exist within the European Monetary System for fixed but adjustable exchange rates, with narrow margins of permitted fluctuations, between the currencies of participating countries. For that to be possible there must be sufficient harmonization of economic policies. . . . In my opinion, control of the money supply is necessary but not sufficient. Fiscal policy [budget cuts] plus wage and price policies [controls] cannot be dispensed with. . . . Money creation run wild induces excesses in the budget and in wages, or prevents them from being corrected. In my country, we have had for many years at our disposal the instrument of credit ceilings. If the expansion of money supply threatens to assume unduly large proportions, the Netherlands Bank can impose restrictions on the volume of lending by the banking system. In the past, this power was exercised repeatedly; the last restrictions were imposed as from 1977. . . . It is most frustrating that, sales against foreign exchange apart, there is no systematic manner in which this reserve component can be used. . . . I feel that it is necessary for us, within the Group of 10 [industrial nations] and Switzerland, to consider ways to regulate the price of gold, so as to create conditions permitting gold sales and purchases between central banks as an instrument for a more rational management and deployment of their reserves. . . .

'A crisis will bring Reagan into line'

From an interview last month, provided to EIR, *with an official at the Overseas Development Council:*

Q: Why is there so much discussion about a "new Bretton Woods"?

A: It is needed to create a sense of urgency. I am certain, that with the briefings going into the White House, the effect will be achieved.

There were some stupid people like Citibank's Wriston who said that every penny of the debt would have to be paid. He has even been forced to change his mind.

The solutions being discussed are all converging on one general plan. First, that developing nations will be given what is called an "international Visa card" with a credit limit for both private and public borrowing. In addition, the IMF, with enlarged funds, will provide backup. The banks will provide loans to pay interest on existing loans and in most cases allow moratoria on principal payments. There is going to have to be some kind of global operation to exchange short-term paper for long-term paper and an orderly writedown of non-performing paper.

For some time, people have operated under the fiction that credit arrangements within countries are sovereign matters, that how much somebody lends, to whom and on what terms, are sovereign matters. This is a lie. . . .

Felix Rohatyn is selling snake oil

In the early 1980s, a major publishing firm quitted its New York City headquarters after decades of residence, citing the steep escalation in commercial rents and the collapse of the supporting urban infrastructure—which the firm said made it impossible to conduct business in New York any longer. Of the companies that have remained in "Fun City," there isn't one that hasn't experienced a drop in employee productivity owing to the breakdown in transportation and other services that are necessary to maintain a productive work force.

The individual who is, above all, responsible for the gutting of New York's productive economy—and the flourishing of real estate speculation and the illegal economy—is Felix Rohatyn, the investment banker from Lazard Frères. As architect and chairman of the Municipal Assistance Corporation (MAC), Rohatyn designed the "stretch-out" of New York short-term debt in 1975 which purportedly brought the city back from the brink of financial crisis. New York City's short-term debt was rolled over one more time; its creditors exchanged their worthless city paper for MAC bonds backed by the state of New York; services were slashed and capital spending cut to the point where today the city's sewers are on a 300-year replacement cycle.

Now Rohatyn is proposing to put the world economy through the same "pain and agony," as he was fond of calling his financial medicine for New York City's 1975 debt crisis.

As noted in the introduction to this Special Report, Rohatyn's program is based on the proposals of Britain's Lord Harold Lever and Lever's co-thinkers. A version of the Rohatyn call for a "stretch-out" of debt, minus the politically explosive proposal for a new institution, is the centerpiece of the new Omnibus IMF Bill in the U.S. House of Representatives, introduced by House Banking Committee chairman Fernand St. Germain (D-R.I.), a close Rohatyn ally.

Rohatyn likes to pose as a liberal. He works with the Harriman-Manatt wing of the Democratic Party; he is being promoted by AFL-CIO president Lane Kirkland as the next treasury secretary in a Democratic administration; and he puts himself forward as a friend of the Third World. But the "debt relief" plan Rohatyn is advocating involves global credit constriction tough enough to shock an arch-monetarist.

In New York, in fact, Rohatyn modeled his financial wizardry on that of Nazi Finance Minister Hjalmar Schacht, designing a financial plan that would extract debt service while extending no new credits and impose murderous austerity on a shrinking economy.

The New York legacy

In 1975, Rohatyn's associates in the major banks and investment houses, who had for years profited from rolling over and increasing the city's debt, made a calculated political maneuver and refused to underwrite further loans. When the city verged on default on upwards of $16 billion, Rohatyn was appointed to form a "new institution"—the Municipal Assistance Corporation—by New York State.

MAC functioned as a creditors' collection agency. It took the city's short-term debts off the banks' books, exchanging them for its own long-term MAC bonds. The banks then had a safer asset, while MAC held the city debt.

The Emergency Financial Control Board (EFCB), composed of the bank creditors, was set up as the "enforcement" arm of MAC. While legally unconnected to the MAC financial fund, the EFCB had the power to veto the city's expenditures and total budget and to dictate austerity in all operations.

Under MAC, New York's services and capital plant were stripped bare. More than 60,000 city employees have been laid off since Rohatyn's plan went into operation, 30 percent of the work force. The 35,000-man police force has been reduced to 27,000. The Metropolitan Transit Authority's maintenance staff has been cut 35 percent, and under the EFCB's "deferred maintenance" program enacted in 1975-76, train breakdowns in the dilapidated subway system have nearly trebled. The "economic development" plan instituteed after 1975 consisted of giving millions of dollars in tax breaks to real estate interests for high-cost hotels, office buildings, and residential condominia, a policy which fueled a real estate bubble while draining the city of revenue.

Further, Rohatyn set up a system to sequester cash flow for debt payment. New York State allocated an earmarked tax revenue stream "which the city could not touch," as Rohatyn said, for use in payments due to MAC. To provide liquidity and a guarantee for the MAC agency, the banks demanded that city unions use their pension funds to buy MAC bonds. New York State and the U.S. federal government were asked to guarantee MAC bonds.

Since MAC's establishment, Financial Control Boards have exercised complete credit control over New York. Because merely cutting city expenditures could not free up sufficient funds to pay off the city debt to MAC, a certain amount of new credit was borrowed for the city by MAC for debt roll-overs and for a limited amount of city operating expenses (which is why the MAC debt still exists eight years later). However, the entire process guaranteed that the creditors would maintain control over New York's economy, accelerated industrial shrinkage in the city, and reduced the overall flow of credit sharply.

A 'worldwide MAC'

In a Nov. 4, 1982 article in the *New York Review of Books* and a Feb. 28, 1983 feature in *Business Week,* Rohatyn proposed a new institution modeled on Lever's international bank, a "worldwide MAC," which would turn short-term debt into long-term bonds at extremely low interest rates. The private banks would hold the safer MAC long-term bonds, and the worldwide MAC would collect from developing sector debtors.

Accountants point out that a 30-year bond at 6 percent is, under normal accounting practices, worth as little as 50 percent of the face value of a three-year loan at 13 percent; thus, the banks would have to take an unspecified large loss. However, Rohatyn is also proposing that governments bail out the

'Sovereign nations complicate solution'

From the proposal by Felix Rohatyn in the Feb. 28, 1983 issue of Business Week *for a "global Big MAC" policy:*

"The [international debt] problem, while much greater in magnitude and infinitely more complicated, is not unlike that faced by New York City in 1975. Then the solution included forming an independent state agency, the Municipal Assistance Corporation (MAC), that could convert the city's short-term debt into long-term debt. This was possible because the state allocated a tax revenue stream which the city could not touch and which assured that the debt service would be paid."

"Debt-heavy countries need the same conversion of short-term to long-term debt. The fact that they are sovereign nations complicates the solution. Still, some international agency, such as the IMF (which is essentially a worldwide MAC) or a new organization, could help those debtor countries establish a revenue stream tied to sales of their commodities or other kinds of income in a way that would service their long-term bonds in an orderly and credible manner."

The present IMF conditionalities are "self defeating," because, "unless a strong—and unlikely—worldwide recovery occurs soon, the potential for social and political radicalization will increase together with *the risk of debt repudiation* by one or more countries [emphasis added]."

The political difficulties of a worldwide MAC "are immense. . . . There would be a cry of bailing out the banks. . . . and there would be opposition to easing credit abroad while American industry is in difficulties."

banks. For liquidity, OECD governments would have to contribute capital to the global MAC to help buy out the debt. In practice, much of the 50 percent loss on the new MAC bonds—$150 billion—would have to be borne by the taxpayers of the industrial nations.

This plan would protect the North from being "hostage" to a debtors cartel, Rohatyn has said. Once the debt were stabilized under the MAC agency, and gotten off the books of the private banks, the LDCs could not use debt as a weapon to force the North to grant new development credits.

The IMF would keep the role of imposing conditionalities upon the borrowers, playing the enforcement role that the EFCB did in New York, and maintaining a cosmetic separation between the MAC agency and the IMF proper. The IMF would institute credit controls for debtors, maintaining "oversight" on all new borrowings. There would be a limited amount of new credit, but never enough for industrialization.

The global MAC would also, as in New York City, sequester revenue from Third World nations' incomes; it would "establish a revenue stream," Rohatyn explains, of LDC export revenues, to "service their long-term bonds in an orderly and credible manner." Lawyers have suggested that multinational banks who finance Third World countries' exports might sequester the countries' earnings before the cash ever reaches home.

Regarding national currencies, Rohatyn has also proposed a version of the Zijlstra plan, calling for European currencies, the dollar, and the yen to be fixed within "ranges" by central banks. The central banks would be given supranational "surveillance" control over members' economic policy, for example, to coordinate nations' monetary policies. (It is worth noting here that Rohatyn's wife is the daughter of Clarence Streit, who in 1939 proposed "Union Now," a policy of returning the United States to the British Empire. By 1941, Streit was active in the International Fabian League.)

Rohatyn's scheme would, in short, return the world to the colonial era when creditors collected debts by seizing their victims' customs stations and impounding the revenues.

Big MAC plans on the left and the right

More than a dozen plans similar to Rohatyn's have been floated, many presented as liberal, pro-Third World schemes. They include:

• **The British Commonwealth Study Group.** Speaking in the name of the Third World, at the Aug. 30-31, 1982 London meeting of Commonwealth finance ministers, Shridath Ramphal, Commonwealth Secretary General, and New Zealand Finance Minister Robert Muldoon called for a "new Bretton Woods global monetary conference."

The Commonwealth, whose Study Group on International Monetary Affairs is headed by Lloyd's Bank Chairman Sir Jeremy Morse, basically supports the Rohatyn plan. They propose to set up a "new institution," separate but "sister" to the IMF, London sources told *EIR*. It would conduct a "global reorganization of debt," sources said, with an "exchange" of short term debts for long term paper of the new body. The liquidity to buy out the debt would have to be paid in by OECD governments.

The Commonwealth is also debating the form of a new currency system. They believe "all currencies are overvalued and that they therefore must be devalued in a coordinated way," sources said. Some say this could be done within the dollar system; others are considering dumping the dollar and using the IMF's Special Drawing Right as a key reserve.

The Commonwealth proposes that the Soviets be included in the new system, regardless of U.S. desires, the source said. Since all currencies will be pegged to gold, the Soviets would contribute gold reserves to the new institution.

Commonwealth Secretary Ramphal insists that large debtor countries be allowed heavy representation in the new system; "they must be given the illusion that they are getting a piece of the pie, otherwise they might get suspicious," one source said.

• The avowedly Third Worldist **UN Conference on Trade and Development (UNCTAD)** on Jan. 26, 1983 published its "Policy Paper 11 on International Financial and Monetary Issues" for the June 1983 UNCTAD VI conference in Belgrade. This conference, to be attended by both North and South, will be the scene of a major effort by the British Commonwealth in particular.

In order to keep the LDCs locked into negotiations, rather than in establishing a debtors' cartel, the paper calls for a Rohatyn-type stretch-out now, not on bank debt, but on the much smaller official debt owed by LDCs to OECD governments. It suggests "postponement" or moratoria on official loans and/or a stretch-out to "consolidate" official debt so that the annual payment due is a "fixed proportion" of debtors' export earnings.

In the "long term," UNCTAD calls for "the creation of an International Central Bank with powers of credit creation," and "arrangements" to exchange "short- and long-term finance."

Former World Bank official and now Pakistani Minister of Planning **Mahbub ul-Haq** proposed at the New Delhi Non-Aligned nations' summit March 9 that the IMF establish a "special rescheduling facility," a sister fund within the IMF as proposed by Rohatyn. The IMF special facility would both conduct an exchange of short term official debt and "coordinate" private bank debt, ul-Haq told the press. The banks would gain "greater IMF surveillance over the Third World," he said.