workers in salaries or cost of living indicators, making his election promises illusory.

How the Vote Broke Down

The election was tipped in the Janata's favor in northern India. In Uttar Pradesh and Haryana and Bihar, the states where the highest number of sterilizations were conducted under threats of the rescinding of work licenses and delays in the awarding of peasant debt moratoria. In Uttar Pradesh and Bihar which account for more than one-fourth of the seats contested, the Congress returned zero votes, with the former state the scene of Mrs. Gandhi's defeat by a 55,000 vote margin to Raj Narain. Sanjay Gandhi also lost handily here, while former defense minister Bansi Lal was beaten in Haryana by an overwhelming two-and-a-half-to-one-margin. Both Sanjay and Lal were most closely associated with the sterilization program, and Gandhi herself was further hurt in the balloting by Sanjay's false assertions that "in 300 villages I have not seen a single forced sterilization."

In contrast, in the southern states of Andhra Pradesh, Kerala and Karnataka, and Tamil Nadu, the Congress won 89 out of the total 146 seats and its allies, the Communist Party of India (CPI) and other regional parties also fared well. This is because of two factors: the sterilization drive did not hit this region as severely and the southern states are more committed to the Congress as a secular, linguistically just party. Tamil Nadu in particular did not forget that it was Mrs. Gandhi who in 1966 solved the language riots. Desai on the other hand fanned those flames, proposing an even stronger push to have Hindi, the national language that originates in the North, imposed on the South indiscriminately.

Left Forces

It is ironic that the Communist Party of India-Marxist (CPM) captured 22 seats while the Communist Party of India (CPI), Gandhi's ally, fell from a 1971 total of 23 to 7. The CPM vote is basically a worker protest against government austerity measures, in particular the freezing of worker bonuses, but it also pointedly reflects the no-confidence quality of the vote. The party itself has never proposed any economic program to solve this problem. The CPI on the contrary, did push for a solution, organizing its campaigns around the Non-Aligned Colombo Accords calling for international debt moratoria and a new monetary system. However the CPI did support Gandhi during the 21 months of emergency while failing to decisively influence her to break with the 'sterilization' wing of her own party. Its returns reflect a backlash of the Congress defeat, in particular Mrs. Gandhi's own personal setback.

The Wild Card

A great deal of the realignment of Indian politics depends on what Jagjivan Ram, leader of the Congress for Democracy (CFD) will do. Early in February, Ram split off leftist and centrist tendencies in the Congress to form the CFD as a protest the CPI characterized as a principled rebellion against Sanjay Gandhi, Bansi Lal and other Congress leaders associated with the Birla financial group. Ram then opportunistically made an electoral arrangement with the Janata, revealing to the electorate the depth of the Congress Party schism.

Ram's landslide personal victory in the elections and the CFD victory in 28 out of 50 constituencies it contested aptly describes how powerful a factor he became in the Congress's loss. But Ram's personal prospects of becoming Prime Minister took a new turn with the Congress's lopsided defeat. His faction is not large enough to defeat Desai's bid for prime minister, and Ram's decision today to abstain from supporting the Janata for the time being reflects his own misgivings of the Janata's ability to rule. From his standpoint, a CFD-Janata link would put him into an alliance with his lifelong political enemy, Desai, and pit him against Chavan, the new Congress parliamentary leader who is known to be close to Ram. Further, should he at any time push his own base, the Untouchables of the Indian caste system, into an alliance with the Jan Sangh, whose policies are defined by caste supremacism, sure chaos and violence will ensue.

Opposition To IMF Bailout Surfaces In U.S., Europe

Sections of the U.S. Congress, regional bankers and conservative political groups are moving to block United States participation in expanded lending and financial control powers by the International Monetary Fund (IMF), an expansion proposed by the Chase Manhattan banking group and supported by the Treasury Department and the New York and Washington Federal Reserve Banks. Western European governments and businessmen are maneuvering to stall the issue; within each country, some are looking toward an alternative restructuring of the world monetary system, while others are consoling themselves with the implausible idea that new IMF loans could be turned into a slush fund to finance Third World imports of European goods. It appears that Saudi Arabia, sought as one of the principal contributors to new lending, will put up a few billion dollars if a political and financial package is achieved; they have rejected a role as unilateral safety-net providers.

The new fight in the U.S. Congress was called to President Carter's attention March 24 at his Washington press conference. Laura Chasen, a correspondent for this news service, asked the following question: "Yesterday, several Congressmen accused your economic policies of

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being dictated by New York banks. Now, your plans for bailing out New York banks through using the IMF with a hyperinflationary process indeed does sound like a recent speech that David Rockefeller made in which he called for hyperinflating the banking sector and imposing so-called command economies on the Third World, which means massive austerity. Over recent weeks, a number of our NATO allies have indicated that they would rather see the problems of Third World debt resolved through a debt moratorium (referring in particular to the Italian government —ed.) And I'm just wondering if there's any chance that you go along with our allies in that direction or if you would insist on this kind of hyperinflationary bailout."

Visibly shaken, Carter repeatedly interrupted, saying "What is your question?" and replied, "I've had no entreaties from David Rockefeller concerning the New York problem, nor have I had any of our allies that have called on me to join them in a debt moratorium. And I'm not in favor of a debt moratorium."

Contacted for comment, Chase Manhattan's press office said March 25 "I'll tell you what I just told the *New York Times* and the *Wall Street Journal* — we're not talking about it."

The full transcript of the press conference, with the Chasen-Carter exchange headed "debt moratorium," appeared in the *New York Times*. With one exception, the U.S. press had blacked out the Congressional opposition Chasen referred to in her question — evinced in vigorous and hostile treatment of New York Federal Reserve spokesman Henry Wallich during the March 23-24 Banking Committee hearings. Only the *American Banker*, daily journal of the regional banking-based American Bankers Association, accorded the ambush of Wallich front-page converage.

At the same time, the IMF's aspirations were cast in a grim light by a report, as yet unconfirmed, in the March 25 issue of the Italian daily *La Stampa* on secret conditions for the award of a $530 million loan. *La Stampa* writes that the IMF insists on an immediate end to credit from the central government to the municipalities through the centralized banking system; a cutback to 500 billion lire of Italy's present balance of payments deficit of 23,000 billion lire by March 1978; and an end to Bank of Italy support of the Lira on the foreign exchange markets. Prime Minister Guilio Andreotti has repeatedly said that the already drastic public conditions for the loan, which include elimination of cost-of-living wage increases, are perfectly acceptable to his government. Andreotti announced at a press conference March 24 that he sees "no difficulties" in gaining Parliamentary approval for the IMF letter of intent formalizing the loan. It is possible, however, that agreement will be postponed by a combination of forces within the Communist and Socialist parties and Andreotti's own Christian Democracy until a significant Western European-wide resistance to the IMF has coalesced. In this connection, Treasury minister Gaetano Stammati was quoted by the Milan daily *Corriere della Sera* March 25 as urging the kind of European monetary union that would permit a new world reserve currency, a restoration of fixed exchange rates, and an expansion of world trade and investment, as an implicit alternative to IMF austerity.

The possibility of Italy's reduction to Third World status was one impetus for the unexpected mobilization of Congressional conservatives at the March 23-24 hearings of the House Banking Committee's subcommittee on international financial institutions. On March 23, the key witness before the committee was Henry Wallich of the New York Federal Reserve, who intended to testify on behalf of expanded IMF lending. Wallich found himself facing questions from Reps. Frank Annunzio (D-Ill.), George Hansen (R-Idaho), and other committee members about the lending policies of the major New York commercial banks which have shifted away from U.S. industry into uncollectable loans which the banks now demand that Washington arrange to bail out. Annunzio demanded that Wallich explain U.S. government collaboration with "a drive on the part of the banks to stop making loans to the government and private sector of Italy" which has forced Andreotti to consider IMF assumption of sovereignty over one of America's closest "friends and allies." The committee also directly targeted Wallich on lower Manhattan's plans to prop up Third World revenues for debt payment to the banks, asking whether Chase Manhattan was not promoting a transfer of the Panama Canal to Panamanian hands for the purpose of using canal fees for debt rollover. At the March 24 hearings, Hansen pursued the issue of the New York banks' unsupervised flood of short-term rollover lending operations in the Cayman Islands — an issue which, ironically, had been raised earlier this year by Senator Frank Church, the *New York Times*, and other advocates of a banking system reform that would salvage Chase Manhattan and other "problem banks" from the collapse threatened by their insolvent debt holdings.

At the conclusion of the hearings, Rep. Fernand St. Germain (D-R.I.) told reporters that the subcommittee, which he heads, possesses evidence that New York banks have induced regional banks to take shares of syndicated Eurodollar loans to countries which New York knew could never repay them.

The Carter Administration and the Federal Reserve had apparently hoped that they could rush through an agreement to enlarge the presently miniscule bailout funds of the IMF. A meeting of the top-level officials of the IMF's powerful Interim Committee has been quietly scheduled for next week, in preparation for the April 28-29 conference of the 20 foreign ministers of the Interim Committee nations. This conference in turn was intended to get a package in shape for the May economic summit meeting in London.

The buildup for turning the IMF into the international lender of last resort on behalf of New York banks unable to continue the rollover on their own was first mounted last fall, when Senator Jacob Javits and other announced that a grave recession would occur unless a "new Marshall Plan" were arranged for Western Europe's deficit countries. The West German government, however, vetoed the creation of a $25 billion "safety net" and the expansion of the IMF's General Agreement to Borrow (by which ten advanced-sector nations lend extra assets to the IMF for its own loans) at the end of December. At this point, Chase Manhattan head David Rockefeller began a series of speeches on the need for "international institutions" to assume the bailout burden, climaxing in his March address to the Economic Club of New York. Rockefeller there described how the IMF would administer its loans: a list of countries would simply be denied new credit, and their economies shut down, while a second list, those who have the potential to extort high commodity payments from the rest of the world, could borrow if they agreed to "a painful slowing of growth."

The January 1977 blueprint "Towards a Renovated International System" issued by the Trilateral Commission states, "It is desirable that the IMF increasingly evolve into a central bank for national central banks," and become the chief lender and controller for the world, using Special Drawing Rights to augment international liquidity. The Comission, founded after the 1973-74 oil hoax by David Rockefeller as a supranational quasi-governmental body to promote the diversion of financial resources away from capital-intensive economic activity into debt collection, has a dozen members in the Carter Administration, including Carter himself; Zbigniew Brzezinski was its former executive director. One of the authors of the Trilateral "Renovated International System" report was Brookings Institution fellow Richard Cooper, now Carter's State Department Undersecretary for Economic Affairs. According to Chase Manhattan's public relations office, it was Cooper who provided David Rockefeller with the exceptionally frank exposition of the link between Third World raw-materials earnings and the need for debt repayment in Rockefeller's Economic Club Adress.

Part of the propaganda effort around the bailout has been to present the IMF scheme as a *fait accompli*.

The March 28 issue of *Business Week* ran an article, effusive to the point of self-parody, entitled "The IMF Wields Sudden New Power," which claimed that IMF head J.J. Witteveen has already lined up both the West Germans and the Saudi Arabians behind a $20 billion bailout fund. Along with its "central bank" function, writes *Business Week*, "a second expanded role for the IMF seems destined to be that of global cop." An expert on debt economics at the Overseas Development Council was even more explicit last week, describing the political implementation of IMF control as the introduction of "command economies" in deficit countries — "you know, a nice way of saying authoritarianism or fascism."

Western European Hedging

In view of the evidence that a beefed-up IMF means the triage, or selective death, of the export markets on which West Germany depends, starting with Italy, it was surprising to hear public statements of support for expanded IMF lending last week by West German Finance Minister Hans Apel and his subordinate, Karl-Otto Poehl, who had been visiting Washington. Apel variously proposed new funds for the IMF's compensatory facility, which lends to Third World countries whose exports have abruptly dropped, and an altogether new bailout fund. West German officials indicated that no formal government position had yet been reached, but that Apel might be seeking a trade-off: West German agreement to IMF bailouts in exchange for killing the international commodity buffer-stock fund for increased raw materials prices proposed by the United Nations Conference on Trade and Development (UNCTAD) in Geneva. West German interest in such a deal has probably diminished, however, since the fund proposal itself seems to have already died. The Apel thrust, in any case, reflected fear of the debt moratorium alternative to the IMF rather than any passion for seeing the IMF become a world central bank.

One well-informed member of conservative, pro-industrial development circles in West Germany maintained last week that the West Germans and others could wrest control of an expanded IMF fund from the Carter administration — contemptuously identified as a creature of the Brookings Institution — and use new credits to create foreign orders for West German manufacturers. He conceded however, that once the IMF agreement was in place, the current destabilization of West German and other governments could rapidly produce a situation where new governments in Europe and elsewhere would uphold Trilateral-Brookings policies. A monetary affairs official at the State Department insisted March 25 that "the Germans will have to go along" with the IMF plan; "they don't want to, but we'll pressure them into it!" "They killed the safety net plan," he added, "but this is much better — it will bail out everyone," not just the Western European deficit countries.

The same day, however, officials at the Finance Ministry in Bonn said that the Schmidt government is well aware of the congressional resistance to the bailout plan, an awareness which undercuts State Department efforts to bluff the proposal through. West German industrialists are leery of the IMF; an official of the national chamber of commerce said March 24 that the Apel endorsement was merely one option being floated, not a commitment. In a departure from the business-as-usual idiom of West German industry, he stated that "in the context of the current monetary system, there is no way to bring about a recovery." It has been the lack of readiness to consider implementing the new financial structures required after a moratorium on "bad" international debts that has put many Western Europeans in the position of viewing an IMF bailout of those debts as a necessity that might even be turned into a virtue. The March report of the West German central bank, for example, warns about West German commercial banks' deep involvement in international lending, presumably to frighten advocates of a debt moratorium. Signs of congressional willingness to take responsibility in creating new institutions after the demise of the Chase group, however, have the potential to dispel such fears, and to intersect with Stammati's renewed initiative toward a new international monetary system.

In Great Britain, Prime Minister James Callaghan has, like Apel, endorsed an expansion of IMF lending. In a speech to Parliament last week, he justified the endorsement by echoing what the U.S. State Department has said privately; without a bailout, the Third World might initiate "protectionism" against British and other imports. This threat might seem to have the credibile leverage of a hunger strike by the inmates of Buchenwald, but efforts are also being made to give the IMF the appearance of support from the Third World. A two-year study made on behalf of the British Commonwealth was issued March 21, characterizing the proposed IMF bailout fund as a "far-reaching reform" that should satisfy advocates as well as opponents of a new world economic order. The fund would lend more on longer terms with greater "flexibility," circulating Special Drawing Rights (a proxy U.S. dollar with hitherto marginal scope) as "an international central bank." "Some financial discipline" of debtors would be involved. The "central bank" formulation, the SDR emphasis, and the promotion of the fund as the alternative to a new world economic order are transcribed from the Trilateral Commission's January report.

The *London Times* and London *Financial Times* have taken a generally favorable view of the proposal on the grounds that there is no alternative, since the use of the transfer ruble to initiate a new world monetary system is only "a theoretical possibility" unless the USSR promotes it, as the *Financial Times'* Eastern European correspondent comments. These two British papers, Italy's *Corriere della Sera* and other continental press have described a conflict over the form of bailout, with the Federal Republic of Germany supposedly insisting on short-term facilities with prompt return by borrowers to balance of payments equilibrium, while other Europeans are described as wanting a new, permanent lending arrangement with easier terms. These reports may indicate West German maneuvers to wreck the bailout proposal, or simply another propaganda attempt to portray broad consensus on IMF ascendancy over world finance.

Japanese authorities have apparently taken a fatalistic view of the proposal, although opposition is reported in government and central banking circles, and Brookings Institution strategists see "tremendous pressure from more nationalist business circles" on Prime Minister Fukuda.

The remaining key potential "surplus nation" partner in an IMF bailout is Saudi Arabia, who, along with the United Arab Emirates and Kuwait, has been counted on to provide as much as a third of the new debt financing. It is probable that the Saudis would go along with a worked-out political package involving IMF loans, as opposed to the kind of unilateral bailout gifts they prefer to minimize on their own. One well-placed London merchant banker claims that Saudi Arabia is prepared to give $4 billion to a $14 billion total fund, with $3 billion from the U.S., $1 billion from West Germany, and the rest from Japan et al. *Business Week* had reported that IMF chief J.J. Witteveen had persuaded them to participate, and Nelson Rockefeller this week paid a personal visit to Riyadh. The State Department denies that the Saudis have agreed to anything as of yet; an IMF executive director calls them favorable. It is not known whether the Saudi government believes it might win concessions by Carter toward a more peaceful Mideast policy in exchange for IMF contributions. Last year the Saudis rejected an invitation to assist in forming the debt "safety net."

The death blow to that safety net, however, was U.S. congressional opposition. At this point it is clear to Europeans, Arabs, and at least a minority of Americans that another veto of such schemes will not suffice unless active policy alternatives to the bailout are negotiated.

—Susan Johnson

New York Bank Bailout Draws Congressional Fire

At a close cross-examination during hearings of the House Banking Committee's Subcommittee on Financial Institutions on the role of domestic banks in international financial operations, Henry Wallich, of the Federal Reserve Bank, drew the ire of subcommittee members. On several occasions Wallich found it difficult to answer questions regarding the banks' illiquidity or their influence on U.S. foreign policy. For that reason his answers appear only when informational. Another round of hearings from this subcommittee is scheduled for April 4 and 6.

St. Germaine (D-NH),(Chairman of the Subcommittee): Should international regulations be left to the banks? Do you classify foreign loans like you do domestic loans, for example, loans to New York City?

Annunzio (D-Ill): I inserted in the Congressional Record on March 16 a statement on "Redlining" —cutoff of loans — to Italy...Has there been a drive on the part of the banks to stop making loans to the government and private sector of Italy? Has the Comptroller of the Currency conferred with the Federal Reserve on the ban on Italian investments? Has there been, then, no discussion with the Comptroller regarding the ban on loans to Italy?

Wallich: (denies redlining.)

Annunzio: We have been trying to deal with redlining in problems of housing and in local neighborhoods in the United States, are we redlining our friends and allies?

Wallich: No Comment.

Hansen (R-Idaho): What did the Federal Reserve do when Franklin Bank went into difficulties?

Wallich: We opened the discount window. We are the lender of last resort.

Hanses: So you did act as the insurer of last resort. What effect did this have on the consumer? What effect did this have on inflation?