

fertilizer plants—and to Brazil in recent months. The difference between project loans and rollover lending is that earnings are linked to specific assets, rather than to collapsing productivity.

Both of these options, which can also work in combination, presume that multinational financial institutions, including the IMF/World Bank and the BIS, will assume even greater importance in international monetary affairs.

At a conference of the private advisory group called the Group of 30 this week in Frankfurt, West Germany, former IMF Executive Director Johannes Witteveen asserted that unless a policy along these lines is implemented, the Third World will financially collapse. Witteveen—who is no friend of the developing sector—emphasized that renewed intensive austerity in the industrialized countries should be the foundation for combining Third World debt with performing loans. Witteveen noted that the IMF and other multilateral institutions could back a lowering of interest rates worldwide, if Western industrial countries would implement broad-scale programs of wage and price controls.

The decade of depression which these schemes assume can be averted by smoothly replacing current debt relations with government-backed institutions modeled on the European Monetary Fund (EMF).

The EMF is a pool of approximately \$100 billion in official reserves of member European countries, scheduled to come on line in coming years.

The EMF can work in two directions to freeze and replace current Third World debt. By issuing bonds to commercial banks, which, because they are pegged to gold, are inflation proof, the EMF would soak up nonperforming Third World debt. The credit infusions from commercial banks simultaneously can be used to issue large new lines of credit to developing countries—not to refinance old debt, but to import productivity-building capital equipment from Western companies.

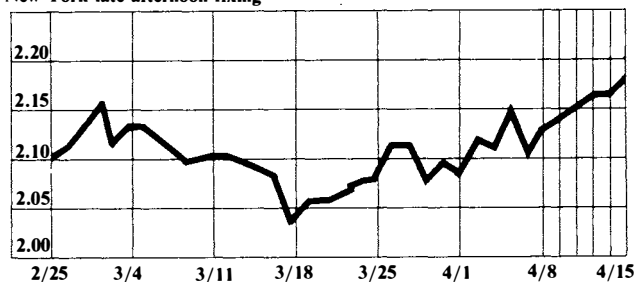
If the United States and oil-producing countries agree to associate status in the EMF, as has been offered by European leaders, then the mass of liquidity that would come together to generate new loans would be on the order of \$300 billion, more than enough to wipe up the bankrupt Euromarket. An EMF-type arrangement may emerge in the near future, moreover, in current negotiations between the Soviet Bloc and Western creditors on reorganizing Poland's defaulted debt payments.

The French have proposed that Poland be given a 10-year rescheduling on debt due between now and 1984, including at least \$6 billion in new long-term funds. If European governments issue gold-backed bonds to bolster these credit lines, then a precedent-setting test case for the EMF will have been brought into being.

## Currency Rates

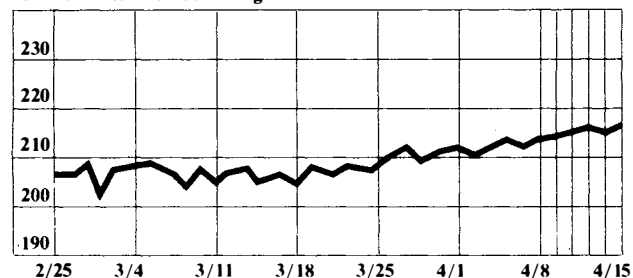
### The dollar in deutschemarks

New York late afternoon fixing



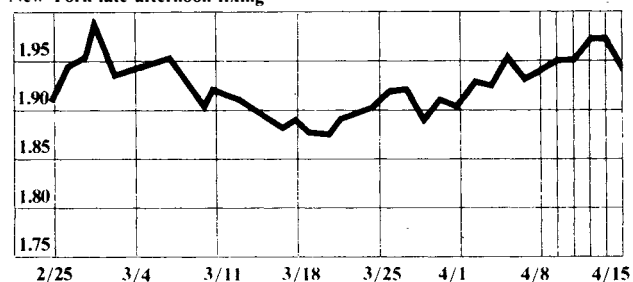
### The dollar in yen

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing

