Banking confab turns into fight

IMF credit rationing versus EMF lending the issue

Exclusive to Executive Intelligence Review

International bankers at the Feb. 14-15 London *Financial Times* world business conference in Frankfurt witnessed a remarkable open clash among central bankers and other senior officials.

On one side were British spokesmen and others — including Italian Confindustria president Guido Carli and Robert Solomon of the Brookings Institution — who identified themselves with the British position. This group warned the leaders of the new European Monetary System (EMS) against expanding into a new credit channel outside Europe, and sketched their own policies of credit rationing and International Monetary Fund (IMF) surveillance for the 1980s.

On the other side, Otmar Emminger, president of the West German central bank, the Bundesbank, opened the conference by flatly informing the audience that, despite delays in formal EMS inauguration early this year, "we have already been living for some months in a de facto EMS" which has proven its ability to introduce virtual fixed rates among the eight members — the European Community (EC) minus Great Britain — without large central bank interventions.

In response to a question from this publication, Emminger also gave a low-keyed public confirmation of the EIR's report last month about the way in which the EMS's European Currency Unit clearing system will serve to draw increasing proportions of participants' total gold reserves into activation at a three-month average of the market price, beyond the initial 20 percent of gold and dollars to be pooled in the European Monetary Fund (EMF), effectively remonetizing gold as backup for EMS credits.

Bank of England Governor Gordon Richar responded to Emminger by stating that the UK intends to participate in future rounds of talks on the EMS, from which Britain and its bargaining demands for concessions were excluded at the end of last year. He went on to insinuate that London hopes to disrupt EMS parities by fostering what he called "differential flows" into member currencies. Richardson stated that currency rates are less important than "policy coordination," by which is meant cutbacks of continental industry; then he threatened to undercut "the integration that has been achieved" by forcing an EC budget crisis.

Senior Brookings fellow Solomon put this string of positions in a more coherent light by clarifying that there are two opposed policies of "coordination" at stake. Having predicted that the EMS currency stabilization will "break down," he stressed his vain hope that "the creators of the EMS would have employed the Special Drawing Right" instead of the ECU, and "avoided competition with the IMF." He voiced his fear that the poorer European nations will no longer seek to borrow from the IMF and urged the EMF to "lend only to EMS members" and thus "confine the damage to the IMF." To the audience, the contrast was unusually clear between the IMF's trickle of credit to past and present clients like Italy under destabilizing conditionality, and the potential multiplier of credits based on the EMF's $35 billion-plus gold-dollar reserves.

Solomon's efforts to present these views as "American" were questioned by an *Executive Intelligence Review* correspondent who requested him to justify the record of declining industrial exports and deteriorating capital formation logged by the Brookings-dominated Carter Administration. Solomon replied that "Europeans wouldn't mind the U.S. running a trade deficit if only the dollar would stop falling." He looked around for applause, which did not materialize.

In fact, most West German bankers and industrial delegates simply left the room during the Richardson-Solomon interlude, especially after Richardson referred to Emminger as "a snake in the snakepit."

Hoffmeyer on the EMF

The most notable sequel to this fight was a speech by Danish central banker Hoffmeyer, who began by criticizing Solomon and affirming that he "strongly disagreed with the British view." He spoke more forcefully, if still somewhat obliquely, than most of his EMS colleagues about the new system's intention of gradually implementing a two-tiered world credit structure slanted to favor long-term, low-cost lending for industrial development and related purposes.

Hoffmeyer cited the "unwritten rules" of the EMS, including "less doctrinaire" attitudes toward interest rates. This jab at the IMF and London's Euromarket suzerainty was followed by a reply to Solomon: there are numerous ways, he said, in which the EMF "can operate in the market for both EMS and nonmembers." This includes acceptance of nonmember deposits at rates "competitive with" rates on deposits in the strongest currency in the system — i.e., with the 4-5 percent West German levels.

Hoffmeyer did not draw out the lending side of the equation, but EMS potential to centralize liquidity and recast flows and costs of credit was made so plain that British merchant banker Edmund Dell, the former trade minister, prematurely dissolved the conference, announcing "We're all so confused now by the opposing views put forward that I'm sure you don't want to hear my closing remarks — so I shall just close the conference."

Earlier, Dell had presented the view that trade protectionism is inevitable and no deliberate net expansion of world markets along EMS lines can be created. EC vice-president Francois-Xavier Ortoli, who with Roy Jenkins has made the Brussels European Commission an outpost of British hostility to the EMS, retreaded the London Economist's call for the EMS to be made into a sub-organ of the IMF, with "supervisory responsibility" over all domestic economics policies, but drew scant response with this effort to appeal to West German "conservatism." Sir Eric Roll of the Warburg bank, for decades a Bank of England-IMF-OECD strategist, was the most spectacular on the credit question with his formulation of what to do with the $600 billion in Euromarket liquidity — this, he said, is precisely the magnitude of the borrowing needs of the People's Republic of China, and "I don't think we are overshooting."

What brought these scenarios home to the less attentive listeners was the British admission during the question periods that a substantial precondition for their contractive policies is a large increase in the price of oil. Guido Carli went so far as to propose a new "petrodollar recycling bond" which in effect would be used by British Petroleum, Royal Dutch Shell and whichever American majors joined them, to regulate world credit through "advance payment purchase" securities drawing on "unused oil revenues."

Combined with Roll's announced intention to arrange the deposit of hundreds of billions in Eurodollars with the Bank of China in London, the policy of an astounding supertax on the world economy for the account of Peking and the City was briskly articulated. What also became clear in the course of the speeches was that none of the British or British-allied speakers — including Fiat chief Gianni Agnelli, who polemicized against the idea of advanced-technology exports to the Third World, regarded American policymaking at present as anything but a useful convenience.

—Mark Tritsch, Frankfurt
with Susan Johnson, New York

Bankers' conference

Following is a series of excerpts of presentations by participants in the London Financial Times *world business conference. The portions here highlight the polarization of opinion between the bankers and officials present as to whether to continue to accept the domination of the austerity promoting International Monetary Fund or the opportunities for growth available through the European Monetary System.*

"The EMS functions..."

An excerpt from the conference speech by Bundesbank President Otmar Emminger is followed by his comment during a question session.

The present exchange rates of the Italian and French currencies seem to be entirely credible in the marketplace and appear well suited as entry rates for the EMS. In the "snake" the Deutschemark has over the past four months been persistently in the lower band against the other currencies. Since last December, indeed, the currencies of the EMS have moved continuously inside the margins which would have been obtained had the EMS entered into force at the start of this year. Thus, as concerns the exchange-rate structure, we have already

British banker: I hope LaRouche

Following, with minor deletions, is the transcript of an Executive Intelligence Review *interview with Henry Tiarks at the London* Financial Times *"Finance and Trade in the 1980s" conference in Frankfurt. Tiarks is a retired international banker, father-in-law of the Marquis of Tavistock, associate of the Devonshire family, and currently a Swiss resident.*

Q: Mr. Tiarks, U.S. Labor Party presidential candidate Lyndon LaRouche is working to create an American national leadership capable of breaking the "special relationship" to England and linking with France and Germany to....
A: I hope he breaks his neck.

Q: Can I quote you?
A: I'd rather not, old boy, you know I'm just a retired banker, no influence at all, what I say isn't that important, I'm very old.

debates future of world economy

been living for some months in a de facto EMS, and have been doing so without any particular support by central banks (except for some intervention to prevent undesired appreciation by the Danish crown)....

Q: Lord Roll introduced your speech with some remarks about gold. Could you tell us about the role gold will have in the future monetary system?
A: Gold has been phased out as an official basis for the monetary system — in fact that happened last April (referring to the IMF conference in Mexico). That's firstly — but secondly gold does still have an important monetary role. The Bundesbank has the second largest gold reserves of all central banks, so we are not completely disinterested in the question. So, we must have ways of using the gold reserves for, for example, official purposes like settling balance of payments, et cetera.

There is the example of the Italian case, where some years ago Italian reserves were used as a pledge for a loan, partly provided by the Bundesbank.... But now we have developed a new way of doing that — we are going to use the gold in the EMS as a new kind of pledge against the settlement of balances of payments between EMS member countries. As you know, 20 percent of dollar reserves and gold will be deposited as a pledge in the EMS, and in return members will get a means of settlement for balance of payments purposes. In this respect, gold can continue to play a further monetary role.

How the fund will operate

Erik Hoffmeyer, head of the Danish central bank, phrased his outline of EMF operations in terms of currency defense. The broader potential was stressed the next day even by the Feb. 15 Financial Times *coverage of the conference as the EMF absorbing global flow of funds it would then be in a position to redirect. He also signaled how the U.S. could be brought into gold-backed ECU clearing operations. Excerpts from Hoffmeyer's speech follow.*

The ambition of the initiators of the EMS has clearly been to lay the foundation for a more far-reaching change in the international exchange rate system.... We have moved from the idea of a clean float to a more and more managed float, and the logical outcome could be some kind of negotiated floating. Target zones have already been proposed, but are hardly feasible. On the

breaks his neck

Q: Yes, you must be, since the Dulleses were buddies of yours.
A: Oh, yes, but Allen went nuts in the end....

Q: But what do you think about the U.S. picture now?
A: Terrible, terrible, there are people saying the Trilateral Commission runs everything; do you think they do? I really don't know, I personally was one of the founders of the Bilderberger group, I'm a close friend of Prince Bernhard, of course we both run the World Wildlife Fund and, I don't know, they say there is a world conspiracy between the Trilateral Commission, the CFT, the Bilderberger and so on. What do you think about the Trilateral Commission?

Q: It's no longer the central institution....
A: What do you mean, not important? The whole U.S. government is run by them. That's how Carter was put in! You know, really I think Carter's election is only explicable by the Trilateral having engineered the whole thing because he is so stupid that they could completely manipulate and control the government once he was in.

And anyway, David Rockefeller is so stupid — he's a good friend of mine but he's really stupid.... Terrible situation now with Carter. Europe will leave NATO soon. Only way to stop it would be to put MX missiles in Europe....

Q: ... With that kind of policy we'd be heading directly for nuclear war.
A: Oh, yes, it's 50-50. There could quite easily be a war. Kissinger has some debatable points. I'll tell you who I'd like to see president of the USA ... that's General Haig.

Q He's a creature of Kissinger's....
A That speaks very well for him.

other hand, one has to think about how such a system might work.

Instead of fixed zones it would be possible to have systems that were activated ad hoc if the participants agreed on intervention. In this respect the proposed European Fund might play an important role. If funds were moving away from the dollar toward the Deutschemark, the Fund might intervene, both buying dollars and debiting the U.S. in ECUs and selling short-term paper in Germany in order to offset the liquidity effects in Germany, which would be credited in ECUs by a similar amount. The essence would of course be that the Fund bought dollars for Deutschemarks ... but the U.S. debt to the Fund and the German credit balance would be expressed in ECUs.

In this way the Fund could operate in the system for the European currencies and ... it would have obvious advantages compared with the present system, first, because the liquidity effects in Germany would be offset automatically, which is not the case at present, and secondly because the question of exchange risk would become less extreme....

Survival of the fittest

Former U.K. Trade Minister Edmund Dell's speech at the Financial Times conference was titled "Pressures for Protectionism — Mercantilism and Free Trade in the 1980s."

In the last few years of economic depression it has been discovered by some, confirmed by others whose view of human history was not distorted optimistically by the exceptional growth and prosperity of the first 25 years after World War II, that there is in fact no single key,... no system of world economic management that reconciles the interests of all nations. On the contrary there is conflict. This is a highly competitive, Hobbesian world.... In every nation and in every government there is a basic protectionist instinct....

Don't invest in technology

Fiat owner Gianni Agnelli, whose ties to international terrorism are receiving increasing attention in the European press, called for labor intensive "appropriate technologies" for the Third World in contradistinction to industrial exports:

... The continuing U.S. payments deficit has created a vast, self-multiplying pool of nearly $800 billion. Ensuring that these sums are invested according to rational economic criteria poses an enormous challenge to the financial community.... We in Italy have our own catalogue of cathedrals in the desert. But it gives us no pleasure to see investments wasted in a similar fashion in other parts of the globe.

Rough going for bank takeovers

Ongoing efforts by the City of London clearing banks to take over American banking institutions with aggregate assets of over $20 billion have run into severe trouble with the U.S. regulatory authorities and financial public.

The real opposition to the return of the British fleet to American waters began with the U.S. Labor Party's Oct. 4, 1978 appeal to the Federal Reserve Board of Governors that Hong Kong and Shanghai Banking Corporation not be allowed to purchase Marine Midland on grounds that HongShang and Standard Chartered finance the world drug trade. The Labor Party's subsequent publication of the paperback *Dope, Inc.*, which has sold over 15,000 copies, has set off a popular backlash.

Stock falls

For example, widespread rumors the week of Feb. 9 that the Fed was about to reject Standard Chartered's bid for control of Union Bank in Los Angeles brought Union's stock down sharply. After SCB announced its bid for $33 per share last June, Union's stock jumped to $30 per share but tumbled below $25 on the February rumors.

N.Y. State Superintendent of Banks Muriel Siebert in fact astounded the market when she told the press in late January that "I would expect a decision by the middle of the year ... I hoped to have a decision earlier ... (but) we still have a lot of material to sift through."

Sources say the NYSBD has three major objections:

1. **Accounting:** As HongShang's auditors Peat, Marwick Mitchell & Co. and Price Waterhouse & Co. have told the Fed, "The Financial statements of HSBC are not required to (under the Hong Kong Companies Ordinance), and do not, comply with either United States generally accepted accounting principles or regulation S-X of the U.S. Securities and Exchange Commission." HongShang,
of income of profits — much of which could be drug-related.
2. **Reciprocity:** "We don't imagine the British authorities would let Citibank purchase Barclays or National Westminster," NYSBD officials are reported to have said, "and until they clarify that position we don't feel we have reciprocity."
3. **Public Reaction:** The U.S. financial community is said to have begun to complain at the "cheap fire sale" nature of the wave of British takeovers more generally; they don't feel that the U.S. banking system should be up for grabs just because the dollar is temporarily weak.

—*Kathy Burdman*