EIR Economics

London summit an affront to debtors—and to U.S.

by Kathy Burdman

Led by British Prime Minister Margaret Thatcher, the final communiqué of the June 7-9 London Economic Summit rebuffed an urgent message by seven Ibero-American heads of state asking for a comprehensive solution to the world debt crisis, and denounced President Reagan's defense budget as the root of the debt problem. The London Declaration thus in effect washed its hands of the Third World's bankruptcy, advising the debtors to turn against the United States.

Seven Ibero-American heads of state in an urgent message June 7 delivered to British Prime Minister Margaret Thatcher for the industrial leaders stated "the urgent necessity to adopt concerted actions in matters of indebtedness . . . [to] lighten the burden of the foreign indebtedness."

But the London Declaration—in the midst of a world banking crisis touched off by the collapse of Chicago's Continental Illinois Bank May 11—insisted there is no debt problem. Under the influence of International Monetary Fund Director Jacques de Larosière and Federal Reserve Chairman Paul Volcker, the seven industrial leaders in their June 9 Declaration instead hailed the "key role" of the IMF, which imposes "painful and courageous efforts" by debtors to pay their debts.

The London Declaration, representing the meeting among heads of government and finance ministers for the United States, United Kingdom, France, West Germany, Canada, Italy and Japan, instead issued a four-point debt program which would re-assert IMF control:

First, the London Declaration totally refused to cooperate with any debtors' bloc. Instead it insisted that the debtors continue with the IMF strategy of dealing with debtors "flexibly, case by case. . . . A climate of world recovery and growing world trade," the communiqué lied, "should enable the international financial system to manage the problems" without reducing the debt burden.

Second, debtor countries must open their economies up to looting in the form of "greater private investment flows," endorsing a plan presented by British Prime Minister Margaret Thatcher. In order to pay debts, banks should be allowed to exchange debt for equity ownership in state and private industry, Thatcher said.

Third, the summit endorsed attempts by de Larosière and Volcker to pick apart the debtors' bloc, by bribing countries which have so far adhered to the IMF, such as Mexico, with the most flimsy of debt reduction in the form of extending payments on principle. The Declaration signers will "in cases where debtor countries are themselves making successful efforts to improve their situation, encourage more extended multi-year rescheduling of commercial debts and stand ready to negotiate similarly in respect of direct debts to governments."

Fourth, the Declaration called for more medium- and long-term loans to debtors by the World Bank, which lends paltry sums. It also set up a committee to study "new debt management techniques" at some time in the distant future.

Seize the assets

In a speech welcoming the leaders to the summit, Prime Minister Thatcher issued the greatest affront to the debtors, when she presented a scheme for "equity investment," code words for stealing the assets of debtor nations. The seven-nation communiqué endorsed her plan.

Thatcher first made clear that she, too rejected the debtors' call for new policies. "It is essential that the debtor countries themselves take measures of adjustment as promptly as possible," she said. "There are no easy or painless solutions."

However, she said, "We can set out ways in which commercial banks can help and in which debtors can ease their own problems. . . . In many debtor countries, there are substantial natural and industrial resources. Many potential foreign investors would be *interested in taking an equity stake* [emphasis."

The London Declaration stated that the signators seek "encouraging the flow of long-term direct investments" and "encouraging the substitution of more stable long-term finance, both direct and portfolio, for short-term bank lending."

Thatcher went on to call for an international treaty to be writtten to *guarantee* such foreign bankers' and others' equity investments in Third World nations—presumably by not only expropriation, but by forcing industrial nations' taxpayers to provide an insurance fund to bail out the banks when investments go bad. "It would be particularly helpful if there were international agreement on the investment protection," she said. "Such investment if allowed could help ease the burdens of debt."

Thatcher said direct equity investment is "healthier than bank finance."

Her speech was endorsed by U.S presidential advisor James Baker III, who called it the only proper form of joint action on debt. "We're not opposed to joint action, *in the form* of some form of investment agreement, as Mrs. Thatcher has suggested," he told ABC TV on June 8.

Throwing down the gauntlet

With major U.S. banks about to go under in the wake of the Continental Illinois and Manufacturers Hanover crises, and the debtors just having formed a $340 billion cartel to demand restructuring of the world's debt, the fools at the Summit gambled they can face down the debtors without a major international crash.

As one U.S. official pointed out, the only economics offered by the participants was "'Snimog:' sustained, non-inflationary market oriented growth," a fancy term for the Reagan administration's non-existent recovery.

The London Summit in effect issued a frontal challenge to the debtors' cartel now in formation, which the IMF crowd appears ready to push to the wall. The London Declaration in effect tells Ibero-American nations, "either you are willing to overtly threaten mass default, or you will have to play by our rules and knuckle under to the IMF system."

One Washington source shook his head at the stupidity in the nation's capital and said the strategy is to "patch things through . . . until the election. . . . I don't know how much they'll pay," he said of the debtors, but the official calculation in the administration is that "it will not get to a point this year that they will say, 'we pay no more.'"

Asked how bad the crisis would have to be for the United States and others to take the debtors' cartel seriously, he said, "I think it will take them sitting down and saying, "Okay, you are now dealing with ODEC, just like OPEC," i.e, an Organization of Debt Exporting Countries which has taken unilateral action as did OPEC.

The only calls for a global approach at the London Summit came from the French and Italian governments, who did so from the standpoint not of aiding the debtors, but of attempting to egg them on in anger against the United States. France and Italy urged adopting "overall criteria" for dealing with the $800 billion Third World debt, but were overruled by the other countries in favor of the case-by-case approach. French President Mitterrand called for a "global approach," French spokesmen said. But Mitterrand and Italian representatives were also most verbal in their denunciations of the United States as the problem.

Meanwhile observers were shocked when in the midst of the summit, Swiss National Bank President Fritz Leutwiler announced that he was resigning as head of that institution and, consequently, as head of the Bank for International Settlements. The London *Financial Times* of June 9 speculated that Leutwiler may disagree with Volcker's contention that the debt crisis can be "patched over." Leutwiler "annoyed Mr. Paul Volcker," the paper commented, "with a speech in Washington last autumn in which he said that some developing country debt was irrecoverable."

IMF at the helm

The entire London Summit appears to have been orchestrated by lunatic IMF Managing Director Jacques de Larosière, who believes he can face down the debtors. The tone of the Summit was set by de Larosière in a secret memo issued June 1 to IMF member governments, denoucing the debtors' bloc: "There are no realistic options that can replace the ongoing strategy, which consists in confronting the debt problems case by case through coordinated and sensible financial accords based in the adjustment programs of the Fund."

Leaked to the press by an outraged Mexican Finance

Ministry, the secret memo caused an uproar. The Mexican daily *Uno Mas Uno* on June 2 denounced the de Larosière memo, noting that "his unpalatable insistence that each country make separate financial arrangements coordinated by the IMF is basically a flat refusal to allow each nation to have its own development."

Under the headline "IMF Won't Negotiate With Debtors Bloc," *O Globo* of Brazil reported from Mexico City June 2 that de Larosière's secret memo had rejected the overtures of the seven Ibero-American nations, to call only for "rigid adjustment programs."

In a June 4 speech at the Philadelphia International Monetary Conference sponsored annually by the American Bankers Association, the IMF's de Larosière reaffirmed the hard line against any negotiations with a debtors' group. "There are no magical solutions," he stated. "the most productive strategy . . . lies in the present country-by-country approach of the Fund . . . directed toward putting together realistic financial packages linked to adjustment programs that are forceful. . . ."

In a press conference at the Philadelphia Conference June 7, U.S. Federal Reserve Chairman Paul Volcker also affirmed that he would have no truck with a debtors' bloc. Volcker dismissed any "sweeping across-the-board solution" to debt problems, and called upon banks to "examine debtor nations on a case by case basis."

It was also at the Philadelphia Conference that de Larosière, Volcker, and major U.S. bankers held a private meeting and patched together the plan to try to split Mexico from the rest of the debotors' cartel, which was included in the London Declaration. Following that meeting, Citibank Senior Vice President William Rhodes, head of the Mexico bank consortium, announced that the banks had decided to "reward Mexico because of the country's excellent performance under its IMF program" and to "show that the sacrifice" Mexico made under IMF austerity had "paid off."

Mexico was thrown a bone. The IMF and banks offered to stretch out $40 billion worth of Mexico's principal payments, all due between 1985 and 1988, over ten years, a five year "grace period" of no payments so that most of the money would come due within the last five years. Rhodes said Mexico's interest rates "might be lowered," but there was no concrete commitment to do so or to cap rates in any way.

'Beating up on the President'

Meanwhile, the attack on President Reagan in the international financial press and at the summit was so vicious that White House chief of staff James Baker III was forced to protest to reporters on June 8, "There's really been very little beating up on the President, if you will, with respect to U.S. interest rates."

To the contrary, the London Declaration denounces U.S. deficits as the central problem. While it "welcomed the important down payment measures of the United States government" to cut the budget, "continuously high interest rates could both exacerbate the problems of the debtor countries and make it more difficult to sustain" the world banking system. "This underlines the importance of policies conducive to lower interest rates and which take account of the impact of policies upon other countries.

"We have therefore agreed to strengthen policies to reduce inflation and interest rates, to control monetary growth, and where necessary reduce budgetary deficits."

A Reagan statement inviting all participant nations to collaborate with the U.S. in building a permanent manned space station in the 1990s "as a symbol of mutual commitment into the 21st century" did little to mitigate the anti-U.S. attacks.

Prime Minister Margaret Thatcher pretended to back Reagan at the summit, declaring "the recovery of the world economy has made welcome progress."

But in several pre-summit speeches and interviews, British officials made it clear that being tough on the United States and the debtors was an idea made in London. Solving the debt crisis "is certainly not going to be easy so long as the U.S. federal deficit is at the present magnitude," British Treasury Chancellor Nigel Lawson told the London *Financial Times* June 5. "The Prime Minister made this very clear to President Reagan: we want them to take resolute action to cut their budget deficit substantially. Can the U.S. deficit continue to be financed by sucking in finance from overseas at intolerable interest rates?"

In a pre-summit meeting June 7, French President Francois Mitterrand and West German Chancellor Helmut Kohl also denounced "the regrettable effects of high interest rates on the Third World, and declared that this should remain a central point of discusssions with the Americans at the Summit," a West German spokesman said.

Mitterrand reportedly argued at the summit that there is a chain from Washington to the undeveloped nations, in which high U.S. spending results in high interest rates and that increases the debt burdens of the Third World.

Canadian Prime Minister Pierre Trudeau and Canadian Finance Minister Marc LaLonde harshly attacked the U.S. budget. "The U.S. attitude seems to be 'All right Jack, if you have a problem, fix it yourself,'" LaLonde complained to reporters on June 8.

Treasury Secretary Donald Regan was said to have lashed out in frustration, "Please show me your evidence!"

"After three years, the United States still refuses to even acknowledge the link between a large budget deficit and high interest rates. I don't know who could possibly accept that reasoning," French Finance Minister Jacque Delors said of Regan's argument. "The United States is the dominant economy and we conclude that its economic policy creates more problems than advantages to the world."