OECD, BIS Share Panic Over World Economy

SPECIAL REPORT

Two of the leading Western economic policy-making institutions, the Bank for International Settlements and the Organization for Economic Cooperation and Development, have recently issued major reports and recommendations for governments. Both reports represent an abrupt break with past thinking, for different reasons. The BIS, the central bank for European central banks, virtually admits point-blank the bankruptcy of the dollar monetary system, and, having gone this far, falls back on "old-time religion" monetary orthodoxy. The OECD's report, entitled "Towards Full Employment and Price Stability," is an insidious fraud by comparison. Written by an experts' group headed by Paul McCracken and Guido Carli, the OECD document proposes an "enlightened" form of the policies of Hjalmar Schacht to meet an economic crisis that it never officially recognizes.

Last week's release of the BIS Annual Report created a major stir in the financial community because the current chairman of the institution, Netherlands central banker Jelle Zjilstra, told a press conference that the International Monetary Fund had failed in its plan to raise $20 billion for a "Special" bailout facility for Third World countries. While the IMF's failure had been common knowledge in informed financial circles for weeks, the top-level admission removed the last traces of illusion that official financing would be available to temper the massive third-quarter payments crisis. Zjilstra proposed instead of the "Special Facility" an arrangement whereby the Bank for International Settlements would borrow on the international capital markets from private banks; it would then lend the funds to the IMF; the IMF would lend them to Third World debtor countries; and Third World countries would pay them to the banks. Apart from the diehards at Chase Manhattan Bank, Citibank, and Schroeders, who are urgently pressing such a plan, no one in official or private financial circles, let alone the IMF Secretariat, takes the Zjilstra plan seriously, and the fun is underway.

But the language of the BIS report itself should be sufficient to send shock waves through New York and London:

> One point is... the sheer quantitative expansion of international claims... the other is an important change in the structure of risks; a gradual shift from lending to private corporations towards loans granted to public sector institutions or guaranteed by the borrowing country... What about the rise in the country or sovereign risk?
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> There might be the additional risk that for political reasons, a government might halt the servicing of its own and their residents' debts to banks or other lenders abroad. But while private firms are hardly liquidated in the event of bankruptcy, a country will hardly cease to exist as a result of external insolvency. It is therefore less likely that the claims will be wiped out altogether. The problem might instead take the form of a temporary illiquidity of the freezing of claims. In short the danger is one of rescheduling or a moratorium rather than bankruptcy.
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> ... Should a country suspend interest payments even temporarily, or worse still, enter into a formal debt moratorium, this could affect a whole series of banks simultaneously and thus trigger a chain-reaction. (The situation) bears some resemblance to what happened in later stages of the Bretton Woods system — with the difference that the risk of excessive indebtedness could now come to apply rather widely throughout the monetary system, whereas it was then concentrated in the principle reserve center.
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> ... The question... is whether it would not be better both for the banks and for the working of the international adjustment process if official balance of payments financing were to play a greater role than it has done so far. To this question, the answer is yes.

As a leading London banker put it to EIR, "It's the first time that an official organization has come out with the truth." The best international press comment has been savage. In *Le Monde*, economic commentator Paul Fabra wrote, "Everything points to the fact that the collapse of the old system has resulted in a situation in which the central banks and the IMF have passed on their responsibility to Mr. (David) Rockefeller, the chairman of the Chase Manhattan Bank, and other heads of the big New York banking houses." In an article entitled, "The Monetary Deluge and its Causes," Fabra predicts "the last phases of the functioning of the non-system." The London *Financial Times* complained editorially of a report that was "long on realism" and "short on ideas" about what to do about it.

The BIS' proposals are in two categories: more official financing, and dumping the crisis onto the domestic economies of Western countries. The first is pure pipe-dream; even Arthur Burns' staffers don't believe official financing will come through. Said one, "The commercial banks are going to have to make it on their own."

What can the BIS authors recommend? Their attitude is explicitely hostile to both the Carter Administration's proposals for simultaneous reflation of the "strong" industrial economies, and to the Schachtian recommendations of the OECD economists' group. Their single suggestion is "wide-ranging adjustments" — austerity — in the advanced sector. This is to be accomplished by the crudest monetary meat-cleaver, the faithful adherence by central banks to monetary targets well below the rate of inflation. In essence, the stated position is the same as the *Wall Street Journal's* editorial demand for less spending and higher interest rates to kill inflation.

There are at least some financial and political groups who want to put the world economy through a collapse, e.g: around Lazard Freres in New York and Europe. In informed discussions with their friends, Lazard people have expressed the hopeful thought that a general depression-collapse of the world economy is inevitable, and since it is inevitable, might as well be brought on by central bank action; in such a case there would be plenty of room for astute financiers to come out on top, particularly as against the lumbering commercial-banking giants of lower Manhattan. The BIS has indeed recommended a collapse. As the *New York Times'* Mr. Leonard Silk points out, if a 12 percent rate of nominal GNP growth is required to maintain 6 percent real growth in the U.S. economy, and the money supply grows less than 12 percent, the difference will come out of real growth.

But the report's recommendations, from the standpoint of the Bundesbank and other central banks which stand behind it, probably represent less a strategic policy statement than a terrified gut-response from central bankers who, in reality, know they have no workable policy at all.

OECD: "Enlightened" Schachtianism

The OECD economists, by contrast, lie about the underlying economic situation, and make absolutely clear their intention of solving the crisis through Schachtian methods. Although the various authors stress different aspects of policy, the conclusion is that governments must set out budgetary and monetary goals in advance, and then employ "planned savings" and wage-busting methods to achieve them. In case the inflation problem is not put under control, governments should then resort to indexation, both of government securities markets and private capital markets.

Given its lack of candor, the OECD statement is more properly identified as a strategic rather than an economic policy statement. Its authors, all hand-picked Rockefeller and Kissinger people, are concerned with the problems that will emerge in the economic sphere, as the result of Rockefeller strategic policy for massive armaments buildup in the advanced industrial sector.

Couched in the terms of conservative "fiscal orthodoxy," the OECD plan reproduces the war-economy program of Hitler's finance minister, Hjalmar Schacht. Governments must intervene, the report says, to enforce "structural adjustments in the relation between labor costs and output prices;" compulsory "savings" plans to pay workers in stock-shares; a "wage stop... in extremely difficult circumstances;" and other looting devices claimed from the German experience of the 1930s. If these policies cannot strip sufficient "savings" from advanced-sector workers, the OECD economists propose, then governments and corporations must issue "indexed" securities, whose interest rate is tied to the rate of inflation. Indexation is the financial policy behind the Schachtian "economic miracle" in Brazil, guaranteeing the return on bankers paper, at the expense of a fifty percent cut in real wages under Brazil's military regime.

The OECD thinktank itself was created last year by then U.S. Secretary of State, Henry Kissinger. Its two co-chairmen, McCracken and Carli have also been Rockefeller family property for years. McCracken served briefly as Nixon's Council of Economic Advisors chairman, and serves on Rockefeller's Trilateral Commission; ex-Italian central banker Guido Carli has been a top proponent of Rockefeller interests in European financial circles since he worked on economic warfare strategies for NATO in 1958.

To avoid misunderstandings, every other Rockefeller policy outlet in Europe has been squawking the same thing as the OECD economists' report. A report just issued by the staff of the Bank for International Settlements in Basel, Switzerland, demands "domestic adjustments" for the Western economies, especially "drastic energy conservation policies," as the answer to the breakdown-in-progress of the world monetary system. West Germany's Karl Schiller, the former finance minister who wrecked Europe's defensive efforts against the 1971 bankruptcy and floatation of the U.S. dollar, has emerged from the woodwork to demand a fascist program for his own country, Europe's biggest economy. Schiller, writing in the daily *Die Welt*, demands a sharp boost in the value of the West German mark, a key Rockefeller demand, to shut off West German exports. "Undervaluation of the mark," Schiller says, "has led to over-expansion of West German industry," and "closing down factories creates more jobs" through Schachtian makework.

Even assuming, and no one does, that Rockefeller can get the Western economies to immediately knuckle under to his "enlightened Schachtianism," there is no guarantee that his entire financial house of cards won't come tumbling down during the next quarter. The application now of an austerity treatment will destroy what little remains of the OECD economies no matter what new financing tricks are introduced.

With the global collapse of trade, the U.S. trade deficit is projected to shoot up to $23 billion for 1977; West German foreign trade dropped 15 percent between March and April; Japan's crucial foreign trade shrank substantially during the second quarter. In that same quarter, Italy's industrial production collapsed 8 percent. U.S. industry is just barely maintaining its output levels on the basis of a consumer purchasing bubble that won't last out the third quarter, a fact that has the finance community's *Money Manager* worrying that "fears of a slowdown are growing despite a strong performance in the first quarter."

In short, even with the most ferocious wage-gouging and dumping of dollars into an inflationary military build-up, Nelson Rockefeller's plan just won't work.

The "Ghost in the Machine"

What the gentlemen of the OECD do not say is that their prescriptions deal only with the side-effects of a return to Nazi military economy — the core of Nelson Rockefeller's proposed economic "deal." Indirectly, the worried editors of the London *Financial Times* point to the big gap in the OECD report in an editorial June 10:

> "It is on the broad central issues of economic management that the report is understandably but unfortunately the weakest. There is a long discussion of the desirability of growth and the risks of stimulating, which ends by assuming...the appropriate growth rate by reference to a purely imaginary growth 'potential,' a ghost in the machine which is apparently undisturbed by falls in investment or structural changes."

Presuming that the *Financial Times* editors are well-informed, the "ghost" they fear speaks fluent Nazi German. President Carter's chummy talk last week with Republican Senators about his revival of the B-1 bomber pork-barrel indicates which way U.S. economic policy will go.

In Western Europe, France has become the first major country to make a Nazi military buildup a matter of public national policy. French General Mery announced in a recent speech that France will undertake development of the so-called cruise missile, the utopian strategists' updated version of Hitler's silly buzz-bomb. In addition, Mery said, the French military industry will be mobilized to increase the range of its nuclear-tipped Pluton rocket from about 70 to 100 miles — far enough to strike into East Germany. Pro-Rockefeller French President Valéry Giscard d'Estaing last week put public funds behind Mery's ravings by nationalizing the leading French aerospace firm, Dassault, the manufacturer of Mirage aircraft. In addition, there are some indications that there was an attempt to put together a European-wide deal for rearmament and civil aircraft boondoggles during last week's Paris Aerospace Fair.

Seen in proper context, the OECD report attempts to condition American conservatives and Western European governments to accept the economic consequences of Nelson Rockefeller's *strategic* plan for a three-year accelerated military buildup for confrontation with the Soviets. There is a cunning imitation of conservative economic jargon about avoiding overstimulation of economies, and "transfer of real resources" to the Third World — but even the one Third World economist on the task force, Turkish economic planner Attila Karaosmangoglu, denounced the report as "sterile and empty" as far as the Third World is concerned. The contents of the report have as little to do with the "conservative" actual economic views of U.S. industry as Milton Friedman's plan for "financial stability" in Chile through a reduction of per-capita food consumption to less than 1500 calories a day.

Once governments establish "medium-term budgetary targets," including B-1 bombers, cruise missiles, and other "wonder weapons," the OECD economists say, they must ensure there are sufficient "savings" to finance government expenditure. "Savings" will come from putting "an equity element into wage payments," where wages are partly in the form of share issues and dividends, or profit sharing. On top of this, governments should "facilitate any structural adjustment needed in the relation between labor costs and output prices," to deal with the fact that "markets have shifted to a permanently higher level of real wage costs."

Old Schacht would have grinned: his compulsory employment-insurance, savings, "charity," and "peoples' car" deductions from workers' salaries skimmed off a quarter of Nazi Germany's wages bill.

Hitler won over the German industrialists with military orders and an enslaved labor force. Under the OECD plan, governments will go in for direct wage-busting, because the "higher level of real wage costs" is the cause of "a reduced willingness to invest associated with lower profit expectations." At the "decentralized level" of labor-management negotiations, governments will intervene directly to prevent local strikes from winning "excessive wage rises."

Internecine Banking Warfare Erupts

BANKING

Coinciding with this week's warning by Bank of International Settlements chief Jelle Zjilstra concerning the gravity of the international debt crisis and the failure of the IMF to assemble the necessary bail-out funds, British Rothschild and other European financial interests are scrambling to take up "hard commodity" fall-back positions. Although most European bankers are, understandably, reticent on this topic, their recent investment activities indicate that they are attempting to carve out those productive sectors of the world economy which will still be profitable in the event that large portions of Third World debt must be frozen. Should a Eurodollar market crash occur, the Rothschilds and other European interests aim to emerge "on top," leaving the Rockefeller-allied New York banks to fall where they will.

A recent interview with a source close to N.M. Rothschild's in London confirmed that the Rothschilds are operating on just such a collapse scenario, while insisting to the general public that the crisis is not all that severe. "The Banks overlent to the wrong people, and