important to the security of Africa as Zaire isn't easy. Citibank's Irving Friedman can tell you that.

The major industrial countries, not to mention Saudi Arabia and Iran, are so alarmed about the influence of the Soviet Union and Cuba in the heart of Africa that they will go to great lengths to shore up President Mobutu, discipline or not.

Dr. Friedman's long, involved and intricate negotiations with Zaire for what was to have been a $250 million Eurocurrency loan were intended to result in a textbook case on how the banks and the International Monetary Fund can work together to restore a nation's creditworthiness. He wanted to avoid, at all costs, a rescheduling of private debt. . . .

The commercial banks also believe the discussions with the fund might be helped if President Mobutu were to put his signature on the Eurocurrency loan agreement, which now involves about $218 million.

The president has been reluctant to do so before the Brussels meeting even though the commercial banks have warned him that the consortium might fall apart if he doesn't act in a reasonable period of time. . . .

Dr. Friedman's conditions, and those that the fund, might like to impose will, therefore, go by the board. . . .

Morgan Bank: IMF Surveillance, Down with the Dollar

According to a Dow Jones wire June 9, Rimmer de Vries, economist at Morgan Guaranty Trust in New York, said that he was "moderately bearish" on the dollar:

It is difficult to believe that the heavy foreign bank purchases of dollars — totalling more than $40 billion in 1977 and the first quarter of this year — by the central banks of the industrialized countries and the frequent calls for the U.S. to sell gold and to float foreign currency denominated bonds in the capital markets were solely for the purpose of maintaining orderly exchange markets. Instead, these interventions appear to have had a protectionist bias, limiting the ability of the U.S. to correct its current account deficit. . .

It would be desirable that the new Article 4 Agreement of the IMF be given operational content in the form of a stronger surveilliance role for the fund whereby it is empowered to examine exchange rate policies of member countries.

Bankers Concerned Over IMF Role As 'Police State'

The International Monetary Fund's attempt to abolish the national sovereignty of deeply indebted Third World nations like Zaire, Peru, Turkey, and Sudan has begun to draw public and private criticism from sections of the world banking community.

The pivotal question now is whether what is now merely "concern" on these persons' part can be immediately transformed into action proposals before the Fund wrecks the world economy and the possibility of economic development-based solutions to the Third World's political problems.

"What concerns me," the international economist for a leading U.S. commercial bank said this week, "is the role of the IMF as a police state. This can be detrimental in the long run. If the IMF acts as a powerful surveilling agency, it can take the initiative for development out of the international market. We need longer-term financing to accommodate these countries' development programs."

At the same time, Hermann Abs, the dean of West German banking, issued a public call to arms against the IMF's disastrous practice in the May issue of Die Bank, the West German banking association monthly. "Only undiminished access to international credit," Abs wrote, " gives a state the possibility of maintaining national sovereignty over social and economic policies.
settlement—such as those that need to be conducted with the Third World—must accept this principle."

What must guide debt-rescheduling procedures, Abs wrote, is not interest and principal considerations, but the debt-carrying capacity of the national economy, keeping the national economy under question in the framework of world trade and finance. As low a debt to exports ratio as possible should be maintained, Abs said. The key is new credit injections to restart economic growth.

What Abs and his colleagues are most immediately worried about is the IMF plan, officially outlined by Belgian Foreign Minister Henri Simonet at the Paris emergency meeting on Zaire June 5, to settle Zaire's outstanding foreign debt (unofficially put at over $5 billion) by splitting the country into endless warring tribal sections to impose austerity under IMF control. It is clear to most that Zaire would just be the first of several such "solutions" for heavily indebted Third World nations — solutions which would wreck international political stability.

The recognition of the danger of the IMF's plans is also reflected in recent activities of the U.S. foreign policy bureaucracy. It is known that a group in the State Department was responsible for lessening the stringency of the conditions for the IMF loan now under negotiation for Egypt. Both U.S. and Saudi Arabian officials had publicly noted the destabilization potential inherent in the dire conditions previously attached to the loan.

Sentiment of this State Department faction was summed up by one department senior official who told an interviewer this week: "There's a feeling here that the IMF topples governments."

Zaire: Give Up Sovereignty for IMF Bailout

The IMF's proposed "rescue plan" for Zaire, discussed this week at the five-nation conference in Paris and to be finally decided at a scheduled June 13-14 meeting in Brussels, is, according to one American diplomat, "about as austere as you can get." It includes large cuts in the government budget, further slashing of already minimal imports, and an "anti-corruption campaign." In return, Zaire is to receive a further rescheduling of its multibillion-dollar foreign debt, aid packages from the IMF itself and possibly from a private bank consortium, and emergency provision of food and fuels.

The salient feature of the IMF plan, however, is that for possibly the first time, the IMF proposes to assume virtual sovereignty in Zaire, making Zairean President Mobutu Sese Seko "a ward of the court," as one specialist told the *Washington Post* June 4. The Monetary Fund is proposing that an IMF representative be appointed to the number-two spot in the Central Bank of Zaire, with veto power over foreign exchange allocations, according to one source, and actually standing "in charge of disbursements," according to another source. This day-to-day control of Zaire's assets would supplement a plan already in force whereby Zaire pays revenues from its copper sales directly into an account at the Bank for International Settlements in Zürich. Furthermore, an American government official (probably State Department Africanist David Newsom, who represented the U.S. in Paris) is reported by the London *Times* to advocate the appointment of European managers throughout the Zairean banking system, right down to regional level.

IMF Has Turkey Hamstrung

A proposal to restructure $2.5 billion of Turkey's $15 billion debt was drawn up last week by Turkey's eight largest international creditors and presented to the 220 smaller U.S. and European banks owed money by the Turks. Although the proposal is not being made public, the Turkish Central Bank has requested that the $2.5 billion—most of which represents "quick cash" short-term convertible Turkish lira accounts on which the Turks have defaulted for more than a year—be rolled over for seven years, with a three-year grace period. The Central Bank has also requested that creditors forego interest payments on the accounts, pegged at a whopping 20 percent. Additionally, Turkish Finance Minister Muezzinoglu is asking for a $650 million cash infusion of new funds, a request that has raised the ire of most bankers.

The willingness of Turkey's creditors to reschedule the debt was contingent on Turkey's willingness to comply with the IMF. Although numerous Turkish officials opposed cooperation with the IMF, in the beginning of March Prime Minister Bulent Ecevit announced a series of drastic austerity measures based on IMF proposals, including a 40 percent devaluation and an almost complete cut-off in imports.

Despite the prospects of rescheduling and refinancing, the situation in Turkey is bleak as a result of the IMF's conditions.Whole segments of Turkish industry have been idled because of the collapse of imports. Inflation is at 50 percent.

The Turkish government has attempted to shore itself up by looking toward the Soviet Union and the East bloc for closer economic ties. While impressive multi-million dollar development deals have been worked out with the Soviets, the Turks remain hamstrung as a result of the IMF's tactics vis a vis the Western banks, as well as by the bank's willingness to play according to the IMF's rules.

Ecevit has shown a marked reluctance to involve himself in "Grand Design" economic strategy exemplified by the recent West German-USSR 25-year trade deal, and has instead embraced the IMF's policies as his only alternative.

Last week, a delegation from Citibank, Turkey's largest creditor, arrived in Ankara to negotiate a $100 million credit. While numerous sources report that the loan is solely for debt refinancing and is being extended in the context of IMF policy, others are speculating that Citibank may be "stepping out of line" and is earmarking the loan for tabooed imports, contrary to IMF recommendations.

Sudan Role as Food Producer Discouraged by IMF

The Sudan has undergone a major policy debate recently, on whether to accept conditions mandated by the International Monetary Fund for decelerated growth.

As early as two weeks ago, *NSIPS* recieved reports that the IMF delegation in Sudan was not having very much success in convincing President Gaafar Numeiry to adopt a slow-growth perspective. But, lacking foreign credits and under extreme pressure to follow the IMF guidelines, the June 7 London *Financial Times* reports that the Sudan is going ahead with a "stabilization program" of austerity measures which are designed to prove to the IMF that the country is creditworthy.

One of the major stipulations of this program is to freeze all new major development projects for the next two years. This demand virtually ends any hope the Sudan had of becoming the chief food producer of the African continent.

In a conversation with the Sudan's IMF desk officer in Washington, *NSIPS* learned that the IMF looks askance at Sudan's ambitious development programs and wants them to slow down drastically. An IMF representative said, "Sudan produces cotton, you know, and we think that they want to transform their economy into a food producer too fast. We are trying to get them to slow down. Saudi Arabia can still import its food from Australia as it has been doing. It doesn't have to import from Sudan." When asked if Sudan's development wouldn't be important for the region as a whole given that the Sahel is now experiencing severe drought condition, the IMF representative replied: "Well, we don't make those kinds of policy assessments. You would have to call the World Bank for that information. We only handle fiscal difficulties."

IMF Takes Soft Approach With Egypt

The International Monetary Fund and the Egyptian government reached an agreement June 1 on a letter of intent for Egypt to recieve a three-year $720 million IMF extended facility. This letter of intent commits the Egyptians in principle to following the program prescribed by the IMF in return for a loan. The loan will go into effect as soon as the Fund's executive board and the Egyptian cabinet each give their approval officially to the agreements that were reached when a Fund delegation completed a trip to Egypt last week.

According to a Fund official on the delegation, "An austerity *theme* was prevalent throughout our discussions, but nothing was really discussed concretely." He stressed that the sensitive issue of cutbacks of government subsidies for vital imports "was only obliquely touched upon, but not actively pushed. In fact, our main emphasis was on taxation collection and certain anti-inflation measures. We are making generous allowances for rises in wages and salaries and for development allocations."

Similarly, a second Fund delegation official stressed that while "an austerity angle was there" in the talks and that "we want to make sure the country is living within its means," the extended facility allocation will "buffer up a very ambitious development program, with rapid Gross National Product rises, and high economic growth rates."

Both IMF officers vehemently denied a June 3-9 London *Economist* report that the IMF had made "it brutally clear that it is skeptical" about Egypt's economic performance. The article, one IMF officer insisted, "has no basis in truth. Some journalist got carried away with himself."

This "soft" austerity line coming from the IMF, a departure from the Fund's general fixation on austerity, is not to be explained by looking for new outbreaks of charity and, or good sense within the IMF itself.

Rather, it is clear that the IMF was given a clear directive from the United States and Saudi Arabia and perhaps several western European governments, not to impose conditions on Egypt that would destabilize Anwar Sadat's government and threaten new outbreaks of unrest such as that which followed the announcement by Egypt in January 1977 that it was cutting back on commodities subsidies because of IMF insistence.

According to a State Department Middle East expert, "The United States and Saudis would not support the Fund putting such conditions on Sadat as to make him unstable. The Saudis' aid to Egypt is political in motive; they want Sadat stabilized. If Sadat were to go to the Saudis and say, 'Look, the IMF is putting demands on me that are too tough. I can't accept them,' then the Saudis would back Sadat up and not the IMF."

Late last month, West German Economic's Ministry officials told reporters that Chancellor Schmidt's government was urging a policy of major capital transfers and significant debt relief for Egypt and would argue against a harsh austerity program at the key June 14 meeting in Paris of the consortium of donor countries and private institutions which lend to Egypt.

IMF Brings Peru Counter-Revolution, Riots

The price of the Peruvian government's May 12 capitulation to IMF demands for 60 percent increases in prices of food and gasoline has been weeks of strikes and riots.

The country is now under State of Emergency martial law and the long-awaited June 4 elections for the Constitutional Assembly have been postponed. The consensus in Lima and abroad is that Peru's "democratization process" has been truncated and that an even more repressive regime will be required to hold down a starving population.

Chronology Of IMF Takeover

April: After feverish activity, the Morales Bermudez government arranged with the IMF, the private banks, and the U.S. government for debt rollovers until after the June 4 elections. Morales promised to hit the population with the full weight of the IMF program during the weeks following the elections, under the guise of giving the government back to civilians.

May 5: Wells Fargo Bank pulled the plug by declaring Peru in default on a $15 million payment due the previous day. (A Wells officer concedes that the problem was simply routine delays by major Eurocurrency banks in wiring funds.) The Wells default notice electrified banking circles and caused an immediate cut-off of all remaining Peruvian credit lines.

May 6-10: The Peruvian Foreign Minister went to Washington to plead with Secretary of State Vance and Treasury Secretary Blumenthal to aid Peru in the name of the Carter Administration "human rights policy." "In a frank talk," Blumenthal tells Peru that it must submit to the IMF and that the government won't even consider postponement of debt service due it until Peru settles with the IMF and the banks.

May 10: Peru decreed tax increases, severe budget cuts — and an 8 percent devaluation — partial concessions to IMF demands.

May 12: Amid pressure building from businessmen unable to fund any imports, Interior Minister Luis Cisneros attempted a Chile-style coup against Morales. Morales persuaded the generals to keep him as President, but capitulated to the IMF demands.

May 12: "The Mother's Day Massacre" — Morales decreed increases of up to 130 percent in prices of edible oils, wheat and wheat products, milk and other foods, and up to 80 percent in fuels and transit fares. Average Lima prices jumped by 60 percent overnight, according to Agence France Press and other observers.

May 13: Civilian fascist technocrats sworn in to the top posts in the Economics and Finance Ministry, and the Central Reserve Bank, replacing military and civilian officials who had tried to restrain the pace of the IMF triage conditions. They offered workers 10 percent wage increases to compensate for the cost of living increases.

May 14-20: Riots erupted in cities and towns throughout the country; vigorously repressed — 28 died.

May 19: Elections postponed; state of emergency imposed; hundreds of union leaders arrested.

May 23-24: A national general strike supported by unions of all political shades completely paralyzed the country. The strike showed working class force stronger than any mobilization in a decade, but it won nothing. The regime is determined to "bite the bullet."

May 25: 13 leftist union and military leaders deported; others are sought.

Early June: Teachers' strike continues; the government hires scabs; the three-million member CNA peasant federation, founded in 1974 by Velasco government to defend agrarian reform, is dissolved.

Peru's Standing With The IMF

At this moment, Peru is renegotiating its stand-by agreement with the IMF. According to banking circles, Peru will accept "week-by-week monitoring" by the IMF and repeated rounds of austerity shocks in return for IMF approval of its refinancing of its public and private debt. The "moratorium" granted by the private banks is conditional on persistence in triage policies. Chase Manhattan telexed Peru an ultimatum that debt relief is also dependent upon Peru giving special privileges to Southern Peru Copper Company, the Lazard Freres operation which has $700 million invested in a new copper pit in Peru.

While the government has been siphoning off 55 percent of export income for paying its debts, private industry has fallen $130 million in arrears to suppliers, and is unable to obtain further vital supplies. The *Wall Street Journal* June 2 quotes Samuel Drassinower, Peru's most successful industrialist, "The time has come when paying the government debt isn't top priority anymore. We must use all the foreign exchange we need to keep the country productive."

The Consequences Of Brzezinski's Folly

The deterioration of U.S.-Soviet relations engineered for the past eight months by British Special Intelligence Service U.S. operatives Henry Kissinger and Zbigniew Brzezinski has turned U.S. foreign policy into a dangerous shambles, putting America on track toward a European theater nuclear confrontation with the Soviet Union in the near term, over Africa or the Middle East.

Jimmy Carter's June 7 speech to the U.S. Naval Academy (see below), a mismanaged product of the "unity program" instituted in the White House in an attempt to keep the Administration faction fight over SALT and dealings with the Soviets from perpetually erupting into the unfriendly hands of the *Washington Post*, is only the most obvious symptom of the problem — that National Security Advisor Zbigniew Brzezinski was hopelessly manipulated by the Chinese on his recent trip to Peking, and is manically furthering the Chinese scenario for a war between the world's two superpowers.

The realization that near-term Atlantic theater nuclear war is likely has provoked a split in the ranks of the same British intelligence gamemasters who run Brzezinski and Kissinger — British SIS, which has sought to promote a U.S.-Soviet showdown *in the Pacific*, with the British as a leading surviving power. In recent days, the London *Financial Times*, *Toronto Star*, *Christian Science Monitor*, and the *New York Times*, all British-connected outlets, have run editorials warning that Brzezinski's NATO-in-Africa antics and campaign to destroy detente could produce war; and broadly suggesting that "evidence" that the Soviets and Cubans were responsible for the recent Katangese invasion of Zaire, evidence "collected" by Brzezinski's factional ally CIA Director Stansfield Turner, is a hoax.

Even more indicative are statements by British Prime Minister James Callaghan, who is defending detente with the Soviets in a way that has not been seen in Britain in years. Callaghan in Parliament warned last week that the world is a "powder keg," and that "the Soviet Union understands that this government is not anti-Soviet for its own sake...we intend to live with that country in the world and not set up artificial confrontations with it....I am trying not to raise the temperature with the Soviet Union. I am trying to lower it." Callaghan concluded, "We don't want a new Cuban missile crisis," in defending his attempts to work with Carter to secure a SALT II agreement.

Paralleling the split in Britain, in the U.S. the so-called "left" in the Democratic Party, the heirs of the British Fabian Society, has begun to deliver strong warnings to Carter that Brzezinski-inspired confrontationism in Africa will destroy his Presidency. Although the liberals have been most vocal, the Brzezinski-Turner "evidence" is being greeted with outright disbelief in much of the U.S. Congress, which understands that the U.S. population is in no mood for Cold War frenzy and military showdowns.

The Carter Administration has announced that it is scheduling another round of negotiations on SALT II between Secretary of State Cyrus Vance and Soviet Foreign Minister Gromyko in early July, and informed Washington sources say it is still possible for a SALT treaty to be concluded by fall. But new anti-Soviet provocations by Brzezinski are occurring daily — the most recent, reversal of a previous Administration decision not to sell certain military-related technology to the Chinese. The same technology is denied to the Soviets on national security grounds; the decision will no doubt be read in Moscow as a further evidence of a NATO-directed "two-front war" strategy against the USSR.

The major foreign policy debate over Africa opening up in Congress, however, provides an opportunity to stabilize the Administration by forcing adoption of a broad-ranging economic development program for the African continent, in a context of continued detente. Without such a commitment, no "geopolitical" balance-of-power gimmicks can stabilize an international climate rapidly deteriorating toward general war.

Carter To Soviets: Buy Detente On Brzezinski's Terms

President Carter's speech to the U.S. Naval Academy June 7 got wide advance billing as an effort to "clear the air" on U.S.-Soviet relations and to organize political support for a SALT II agreement which is "95 percent complete." It will have precisely the opposite effect.

True, Carter said "prospects for a SALT II agreement