IMF Annual Meeting:

Prospects For Bailout Dim

Although competition for the prize is fierce, it is probable that this week's annual meeting of the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) in Washington, D.C. will be the most frustrating and fruitless since the founding of these institutions in 1944.

For the first time since the 1971 dollar blowout, it has been semi-officially admitted that the position of the commercial banks with heavy exposure in LDC's is hopeless without some form of general restructuring of the world debt situation. The most dramatic example is the just-issued staff report of the Foreign Economic Policy subcommittee of the Senate International Relations Committee, and remarks on the subject by Sens. Frank Church and Jacob Javits at a meeting of the subcommittee last week.

Church and Javits, who reflect the views of Vice President Walter Mondale and of several New York City investment banks, as well as the probable views of Chase Manhattan Bank President David Rockefeller, announced their program at that meeting. They want forced recycling of the $40 billion-plus OPEC surplus into the IMF and World Bank, and the forced restructuring of debtor-economies along labor-intensive, do-for-self lines — what one senior World Bank official called "rural development *über Alles*."

However, events in the U.S. Congress and in Western Europe over the past week show that there is very little chance of either group agreeing to further strengthening of the IMF and World Bank, and even less chance of the "rural development *über Alles* program taking effect." *(See articles accompanying and in* Economics *section.)*

The West German financial daily *Handelsblatt* of Sept. 23 accurately summed up the situation today, reporting that Congress would make trouble for the $9.6 billion special facility of the International Monetary Fund, as indeed it already has for the World Bank, by adding "human rights" restrictions to appropriations of funds for the World Bank sister organization, the International Development Agency. *Handelsblatt* also interviewed the West German Finance Minister Hans Apel, who predicted trouble for the Witteveen fund in Congress. However, Apel said, even presuming that Congress makes the funds available to the IMF, there will still be major disagreements between "the United States on one side, and West Germany, Japan, and the oil producers on the other, over how much the IMF should give to debtor countries." Among other things, Apel said that there was no agreement over the IMF staff proposals to raise IMF member quotas (now at a total $32 billion) by 75 or 100 percent. Last week, the European finance ministers agreed on an "orientation figure" of a 50 percent rise, which will not be binding however.

From a country where criticism of the IMF — along with the evangelistic and Catholic churches — is never heard from public officials, Apel's statement is an extraordinarily forceful sign that West Germany is not playing the game. Also, Bundesbank Governor Dr. Otmar Emminger told the *Sueddeutsche Zeitung* on Sept. 20 that "one may well ask why it is necessary to increase IMF quotas at all." Emminger believes that the 50 percent compromise figure thrown out after the Monday European finance ministers meeting is "unnecessary" and "inflationary." Informed West German sources report that Emminger and Apel are coordinating policy.

These statements from West Germany form part of the public-record background to the announcement Sept. 21 that the IMF's Managing Director, Dr. Johannes Witteveen, would not seek a second term when the current term expires in August 1978. Although Witteveen has circulated both public and private versions of a cover story for the decision — a shock that hit just before the annual meeting — involving an illness in the family, informed circles in Washington close to Witteveen have another explanation. Simply, Witteveen does not believe that the Church-Javits strategy for forced recycling of petrodollars will work. Witteveen is fully briefed on the dirty-operations side of the petrodollar business, specifically on the attempt by U.S. Director of Central Intelligence Stansfield Turner and National Security Council Director Zbigniew Brzezinski to use Egypt as a wedge against OPEC *(see* Mideast*)*. He is under pressure from his European contacts to break with the Turner-Javits approach, and personally expects it to fail miserably. The IMF's managing director does not want to be around when the break comes. Equally important, virtually all informed financial circles are aware of this.

The City Of London Connection

On the international scene, the most important allies of Javits, Church, and Turner are a group of City of London merchant banks, who are making a play for dominance in the chaotic world monetary situation.

London's power grab centers on two points: control of investable Arab oil money, and demands for European and American "reflation" by Lazard Freres agents Denis Healey, the British Chancellor of the Exchequer, and Roy Jenkins, the Chairman of the European Commission. In the very short term they have succeeded in wrecking the plans of the French, West Germans, Italians and others for investment of the oil countries' surplus in productive industry.

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Carving the Pie

According to the internal calculations of one of the core-group of London banks, obtained confidentially by *EIR*, London thinks the $42 billion in Arab revenues is theirs for the carving. They break that stupendous sum down for 1977 as follows:

Less than $1 billion for real investment in the U.S.

Less than $1 billion for real investment outside the U.S.

Five billion dollars for direct Arab bailouts of Africa, Egypt, Pakistan, and India.

Five billion dollars for "private placements" of Saudi funds through London, for Greece, Spain, Portugal, Denmark and other countries.

Five billion dollars for purchases of Eurobonds.

Twenty billion dollars for U.S. Treasury securities and short-term dollar deposits.

Five billion dollars for purchases of British government debt.

In other words, less than $2 billion of the Arab oil surplus, the largest single fund for investment in the world, will find productive employment — and that figure includes a great deal of Arab speculation in London real estate. London merchant banks will manage $5 billion in high-commission private placements for bailouts of weaker industrial countries, perhaps 40 percent of the $5 billion in Eurobonds, and skim off $ billion in direct purchases of worthless British government paper — the latter of which accounts for half of the $11 billion rise in British foreign exchange reserves this year. The $20 billion deposited in dollars includes most of the funding for the huge wave of lending to refinance major Third World debtors such as Brazil, Mexico, and Argentina.

The New York-London axis typified by the Lazard merchant bank intends to enforce this distribution of Arab oil wealth by maintaining a perpetually unstable situation in the Mideast, using Egypt as the Anglo-American wedge against the oil-producing countries

IMF Bailout

In preparation for this week's annual meeting of the International Monetary Fund and World Bank in Washington, D.C., British Chancellor of the Exchequer Healey is trying to muscle the Europeans into a commitment for a massive expansion of the IMF's lending powers. At a meeting of the European finance ministers on Sept. 19, Healey demanded that Europe support a 75 percent, or $24 billion, expansion of the lending capacity (or quotas) of the IMF, the world's principal bailout agency and monetary policeman.

So far, neither the Europeans and Japanese nor the U.S. Congress have been happy about funding an IMF bailout — but have not had the guts to turn the bankrupt institution down cold. On Sept. 16, Congressional conservatives teamed up with breakaway Democrats to vote down a $5.4 billion appropriation of U.S. funds for the World Bank, the IMF's sister institution, using the "human rights" argument of "giving away taxpayers' money to foreign dictators" as a pretext. However, congressional sources say that the World Bank and the U.S. Treasury, momentarily taken aback by the adverse vote in Congress, will let Congress put all the "human rights" conditions it wants on the bill — and take the $5.4 billion anyway. Under heavy U.S. pressure, the West Germans and Japanese agreed to lend the World Bank $1.2 billion to meet current needs until the U.S. contribution comes through.

Reflation

At the International Monetary Fund meeting this week, British Chancellor Healey will also demand that the seven leading industrial countries — the U.S., Japan, West Germany, France, Britain, Italy and Canada — commit themselves to money-printing policies, on the pretext of setting a "target" for economic growth of five percent. Within the European Community, Commission Chairman Roy Jenkins is pushing the same demand. At a meeting of the 13 commissioners of the European Economic Community, the chiefs of the European bureaucracy, Jenkins proposed coordinated "reflation" of the European economies, along the lines of a Jenkins-inspired economic report the EEC published last week.

However, senior banking and international organization officials cheerfully admit that none of these plans has anything to do with economic growth in the industrial countries. Instead, the printing presses of the industrial countries are to be put at the disposal of the uncirculatable mass of international debt. Even the economists of Lazard Freres and the Brookings Institution have given up on the idea that combined West German and Japanese reflation would get the world economy out of the recession, abandoning the central precept of the Carter Administration's and International Monetary Fund's world economic program of the past year. Not only have the West Germans and Japanese refused to undertake more than a token reflation program but those two countries are already spending 30 percent more money than their governments take in through taxes — budget deficits twice as bad as the U.S. level. Their credit systems are no longer viable enough to sustain massive reflation.

Senior officials of Lazard Freres accurately predicted to *EIR* an effort to "compensate" for the collapse of the West Germany-Japan reflation scenario by organizing reflation in the United States, Britain, and Italy. However ridiculous that sounds, British Prime Minister James Callaghan visited Rome Sept. 22 and announced that he and Italian Premier Giulio Andreotti had agreed that the "wealthy countries" should reflate in order to stimulate employment levels elsewhere. Meanwhile former Bank of Italy Governor Guido Carli, now president of Italy's business association Confindustria, announced that the Italian economy required reflationary measures after July's industrial production index drop of 7.7 percent. Carli called on the government to renegotiate the agreement with the International Monetary Fund to restrict credit expansion to 1976 levels. Meanwhile, according to the London *Sunday Times*, the British Treasury is ready to unveil a billion-pound reflation package on Healey's return from Washington.

Britain has dreams of financial glory, including widely circulated reports that the City of London intends to expand the booming London money market to include sterling-denominated Eurobonds — a brilliant idea that would have been ranked with flying pink elephants a few months back. However, the West German banks which still have the biggest share of Eurobond market placing-

power say they are prepared to shoot down the first sterling Eurobonds that come over the English Channel.

The extent to which the London operation is viewed by its operators as a grand swindle becomes clear, once the "reflation" approach is understood as a financial market, not a real production output, consideration. One senior World Bank official put it this way: "The Healey reflation package won't fly. It's a fraud. The real problem is not that we don't have full employment, not even that we don't know how to get full employment. The problem is that we haven't yet learned to live without full employment, and that's what we are going to have to do."

On The Agenda For Third World: Rural Development, No Debt Relief

In a prominently featured op-ed in the Sept. 17 *Washington Post*, Foreign Service officer and Agency for International Development (AID) official Roger Darling announced the Rockefeller-Lazard Freres policy for the developing sector: genocide.

"There is actually no basis for 'debt relief' in the Third World, Darling asserted in an attack on the International Monetary Fund's "Witteveen Facility," designed, Darling enlightens us, "to forestall the inevitable collapse of the Third World debt pyramid." Poor nations "are already living far beyond indigenous capacities and are being maintained at an artificial development level by external aid flows."

Citing New York City's Big-MAC austerity regime, designed and implemented by Lazard's Felix Rohatyn as the appropriate model, Darling demanded that Third World countries not only "sacrifice" to pay off current debts, but that they henceforth be "allowed" to develop "only commensurate with their indigenous abilities."

Darling's State Department-AID manifesto is spelled out for implementation in the 1977 Annual Report on the World Bank, the International Monetary Fund's "development" arm. The report celebrates the Bank's "reorientation" to exclusive support of small-scale, labor intensive subsistence and cash-crop farming together with labor-intensive and raw materials-intensive "small-scale enterprises" in the Third World, and officially promises more of the same for the years ahead. "Rural development" is the operative public relations buzz-word for this policy.

In interviews this week, "Rural Development Uber Alles" World Bank officials expounded on the prospects for their looting scheme. "Rural development uber alles," World Bank Program and Budget Director John Adler exclaimed to NSIPS, confiding his calculation that the ongoing collapse of the IMF's credibility will leave the equally bankrupt World Bank awash in funds and political leverage. "Bankers have nineteenth-century minds," Adler said, "They want to invest in an asset that you can put a mortgage on. Rural development is an intangible. So, if these people in Washington say you can't keep up the lending because it endangers the banks, then the money's got to go through the World Bank, which is all the more for us!"

Banking on this scenario, World Bank President Robert McNamara will demand a $30-40 billion capital increase for the floundering institution at next week's IMF annual meeting in Washington. To sell this gambit to corner the market in genocidal international loan-sharking, McNamara's Annual Report is replete with euphoria over the stupendous "improvements" in Third World debt situation, and additional baseless hype concerning the international lending bubble.

In fact, World Bank lending during 1976 dropped in real terms, a drop attributed elsewhere in the Report to the exhaustion of funds. The Bank's International development Agency (IDA) ran out of cash in June. On Friday of last week the U.S. contribution to the World Bank-IDA was defeated for the empteenth time in the House, and the IDA is reportedly scrounging around for "bridge financing" in West Germany and Japan. Both countries are known to be less than enamored of the Bank's anti-industrial turn, however, and European press sources report that West German-led forces are running fire against McNamara from within the World Bank itself.

Washington sources indicate that to finally get the U.S. contribution through, the Treasury will bow to the "human rights" veto — which McNamara has previously said would make U.S. money unacceptable to the Bank. The State Department, says Treasury, will have to draw up "human rights" guidelines on a country-by-country basis, and concludes that it is questionable whether the Bank will be able to lend the money to anybody. Prospects for McNamara's multi-billion dollar capital increase are nil in the view of the Treasury spokesmen.

It is perhaps in light of such difficulties, that certain Lower Manhattan investment banks closely allied with the World Bank-IMF are now proposing to "reorient" the IMF itself to short-term lending for "semi-capital intensive" agricultural projects, "redirecting" revenues away from high-energy, capital intensive efforts.

A "Bankrupt Mythology"

What the World Bank will do with any funds it does manage to get hold of is detailed in the Annual Report, which publically concurs with Roger Darling's conclusion that Third World Development is a "bankrupt mythology."

"Notably," states the Bank, "the Bank has found that the benefits of growth cannot be assumed to 'trickle down' automatically" — the summary rationale of the