

Economic Summit Will Be A Bust For Carter

SPECIAL REPORT

Public statements of the six foreign leaders who meet with Jimmy Carter in London May 8 and related commentary in the European press make clear that Carter has no chance whatever of accomplishing his primary objectives for the meeting. In particular, the Europeans have set forth in blunt terms that they will not make the effort to put together the \$16 billion facility through the International Monetary Fund that the IMF managing director and the Carter Administration want to stop the eruption of a payments crisis by no later than the third quarter of this year. In addition, the Europeans and Japanese will utterly repudiate the Administration's demand for a world limit to developing the fast-breeder nuclear reactor; the only open question is how politely they deliver this message.

As far as the European and Japanese input is concerned, all indications are that the meeting will turn out a grotesque non-event, and descend to haggling over the second-order effects of the financial crisis (e.g. protectionism) without coming close to a discussion of the crisis itself. It appears that European governments are refusing to face the issue of a Eurodollar market collapse, as a British senior statesman complained May 5 in the *London Times*:

"It would be scandalous if the present tense situation were to deteriorate into a panic liquidation endangering the international monetary and banking system; yet there can be no doubt that the present 'sound' policies, totally dominated by the fear of inflation, inexorably lead to catastrophe." The writer is Lord Balogh, senior economic advisor in the 1964-70 Wilson government. He calls for the creation of massive new official financing resources, saying, "I doubt whether \$40 billion would be sufficient to quench the possibility of a confidence crisis."

Although the majority of the British, West German, Swiss, and Italian financial community shares Balogh's doubts, the West European governments will take virtually no action whatever at the summit. An editorial commentary in the May 6 *Handelsblatt* congratulates the Schmidt government for having avoided two dangers: the first, that the Carter Administration would succeed in imposing reflation on the world economy in the form of the \$16 billion Witteveen facility and accelerated money supply growth in home economies; the second, general debt moratoria in the Third World. *Handelsblatt*, the leading West German business daily, cites the \$1 billion emergency fund for the Third World that the European Community finance ministers proposed as a viable compromise solution, and hopes Carter will agree to it.

The Debt Crunch

The Witteveen facility, like the Henry Kissinger "safety net" plan and related schemes, is dead. West Germany will stick to the position it put forward at last week's meeting of the International Monetary Fund's Interim Committee, namely that its reduction of its payments surplus to a bare 6 percent of previous levels (first quarter 76 to first quarter 77) enables West Germany to claim that it has done its share already. In addition, West Germany — which also imposed this policy on the EEC finance ministers — will only "accept" the Witteveen facility if OPEC gives half. But the Saudi finance minister ruled this out in an interview May 4 with the Washington press corps, insisting that his country could not afford to invest funds long-term because it was a "poor country" with no other resources, and required this money for development. The Japanese have offered an insulting \$500 million to the IMF, against the several billion dollar contribution IMF managing director Witteveen asked them for.

As Balogh warned, the Eurodollar market's death sentence has been passed. The schedule of defaults over the next several months includes:

- 1) Peru will default on over \$200 million in debt-principal payments during the third week in May;
- 2) Argentina is currently defaulting on some credits owed to European banks;
- 3) Zaire's creditors will fall out over the country's \$8 billion and upward foreign debt at public and private creditors meetings June 5 to June 8;
- 4) Turkey, with \$6 billion in foreign debt, will run out of reserves by the end of May, and the Bretton Woods institutions are cutting off disbursement of previously allocated funds in hope of enforcing on Turkey an austerity program Turkey cannot possibly accept.
- 5) Leading political forces in Mexico are gearing themselves to face a default on over \$3 billion in debt-principal payments coming due during the Third quarter, rather than accept an IMF austerity program.
- 6) Brazil can only avoid default this year by running down its \$6.2 billion foreign exchange reserves, according to a recent published analysis by *Business International*, and common knowledge on Wall Street; but a significant rundown of Brazil's reserves is predicted to be an unmistakable signal that the game is up for the Third World's largest debtor.

Some observers, e.g. Princeton University professor Peter Kenen, believe that the danger of defaults and capital flight exceeds the LDC debt danger to the monetary system.

Trade War on Agenda

Informal conversations with senior European government officials and exhaustive reading of the European press leave doubt as to the extent to which

European governments understand the problem. One European central banker attending the IMF meeting in Washington, who believes that a series of defaults will empty the Eurodollar market of \$50 billion in deposits in two days, insists that European governments understand nothing of the process. Probably the main economic topic for discussion at the summit will be protectionism, since the governments perceive economic reality through the grid of employment and output statistics, which in some cases, e.g. Britain, will probably determine how long they can remain in office. Since the decline in world trade is anticipated by protectionist measures in key sectors such as steel, the governments bump into the threat to their exports under the guise of protectionism. For this reason some international bankers are anxious to maintain the charade, e.g. Baron Guy de Rothschild, who said, "The danger is not financial collapse, but trade war," in an interview this week.

But the mask of solvency has dropped. In Basel, Switzerland, officials at the Bank for International Settlements (BIS), the central bankers' bank that officially monitors the Eurodollar market, are glumly putting the word out that the chain-letter game will not make it through the next few months unless major new financing is available. But major new financing was virtually excluded from the range of possibilities by the shambles at the IMF meeting. According to BIS officials, a full third of the \$82 billion in officially reported bank loans to the Third World (only a portion of the total) are fictitious lending, never paid out to the borrowers. This is the margin of loans made to refinance previous loans! "It is an absurdity," one official muttered.

The Atlanticists are horrified. "The Administration has utterly botched the whole financing question," says Kenen, a former Kennedy Administration monetary official. "I used to be placid about the debt situation, but not any more. What worries me even more than the Third World is the northern Mediterranean rim, and France. We're going to have fun and games this year."

Even Leonard Silk of the *New York Times* has published a mock version of the expected final communiqué from the London meeting, predicting that the seven heads of state will endorse Carter's austerity program for countries with economic problems, "unless they bring a note from their mother or their Prime Minister."

Alternatives Under Discussion

Throughout the financial community, panic is running just below the surface. Texas oil money is now going directly into gold and other refuges of last resort, and southwestern bankers are talking with their West German contacts about the timing of the expected Eurodollar collapse and how the Arabs could be persuaded to join Western Europe in a new gold-backed monetary system. One of the seven members of the Federal Reserve's Board of Governors is warning Fed Chairman Arthur Burns that when the crunch hits, the Federal Reserve will not possibly have the funds to prevent the New York banks from collapsing.

London, Frankfurt, Rome, and San Francisco bankers are closely studying a recent proposal by U.S. Labor Party Chairman Lyndon H. LaRouche, Jr., to create a privately based international bank that would assume

emergency central banking functions in advance of a collapse. (See *Banking* below)

Some pressure on the summit has been brought to bear, however, by Saudi Arabia. In an interview with the *Sunday Times* of London May 1, the Saudi finance minister demanded that the summit find some means of relieving the Third World debt burden and speed transfer of technology to the Third World. In addition, the minister said, the Saudis want increased exploration for conventional energy sources and a program for ensuring stable earnings to primary commodity-producing countries. This would have bearing, the minister added, on Saudi deliberations on the oil price question when the Organization of Petroleum Exporting countries meets following the late-May reconvening of the North-South dialogue in Paris.

The West Germans, at minimum, rate the prospect of a demand for general debt moratorium to be a serious threat. *Handelsblatt* and the *Frankfurter Allgemeine Zeitung* of May 6, the country's two leading business papers, both warn that unless some form of compromise is reached on the debt question the debt issue may get out of hand at the North-South talks. But there is virtually nothing on the conference agenda, let alone the Europeans' \$1 billion emergency fund, that could possibly meet the Third World's (or the Saudis') requirements.

On the issue of nuclear energy the Europeans are entirely clear about what they want. British Prime Minister Callaghan and West German Chancellor Helmut Schmidt both made several statements over the past week rejecting Carter's proposed limits on development of the fast breeder fission reactor and international sales of reprocessing equipment, and, according to press accounts, the Japanese prime minister Takeo Fukuda, will stick to his guns on the nuclear power question.

The World Looks Toward The London Summit

Daily Telegraph, May 5: "Nuclear energy experts from sixty nations, including Britain and the United States itself have condemned Carter's decision to ban the nuclear fuel plutonium. The feeling among more than 2,000 government officials and scientists attending a conference at the U.N. International Atomic Energy Agency in Salzburg, Austria was that the ban would not only disrupt their own energy programs, but might also bring about the very nuclear proliferation it was designed to avert.... Dr. Robert Allardice, assistant director of the Dounreay fast breeder establishment in Scotland, stated that if the American ban remained in force, the industrialized countries would have to give up 20 year's development of uranium-plutonium breeder technology and start again from scratch.... Government spokesmen from West Germany, France and Japan and other countries told the conference that their countries would not abandon plutonium technology because their lack of uranium made it a vital source of energy."

Financial Times, May 5 editorial: "The (Carter) proposals as they stand are clearly unacceptable to the United Kingdom and to other industrial nations, since they seem to imply that the development of the nuclear power industry outside the U.S. will be effectively controlled by the U.S. government.... It is not realistic to hark back to the days when only the Americans (and perhaps the Russians) had the necessary technology and the resources to exploit nuclear power, nor is it reasonable to impose an American solution on the rest of the world."

Financial Times, May 4: "The Prime Minister (Callaghan) made his opposition to the Carter plan clear in the Commons when he confirmed that the nuclear issue, already a source of serious disagreement between the U.S. and its major allies, would 'come to the surface' at the conference. 'With the growing shortage of fossil fuels over the next 20 or 30 years, we would be closing our eyes if we entirely ignored the developments of the nuclear age.' Mr. Callaghan told MPs yesterday: 'We need a careful period of discussion with the United States about the whole question and the proposals they have put forward.'"

The Times(London), May 5: "Strong support for the development of nuclear-powered electricity generating stations was given yesterday by Mr. Frank Tombs, the head of Britain's Electricity Council. He told a meeting in London that the world had come to live with plentiful supplies of energy, and the aspirations of the developing world had also to be recognized. 'Abandonment of nuclear power would place the peoples of the world in an energy-deficient economy.' ... No credible alternative existed, and for nuclear energy to have any prospect of meeting the demand, decisions should be taken now...."

Le Figaro, May 5: "United States protectionism is hyper-trophied with, as a dubious moral justification, the demand for an equality of sacrifices which does not take into account the given disparities (between the economies of different nations — ed.), as illustrated by the will of the Americans to obtain the dismantling of European agricultural production, with an excess of agricultural exchanges with the EEC amounting to \$4 billion a year.... In the second place the summit will have to deal with the problem of resorting to nuclear energy which would not just utilize one-fiftieth of the fuel used, like natural uranium, and this contrary to what President Carter, hostile to resorting to plutonium and fast breeder reactors out of fear of proliferation, desires.... Let us just say that serious confrontations should be predicted."

Paese Sera, May 3, by Paris correspondent Giorgio Fanti on West German Chancellor Helmut Schmidt's role at the London summit: "Schmidt's concerns are not only the monopolized nuclear supplies that Carter will stress, but also the tendency to give to big international economic bodies like the IMF and World Bank effective control of the economies and finances of the West...."

La Repubblica, May 4, editorial by Barbara Spinelli:

"What will be discussed at London ... is the redefinition of global relations between Europe and America (and between America and Japan) that Carter wants to see actuated along the lines of a new and permanent 'trilaterality'...(Carter) will say that there is no solution to the crisis confronting the capitalist world today if the ills are not directly confronted. And the ills are clearly identifiable: They are the unrestrained vocations of Western societies of squandering energy.... On plutonium, the Americans are playing a heavy game, without sparing blows against European and Japanese technological development.... But the Europeans have the possibility of cutting out for themselves a margin of autonomy...."

La Stampa, May 4, by correspondent Renato Proni: "In Washington it is well known that Carter, at the London summit, will have a 'rival' (whom he has not yet met personally) in Helmut Schmidt.... The bases for a profitable collaboration between Carter's U.S. and the EEC can be thrown together only if Schmidt will find himself at least partly in agreement with the American President. The German Federal Republic is in fact the country most irritated with Carter's policies...."

Die Zeit, May 5, by Countess Maricn Doenhoff: "...one step too far in either direction and we collapse. Italy is plagued by inflation, the Left, students, ... France barely escaped a Pop Front.... If we are on the razor's edge, the coherence of the alliance must be the most important thing. However, under these circumstances, there can be no blows or even tensions between Europe and the U.S. This would be the last straw."

Sueddeutsche Zeitung, May 6, editorial by Manfred Schroeder: "...It is not only because West German Chancellor Helmut Schmidt supported Ford before the U.S. elections ... that Carter and Schmidt are opponents.... There is more behind both of them. Schmidt must have known that every single word is reported to Carter, so why did he go against Carter so hard at the Bilderberg Conference? The Brazil deal would have developed in the same way with Ford. Schmidt fears that the achievements of détente policy are endangered by the human rights campaign.... Anyway, the London summit lasting one and a half days cannot create any solution to all these world problems ... but it can be a place for talking."

Frankfurter Allegemeine Zeitung, May 6, lead article headlined, "Dampened Optimism": "...Carter has been mainly general up to now. The Germans do not think it is fitting to come out into the open before the London Summit ... people can see that the controversy still remains...."

Frankfurter Allgemeine Zeitung, May 6, by Herr Grundinski, datelined London: "Carter and Schmidt are the main opponents at London, and the British are very tense. No one really knows how the two main opponents in the Summit will react.... Schmidt's 15 critical questions about Carter at the recent Bilderberg Conference are still in the open...."

Red Star (Soviet Union military daily), May 2: "President Carter delivered a statement to leaders of the information media in which, in particular, he said that May 7-8 in London there will be a conference of the leaders of several NATO countries and Japan. The President considers one of the main tasks of the conference to be the strengthening of NATO.

From J. Carter's speech it is clear that economic and financial questions will be discussed — that is to say, the problems which are the subject of the sharpest contradictions between the USA, Western Europe and Japan. In this regard, local political observers note that the

American Administration intends to try to soften these contradictions by making military questions the prime issue.

The President's statement says that at the London meeting the USA intends to set forth to the allies the American position on strategic arms limitation and on negotiations on this question with the Soviet Union. It also intends to discuss questions relating to the ongoing negotiations in Vienna on mutual force and armaments reduction in Central Europe which, as is known, have been stalled through the fault of the USA and certain of its West European partners."

LaRouche May Head New Monetary System

BANKING

The following announcement was issued on April 30 from Wiesbaden, West Germany, by International Caucus of Labor Committees European correspondent Laurent Murawiec.

Following a series of meetings between Labor Party representatives and bankers, industrialists, political figures and others during recent weeks, U.S. Labor Party Chairman Lyndon H. LaRouche, Jr. has committed himself to head up a team of bankers and others to establish a new private bank. The institution to be established will serve as the vehicle for creating a new world monetary system replacing the International Monetary Fund.

The decision to resort to private initiatives was based on the following chief considerations.

The existing world monetary system is about to collapse. Key European bankers tend to concur in the rough estimate that a \$10 billion shortfall in second quarter payments will be sufficient to trigger a chain-reaction collapse of the IMF system. It is also agreed that major New York City banks and their foreign branches have a visible and unavoidable \$15 billion shortfall for this quarter. No solution will be found at the May 8 "summit," since no solution is possible within the framework of the IMF-World Bank-Eurodollar structure.

It is the estimate of those concerned that national governments of the OECD nations will not act to initiate a new monetary system until after the collapse of the Eurodollar market and complete breakdown of the IMF's operations. It is feared that unless some immediate alternative to OECD nations' government action is provided, the interval between a collapse and instituting of a new monetary system will be a protracted period of massive financial and economic chaos. Such chaos would unleash evil in relations among nations, and would probably damage the economic potentialities for recovery beyond repair.

It is therefore concluded that the only practicable alternative is the creation of a private bank, a bank constituted to assume the functions of an international central bank.

The proposed bank will be modeled on the Labor Party's *International Development Bank*. The institution will deal principally with either national banks or with special development banks performing national-banking-like functions for nations or groups of nations. Where such activity does not conflict with the institution's client relations with national banking institutions, it will also service industrial and private bank clients.

The new bank will purchase gold reserves, and will settle balances among its clients on a gold-reserve basis.

The new bank will provide credit only for delivery of tangible commodities and will extend intermediate-term and long-term credit only for industrial, extraction and agricultural capital expansion and improvements. Such intermediate-term and long-term credit will be granted only for those cases in which it is pre-established that the investment will be regenerative of tangible-wealth margins of national-sector absolute profit corresponding to efficient increases in the overall technological productivity of that national sector.

Under no ordinary circumstances will the bank issue credit for the purpose of directly or indirectly refinancing outstanding financial debts. In cases in which an insolvent nation or other bank client makes an appropriate financial reorganization, the bank will intervene to stabilize the client's productive output, and to provide capital for maintaining productive payrolls, necessary materials, and maintenance for this purpose. The bank will also act in support of clients in negotiating settlement of terms of financial reorganization.

The extent of the Bank's credit issuance will, of course, be limited by means available to it.

The principal purpose of the bank is to provide means for fostering "East-West" economic cooperation on terms suitable to a growing mass of high-technology exports of capital goods and related engineering services from the industrialized to developing sectors.

A special policy-feature of the bank is that the bank is opposed to the use of intermediate-term and long-term credit flows from creditor sectors to secure substantial profits on financial account from debtor nations. The proper function of a monetary system for industrialized and developing nations is to facilitate high rates of technological progress in both net-exporting and net-importing nations. The profits of national economies should