Vance and UN Ambassador Young's promotion of American participation in detente and global development.

Blumenthal wasn't just talking about using the IMF to control profligate borrowing by the poor nations, the aide emphasized. "It's a Japan, Germany, Switzerland problem," he said. The entire advanced sector must implement under IMF direction the reflation program demanded by Blumenthal and British Chancellor of the Exchequer Healey at the last years' worth of Organization of Economic Cooperation and Development (OECD) summits: "stimulate" domestic economies as the British have always done, by printing money and putting it into Keynesian public make-work jobs, with the object of pumping up a financial bubble in stock and financial markets—and of cutting back industrial exports in favor of the domestic crap game.

What The British Really Want

If West Germany and Japan won't go for the IMF world government, the aide continued—then Blumenthal will unashamedly "talk down the dollar" again and plunge the world into financial chaos, letting President Carter take the blame. London's openly promoted plan to have its own Kennedy family's Ted Kennedy replace Carter is to be furthered by Blumenthal's guerrilla warfare from within against the U.S. dollar.

Now, the New York banking sheep are told nothing of this sort — nothing either, of the rest of the actual British plan for the United States. The New York bankers are frightened by the Third World debt mushroom, frightened by the dollar collapse, frightened by the downslide of the U.S. economy into recession, and frightened above all by the total lack of competent economic policy in the Administration. Having herded these trembling financiers into the apparent safety of the IMF, where they are told the world economy will be gotten strictly under control by the best "fiscal conservative" monetary experts, the British have just begun. For in supporting the IMF, the New York banks are simultaneously supporting the total policy dictatorship of London's G. W. Miller, who has already implemented the IMF's policies inside the U.S. government.

As soon as U.S. should-be financial leaders have made this kind of political commitment to Miller and the IMF, to what they think is stability at last, Britain's Healey and Miller intend to jack U.S. interest rates to the point that the entire overblown financial system is sharply contracted, causing a run on the dollar and the U.S. markets. The City of London in short has scheduled a repeat performance of October 1929, when the New York Federal Reserve under the direction of Bank of England Governor Montague Norman wilfully burst the New York stock market bubble (See *Executive Intelligence Review*, Vol. 5, No. 18, May 9-15).

The British bankers at Mexico City set the trap carefully. Sir Anthony Tuke of Barclays, the President of the Conference, spoke at great length of the "moral" need of international commercial banks to "overextend" themselves into the already illiquid Third World and domestic financial bubbles such as the New York City debt spiral, where Tuke's colleague Felix Rohatyn of London's Lazard Freres this week forced the same New York banks to put another $2 billion of worthless New York paper on their books or face immediate default and banking panic.

The situation is bad, said Tuke in effect, but we can stave off crisis by simple extension of present speculative policies. Tuke didn't mention the effect that Miller's planned 1929-style interest rate squeeze will have on banks who follow his advice. Sir Jeremy Morse of Lloyds similarly questioned Blumenthal carefully as to whether the IMF "could really do the job of stabilization"... didn't the IMF need ever stronger powers?

The "sophisticated" New Yorkers ate it up. Gabriel Hauge, Chairman of Manufacturers Hannover, insisted with Morse that the IMF needs stronger rules and regulatory powers. Robert Abboud of First Chicago Bank praised Miller to the skies. Walter Wriston, Chairman of Citicorp, scorned a debt moratorium for Peru, and told reporters the country must give itself up to the whims of the IMF and the "markets." (For an exclusive interview, see below.) David Rockefeller took the prize, with a 10-minute eulogy of the man who is trying to destroy him, Henry Kissinger.

—*Katherine Burdman*

Blumenthal, Kissinger, And The Sheep

Exclusive reports from our Mexico City bureau

'Get Germany and Talk Down the Dollar'

A May 25 interview with Thomas Forboard, aide to Julius L. Katz, Assistant Secretary of State for Economic and Business Affairs, sheds some light on Blumenthal's speech to the private International Monetary Conference in Mexico City on the previous day.

Q: Does Blumenthal's International Monetary Conference speech signal a major emphasis on the IMF in U.S. international economic objectives?

A: Yes, but this isn't new. Blumenthal said the same thing at the (April 14) IMF Interim committee meeting. We are definitely after greater exchange rate and economic policy surveillance of IMF members.

Q: Is this going through because bankers are nervous about Peru, and so on?

A: Peru is the least of it, it's a Japan, Germany, Switzerland problem. We want greater surveillance of the economic policies of Japan, Germany and Switzerland. We have to get the IMF right in there, especially in Germany, to see they are playing their part in world stability.

Q: But surely Germany in particular is already

implementing standard conservative monetary policy, low inflation, etc.?
A: No, no, you misunderstand the role of the IMF. They are to surveille everything especially things like Germany's large and disruptive trade surplus. The IMF would tell Germany how to contribute to monetary stability by stimulating their domestic economy and thus reducing their surplus.

Q: How would this work? Blumenthal referred to "consultation of high government officials with the IMF on domestic policy formulation." Did he mean say Emminger (Head of the Bundesbank) or Lambsdorf (Economic Minister)? What would be the mechanism?
A: No, he meant *Helmut Schmidt.* We're going right to the top, we're not going to let them off the hook on this one.

Q: What will happen at the Bonn Heads of State Economic Summit? The Germans have said a thousand times they reject reflation. Even Lambsdorff, who is closest to Blumenthal's thinking in Germany, was forced to repeat again yesterday "no reflation."
A: There will be a major fight at the summit. We will threaten not to intervene, we will try to trade off our agreement thus far to intervene for their agreement to reflate, cut surpluses, and so on.

Q: But that won't work and there will be an obvious diplomatic failure ?
A: Yes.

Q: And if they still don't reflate? What have we got to bargain with, the dollar's doing fine, isn't it? They'll never reflate.
A: There's always hope. How about another blow-out for the dollar in the markets? *We'll talk down the dollar.*

Q: What, again? Blumenthal will lose his job.
A: You're wrong. Blumenthal said in his speech something very like "avoid exchange rate manipulations, otherwise the markets will have to implement the adjustment," didn't he? Don't you think that's a good enough threat? Isn't that an effective speech?

Q: But he'll lose his job for that.
A: Why should he? It's the Administration's policy, not his policy.

Q: Surely it will be Blumenthal who will be putting this to the President, advising him to take this approach, you don't expect Bob Strauss to help him, do you?
A: True.

Q: Haven't you noticed what Blumenthal's last talking bout did to inflation? Don't your think Carter wants a second term?
A: That's not altogether clear, is it? Carter hasn't announced, has he? Look, Blumenthal has made this speech at two major international conferences in the past two months and this is U.S. policy.

Barclays Bank Chairman Encourages American Banks: Swallow More Bad Debt

The following are excerpts from the speech to the private International Monetary Conference by Anthony F. Tuke, Chairman of Barclays Bank Limited and president of the Conference:

The Less Developed Countries, those who have massive mineral and energy resources, cannot afford to increase greatly their demand for the products of the Developed Countries. The servicing of their existing debts has also effectively restricted their capacity to grow, and the low level of activity in the developed countries themselves is affecting demand for their products. . . .

What, therefore, are the effects of such a scenario? There will be calls for more government intervention and disenchantment with governments who cannot solve this problem. (Unemployment and capital investment) This could make for divisive societies and for political instability as we are now seeing in Italy and elsewhere. There will be calls for banks to support new investment per se whether or not it is financially viable. There will be calls to finance job creation projects, whether or not they are effective in the long run. We have already seen this in our country, and we find these calls hard to deny. We may find that a larger proportion of our banking resources will in fact have to be put at higher risk if we are not to be faced with the challenge that our capitalist system (and the commercial banks in particular) are failing the peoples of the world by applying purely short term financial criteria which are seen as inadequate to solve the long-term problems. . . .

I would certainly not suggest that commercial bankers should support large non-viable projects in the name of job creation and investment, but if the capitalist system and we as international bankers are to be seen to be meeting these challenges, we may have to take some positive action. We should consult and perhaps advise.

We may have to take rather a different view than hitherto of the length of the term for which we are prepared to lend, and the extent to which we are prepared to take the place of private equity investors in countries where capital markets are defficient. We may need to increase the amount of our management resources trained to work with management of companies in a closer way than would have been traditionally seen to be wise as between a lender and borrower.

Rockefeller: A Rose Is A Rose. . .

David Rockefeller gave the introductory speech on the first day of the Mexico City conference, May 22. Here, excerpts:

Let me touch on a few economic problems by way of setting the stage for today's commentaries. One of these is the slowing down of growth in much of the industrialized world.

This has serious repercussions in the developing world so dependent on exports—Zambia, Zaire, Peru, Brazil.

More rapid growth would go a long way to cure these problems. But, we must ask ourselves, is this a chronic or a temporary problem in our society?

One other major blight on our economies these days is inflation. Most nations, in recent years, have found it dfficult to get inflation rates below 8-10 percent. Some have been much higher. A few have been lower. The very diversity of inflation rates has created further problems of price and exchange adjustments between nations.

More broadly, if inflation persists, what will be the implications for the social and political fabric of our society? Can we look for a significant reduction in the rate of inflation worldwide?

Closely related to growth and inflation is the problem of massive imbalances in national trade and payments accounts. Imbalances of the magnitude we see today are both a symptom and a cause of instability which in turn leads to increased risk.

A further consequence of currency instability—especially instability of the dollar— is the drift toward a multicurrency system. We are seeing today less reliance on the dollar and more on relatively strong currencies such as the D-mark and the Japanese Yen. Increasingly these currencies are being used in the financing of trade and even as reserve assets. What is the significance of this trend if it continues ?

These, then, are some of the economic problems and trends which are affecting the future of banking. They are inextricably intertwined with social and political forces. If as bankers we are to do a good job in planning for the future in our own business, we must have an insight into likely developments on the political scene.

Here is where we are looking for illumination to our very remarkable panelists both this morning and this afternoon.

Our first speaker this morning is perhaps one of the most remarkable men of our time. At a moment of exceptional international turmoil and tension, he led the foreign policy of the United States with a skill and strength which may well have been unrivaled by any other Secretary of State in our history. He is a man who has a profound knowledge of history and a sense of geopolitics which is all too rare. With it all he has a wonderful sense of humor.

I cannot think of anyone who could give us a better global perspective on the changing conditions which are likely to affect banking than our first speaker. It is my good fortune to introduce a statesman and a friend, Dr. Henry Kissinger.

The following remarks of Rockefeller's were reported in the Mexico City daily Diario de Mexico *May 24.*

"U.S. bankers reserve the right to approve credits to countries which sympathize with the bellicose policy of the Soviet Union, and will follow the United States' specifications on the subject," declared David Rockefeller, president of New York's Chase Manhattan Bank.

In this way, Rockefeller took the same position as Secretary of State Henry Kissinger, who said that the Soviet Union will use its military influence — and not peaceful coexistence — to win followers.

The President of Chase Manhattan Bank said in a press conference yesterday ... that if the USSR utilizes "surrogate aggression", the U.S. "doesn't have any reason to approve credits to help finance the economic life of countries sympathizing with (the Soviet Union's) bellicose policy."

Citicorp's Wriston on Peru and the IMF

Exclusive to the *Executive Intelligence Review*

This interview with Walter B. Wriston, Chairman of Citicorp, occurred on May 23 in Mexico City.

Q: Mr. Wriston, can you tell us if Citicorp is considering granting Peru a partial or total debt moratorium, or a partial or complete freeze in debt payments to allow that country to overcome its present economic difficulties?

A: No. We are not thinking of doing that, nor do we think that Peru will default like South Korea last year. Besides, the government (of Peru) has responded to the recommendations of the International Monetary Fund, and that is why I think there won't be a default, which has been talked about a lot for over five years and hasn't happened.

Q: Do you think or believe that the current President, General Morales Bermudez, will remain in power?

A: That I don't know. But I can tell you that any government must take responsibility for its commitments. It will have to go to the (international credit) markets. I know that the (Peruvian) government will be pressured by various groups, but I think Peru will overcome its economic problems. No country is an island unto itself and it has to go to the money markets and take responsibility for it.

It is a method we've used for almost 50 years, and it works. We've had some problems with some countries such as Zaire, Korea, Peru, Turkey, but those are only four or five incidents in 50 years. I think it's a good record, no?

Blumenthal: 'IMF Surveillance Is The Cornerstone'

The following is drawn from W. Michael Blumenthal's speech to the private International Monetary Conference in Mexico City on May 24. These excerpts are taken from the Spanish-language copy of the text distributed at the conference.

This year's meeting takes place in a moment in which we enter a new phase of international monetary history. . . We inaugurate this new international monetary system which has been agreed upon in Jamaica. Our joint work for the next year will be that of putting into action this new system.

This new system represents . . . a movement towards the concept of giving directly to the nations of the world (instead of "market forces"—ed.) the responsibility to develop foreign exchange rate stability through firm and fundamental economic and financial policies.

The new system, now incorporated in the articles of the IMF, retains the basic philosophy of Bretton Woods.

The principle obligations charged to nations under the new articles of the IMF are of two classes; first, each country must exert itself to direct its policies toward orderly growth with reasonable price stability (fiscal conservativism—ed). Second, each nation must avoid manipulating its rate of exchange with the end of achieving an adjustment of unjust competitive advantage (no government intervention—ed.). . . . (and avoid) maintaining rates of exchange at artificial levels. But we must admit frankly that neither our new monetary system nor any other similar system could obligate sovereign nations against their will to adopt certain economic and financial policies at national level. Because of these differences all major countries have the responsibility to collaborate on internal discipline which is essential for significant stability in the international monetary system.

We must make the system function by means of surveillance.

To be able to give an operative context to the new system the IMF must develop and augment surveillance procedures in regard to nations' policies—as much in the wide revision of general economic and financial policies of members as in the (mere, usual—ed.) direct revision of their exchange rate policies. We consider surveillance by the IMF as the cornerstone of a new system . . . the vertebral column . . . which provides the means of evaluating responsible international conduct and permits that the influence of the international community will be made felt by those nations which have failed in complying with their obligations.

The U.S. is totally committed to the success of this procedure. For this end, we have formulated specific proposals which comprise three requisites: First, the IMF must possess complete information on the policies and accounts (i.e., monetary—ed.) of the member countries; second, as an institution the IMF must be organized in such manner as to be able to bring to fruition effectively its responsibilities of surveillance, with the participation of political officials of high level within their own governments. Third, the IMF must have techniques to let fall all the weight of moral suasion of the world community toward the compliance of each country with its international obligations . . .

I believe that in future the importance of SDR's will widen. They have an important potential in the long term for the system, and the U.S. worked during the 60s to help to establish this activity . . .

A second possible evolution which could occur in future and which today is receiving renewed attention is the development of a European monetary unit.

How Miller's Credit Policy Undercuts International Banking

Treasury Secretary Blumenthal appears to be having much success in his latest announcement of plans to put the world under an IMF dictatorship. The reason is that the American business community has swallowed the well-propagandized line that Federal Reserve Chairman G. William Miller's high interest rate policies, which are identical to those of the IMF, have stabilized the dollar and will thereby promote an investment boom in the U.S.

INTERNATIONAL FINANCE

In fact, not only is the "Miller bubble" rapidly destroying the U.S. economy and the dollar—but that is what it is *intended* to do.

The Miller bubble has now passed from stock market investment to straight acquisitions and direct financial operations, with the consequence that little or no international investment in development of the Third World is available and thus expansion of U.S. exports. Although the current rate of international lending is still high, and the "borrowers' market" for syndicated medium-term Eurocredits appears to prevail, bankers are sending out signals that they will not increase their exposure.

There are two features to this development that will damage the American economy. The consequences for trade and international stability of even a relative pullback in international lending are self-evidently catastrophic. But it is the capital reflow into the U.S. accompanying Miller's high interest rates that ironically sets up the dollar for another blowout. This kind of "support for the dollar," against a projected $30-40 billion annual trade deficit, through speculative reflows gives Blumenthal and his allies virtually hair-trigger capability to instigate a new dollar crisis.

The facts of the matter are these.

Manufacturers Hanover Bank projects that their overseas profits during 1978 will drop to half of the total from 56 percent last year. At the Mexico City International Monetary Conference May 22, Chase Manhattan Chairman David Rockefeller warned Mexico that it should reduce its rates of borrowing in favor of "moderate growth"—provoking an angry response from Mexican finance ministry official de la Madrid.

Citibank's Senior Advisor of International Operations, Dr. Irving S. Friedman, defended Mexico's international borrowing as "normal and natural," adding that Mexico has "used and managed" external credit effectively, and has "a record of servicing debt fully and promptly." But Friedman singled out for special praise advocates of the "low growth" approach, e.g., former Mexican finance minister and present InterAmerican Development Bank Chairman Ortiz Mena.

Some bank analysts are already predicting that the two years of easy international credit will give way to stringency within the next few weeks. Although spreads