Nor should we continue to accept the proposition that such reforms must wait the convenience of the handful of economically strong countries. Every effort should be made to involve the more seriously afflicted countries in concerted action to get a new deal under way. And, if that gets nowhere, there will be strong case for their taking unilateral action.

If Britain were to argue, as it now reasonably could, that it has been driven so far into a corner that only the introduction of a siege economy makes sense, it would be striking a blow not only for its own people but also for international economic sanity.

Daily Mirror:
No Social Progress Without Industrial Progress

Sept. 30 (NSIPS) — the following is an extract of an editorial, "The Making or Breaking of Jim," which appeared in the Sept. 27 London Daily Mirror.

When Jim Callaghan speaks at the Labour Party conference tomorrow he will be addressing not only his party, but the nation and the world... The British people are anxious. Bewildered. Confused... They are told that a new prosperity is on the way. Yet they know their living standards are slipping further... They have swallowed the pay policy... They want to know if there will have to be yet more painful medicine... They want to know if North Sea oil will really bring prosperity — or merely settle old debts. Jim Callaghan must not offer bromides... He must spell out the need for profits. Not Cayman Islands profits that wave two fingers at Britain... But profits to invest... Not investment to make an easy buck out of asset stripping that destroys jobs. Not investment for a quick killing in Singapore securities. But investment in export industries that will lead to new jobs... There can be no social progress without industrial progress. No better Britain without a better economy.

Daily Telegraph:
Pax Americana Finished

Sept. 30 (NSIPS) — The following is an extract from an editorial "The End of Pax Americana," which appeared in the Sept. 27 London Daily Telegraph.

When the IMF was set up at Bretton Woods after the war, the "Pax Americana" ruled and the Fund was its international policeman so far as exchange rates were concerned. The Pax Americana no longer rules. The United States mood has turned against the extension of "government" both internally and externally and even if it had not, new economic powers have developed in Japan, Germany and the oil producers to challenge United States dominance.

In an exchange rate world where the laws have nearly disappeared, the role of the policeman becomes almost redundant. The power of the IMF has often been exaggerated in this country, doubtless because of Britain's recurring need to supplicate the Fund for foreign currency loans. But in any case, the Fund can only exercise its discretion effectively within a framework of clear and firm rules. If that framework dissolves, as it has largely done....the Fund's effective power diminishes.

Industrialists, Regional Bankers Mobilize To Stop Bailout Of New York Banks

Oct. 2 (NSIPS) — The Eurodollar market is dead, and the capitalist factions on both sides of the Atlantic who have been swindled by it are making preparations to save their necks. In the midst of preparations for the next world economic order, the Rockefeller-connected banks and their Congressional lobbyists and Federal Reserve Board supporters in Washington, D.C. are conspiring to destroy the public credit of the United States by arranging what would amount to a trillion dollar bailout of their bankrupt Eurodollar "salad oil" operations.

What the stooges of the Rockefeller financial interests, Treasury Secretary William Simon, Federal Reserve Board Chairman Dr. Arthur F. Burns and Vice-President Nelson A. Rockefeller propose is the deliberate, complete destruction of the U.S. economy. The Eurodollar market swindle — based in the regulation-free lotus-land of Grand Cayman Islands banking rather than in London as is commonly believed — includes at least $250 billion in loans to Third World nations, which are now on the verge of declaring a unilateral debt moratorium. Most of these debts are held by eleven U.S. banks, most of them in Lower Manhattan. Immediately upon the announcement of debt moratoria — if not before — the entire trillion dollar paper swindle of Eurodollars will come crashing down. To bail out the Rockefeller banks the Federal Reserve would have to instantaneously print upwards of a trillion dollars in additional government-backed money — an act of insanity that would destroy the entire credit structure of the United States and flatten the U.S. economy in one single blow. As one investment adviser described it: "My God, we'll have a 30-cent dollar!" Yet these bankrupt banks and their tiny but powerful band of Washington-based supporters are prepared to go this far and further in their frantic efforts to conceal their bankruptcy.

Several leading regional banks, a majority of the 12 regional banks of the Federal Reserve System and the leading Fortune 500 U.S. multinational corporations have already blown the whistle on this conspiracy. The Chicago Federal Reserve Bank — whose sources have confirmed stiff opposition to any bailout of the Eurodollar banks — devoted the entire September issue of its magazine, Business Conditions, to a discussion of banking "triage." The magazine notes that "the failure of a bank...may serve some useful purpose; namely, it tends to weed out inefficient or mismanaged firms. To subsidize such firms by artificially perpetuating their viability through stringent regulation is unlikely to provide benefits to society that clearly outweigh social costs." And the Kansas City Federal Reserve Bank pointed out: "The letter of the law and the Congressional charter to the Federal Reserve permits only emergency assistance to salvageable, viable and well-managed banks in temporary difficulties. A bailout of the big New York banks would be overstepping that charter." Both Chase Manhattan and First National City banks of New York, the financial power base of the Rockefeller family and the banks that totally dominate the Eurodollar market, are on the Comptroller of the Currency's active "Problem List" for poor management.

Bailout Conspiracy by Fed, Treasury

The September 27 issue of Wall Street's authoritative weekly, the Money Manager, which warned of imminent unilateral declarations of debt moratoria by a hard core of Third World Nations at the ongoing United Nations General Assembly session, indicated that Federal Reserve and Treasury officials met this past weekend to chart out bailout contingency plans, and a spokesman for Dr. Burns at the Federal Reserve Board subsequently confirmed that the meeting had actually taken place. Dr. Burns on a number of previous occasions has indicated his readiness to bailout the New York banks come what may.

Two of Wall Street's leading bank analysts confirmed that these were indeed the Fed's intentions. "Burns will never let the major New York banks go," said the bank analyst at a leading New York investment banking house. The other suspected that the bailout was already underway. According to this source the sudden, shocking $4.5 billion jump in the nation's money supply for the week ending September 15 — a quarterly corporate tax-payment deadline — was a modest side-effect of a torrent of Federal Reserve bailout money unleashed onto the markets. This bulge in the money supply, by far the largest on record, was a first down-payment on an 80 per cent rate of annual increase in the nation's money stock — a leap into Weimar hyperinflation.

The justification for these bailout operations is the popular myth — assiduously fostered and promoted by the New York banks and their supporters — that a collapse of the major New York banks will destroy the nation's financial structure. No one should swallow this myth. A former Governor of the Federal Reserve who himself opposes a bailout of the New York banks, is confident that a "damage control" action such as the one taken during the reorganization of New York's Franklin National Bank would localize the damage and insulate the rest of the financial structure from any chain-reaction effects. "All that is needed," he told NSIPS this week, "is that the FDIC and the Fed move in, do 'damage control' operations by ensuring continued payments of maturing obligations to individual depositors, corporations, regional banks and the Fed and the Treasury." "The next step," he continued, "is to write off the uncollectable debts. Then set-up a new bank with all the healthy assets on its books." All this can be accomplished in a day or two with no side-effects to the rest of the economy.

In all probability, the doors of Chase Manhattan, First National City and Chemical Bank, among others, would have been shut already had it not been for the free-rein provided to Dr. Burns to manipulate worldwide dollar rates for his masters' benefit — a fact documented at great length in the Staff Report on International Banking of the House of Representatives' Banking and Currency Committee this August.

However, Burns is not to be blamed alone for this. Like all swindles, the Eurodollar market depends on suckers — U.S. regional banks, European banks, multinational corporations, the reserves of the large oil-producing states, etc. These folks are now saying "no go." The present pace of capital flight from the New York banks and their Eurodollar subsidiaries, estimated at "just below panic proportions" by several knowledgeable sources, is a fact. New York's Lazard Freres investment banking house, now transferring its holdings out of New York banks and into regional banks, is merely the last to pull out.

It is due to this that a conspiratorial, printing press-based bailout action is the only option the New York banks have to maintain their facade of "book solvency."

Gauging from the sentiments against such a bailout expressed by policy-making level officials at the Federal Reserve Banks of San Francisco, Dallas, St. Louis, Chicago and Kansas City, it is very likely that the Federal Reserve Board in Washington, D.C. would go for a bailout action as an emergency measure without first informing the regional Federal Reserve Banks. It is for this reason that, despite the private assurances of the White House staff and regional interests that they will fight any such bailout "tooth and nail," the U.S. Labor Party is preparing to secure a Federal Court injunction barring a bailout of the banks.

Chicago Bankers: "Let the Chips Fall Where They May"

Sept. 30 (NSIPS) — The following four excepts are from a series of interviews with Chicago bankers Sept. 28 on the possibility of a Wall Street bailout scheme for the New York banks in the wake of Third World nations declaring debt moratoria.

Harvey Rosenblum, economist at the Chicago Federal Reserve Bank: "You are assuming the worst regarding these nations' debts.... It's possible.... If so, who knows what will happen.... Some New York banks will be in very bad shape.... Yes, they might go under, but, that is, as I say, assuming the worst.... If so, then Congress will have to pass emergency banking legislation.... The question is what would such legislation be designed to do: bail out these banks — or protect the rest of the banking system?"

Dr. Herbert E. Neil, Jr., Vice President and economist at Harris Trust: "I don't see any reason why the government should step in with guarantees, bailouts, or preferential treatment....Other banks, regional banks, wouldn't stand for it....If these nations decide to declare debt moratoria, there's really not a thing we can do about it....I say let the chips fall where they may."

A leading regional banker: "Chicago and other regional banks have already begun to prepare for the trouble New York is going to have....They have begun to tightly restrict their dealings, in the past several weeks, with very large Eurodollar operating banks on transactions such as Fed funds and so forth....This, I think, reflects the growing concern of our major industrial corporations with the New York majors....Major industrial corporations are taking a long hard look at their own dealings with these banks...."

A prominent regional banker: "Yes, you're right on target....We picked up on this bailout scheme as you said....We're with you 100 per cent on this one....We'll try to force this into the open in the Senate and House Banking Committee and in the White House."

"Society May Be Better Off With Some Bank Failures"

Sept. 30 (NSIPS) — The excerpts below are from an article by Chicago Federal Reserve Bank economist Harvey Rosenblum entitled "Bank Capital Adequacy," which appeared in the September Business Conditions, a monthly economic review.

The soundness of the banking industry in general and of individual banks in particular has received considerable attention in the last few years. For the most part the attention has centered around the failures of several very large banks, the disclosure of information concerning massive loan and investment losses arising from the de jure or de facto bankruptcy of well-known corporations, municipalities, and investment companies, and from Congressional hearings scrutinizing the adequacy of bank regulation.... Capital ratios of the banking system have declined appreciably over the last 15 years giving rise to concern whether capital is "adequate."...

Indeed, society may be better off with some bank failures if the capital that would have been used to prevent bank failures has a higher marginal return to society when employed in an industry other than banking. In other words, from society's point of view there is some optimal number of bank failures which need not necessarily be zero.... Monetary systems are based on credit and faith; when there a breakdown in the latter, a liquidity crisis is bound to follow....

The importance of adequate financial disclosure cannot be overemphasized. A crisis of confidence with respect to the banking system or individual banks comes about because the public **suddenly** becomes aware that a bank is encountering difficulties, whereas they have been led by regulars to perceive all banks as carrying the same (i.e., zero) risk. Uninsured depositors might have believed in this myth in the halcyon days when large money-center banks did not fail; but since the failure of Franklin National Bank of New York, uninsured depositors no longer perceive all banks as being equally risky. In the absence of complete and timely information, banks have been separated into risk classes by criteria such a size, location, and rumor. At such times, many banks were forced to pay credit risk premiums that bore little relation to their true creditworthiness. To the extent that some uninsured depositors acted on the basis of a belief that the nation's largest banks would not be allowed to fail, the cost of funds to these banks did not rise concomitantly with the risks they were undertaking in the loan portfolios. Thus, there was no effective market mechanism which acted to discourage the favored banks from increasing the riskiness of the institution....

The mere mention of an optimal rate of bank failures implies that bank failures are not, by definition, all bad. Indeed, the failure of bank, like the failure any other business enterprise, may serve some useful purpose: namely, it tends to weed out the inefficient or mismanaged firms. To subsidize such firms by artificially perpetuating their viability ... is unlikely to provide benefits to society that clearly outweigh the social costs.

In retrospect, the large bank failures that occurred in the last few years appear to have been comparatively unimportant economic events in that they did not exert a domino effect by touching off a **wave** of bank or other business failures, did not cause a breakdown in the payments mechanism, and did not cause widespread or even local unemployment.... Large bank failures may even have been beneficial ... to the extent that such failures induced changes in practices at other banks — changes that might not otherwise have taken place.

Mismanagement, along with insider dishonesty and fraud, are the major causes of bank failure today. But bank failure arising from mismanagement serves a socially efficient resource use; actual failure terminates resource misallocation.

For the discipline of the marketplace to provide a stabilizing influence, investers in bank securities, suppliers of federal funds, and owners of large deposits and CDs must penalize those banks with insufficient capital by shifting or threatening to shift their funds to other banks....

High risk banks (i.e., those engaged in speculative lending activity) would be forced (with appropriate disclosure — ed.) to pay a risk premium to attract funds, surely an improvement over having to pay a premium based upon size or location....

Nearly ten thousand banks failed in the 1930-33 period when capital ratios were substantially higher than current levels.... A safe and sound banking system is not free — increased safety is available but only at the price of giving up a more competitive environment. When put in this perspective, the relevant questions become "how much safety do we want; what will it cost; is it worth the price; and can we afford it?"

New York Fed: Euromarket Story "A Bombshell"

The following is an interview with an official at the New York Federal Reserve Bank.

Q: What do you think the effect of Third World debt moratorium will be on the Eurodollar market?

NY Fed: Those developing nations tied to the United States have not joined in the moratorium demands... (The demands) comes from countries that do not really have any substantial debts. But treat the story very carefully. It could be like a bombshell if a major New York City daily were to play up the spectre of this collapsing the Eurodollar market. The spectre is not justified... We don't want to cause distress. Who wants default?

Q: Did you know that the Italian government is supporting the Group of 77 at the United Nations on the debt moratorium?

NY Fed: Italians? I have never seen any responsible Italian official say this... I just can't believe it, that the Italians have this position. A paper would leave itself open to all sorts of implications if it printed that story.

Q: What would be the effects of any debt moratorium on the markets at this point?

NY Fed: Caution is extremely important. There's no denying that there have been a lot of statements, but there would be no significance, little significance for the markets. The substantial debtors are small in numbers. A handful of small countries hold 90 per cent of the debt. Borrowing is very concentrated.

New York Banks Force Pound Collapse

Sept. 30 (NSIPS) — A chief trader at one of the top three commercial banks in New York offered the following analysis of the collapse of the pound sterling in an interview yesterday.

"Everyone knows that the pound collapsed because the U.S. told the British that it would not finance support at these levels. In other words, the New York market thinks the pound should be at $1.50, $1.40 — there's no floor.

"Sure, one very important aspect of this is it creates a general run on all the weaker currencies. Look at the snake: the Belgian, Swedish, and Dutch currencies are at the bottom. After the elections, the spillover from the pound will force the Germans to revalue the snake — put the mark up from 40 to 45c, drop the others, and the French franc will fall too. The lira today came under a heavy dumping wave from New York. The oil companies battered it, directly related to the collapse of the pound — at one point it fell so much the Italian banks weren't even making a market.

"The Germans and the other central banks are crazy for defending these parities. There'll probably be a new government on Monday, anyhow. New York wants those other currencies devalued and so does Washington — it will do wonders for the dollar."

Banker Picks Countries Who Will Declare Debt Moratorium

Oct. 1 (NSIPS) — The following is an interview with the partner responsible for the Third World at a New York investment banking house.

Q: Did you hear (Guyanese Foreign Minister Frederick) Wills' speech (at the United Nations General Assembly Sept. 27)?
Banker: I sure did. But I tell you Mexico and Brazil won't actually go with a unilateral declaration of debt moratorium. These two may pay lip-service to it buy they aren't going to do it. They have told us so privately.
Q: Oh, yeah!! Who else has told you they won't go along?
Banker: As you know I've been traveling all over on this question. So far I'd say I'm sure about Liberia, Madagascar, Tunisia, Morocco, Brazil, Mexico, and let's see who else. I'm not really sure about Argentina, but Chile I think won't go along. Oh yes, Ivory Coast. We are working on Egypt. Algeria will go along. Yugoslavia has problems and most probably will. The Sudan won't. Indonesia probably will. That's more or less it.
Q: In that case it's all over for the Eurodollar market and the New York commercial banks, isn't it?
Banker: Oh, no, if the amount involved is around 50 billion dollars then it can be handled. The market has been preparing for it for many months now.
Q: Forget about numbers. It's the panic withdrawal of deposits that will collapse the shebang.
Banker: Hmm! Now I gotta go, we'll talk some more later.

Third World Countries Are Already In Default

The following item is reprinted from the United Nations General Assembly Bulletin circulated by NSIPS at the UN Oct. 1.

Contrary to the lie that unilateral debt moratorium will damage the credit standing of Third World countries, most Third World countries are already in default on their debts. UNCTAD, the Swiss Bank Corporation, and other authorities note that these countries are involved in a destructive political charade, with the cooperation of their bankrupt Euro bankers, to cover up these defaults.

The following examples show that there is already general default on Eurodollar loans.

BRAZIL

Brazil, with the largest debt in the Third World of 29 billion dollars, is also bluntly characterized by Loeb, Rhoades, and other major Wall Street investment banks as "the biggest time bomb of disaster for the Euromarket." The monetarist indexation of Milton Friedman has reduced real wages by 80 per cent and so destroyed labor skills and industry that Bankers consider fully **half** of Brazil's foreign debt unpayable and technically in default. "The Federal Reserve is just not reviewing Brazilian paper on the banks' books," said one source.

The Brazilian government, long the favorite of the New York banking community, has been forced to demand that multinationals in Brazil accept equity shares in Brazilia industry in return for 5 billion in debts the government has openly told them it cannot pay. Under this pressure to own what is obviously bankrupt, the multis and banks retaliated with a trade and other credit embargo on Brazil. The country is now importing out of its dwindling foreign exchange reserves.

EGYPT

Egypt's long-term and short term debt owed to the Eurodollar market is estimated to be between 13 to 14 billion dollars. According to New York's Chase Manhattan Bank, Egypt is at least six months behind on payments of debt service. This has been going on for at least a year. Eurodollar banks are not extending any long-term to medium-term credits to the country. A facade of debt payments has been maintained somewhat by extending short-term debts by Eurodollar banks, the bulk of which is then used to "pay off" interest on past debts. No repayments of principal are being made.

ARGENTINA

Argentina, with a conservatively estimated foreign debt of over $10 billion, has a military coup for the self-announced purpose of dealing with its debt problems. A week before the coup, the Finance Minstry announced and all bankers concurred that Argentina was in default absolutely on some $3.6 billion in foreign commercial debts, and falling behind on more daily. Since that time, the country in international begging missions, despite its compliance with bankers' demands for a coup, has received no more than $1 billion in international loans, and remains clearly in default on close to $3 billion.

INDONESIA

Indonesia, which has nearly $16 billion in debt outstanding to Western creditors — primarily Eurodollar banks — most of which were direct credits issued to Indonesia's state-owned oil company, Pertamina, is at least $1 billion in default on debt service payments to the Eurodollar banks. Indonesia has not made any debt service payments to its Western creditors since at least the beginning of this year, according to New York bank sources.

NORTH KOREA

Almost one year ago, North Korea defaulted on almost $2 billion of debt owed to Western creditors. No U.S. credits — commercial or official — were involved. Sweden has already accepted North Korea's debt default, while Japanese creditors are presently negotiating an arrangement with the government of North Korea on the former's debts owed by North Korea.

PERU

Early this summer, Peru went into publicly reported defaults on at least $460 million of its $5 billion foreign debt. Peru is now in default, months later, on over $500 million.

ZAIRE

Zaire's public default,now put by its creditors at a mere $700 million, is the tip of the iceberg. The country with a $6 billion foreign debt, is defaulting daily on more payments and interest coming due, and is likely up to twice that amount in arrears. The