at a press conference Aug. 6 that if the dollar kept depreciating they would switch oil payments to a new OPEC currency.

The British are in an immediate squeeze, since certain of their banks are among the most vulnerable to a profit-squeeze on dollar lending. However, Lloyds' and a number of other large banks are considering a return to sterling lending to the Third World, with backing for the British currency by the Arabs. Indeed, the Italian business daily *Il Sole* Aug. 12 linked the recent credit-easing moves by the Bank of England to a greater international lending role for the British pound.

It is still doubtful that the immediate reactions of the banking community to the imminent mess ahead constitute a final answer. Most of what is now underway is improvisation and scramble. Analysts at Kidder Peabody believe that first-tier banks like Citibank will survive in the short-run through triage of second and third-tier institutions. But such exercises in lifeboat economics have obvious limitations. What must be seen is whether the proposals for a joint European-Arab-Comecon currency arrangement with some form of gold peg take off, or whether the U.S. Administration succeeds in crushing them. In the latter case the world situation will almost certainly deteriorate into chaos within weeks, with the most extreme dangers at hand for the avoidance of a war confrontation.

— David Goldman

Mr. Witteveen's Partial Victory At Paris

Although International Monetary Fund Managing Director Johannes Witteveen left the Aug. 6 meeting of rich countries in Paris claiming to have $9.6 billion in hand for a special IMF fund, the IMF will neither be able to collect or spend the money until well into 1978. According to senior IMF and World Bank sources, the availability of hard cash to the IMF will be delayed pending appropriation of the American share by Congress, and extremely difficult to spend under conditions set by the West Germans.

Witteveen called the meeting to raise funds for the so-called "Special Facility" for countries pressed by balance of payments deficits, originally projected to comprise $16 billion at the April 26 meeting of the IMF's Interim Committee in Washington, D.C.

As those countries with heavy deficits are not coincidentally among those with large outstanding — and uncollectable — loans from the New York banks, it is hardly surprising that many in Europe and the Third World view the "Witteveen Facility" as a bailout fund for David Rockefeller and friends.

Forced to scale down his original demands, Witteveen extracted commitments totalling SDR 8.15 billion, or $9.6 billion, from the following countries:

Saudi Arabia	SDR 2.15 billion
United States	1.45
West Germany	1.05
Japan	0.90
Switzerland	0.65
Venezuela	0.50
Abu Dhabi	0.10
Canada	0.20
Belgium	0.15
Holland	0.10
Qatar	0.10

France and Britain had been excluded from the meeting, on the grounds that the two countries would be potential borrowers, not donors to the fund, despite some British objections, as the British press noted with some malice. Nonetheless, West German Finance Minister Hans Apel announced in a press conference Aug. 6 after the meeting that his position had been entirely coordinated with his European community partners, Britain and France. The conspicuous absence from the donor list of Nigeria and Kuwait, the OPEC countries with the closest ties to London, indicates that the British had their revenge in any case.

Details of the Fund's operations have not yet been released, and the Executive Directors, the national representatives who manage the IMF's affairs, are still hammering out points of difference. But numerous IMF sources report that the money will be unspendable for the critical months ahead. First of all, in the best-case scenario of the IMF Secretariat staff, the U.S. Congress will require a minimum of six months to appropriate its share. The London *Sunday Telegraph* gloated Aug. 7 that Congress could not even consider the issue under the current tight legislative schedule before its recess in October. Witteveen lost on a crucial procedural point: the special fund will not be "open-ended," that is, Witteveen cannot spend any of the $9.6 billion until the full complement has been gathered. So the Saudi contribution cannot be spent until the U.S. contribution is through.

Secondly, as Apel emphasized in his press conference, the new money will not function as a special fund to be lent at Witteveen's discretion, but will only be lent out under the existing procedures for normal IMF lending, and under tight conditions. IMF member countries may draw from their quota at the IMF in four tranches, each requiring approval by the Executive Directors, and increasingly strict conditions. The much publicized loans this year to Britain and Italy took place under fourth-tranche conditions, which require the borrowing country to submit its entire domestic economic policy to IMF approval. Apel emphasized that the same strict procedures will be employed for the new money, which will only add to member borrowing capacity under the existing tranches, which have been virtually exhausted. "The money may never be spent," commented a West

German monetary official. The precise details of the lending formula are still being worked out, but all sources concur that lending will fall within these tight parameters.

"The West Germans are playing tough," commented a senior World Bank staffer. "They claim that the U.S. commercial banks are too eager to lend money to developing countries, and mess things up for them by ruining these countries' credit rating. So they imposed tough conditions. Witteveen doesn't like that," the official said.

"Probably the money never will be spent," the official continued. "It's for show, like bank reserves. As long as it's there, and you can count on it, it helps confidence."

The preservation of that admittedly thin veneer of credibility, however, allows the Vance's and Brzezinski's to pursue at the risk of nuclear war their nuclear "chicken game" and blackmail and terror operations against Europe, the Middle East and the USSR — and thus despite its setbacks, the IMF came out the meeting better than many observers had expected. According to an *Agence France Presse* report Aug. 5, a minority faction in the meeting of OPEC finance ministers that week proposed to reject contributions to the IMF on the grounds that OPEC had more important commitments in the form of direct loans to the Third World, and internal development spending. This faction included Kuwait, the United Arab Emirates, and Venezuela, according to highly reliable Arab sources. State Department officials responsible for following this area doubted, prior to the meeting, that the Saudis would give anything close to the $2.5 billion they ultimately agreed to.

Highly reliable sources report that U.S. Secretary of State Cyrus Vance, who visited Saudi Arabia Aug. 5, used threats of military action and terror against the Saudi Royal family to persuade them to hand over the money. The next day, the Saudis paid $2.5 billion in protection to the IMF.

The IMF's credibility has survived, but by the thinnest of possible margins. It still has virtually no effective resources to deal with the Third World balance of payments deficit this year of over $50 billion, including at least $17 billion in repayment of debt-principal, and over $20 billion in interest (some of which is not counted into the official balance of payments numbers).

Banks Are Squeezed On International Credit Markets

In a period of increasing debt payments on the international market, total world lending volume has barely risen during the first half of 1977. International bond issues and medium-term Eurocurrency bank credits have reached $33.1 billion for the whole of 1976, reflecting an actual decrease if a 10 percent inflation rate is taken into account. This has not been due to "an improvement in the currency accounts of the Third World," as some New York bankers would still claim, but to the fact that those Third World countries have met their payments only through the 1976-1977 commodity price increase: through self-imposed or International Monetary Fund imposed austerity and through related import cuts. The burden of the debt has been partially transferred to the commodity-consuming industries of the developing sector, which in turn have increased their rate of borrowing — not for capital formation, but to maintain working capital. The structure of the borrowing has therefore been almost entirely artificial — divorced from capital-intensive, long-term development projects — and as such, has left the markets in a state of immediate vulnerability.

The maintenance of international borrowing levels was determined by an increasing presence on the markets of relatively well-off industrial countries such as France, Great Britian and Sweden, and a sharp growth of the OPEC share. The more needy Third World countries were kept out of the markets.

As a whole, the share of the non-OPEC LDC's and that of the "international organizations" involved in the Third World financing has dimished while ironically, only the petrodollar rich OPEC countries have increased their participation.

A country-by-country approach is even more revealing. The more important borrowers are industrial countries with balance-of-payments problems, trying to maintain imports for their basic industries and a certain level of investment through foreign indebtedness. In other words, while Mediterranean and Third World countries near financial collapse were willingly or unwillingly absent from the international markets, industrial countries actively borrowing were progressively putting themselves in the financial situation of Third World countries!

The case of the Scandinavian countries is especially spectacular, with debt-service ratios (annual ratio of foreign debt payments to total exports) already similar

Shares of total publicly announced international borrowing

	1976	First half 1977
Industrial countries	57.5	56.9
LDCs (non-OPEC)	20.8	19.1
International organizations	10.7	8.1
East Bloc	4.2	4.1
OPEC	6.8	11.8