write that unless the Treasury rushes to dump some gold in open-market auctions at once, it will be difficult to counter "a growing belief in the U.S. that gold may get its monetary role back again." A monetary role, it should be added, does not mean the restoration of a "gold window" where any panicked Frenchman or City of London operative can present a bundle of dollars for a brick of bullion. Macrae knows this so well that he doesn't dare suggest it, though certain GOP leaders are still a bit muddled on the subject.

The gold markets meanwhile were plagued by rumors. Following a report on March 22 that the Treasury was ready to dump 25 percent of its gold reserves — at market prices, $12 billion worth — London brokers started spreading the word that the U.S. had already entered the market, a patent lie which, however, sank the gold price from $182 at the morning dealers' fixing in London to $179 at the afternoon fix. The Treasury issued a feeble official denial that did nothing to scotch expectations of future sales.

Secondarily, rumors also percolated of the Japanese central bank selling off its scant gold holdings — variously interpreted to mean central bank gold swaps or mere intragovernmental gold transfers. More interesting is the heightened strength of gold spot prices in Paris, although the jumpy small investor has presumably been calmed after the elections: this may reflect ongoing discussions of a Franco-West German-based "supersnake" currency pegged to gold and aimed at drawing in the U.S. administration.

The biggest rumor of all, floated by the London *Daily Telegraph* on March 22, has a firm foundation, however: that two of the Carter Administration's most degenerate tacticians, C. Fred Bergsten and Anthony Solomon of the Treasury, spent the previous day in a strategy session pushing the gold-sale policy. Their counterparts at the State Department's monetary affairs enclave under Brookings Institution fellow Richard Cooper were equally clear in advocating an SDR reserve switch that is intended to follow the feckless gold sales. Says State Department, Jr.: We will only allow a few SDRs to be sold to central banks to replace dollars. Says State Department, Sr.: Making SDRs a partial reserve will precipitate a market crisis against the dollar, and this will pave the way for the IMF to control world credit.

Rothschild Rumors

American bankers, businessmen, politicians and government officials and other citizens who do not read the *Daily Telegraph* or *Financial Times* were given a propaganda dose from the same source by Emma Rothschild's March 22 op-ed column in the *New York Times*, which alerted them to the "painful crisis" ahead as the dollar "empire" sinks into deserved oblivion. The message that the dollar's reserve role has ended is as firm as Lord Evelyn's in the *Economist*.

As for the coming week: London has held off on an attempt at another all-out bear raid against the dollar, apart from such gambits as a City rumor on March 22 that Sadat had been assassinated, which queered the dollar for a spell. Part of any new international monetary crisis in the coming days, however, will obviously be a new attempt to use a new bear raid to stampede the administration and U.S. policy-guiding strata as a whole into some variant of the gold sales-SDR-energy-cut package.

Third World Debt: IMF Bludgeon Against U.S. Banks

The International Monetary Fund (IMF), acting on behalf of British interests, is now working to exercise a variety of hideous options, all of which point toward an intentional collapse of the U.S. banking system and the imposition of Schachtian fascist economies throughout the developing sector.

With the acquiescence of commercial banks, the IMF is currently leading negotiations to refinance some $300 billion in technically defaulted loans for the Third World's poorest nations, including Peru ($330 million), Zambia ($350), and Turkey (at least $2 billion), with private banks separately negotiating with Zaire for a $210 million credit.

The case of Peru points out how the IMF negotiations are proceeding. The Fund last week refused to extend to Peru an already agreed-upon second quarter credit of a mere $12 million, charging that country with "faulty accounting methods" — i.e., unwillingness to destroy the economy in the face of a working-class residence which would necessitate a fascist coup à la Chile 1973.

This loan cancellation has stalled the efforts of a banking syndicate, led by Manufacturers Hanover Trust, to arrange a $260 million loan, as the banks wait passively for the IMF's conditions to be met. In conjunction, any further delays could give Treasury Secretary Blumenthal and Comptroller of the Currency John Heimann a wide opening to move in on the U.S. banks with a horde of bank examiners and restrictive regulations.

Trying to provoke the spectre of imminent Third World default, the British *Financial Times* and the *Economist* immediately manufactured stories of a breakdown in negotiations and disbanding of the bank steering committee — both of which are outright lies, according to several of the banks involved. In fact, negotiations are continuing, with the banks becoming increasingly irritated at the IMF's shenanigans, but still steadfastly following its lead.

Similar situations apply in Zambia, Turkey, and Jamaica. An IMF team in Zambia recently returned to Washington, where it will be decided at the end of the month whether to extend a $350 loan, most of which would go to overdue import payments and debt service. Jamaica is seeking a $300 million loan and was $34 million in arrears last month. Turkey, with around $4 billion overdue, is the most critical case. Since the IMF negotiations have been tied up for months, and without a large new loan, the country has no prospect for paying its import bills let alone its overdue debt service.

If the IMF stalls much longer, the banks will be faced with at least $3 billion in default from these countries, a

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situation that would make worthless their entire debt of around $25 billion. This could blow out the major U.S. banks, sink the Eurodollar market, and trigger a run on the dollar that would drive it into the ground. With the international banking system completely overextended, a far smaller amount would do the job.

As one top British investment banker told this newspaper last week, "Look at the size of the Eurodollar market. We're not talking about the $375 to $400 billion it used to be, but $500 or $600 billion. None of the central banks can handle this... a 1 percent swing out of dollars (or a slightly greater percentage for defaults — SP) — just one percent, my friend — is $5 billion, and no one can handle that. It's completely out of their control."

British Trumpet Bank Reorganization

This scheme was echoed in a major article by Lord Thomas Balogh in the latest issue of *Development Forum*, the journal of the United Nations Economic and Social Information Center. In reviewing this piece, the British newspaper *The Guardian* cackled, "We shall be hearing a lot more about it (Third World debt), not least if it becomes the trigger to a new-style global financial collapse." Writes Balogh in *Development Forum*, "Any default (on Third World debt) might precipitate a serious monetary and banking crisis. The bankers have guaranteed the debt of the Third World....Heaven help us if this guarantee were to be called."

But the British are not merely shooting for a financial collapse — they are gunning for total control of what's left. Balogh proposes that "What must be done is a full-scale reorganization of the IMF into a world central bank with the power to create substantial liquidity (i.e., the IMF's worthless paper SDRs — SP) which can allow for the full reorganization of the debt structures."

What this "reorganization" means is spelled out in bloody detail in a series of articles on the Third World in the spring issue of *Foreign Policy*, a journal of the Fabian Carnegie Endowment for International Peace. Albert Fishlow of Yale University, a British agent deployed into Latin America, declares that "perhaps the IMF should consider some rules for international bankruptcy that more equitably allocates profits and risk." Fishlow urges that the IMF issue its own bonds to commercial banks and pick up the bulk of Third World debt, thereby dictating British "conditions" to less-developed countries with no outside interference.

Fishlow and his *Foreign Policy* editors explain what they have in mind. The international economic collapse will mean a drop in Third World trade and exports, thereby stifling growth and the ability of developing nations to garner foreign exchange to pay their debts and augment imports. Third World nations must move toward "import substitution," i.e., virtually abandon any attempt at high-technology capital imports, institute labor-intensive methods of raw materials extraction, and reduce already pitiful wages so as to have competitive exports. "Conditionality of a conventional kind...is not the preferred solution....Developing countries cannot expect to escape without sacrifice."

British agents in the U.S. Administration and Congress are actively considering giving the IMF such power. House Banking Committee Chairman Reuss is "not unsympathetic" to substituting Special Drawing Rights (SDRs) for dollars and dollar-denominated debt and is openly in favor of the IMF extending its own bonds to raise capital for Third World nations. The State and Treasury Departments, spurred on by agents Richard Cooper and C. Fred Bergsten, are considering endorsement of a limited version of these ideas at the IMF interim committee meeting at the end of April, while Treasury Secretary Blumenthal has already offered West Germany 600 million SDRs in exchange for deutschemarks.

—Steve Parsons

Snared In The Debt Trap

"Snared in the Debt Trap" by Lord Thomas Balogh, economic advisor to the British National Oil Corporation, Development Forum, *Jan.-Feb. 1978:*

The bankers of this world... have guaranteed the debt of the Third World to the oil countries. Heaven help us if this guarantee were to be called. It is essential, therefore, to shift some considerable part of these liabilities onto international agencies and central banks....

What needs to be done is to transform the IMF into a world central bank with powers to create reserve liquidity accepted by all states as a valid discharge of debt. Such powers could be limited to, say, Special Drawing Rights (SDRs) of $100 billion, but facilities must be established to increase them quickly in case of need. This should smother the kind of speculative follies we have witnessed in the last few years.

We have not much time. It is the vast extent of the indebtedness which is so worrying. Any default might precipitate a serious monetary and banking crisis.... We shall see whether this generation will follow the 1931 to 1933 path to catastrophe....

"Jamaica Fears Collapse"

Daily Telegraph, "Jamaica Fears Collapse," March 20:

Jamaica's economy is under great strain and the island's business and financial communities fear an imminent collapse. Talks on obtaining a massive International Monetary Fund loan are beginning to drag.

Businesses are closing daily, unemployment is rising steadily and the cost of living is spiralling.

With the economic situation so serious, Mr. Edward Seaga, Parliamentary Jamaica Labour Party Opposition leader, has urgently appealed to Mr. Michael Manley's Social Democratic left-leaning government to change its political direction... (and) warned that the lack of financial leadership in the country was resulting in "bankruptcy, lack of solvency, chaos,... mistrust, misconduct, mistakes and misdirection."

...Until the talks with the IMF were completed, short-term loans would have to be found, "so that we can carry on from day to day," he (Eric Bell, the new Finance Minister) declared.

...In January, a further devaluation of the already-weakened Jamaican dollar....was the third devaluation within 12 months, and it completed a full 50 percent slice off the local currency during the current financial year.

The January devaluation was a stipulation by the IMF.

"Peru's Debts: The IMF Refuses to Ease the Burden"

Financial Times, March 17:

The immediate cause of the crisis was the International Monetary Fund (IMF) refusal last week to authorize a second draw-down of loan funds under a stand-by agreement signed four months ago. The IMF, according to New York bankers, says that Peru has failed to meet virtually all of the targets of the stabilization programme agreed to under the stand-by arrangement. The Fund's assessment of the Government's financial efforts has had an immediate effect on the international banking community which was in the process of arranging a $260 million loan to prop up Peru's debt payments this year.

A meeting of the steering committee in New York which was putting the loan together concluded last week that the loan could not proceed following the Fund's decision. The committee has in effect been disbanded.

...The decision of the Fund to deny Peru a second draw-down under the stand-by agreement was almost entirely unexpected both by the Government and by most independent bankers here...it was thought that the banks putting the $260 million loan together would not be able to openly and consciously pull the plug on a country which owes them so much money.

...The decisions are sure to have a traumatic effect on Peruvian financial — and perhaps political — affairs... Bankers think that President Morales Bermudez will have to put into effect an even fiercer austerity programme than at present and this may bring a strong reaction by the trade unions.

The following interview was made with a staffer on the House Banking Committee this week.

Q: Articles in the Financial Times *and* Economist *indicated that negotiations over refinancing Peru's debt have broken down. There are also a number of other Third World countries that are in arrears on debt payments who are also engaged in similar negotiations. If new loans aren't made, or if these economies aren't put in better shape, it could cause major problems for big U.S. banks. Do you see any moves on the part of Congress or Federal authorities to clamp down on the banks in this situation, such as more stringent regulations by the Comptroller of the Currency or the Federal Reserve?*

A: This is very tricky, because the fact of the matter is that the only way the debt can be paid is through rollovers or bailouts. The means and purposes test resurrected by the Comptroller is designed not to be punitive, but to put future bank loans on the right footing. I don't see more controls necessarily coming from there, it could be counterproductive.

Q: What about the recent proposal of the New York Fed, which advocated that the IMF in effect set the conditions under which U.S. banks could then go in and make loans?

A: I don't see any mandatory IMF control. But as you know, the banks already do go in with the IMF, which is the recognized authority for setting conditions on countries. Such a formal proposal would never be accepted by the banks or Congress, nor is it really necessary.

Q: What of Witteveen's recent proposal to take the pressure off the dollar by substituting the SDR as the international reserve currency rather than the dollar?

A: Congressman Reuss is not unsympathetic to that approach, but it is a very sophisticated proposal and has not sunk in yet. What is more current is the idea of having the IMF float its own bonds, like the World Bank. This is essentially the plan Robert Solomon at Brookings, Peter Kenen (formerly at the IMF—ed.), and Marina Whitman (Council on Foreign Relations—ed.) are advocating. This proposal has a fair amount of support outside the IMF.

Q: But this still doesn't really deal with the problem of bank exposure and Third World debt?

A: Look, the situation is very difficult, we are very worried about the situation of these banks. You must remember, though, Reuss made a proposal last December, submitted to Arthur Burns at the Federal Reserve, calling for international reserve requirements similar to what we have here in the domestic banking system. That is not a panacea, but it will give some back-up to the monetary situation the banks have found themselves in, and, furthermore, would stimulate investments in the domestic economy, especially with spreads falling on the international markets, which makes domestic lending more attractive.

Burns did not exactly go for the plan, and would not, but Miller is a different guy. We're not sure how he will react, but we have high hopes, and don't forget, he is a Democrat and someone appointed by this very Administration. Sure, as you say, this would cut down on the amount of funds available for Euromarket lending, but there is too much liquidity out there anyway, one reason why the dollar is in trouble. We're proposing to bring the money back home. It will cause certain problems in this debt situation of some Third World countries, but this would only mean that economic stringencies must be firmly enacted.