NSIPS Exclusive

Excerpts From Carli Speech

July 3 (NSIPS) — The following speech was delivered by former Bank of Italy Governor and chief NATO economist Guido Carli on June 12 at a meeting of the Per Jacobsen Foundation in Basel, Switzerland. NSIPS obtained this exclusive text from a banking source, (In the European manner, Mr. Carli refers to a thousand million as a "milliard" rather than a "billion" as is customary in the United States.)

We are going through a period in which the banking community has increasingly come to be regarded with hostility; this is certainly so in my own country.

Antipathy towards bankers has old roots: it is said of Schopenhauer that, on visiting the gallery where the portraits of the Fugger were hung and observing their images, he exclaimed: "When I look at your faces I have to admit that God is not with you."

I propose to examine the reasons for the resentment which is felt towards bankers and banks in some countries.

In earlier times banking failures stimulated interest in the banks' conduct of their affairs; this has also happened recently, but to a lesser degree. One of the reasons for the doubt and suspicion must, I feel, lie in the widening involvement of the financial intermediaries both in international settlements and in domestic payments transactions. The feeling of mistrust derives from a conviction that the commercial banks have appropriated too large a share of monetary sovereignty....

The scale of commercial bank intermediation in the financing of the oil importers' deficits and the exporters' surpluses is noted by some with satisfaction: market forces, they say, made up for the indolence of the authorities. Others see it as corroboration of the evil intentions of the authors of reform, maintaining that the eradication of gold from the system and the failure to replace it with official instruments confirm a malicious design to strengthen the dominant position of the American banks....

I thought it relevant to recount these experiences because I wanted to underline the fact that the international monetary system has evolved along different paths from those mapped out by the reformers: the process of international liquidity creation has indeed been divorced from gold production or changes in the gold price. but it has become exclusively dependent on the supply of reserve currencies to the system, and in particular that reserve currency which is its pivot: the U.S. dollar.

In the five years between 1970 and 1976 total international liquidity reserves soared from $93 to $227 billion — an increase of 135 milliard. By far the largest component was made up of currency reserves, which rose by 116 milliard dollars. The major part of the increase consisted of claims in dollars: at the end of 1975 official dollar claims on the United States stood at $80 billion and claims in dollars and other currencies on the Euro-markets at about the same amount.

The United States' long and short-term foreign indebtedness jumped from 47 milliard dollars at the end of 1970 to $126 billion at the end of 1975 and its liabilities vis-á-vis official institutions from $24 to $80 billion. Its short-term debt at the end of 1975 amounted to $89 billion dollars, of which $49 billion was towards official institutions.

The banking system played a large part in this process, contributing to the creation of international liquidity through the expansion of credit. At the end of 1972 short-term lending by the American banks amounted to 16 milliard dollars, and at the end of 1975 to 50 milliard. At the end of 1973 Euro-bank credits totalled 132 milliard dollars, and at the end of 1,975,197 milliard. This lending represented the counterpart of deposits which flowed either into official reserves outside the United States, largely from the OPEC countries, or into the liquid asset holdings of commercial banks and individuals in the same countries....

The process of expansion of international financial intermediation chiefly involved the American banks: between 1972 and 1975 the total assets and liabilities of the US banks' foreign branches rose from 78 to 176 milliard dollars — an increase which exceeded the rise in M1 and M2 in the domestic U.S.economy over the same period. This development is plainly reflected in the balance sheets of the major banks: at 31st December 1975 total deposits in the ooks of the Bank of America stood at 56 milliard dollars; deposits at its foreign branches amounted to 23 milliard. Some 41 per cent of earnings, against 29 per cent in the previous year, accrued from its international business activities. Total deposits in the books of Citibank amounted to 45 milliard dollars and deposits at its foreign branches to 25 milliard. The corresponding figures for Chase Manhattan were 34 and 15 milliard respectively. Morgan Guaranty announced that in December 1975 approximately one-half of its outstanding loans were through its overseas branches.

The scale of the American banks' participation would be even more striking with the inclusion of non-residents' deposits with these banks' domestic branches, figures for which are not published.

The figures recorded suggest that during this period the international monetary system shifted out of the domain of the official international institutions: the private banking system took over the functions proper to an official institution possessed of the power to finance balance-of-payments disequilibria through credit-granting and to create international liquidity....

The assumption by the private banking system of the function of a clearing union, which according to Keynes ought to have been performed by the International Monetary Fund, inevitably brought it to the focus of the public authorities' attention. The international institutions which are appointed to finance growth and development generally adopt a country-by-country credit rating; the private banker tends to place greatest weight on the credit-worthiness of the individual borrower. Hardly surprising, therefore, if the government inspector insists that he apply a national reliability rating, particularly in a period in which there has tended to be a shift in lending from the economically stronger to the economically weaker countries.

Many of those present will recall the climate of anxiety in which the Committee of Twenty met in Rome in January 1974. This meeting took place only a few months after the announcements in Nairobi of imminent success in the reform of the international monetary system. During the meeting an authoritative voice spoke in warning that the situation created by the quadrupling of the oil price was unmanageable. In the event, the industrial countries succeeded in mastering it sooner than anticipated. But the problems of the economically weaker countries have grown.

The rapid improvement in the industrial countries' current-account payments balance found its counterpart in a deterioration of the position of the developing countries. In the five-year period 1968-1972 these countries' current-account deficit had held steady at around 6 milliard dollars a year; in 1973 it rose to 9 milliard; in 1974 to 26 milliard; and in 1975 to 35 milliard. In this last year the group of countries with an annual per capita income of under 375 dollars accounted for about 60 per cent of the developing countries' overall deficit. This confirms that, while preserving the oil exporters' surplus, the policies conducted by the stronger countries to reduce their deficit concentrated the negative effects on the weaker countries.

It should be added that in 1975 the burden borne by these countries in servicing their foreign debt rose to some 12 per cent of the value of their exports: this total is distributed unevenly among individual countries, and for some the percentage is much higher....

In 1976 it is estimated that the developing countries' deficit, including redemption and interest service on their external debt, will come to 42.5 milliard dollars. It should, however, be pointed out that this estimate is based on the assumption that restrictive measures will reduce the level of their imports; it probably also assumes an expansion of their exports, pulled along by the recovery of production in the major industrial countries, on a scale regarded by some experts as optimistic. If all IMF facilities were activated, international agencies would contribute up to 28 milliard dollars towards financing this deficit. Part of the remainder would be covered by export credits; but this would still leave a substantial amount to be met by the international banking system, and hence chiefly by American banks.....

From the situation just depicted certain conclusions may be drawn. The most important, I think, is that there is at present no international monetary system, that is, there is no official institution capable of supplying the international payments system with the liquidity required for the further expansion of trade. This function has been taken over by the private banking system, and primarily by the U.S. banks, through operations carried out by their branches at home and abroad. The private banks have shown a greated ability than the official institutions not only to create the necessary liquidity for the development of trade but also to organize its efficient distribution.

As a result, the IMF's ability to enforce observance of rules of conduct has diminished; it should be remembered that, as originally conceived, the Fund's prescriptive powers derived from its ability to exclude refractory countries from access to conditional credit. As almost all credit is now drawn from other than official sources, the Fund's ability to lay down conditions has been correspondingly reduced. And as the function of creating international liquidity has been transferred from official institutions to private ones, so the task of supervision has passed from international bodies to national ones, whose surveillance, though keener than in the past, has nonetheless never reached beyond the boundaries of national interests.

Furthermore, the achievement of total independence by countries which in the past only enjoyed limited sovereignty has resulted in a greater differentiation of economic structures. The area occupied by the market economy has been narrowed, and in some countries completely replaced by government intervention. The greater the recourse to government intervention, the more difficult it becomes to achieve co-ordination on the international level. The gold standard provided for only one type of intervention: purchases and sales of gold when the exchange rate level reached the gold points; this rule was observed by the majority of countries.

In the absence of a lender of last resort, the barrier to the private banking system taking over the function of a clearing union is credit-worthiness of the debtor countries. As I have already said, the burden of the economically weaker countries is tending to grow; but it is doubtful whether a system based on private institutions can support it. The ability of the system to expand is consequently nearing its limits. It is possible that as these limits are approached balance-of-payments equilibrium may have to be sought at progressively lower levels of economic activity — and primarily at the expense of the weaker countries. The dimension of the problems calls for greater co-operation among central monetary institutions; recent decisions are encouraging....

I have dwelt at length on the banks' role in the development of the international financial and monetary system because this role has given fresh motivation to the long-standing unpopularity of bankers....

Concern at the concentration of power in the hands of the banks lies behind the appeal made by the political parties for more rigorous supervision and fuller information. One circumstance that has helped to shape this attitude is the fact that fiscal policy is formulated through the medium of parliamentary debates under the scrutiny of public opinion, whereas monetary policy is framed in secret and may in some cases come into conflict with fiscal policy. Nor does the fact that it is partly thanks to its autonomous and discrete nature that monetary policy contributes more effectively to the rare successes of economic policy render any more acceptable this element of secrecy which is still its distinguishing trait.

The power of the banks and the need to bring it within narrower bounds are topics of debate in my country within the political parties, the trade unions and the universities. The head of the Communist party's planning department recently published a survey examining the causes of the increase in the economic power of the banks; he concluded by calling for the creation of a capital market where there could be more direct contact between enterprises and savers and where they would be offered a wider range of financial instruments.

In general the proposals for reform of the banking system put forward in Italy stem from the mistaken conviction that the changes that have occurred in Italy's financial structure are radically different from those that have taken place in other capitalist countries; there have been differences at times in the number of changes, but not in their nature....

In Italy the result of the decline in profits and the deficiency of risk capital has been the transfer of firms from the private sector to the public sector, and this has happened at a time when the public sector was progressively losing its ability to measure the efficiency of its resource utilization. Meanwhile, as in other industrial countries, there has been a growing tendency over the last decade for large groups to increase in size, partly by assimilating smaller firms, and this process, in turn, has helped to quicken the pace of expansion of the public sector: in the end it has become evident that it is not the state that rules the enterprises but the enterprises that rule the state. This is the reason why in Italy the Communist party has taken a stand against the excessive power of public enterprises; to the foreign observer it may appear paradoxical: but in a situation such as exists in Italy at present, a party whose aim is to strengthen the authority of the state must seek to encourage this by bringing the state back to the arena of its fundamental duties, and limiting the field of those which are sources of contamination....

Extension of the banks' realm of influence, excessive power of the public enterprises, increasing exercise by the public authorities of their power of coercion in the financial sphere. On the one hand, we can also say: increasing subordination of the banks to the political authorities, of these to the large public enterprises, and of the latter to the banks. The main feature of this chain of dependence is that the sum of the losses of power is greater than that of the gains. It is the whole system that is progressively losing its capacity to control itself, to direct its own course of development and — ultimately — to govern its own future.

In most industrial countries there seems to be a consensus on the advantages of directing economic activity according to a basic plan. Even in the United States politicians from both parties in Congress have tabled a draft law to this effect. In Italy advocates of planning say that a selective credit policy is an essential prerequisite for putting it into effect; the banks in general are reproached for not having applied a selective credit policy; often the accusations come from those complaining that too much credit has been granted to the next man rather than to themselves. In this case the charges laid at the door of the banking system are basically due to the fact that it is required to do what is really the duty of others; it seems to me that the planning of economic activity, if it has to be, should be the responsibility of authorities who have to answer for their actions to democratically elected assemblies.

In international relations the banks of some countries are accused of promoting capital exports and those of others of doing the reverse. We are again faced with the consequences of the authorities' inability to pursue the desired goals of economic and monetary policy and an attempt to delegate the task to the banks. In periods of social and political unrest, if governments wish to continue giving priority to the objective of maintaining communication between their economies, they must accept that funds will move from countries considered to be less stable to those considered to be more stable. Compensatory intervention would certainly be possible, neutralizing the effects of inflows and outflows; guidelines to this effect have been issued within the European Economic Community. But the whole body of provisions aimed at curbing outflows and inflows of capital by means of restrictions — often tried, always without success — does not reflect the ideals on which the Community is based.

Stripdown of European Industry Slated To Set Up Supranational Corporativist Integration

Leonard Woodcock, president of the United Automobile Workers of America and executive of the International Metal workers Federation, will fly to Turin, Italy later this month to discuss with Fiat chairman Gianni Agnelli the Federation's proposal for a "single European union for the auto industry." Agnelli, the leading pro-NATO Italian industrialist, fully supports the concept, according to a New York Times July 2 report, and further believes that "Ford, Chrysler, and General Motors...are the only ones who could set up such a union" since they are the only truly international companies on the continent.

The moves toward an all-Europe auto union are only the current phase of the Federation's plans to set up similar supranational unions for all major metals industries in Europe, Herman Rebhau, Secretary of the International Metalworkers Federation and a head of the UAW's International Affairs division, told a reporter July 2.

The union plans are one aspect of a broader reorganization of all European industry into a supranational structure fully **tripartite** in content. The contractors to this dictionary-definition Nazi corporativist alliance are: Management; the banks and their corporate debtors, which have drawn up plans to rationalize, shutdown, and layoff a quarter to a half of the continent's major industries and restructure the remainder into low-technology labor-intensive modes. A May report by Eurofinance, a joint consortium of Lehman Bros., Dresdner Bank, Sociète Genéral, and a dozen other Atlanticist institutions, calls for exactly this, including the shutdown of a purported 25 per cent "excess" capacity in the European auto industry. The report also contains an endorsement of previous international bankers' calls for closing half of Europe's shipbuilding and good chunk of its steel industry.

—Labor: the Europe-wide, industry-wide new unions' job, Rebhau noted, will be to handle the layoffs and drastic standard of living cuts which will result from rationalization via "Swedish" type programs for retraining, relocation, public works, and other social control programs of the type made notorious by the International Labour Organization.

— Government: The European Economic Commission (EEC) will run all programs on a supernational level, Rebhau said. This is exactly as called for by the December 1975 Tindemans proposal to that body, which advised the EEC to fully integrate itself along military lines as a formal subsector of NATO. NATO's economic arm, the Organization for Economic Cooperation and Development (OECD), acts as a forum for many industrial rationalization programs.

Eurofascism

The International Metalworkers Federation actually has two proposals for new Eurounions, and will settle for whichever it can push past a hostile membership. The first proposal, Rebhau elaborated, is one European wide metalworkers union, including auto. The second is the "company union" concept made famous by Japan's totally management-controlled trade union system: each corporation such as GM or Ford would have a Europe-wide