declined sharply in April. The S&Ls do not like to even imagine what will happen this month.

Though S&Ls, the principal lenders of mortgage loans, are expected to hold mortgage rates to one-digit figures as long as possible, the implications of the non-stop rise in interest rates and now disintermediation for the housing market are clear enough.

There are other destabilizing influences impinging on the inflated real estate markets. That market is still reeling from the 1974-1975 recession. In early May Chase Manhattan Mortgage and Realty Trust, the nation's largest REIT, disclosed that it had defaulted on over $38 million in note obligations and that the REIT may be forced into bankruptcy. Citizens and Southern Realty Investment Trust, the leader in the southern market, simultaneously made public its bankruptcy reorganization plans. While the pollyannas are talking about these developments as fallout from the last depression in the real estate market, they have a definite effect on market confidence and mortgage rates.

So do the continuing efforts of Housing and Urban Development Secretary Patricia Harris to force "Fannie Mae" (the Federal National Mortgage Association) to direct more of its mortgage-purchasing activities to low income housing market. As critics of Mr. Harris like Elliot Schneider of Gruntal have pointed out, her continuing threats to Fannie Mae since January 1977 have succeeded in pushing up the whole mortgage rate structure.

"Fiscal Conservative" Ruin

The negative implications of Miller's recent actions for the S&Ls "should not be underestimated," according to the industry analyst at one New York investment bank. Some 65 percent of these institutions' funds come from savings certificates, most of which mature within the next year. Any rapid process of disintermediation would force the savings institutions to dump their home mortgage paper massively on the national market, in an unloading of unwanted paper reminiscent of the 1929 stock market crash.

Not surprisingly, the S&Ls have taken the lead in denouncing Miller's latest moves. Federal Home Loan Bank Board Chairman Robert H. McKinney, a Ford appointee, promptly denounced both Carter's interest rate policy and his decision on overdrafts. The legal action to be initiated by the S&Ls will charge that the kind of practices Miller's Federal Reserve board just sanctioned are forbidden by the Banking Act of 1933. A spokesman for the League insists that only an act of Congress can change the provisions of that bill.

Miller's obvious strategy is to provoke all-out banking war, returning the banking system to the conditions which prompted the 1933 act. When Miller moved to sanction overdrafts, he in fact argued, "I think we regulate too much...If we believe in a market economy, we ought to let *it* regulate."As part of this Hobbesian war of all-against-all, the mutual savings banks are expected to lobby aggressively for the NOW (negotiable order of withdrawal-interest-bearing checking accounts for savings and commercial banks) account bill currently in Congress. The next phase of the "deregulation" scenario is vicious rate war.

The leading money center commercial banks, for their part, have not stopped raving about Miller's "fiscal conservative" interest-raising policies. The momentary payoff for the commercial banks is both Miller's latest hand-out to them (the overdraft ruling) and the large — 75 basis point — spread that the commercial banks are currently enjoying between the discount rate (the rate at which those banks can borrow funds from the Fed) and the higher rates they are now receiving for lending out those same funds to others. The commercial banks, however, will shortly find themselves without the present "free lunch" spread, and without an economy to lend to.

Mexican Plan Only Bright Spot At IMF Interim Meet

From evidence gathered thus far, it appears that the Mexican representatives at the April 28-29 International Monetary Fund Interim Committee meeting made up the only delegation which arrived with their heads still on their shoulders, rather than in their suitcases or even less savoury locations.

WORLD FINANCE

Speaking for that delegation, Mexican Finance Minister Ibarra laid on the table a proposal for the creation of a $15 billion internationally financed fund which would facilitate advanced sector investments in Third World capital goods production. Such a plan, he emphasized, would also begin solving the slump in advanced sector output, by escalating "potential demand" in those countries "which lack the financing to acquire and produce capital goods" at this time.

The Mexican plan received verbal acclamation from the Saudi Arabian delegate present, as well as from French Finance Minister Monory, who described it as "formidable," and suggested that a "careful analysis" be done of its provisions.

The problem, however, is that the Mexican fund proposal is still firmly *within* the framework of the IMF and World Bank — the two institutions that the Mexicans have recently vociferously attacked as obstacles in the way of Third World and global development. The limitations of the plan are not so much evidence of Mexican capitulation, but of a lack of the needed European support for such development proposals.

In effect, the Europeans, especially West Germany and France, sat mum when British Chancellor of the Exchequer Denis Healey came out with the incredible lie that the defense of the advanced-sector economies means jettisoning the developing nations, that "protecting the dollar would mean subtracting significantly from resources which should be channeled towards the development of Third World nations, (resources such as)...long-term and cheaper loans through the IMF and World Bank."

In their desperation at the lack of any coherent Washington plan to fully stabilize the U.S. dollar, the Europeans also appear to have been taken by Treasury Secretary W. M. Blumenthal's calls for a U.S. antiinflation policy. West German Finance Minister Hans Mattöffer, for example, was reported to have flown from Mexico City to Washington on Blumenthal's plane, forming an "antiinflation alliance" with Blumenthal "against" the equally insane calls of Chancellor Healey for U.S.-German reflation.

Equally upsetting was the rest of Monory's speech, in which he endorsed a program for energy consumption cutbacks in the United States, and attacked Japan as responsible for the weakness of the U.S. dollar because of Japan's high balance of trade surplus. Monory's endorsement of U.S. domestic energy austerity is all the more disturbing when it is coupled with three recent speeches by West German Chancellor Schmidt, in which Schmidt emphasized U.S. energy conservation — rather than advanced technology nuclear energy investment — as a necessary component of any global economic package.

In a private discussion May 3, a member of the U.S. delegation agreed that it was unusual for the West Germans and French to throw their weight behind U.S. austerity programs. He added, however, that the Europeans were doing this in an effort to "strengthen the Administration's (i.e. President Carter's) hand in dealing with the Congress.... (Europe) is willing to accept slower economic growth, if it has to choose between that and inflation."

The irony of the Europeans' reactions is that outside of the confines of the IMF, France and West Germany and major private industrial groupings in both countries are known to be mobilized in a major attempt to economically develop key African and Middle Eastern countries, as stepping stones to a general economic recovery. Locations for this effort include the Sudan, Egypt, and Nigeria; in all three cases U.S. industrial interests, spearheaded by Nelson Rockefeller are strengthening their investment and export ties.

In sum, French, West German, and U.S. spokesmen are currently pursuing two completely contradictory policies: promoting Third World development "behind the scenes;" and endorsing a stringent recession policy for the U.S. economy at international gatherings — a policy which would make their own development schemes ineffective.

Monory's shortsighted remarks may also have been the result of the accession to the IMF chairmanship of French Central Bank chief de Larossiere. It cannot be excluded that "pragmatic" French government officials have been persuaded by the prospect of "shaping" the bankrupt, neo-Schachtian IMF.

No British SDR's

Meanwhile, the British-sponsored proposal to "substitute" international U.S. dollar liquidity with IMF "Special Drawing Rights" was rejected. The leading proponent of the "substitution" plan at the conference was Healey, who further claimed that "support of the dollar would signify protectionism on the part of the developed countries" against the Third World. Therefore, it is "of greatest importance to strengthen the SDRs so that they become the most important international reserve currency."

Healey's speech was a blatant enunciation of Britain's unrelenting drive to wipe out the U.S. economy, and install a virtual IMF dictatorship over U.S. finances. Although couched in Labour Party "anti-imperialist" lingo, Healey's program would entail converting dollar liquidity — both internationally and domestically — into an instrument for imposition of neo-Schachtian austerity.

Ibarra and Mexican Central Bank head Kolbek were most forceful in counterattacking the Healey plan, asserting that the dollar must remain the international reserve currency at all cost.

Mexico's Plan

The Mexican Government proposal at the Interim Committee of the International Monetary Fund was virtually blacked out of the U.S. press, and while the official text has not yet been released, on April 28 the Mexican daily Novedades *published an account of the plan, which is excerpted below:*

The Mexican proposal emphasized that there are clear indications...of low growth rates in the industrial countries, that will create a slowdown in trade, foment greater protectionism, and lead to stagnation in the demand for capital goods, at the same time that there is potential demand in the developing countries that lack the financing to acquire and produce capital goods...

"The debt structure of the developing countries is concentrated in medium and short-term loans and...the developing countries cannot continue financing development having to depend on bank credit. Even if this were feasible, the foreign currency inflows of these countries are channeled to satisfy debt service payments, instead of financing purchases of capital goods.

"The financing of long-term capital investment needs with medium-term resources does not constitute an appropriate principle of banking practice...

It was considered a matter of special importance that the developing countries will be the only countries with access to the proposed fund for their long-term capital needs. These countries will increase their demand for capital goods, which will stimulate the producers in the industrial countries and will contribute to the reactivation of the world economy.

Stimulus to Industrial Countries

Further, the resources of this fund will give a push to the capital goods sectors of the industrialized countries, which have suffered from insufficient demand, and will create new possibilities of investment for the surplus countries and contribute to establishing a better structuring of the assets and debts of the financial markets.

The Mexican proposal was approved in view of the consideration that for the industrial countries, it means the creation of jobs and stimulus to a stagnant sector; for the financial markets and the surplus nations, the possibility of carrying out a profitable investment; and for the many poor countries, the reestablishing of a pattern of firm growth and reconstituted financing.

Mexican Finance Minister David Ibarra Munoz told reporters as he left the meeting that the Mexican proposal was based on the unfortunate fact that the international community, up to the present, has not been able to establish a recirculation mechanism that offers long term financing. This financing will be taken advantage of by developing countries to acquire capital goods. In our judgment the perspectives of the world economy justify our adopting this focus, and we believe that the provisional committee, the Development Committee, and the World Bank should study the problem and take measures without delay in order to bring about an appropriate long-term recirculation fund.

Japan Invites U.S. Nuclear Imports: Fukuda Calls For Joint Fusion Research

Following are excerpts from an address given by Japanese Prime Minister Takeo Fukuda at a luncheon hosted by Japan Society and Foreign Policy Association May 4 in New York City:

... Japan and the United States conducted the series of economic consultations which began last fall and resulted in the Joint Statement of Minister Ushiba and

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Ambassador Strauss last January. The results were gratifying in that both countries, in a spirit of cooperation, reaffirmed our joint commitment to work together, each from its own position, for stabilization of the world economy.

It is important to note that the Ushiba-Strauss statement was based on the concept that these problems can be resolved, not through protectionism and the contraction of world trade, but through liberalism and world trade expansion ...

Our target of 7 percent real growth this year is far higher than the growth target of any other developed economy. The Bank of Japan has reduced the discount rate to 3.5 percent to help stimulate domestic demand, and we are endeavoring to expand imports by slashing tariffs, liberalizing quota controls, expanding quotas on a number of products, liberalizing foreign exchange controls, expanding import financing, and related measures.

... The import-promotion mission we sent to the United States last March achieved considerable success by seeking out and buying substantial amounts of American products. I hope the United States will respond with a redoubling of your efforts to promote American exports to Japan....

As a matter of practicality, the world economy should not depend for its health and stability on the United States alone, since this is a responsibility that must be shared among all the major developed countries. Nonetheless, the fact that U.S. economic power outrivals all others is unlikely to change in the foreseeable future. I count therefore on continuing U.S. leadership in such areas as the maintenance of free trade, stabilization of international currencies, and efficient utilization of energy resources.

The world economy is in the doldrums. The developing countries are suffering particularly severely. Never before has there been such urgent need to strengthen international cooperative efforts to resolve the economic difficulties facing the developing nations, and to promote their economic and social development. Both Japan and the United States, individually and in concert, must play increasingly important roles in this enterprise....

Technological Development Key

From this perspective, I should like to explore with you briefly the area of science and technology as a most promising opportunity for cooperation between Japan and the United States.

Modern science and technology, as our generations know very well, can either contribute immeasurably to human comfort and convenience, or can be the servant of war and destruction. Science can provide impetus to new productive activities, and serve as a prime mover in the future expansion of the world economy, or can waste our resources and threaten our survival.

Exactly because of this dual character of science and technology, I believe it is the duty of Japan, a nation dedicated to peace, to participate vigorously in cooperative international efforts to utilize science and technology solely for improving the standard of living of the world's peoples.

In the course of my discussions with President Carter, I made some specific proposals for scientific and technological cooperation.

Japanese-American cooperation is most urgently required in pursuit of the technical feasibility of developing nuclear energy for peaceful purposes, without the risks of proliferation of nuclear weapons. The importance of peaceful nuclear energy cannot be overemphasized, especially for a country such as Japan, which has no