced countries vis a vis the LDCs for the late April Interim Committee meeting of the IMF:

The main point is that.. the U.S. banking circles and Washington have started the LDC debt crisis talk along with the IMF's proposals. Morgan Guaranty has called for the IMF capital expansion, and Arthur Burns... warned the Senate last week... that the expansion of loans to the LDCs continues at this rate, he fears that some U.S. banks will be bankrupted, and this will cause a world depression, therefore he asks that the IMF rollover the debts of the U.S. banks.

Of course the LDC problem is a big one for Japan. If the international monetary system collapses, trade will collapse, too.

But the International Monetary Bureau of the Japanese Ministry of Finance says, "It is difficult to get the IMF into the picture. Regarding the bad credits of the U.S. banks, they must take care of it themselves by stretching out payment deadlines or some such. It is not the responsibility of the IMF, which is a cooperative organization of all nations, and of course it is unpleasant to be asked to make new contributions for this purpose."

...It is clear that in the upcoming international conferences like the IMF meetings, the London economic summit, and the Paris Conference on International Economic Cooperation, the crisis of LDC debt will be a major question, but not only an issue between the developed and developing nations, but among the advanced nation allies themselves.