Economic Summit:
Simon Proposes Austerity Refinancing For Europe

June 29 (NSIPS) — The "Rambouillet II" economic summit of the Big Seven western industrial heads of state ended yesterday in Puerto Rico with a call by U.S. Treasury Secretary William Simon for "temporary" refinancing of Italy and other bankrupt European nations under "stringent" austerity measures Simon demanded a "new financing mechanism" set up under the control of the International Monetary Fund (IMF) to force Italy and the rest of Western Europe to "put their economic houses in order" — i.e. guarantee debt payments — with budget cuts and credit contraction today's Wall Street Journal reported.

Simon's statement indicates that the actual implementation of harsh new austerity measures in Italy is a do-or-die issue for the New York banks. The no-strings $5.3 billion handout to Britain recently cannot be repeated for Italy, a U.S. Federal Reserve spokesman said today. A handout would be openly hyperinflationary and would destroy the credibility of any new austerity demands that the U.S. and its West German apprentice debt collectors might make. Market confidence in the collectability of some $300 billion in Third World and related debt, already severly shaken, could collapse completely.

Because of strong working class resistance, however, the political feasibility of Simon's demands is "entirely unclear," an IMF authority on Italy bitterly admitted today. "Simon's idea is all very nice," he sneered, "but he says 'conditions.' The question is: can we set them?"

Bankruptcy in High Places

Despite Simon's urgings, the summit produced no decisions whatever on the critical issues facing the bankrupt Atlanticists. Instead the Big Seven spoke at cross purposes, venting their rage and helplessness to no result. President Ford gave a lecture on go-slow Republican economics, warning against inflationary growth policies. The West Germans denounced the flood of short term capital movements which have wracked the monetary system — a veiled warning against the looming catastrophe of the hyperinflationary Eurodollar market. The French proposed to offer the Third World a commodities fraud, a position already rejected by Ford. Behind the scenes, bankers and government officials alternately begged and threatened Third World governments to convince them not to declare debt moratoria.

The fate of the Simon plan in the final summit communique was exemplary of the entire proceedings.

To set up his "new mechanism," Simon originally suggested use of the $6 billion General Agreement to Borrow facility of the IMF. The ten major Western nations would make extraordinary funds available through the IMF which would thereby enjoy a dictatorial grip on the economy of Italy or any country agreeing to the terms. But the final summit communique said nothing of all this, merely referencing vague "balance of payments assistance" by "multilateral means" to needy nations.

Equally weak was the final communique's call for general austerity. "Better balance in public finance" (budget cuts) and "disciplined fiscal and monetary policy" (government services and credit cuts) are "involved" in "avoiding inflation," it read, after much armtwisting by Simon and Kissinger. Britain, Italy, and Japan openly denied this was any sort of commitment. Each country will be "going its own way" said British Prime Minister James Callaghan, insisting that "appallingly high unemployment" is a more basic issue than credit cuts.

No joint position whatsoever was reached on Kissinger's strident demands for solidarity against the Third World. According to the French financial newspaper Les Echoes, the pro-NATO Giscard government of France pushed "concessions on raw materials" — the Brookings Institution's commodity indexation hoax — solely to avoid "moratorium for Third World debts, the main demand from developing countries, ...hostility to which" is the "only point of agreement between the U.S. and France." President Ford made sure the U.S. rejected commodities agreements, and West German Chancellor Helmut Schmidt's delegation insisted the issue was "nonsense."

Rockefeller Orders Japan To Bail Out Debt-Strapped Countries Or Face Collapse

At the recent Puerto Rico summit and the Paris OECD meeting, the squeeze was put on Japan by the New York banks and their political representatives in the U.S. government to force an orientation of Japanese economic policy around bailing out the key countries with now-unpayable debts to the New York City banks. This was to be done, Lower Manhattan said with many voices, no matter what the cost in living standards or disruption of Japan's domestic financial structures.

At the Puerto Rico summit, a top official of the U.S. Treasury Department explained, the line was laid down: "Japan must run a large current account payments deficit including a large trade deficit in order to allow weaker countries such as Britain, Italy and certain Third World countries to reduce their payments deficits. The international monetary sytem cannot survive continued (rollover) loans of the type that these countries' deficits made necessary earlier. Whether Japan increases its imports or decreases its exports the same objective is achieved."

Similarly, a leading economic spokesman for David Rockefeller's Trilateral Commission told NSIPS this week, "For the last six months, Japan's economic has ridden on the back of the U.S. recovery. This cannot continue. From now on, Japan should base its recovery on domestic expansionary fiscal measures."

If Japan continuues resisting this policy, the U.S. government is prepared to force it through using economic backmail. A Treasury official threatened, "If Japan doesn't go along with this policy, then the Europeans will tend to impose unilateral restrictions on imports of Japanese goods. The objective will be achieved in any case." According to U.S. government officials quoted in the July 2 Journal of Commerce, Prime Minister Takeo Miki was threatened that if Japan failed to restrain its exports to the U.S., then the U.S. would force an upvaluation of the yen within weeks.

Recovery Collapses

The background to this pressure tactic is the unravelling of the fraudulent "export-led recovery" scheme that had been worked out last September in a secret meeting between Japanese Deputy Prime Minister and Economic Planning Agency head Takeo Fukuda and Chase Manhattan Bank Chairman David Rockefeller in New York. Hyperinflationary consumer credit and inventory financing measures in the U.S. allowed Japan to export astounding amounts of autos, color TV's and other consumer durables to the U.S. — in some cases 90 per cent above 1975 levels! This export "boom" was the sole basis for the 2-3 per cent Jan.-April monthly increases in Japanese industrial production. Simultaneously, hot international money supplied by the New York banks entered Japan at a rate of some $500-600 million per month, providing needed liquidity for Japan's corporations. Without this, Japan's economy would have continued the downturn that began in Oct.-Dec.— especially since International Monetary Fund austerity policies in the Third World had cut into Japan's exports.

However, as soon as the disruption of the U.S. money markets caused by this inflationary policy forced the U.S. to tighten credit and raise interest rates, then Japan's exports were sent into a tailspin propelling the entire economy back into a depression. Ex-prts dropped 7 per cent in April from March and declined marginally in May; industrial production dropped 1.7 per cent in May with 3-5 per cent rates of decline in the various machine toll sectors.

The flows of hot money have reversed, leading to a net $600 million outflow in June. As a result, the Bank of Japan was forced either to print yens leading once again at a 30 per cent plus inflation rate, or to tighten money and continue the collapse of capital goods production. It has taken the latter disasterous course.

The End of the Road

The New York City banks are fully prepared to let Japan go down the chute, unless Japan bails out the debtor countries. The Rockefeller group had seen the export scheme worked out with Fukuda simply as giving Japan breathing space within which to accomplish the following measures:

*reduce wage hikes to below the inflation rate (nearly accomplished this spring when average wage hikes were kept to 9 per cent.)

*replace a good portion of consumer goods production with public works projects financed by budget deficits and increased taxes (not yet accomplished).

*while abandoning capital goods exports to the developing sector in compliance with IMF austerity policies, import raw materials from them for the public works projects — thereby providing these countries with income that could be siphoned into the New York banks through debt payments,

*to facilitate the bailout of such Third World countries, especially those in danger of declaring debt moratorium, increase yen-denominated and yen-financed trade and increase the use of the yen as a reserve currency.

Miki, however, has consistently refusd to carry out Wall Street's order to crack the austerity whip. Instead he used the breathing space allowed by the export fraud to avoid enforcing austerity. On the other hand, Miki also failed to set the basis for a real economic recovery, once the export fraud fizzled out.

In May, Rockefeller-agent Fukuda and his dupe Liberal Democratic Party Vice-President Etsusabura Shiina were able to begin a drive to oust Miki from power, to replace him with a Fukuda-led rightwing austerity regime that could carry out Rockefeller's orders. In a July 2 interview with the Mainichi Daily News, Shiina admited that the real reason for the oust Miki drive was not their differences on the handling of the Lockheed bribe scandal investigation (as he had previously claimed) but rather Miki's refusal to deal with the economic slump through fiscal budgetary measures — the public works policy pushed by the Trilateral Commission.

Will the Japanese Economy Survive?

At this point, the key to the survival of the Japanese economy is the mobilization of the forces committed to economic development around a policy of technological and capital aid to the developing sector: left-wing political parties, industrialists and sections of the bureaucracy. This policy, which, Miki had pushed at last fall's Rambouillet summit is still being consistently pursued by the Ministry for International Trade and Industry, such business leaders as Keidanren (Business Federation) president Toshio Doko, Miki adviser and former Foreign Minister Toshio Kimura and the influential Yomiuri newspaper, among others. However, other than two articles in the Yomiuri in April, none of these forces has publicly advocated the debt moratorium — the necessary first step to carry out such policies.

Miki continued the vaccilation at the Puerto Rico summit. He resisted pressure for an upvaluation of the yen and supported the sham "Third World demand" for a commodities fund, but failed to go even so far as he had last fall to push a positive policy of Third World development as the basis for world economic recovery.