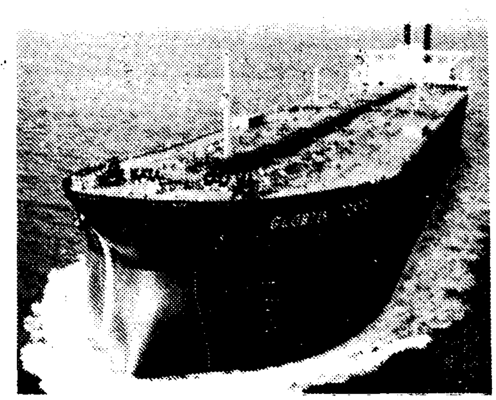

Will Britain Declare Freeze On Foreign Sterling Balances?

Oct. 30 (NSIPS) — Friday's currency counterattack by the British government of Prime Minister James Callaghan — an engineered "bear squeeze" against Wall Street banks with massive unprotected speculative positions in sterling — will probably lead to a "freeze" of foreigners' sterling balances effective next week.

All indications are that the British will make the sterling inconvertible at that time. By relieving Britain of the burden of managing a secondary international reserve currency for the dollar empire this action will immediately free the country's economy for productive expansion under triangular trade and credit arrangements. But it will also mean the end of the Eurodollar market in the consensus view on Wall Street.

Yesterday the pound sterling shot up as much as five cents to the $1.62 level on the Singapore markets and above the $1.60 level everywhere else on the basis of unconfirmed rumors initiated by the British government's televison network the BBC that a joint U.S.-West German-Japanese £10 billion package was being prepared to guarantee the $10 billion of overseas sterling balances held in London. A BBC official in New York admitted that there might be a lingering impression that this was a "grey propaganda" operation against Britain's creditors. "We are aware of that," he said. "That is why we have so much confidence in our sources." The Reuters wire services later published denials by all the supposed participants in this package but not before Wall Street speculators had lost their shirts. Later the pound dropped to $1.58 in New York when the New York market realized they had been duped.

With his bridges burnt Mr. Callaghan has little choice about the matter come next week. The New York banks are poised for a major run on the pound next week to recoup their losses.

What Mr. Callaghan is buying time against was laid out most realistically by Wall Street's foremost "Britain Watcher" at Schroeder's Bank. According to the international banking chief there Callaghan is under triple pressure. First the Commonwealth countries do not want dollars in exchange for their sterling balances. Second the European Economic Community will not agree to any import controls by Britain which could further exacerbate the deterioration of their exports. Third the Labour Party left wing and the Trade Union Congress are adamantly against any further International Monetary Fund-dictated austerity. On top of it all he is threatened with a coalition government by Wall Street. Hence the only way out for Callaghan is total inconvertibility of the pound sterling.

In New York terrified bankers admit they have lost a crucial round of the currency warfare they began against Western Europe with the Oct. 18 devaluation of a group of European countries against the West German mark. Federal Reserve, IMF and New York bank officials planned to smash up European resistance to genocide austerity levels through what one banker called a "monetary Pearl Harbor" against Italy, Britain, France and other recalcitrant countries. Commenting on the British threat an economist for Schroeder's Bank in New York said "Callaghan has got to back down. If he doesn't the Eurodollar market has had it."

Britain has been in full uproar following the collapse of sterling from $1.65 to $1.58 in a pre-arranged speculative assault on Oct. 25. The London Daily Mirror warned in a banner headline "Don't push us too hard!" The collaboration of the banks and the Federal Reserve to destroy the pound has been a matter of open discussion on the floor of the British parliament and members of the ruling Labour Party have openly accused Finance Minister Denis Healey and Bank of England governor Gordon Richardson of sabotage.

Callaghan who backed down pathetically from a fight with the banks two weeks ago is now demanding a bailout from the West Germans and Americans insisting they take over the £10 billion in "sterling balances" — or Britain will default. But Fed and U.S. Treasury officials who admit privately they want further budget cuts and devaluation of the British currency say they won't give Callaghan an inch. The West German and Japanese government have publicly denied they will join in a bailout. In West Germany, government banking and industry officials insist that not another dollar of German reserves will go for hyperinflationary bailouts of other countries' debts. A top banker commented "If I were Callaghan I would freeze the sterling balances. The only other option would be to have West Germany buy them up. But we absolutely will not do that."

Wall Street is in a vicious bind after the British followed Italian Prime Minister Andreotti in resisting their "Pearl Harbor" attack. If they shell out another several billion dollars for Britain's bailout then they admit a major political defeat — and open the way for Italy to move for full-scale debt moratorium. Callaghan has been pushed to the limit. The $5 billion cut in public spending the banks and reportedly the IMF are demanding for Britain would gut the economy and destroy the British Labour Party as an institution. Rather than self-destruct the Labour Party is much more likely to freeze sterling and thereby brin the Eurodollar market down. If the banks draw back and pay up they give their other victims swinging room to retaliate.

Andreotti's government in Italy which has been a strong behind-the-scenes supporter of debt moratorium and the New World Economic Order has done nothing since it imposed a "freeze" on the Italian lira last week — a partial debt moratorium which cannot stand up for long without a full move against the Eurodollar market.

The Labour Government in Britain which will accept a German-American bailout of the type Callaghan demanded but which will not go down without a fight has had a plan ready for a freeze of the sterling balances since the beginning of this month. Under this plan sterling holders mainly governments and companies of former British colonies would be "compensated" for the freeze with a long-term industrial development program.

Now that both these governments have stood up to the Wall Street offensive they cannot retreat without committing suicide.

Callaghan:
Don't Push Us Too Far

Oct. 29 — The following extracts compiled from the British press were taken from British Prime Minister James Callaghan's television interview on the BBC Panorama program Oct. 25:

Asked why the pound was continuing to fall despite assurances from the British Government, Callaghan said "It is basically because we are a reserve currency. I must say I rue it and I should love to get rid of it. From Britain's point of view I see no particular value from being a reserve currency at all. I should very much like to see us get into a position where these liabilities in our selves which we have as a reserve currency were taken over in some form or another. Germany, American and perhaps Japan had some responsibility there."

Callaghan warned West Germany, the United States, Japan, and the International Monetary Fund not "to try to force us into policies which would be so harmful to the economy that we would go into a downward spiral...(If this should happen) then we should have to say to some of these countries: 'Look, the IMF and yourselves must accept the political consequences of what you are doing.' "

If "we are pushed because there is a short-term problem into a position where we would have to make a choice whether to carry on with these responsibilities (via the British Army on the Rhine) or whether we have to say 'sorry, our economic situation demands that we put our own position first,' this would be a very serious matter for Europe."

According to the London Times, Callaghan reiterated the government's industrial strategy, stressing that "during the next three years public spending as a proportion of the gross domestic product had to come down, and that was what the Government was aiming for. But spending could not be cut to the point where it would be socially divisive. He rejected suggestions that several thousand million pounds should be cut from public spending. He reaffirmed his confidence in the Government's policies. No others would work. Of the few options available, he favoured growth at a sustainable rate, but not to the exclusion of other possibilities. Manufacturing industry had got to go ahead, that was the point to start from and other things were subordinate to that. No other strategy would work, and no other strategy which would provide the finance."

Press Labor Members of Parliament Mobilize Support For Callaghan

Daily Mirror, Oct. 26: Front-page headline warns: "Don't Push Us Too Hard" in support of Callaghan's warning to the International Monetary Fund. Their editorial castigates the "merchants of fear" on the international monetary markets who "want to panic the Government into massive public spending cuts. The atmosphere in which the sterling hitmen thrive and breed will only disappear with a return of confidence. What a state Britain is in when international financiers take more notice of a single article by a financial journalist than they do of the Chancellor of the Exchequer."

Len Murray, General Secretary of the Trades Union Congress: Following a meeting with Callaghan Oct. 26, Murray said, "We were quite clear that the TUC (Trade Union Congress) will continue to support the Government as long as it does what it said it is doing, which is sticking to the (industrial) strategy and keeping its nerve, and refusing to be panicked in the present situation...We told the government that there is a danger. We told them plainly that they should not fall into the trap of the opponents of economic growth, the monetarists, the self-appointed arbiters of the destiny of nations dictating the terms of the argument. We think it is more important that reality should break into the discussions and we should talk in terms of output, exports and employment and not merely in monetary terms." According to the London Times, "the TUC strongly supported the view that there was no particular role for sterling as a reserve currency and there was a strong case for mobilizing the reserves to provide the necessary cushion against the 'irrational movements we have seen in the past week.' "

Clive Jenkins, General Secretary of the Association of Scientific, Technical and Managerial Staffs: "It is now time for the TUC once again to call for the pound to be withdrawn from the international gamblers' table by ending its role as a reserve currency."

Norman Atkinson, chairman of the left-wing Tribune group of Labour Party MPs: Called upon the government in Parliament to "say the time has come when we should take away from speculators the chance of dealing in this sense and for the Government to set the exchange rate, so we would adopt positive policies which will bring our external trade into balance and do away with the vulnerability which continues to exist and continues to weaken our Labour Governemnt."

Eric Heffer, member of the Tribune Group: Heffer in Parliament said, "Many of us are convinced that there is a conspiracy both on the Opposition side of the House and by certain press barons to try to force this government out. That is the whole design behind the present policies (the collapse of the pounded.) we are facing. We have to ignore the nonsensical rubbish from people like Milton Friedman who advised the Chilean junta on how to deal with its economy and they have trebled unemployment and inflation as a result of the rubbish we have been hearing from that side and from people like Milton Friedman."

National Executive Committee of the Labour Party: Passed a resolution at its meeting Oct. 27 backing the TUC's national lobby Nov. 17 against public spending cuts. "We urge the constituency Labour parties to support this lobby and call upon government to pursue socialist policies and not to cut back on the social wage." It also called for "unity in the trade-union and labour movement in resistance to the cuts."

Treasury and Fed:
"U.S. Won't Fund Sterling"

Oct. 27 — The following interview was conducted with a top U.S. Treasury official today:

Q: There are rumors that the U.S., Germany and Japan may fund sterling balances or else the British will make the pound inconvertible. Will we do it?

A: I've seen all these rumors. There have been efforts to deal with this for 30 years... My first assignment at the Treasury in 1946 was the Anglo-American sterling agreement; we tried to get the British to fund the balances themselves... Still today the balances are a British responsibility and it's up to Britain to deal with them.

Q: German sources are also denying British press reports that the U.S. and Germany might fund sterling. Are you saying we will not?

A: Yes that's correct. We are not now and don't intend to be in such negotiations. The British will have to turn the balances into long term Treasury debt or borrow on the Eurobond other private markets to fund them or let the holders hold them as working balances or some combination of these.

Q: But all these measures involve intolerable domestic austerity. Are you referring to reports I've seen that the long

term (British) Treasury debt will have to come out of government spending?
A: At least the differences in charges on servicing the debt would yes — that is it will cost more to service the debt under long term rates after it is converted to Treasury obligations than it does now under short term rates as balances. The size of the debt would not change.
Q: But Callaghan faced with the political consequences would rather declare inconvertibility and then what about the monetary system? What about the pressure on it?
A: Inconvertibility? Inconvertibility? I won't comment on that. The British have a problem and we expect them to deal with it.

Oct. 27 — The following interview was conducted with a representative of the U.S. Federal Reserve in Washington D.C.
Q: Is the U.S. in negotiations to fund the British sterling balances?
A: No we're not involved in such things and I don't expect us to be. According to the Bank of England bulletin, the balances fell in the first half of this year to £6 billion, and as far as we're concerned, let them just keep right on drawing down.
Q: They will go for inconvertibility, and then the dollar is finished.
A: I couldn't possibly comment on that. That's just not my idea of involvement. Oh, no.

New York Banks: Callaghan Must Make Cuts Now

Oct. 26 — The following is an excerpted from an interview with an officer of an influential New York-based international bank.

Q: What do you think of Callaghan's speech?
A: I **hate** the socialists....Callaghan is an idiot!
Q: Do you think he will be forced out?
A: That's a possibility. If we can get this vote of confidence through Parliament, it could force an election. But then where will we be? I agree with Macmillan (the former Conservative Prime Minister Harold MacMillan, who recently called for a bipartisan "war cabinet"). It doesn't help just to change governments. It's beyond that.
Q: And what do you propose to solve the crisis?
A: Cut government spending.

Die Welt: Higher Oil Price Endangers Western Europe

Oct. 26 — The following interview with Gerhard Stoltenberg, Prime Minister of the state of Schleswig-Holstein and Christian Democratic Union industrial spokesman, is reprinted in part from today's Die Welt.

...Further oil cost increases would severely affect the foreign trade and balance of payments of Great Britain, Denmark and France. It could present, as Stoltenberg said, "a deadly crisis"....If our trading partners' balance of payments worsens, this could also have negative effects on the German economy...exports are 30 per cent of our gross national product.

...Stoltenberg considers it necessary to massively increase investment for technological modernization of our economy. Production and the quality of living conditions depend upon it.

BRD Chamber of Commerce Chief Demands Investment In Real Production Calls GNP Growth 'Deceiving'

Oct. 26 — The following excerpts are taken from an article by Jess Lukomski in today's Journal of Commerce.

The six per cent real gain in West Germany's gross national product recorded for the first half of this year "is a deceiving yardstick of our economic performance" because it "says little about the quality of the growth and the basis of its potential for the future."

Contrary to optimistic statements of the Bundesbank (West German central bank — ed.) and government leaders in Bonn, the West German economy is far from having recovered from the 1974-75 recession....

This conclusion about the state of the West German economy was advancd by Otto Wolff von Amerongen, president of the German Federation of Chambers of Commerce and Industry (DIHT), speaking at his organization's annual general assembly....

...A sustained growth requires intensified investment activity to provide new jobs and to support technological advances which alone guarantee international competitiveness of West German producers, argued Mr. Wolff.

...German businessmen are worried about the course of events in their major buyer countries. "I see nowhere in Europe a favorable expansionary takeoff," said Mr. Wolff. And he suggested that in the United States a potential change in the White House could spell more protectionism and higher inflation rates "even though the foreign economic policy of Governor Carter remains a rather nebulous quantity."

French Financial Press Sees New Recession; Says Debt Unpayable

Oct. 26 — The following are a series of three articles which appeared this week in the French financial daily Les Echos.

New Upheavals On The Exchange Markets Will Accentuate The Threat Of Recession by Michel Garibal

The financial crisis is taking on orrying proportions in Italy...Sporadic movements of panic ook place at the end of last week, leading individuals to withdraw funds from the banks out of fear of a crash. Fear is also surfacing on the other side of the Channel as the debt repayment deadline (Dec. 9) of $5.3 billion to the Group of Ten nears...

The next weeks will put the nerves of the monetary authorities of West Germany to the test, since everything indicates that a new agitation of currencies is preparing itself....The United States, more worried at bottom than official communiques let on about whether the up-swing will continue, does not hesitate to turn towards a decline in their currency to relaunch (economic) activity and improve the results of their commercial balance which is deteriorating...

London has just asked Rome for the reimbursement of a $468 million loan by Dec. 9. This date corresponds to Great-Britain's deadline for repayment of $5.3 billion....Will Italy be in a position to reimburse the British loan? Nothing is less certain....

There comes a time when new credit openings are not enough to reestablish a situation which is too deteriorated. This unfortunately is not the case of Italy alone. Great Britain is close to this stage. Not to mention the indebtedness of the East countries and the Third World nations, which is reaching its peak. Should a generalized debt moratoria be envisaged one day? And which governments will be in a position to ensure the indispensible discipline which accompanies a putting off of debts?

Third World States On The Verge Of Bankrupcy

With $130 billion in debts, $97 billion in balance of payments deficits in 1976 and $30 billion new debts per year, the non-oil producing Third World is on the verge of bankruptcy....If one takes the problem case by case, one can see that certain countries like Egypt, Zaire or Zambia no longer know which creditor to commit themselves to. They are incapable of repaying a foreign debt which, in the case of Egypt, represents one and a half times its annual GNP, or in Zaire's case, three-quarters. Zaire has been negotiating a moratorium for several months to spread out its debt deadlines....

It is for them (the poorest Third World countries) that Robert McNamara, President of the World Bank (International Bank for Reconstruction and Development), let out a cry of alarm at the last annual assembly of the IMF and IBRD in Manila in the beginning of the month. The threat is now that of seeing these countries unilaterally decide to cease payments, thus confronting the developed countries with a fait accompli.

Solvency Of The Eastern Countries Put Into Question

The increasing debt of the East bloc countries is in the process of becoming a major political element in detente....Beyond the real phenomenon of the growing deficit of the East with the West...an attempt to dramatize the situation is taking place. Under American guidance.

About two weeks ago, very discretely, representatives of the main industrial countries met in Paris to attempt to evaluate the economic, and also political risks of the deteriorating financial situation of the Comecon countries...For the Americans, only a concerted thrust by the Western countries would permit (them) to prevent the USSR from using its growing weight in the foreign trade of its Western partners to obtain concessions. France, however, is above all seeking to de-dramatize the situation. The increasing weight of indebtedness is a generalized phenomenon which should be reduced. But in the name of what principles can one use more rigor towards the Comecon countries, while not only developing countries, but also industrial nations like Great Britain and Italy are floundering in grave financial problems?

Jobert Addresses Second Congress Of Movement of Democrats

Oct. 26 — On Oct. 23 and 24, the second congress of the Movement of Democrats, founded and presided over by former Foreign Affairs Minister Michel Jobert was held in Marseille. The following are excerpts of Jobert's statements, as reported in Le Monde:

Asked about the recent statements of the President of the Republic (Giscard d'Estaing) predicting a victory of the majority in 1978, Michel Jobert brought irony into play: "This proud statement is about as exact as that pronounced in 1940 (before the capitulation of the Vichy regime to the Nazis — ed.): we will win because we are the strongest."

The founder of the Movement reserved his most acerbic remarks for the men presently in power: "For months, we have only seen political dwarfs — no matter what their stature — agitating themselves, incapable of analyzing the world and its dangers, incapable of determining an action and sticking to it, incapable of a will to affirm the presence of France and ensure its safety. From now on, it is no longer the time for observation, warnings, criticism. Everything that we have said for more than two years in the political, military, international and, alas, especially economic spheres was aimed at being a safeguarding warning. To what avail?...We have measured the absence of resolution. In vain....Someone has to be able to keep a cool head to attempt to glue together the pieces which remain when, with their games, the traditional parties have broken everything."

Gaullist Admiral Sees No Barriers To Working With Communists

Oct. 28 — The following are excerpts from statements made by Admiral Antoine Sanguinetti, brother of outspoken Gaullist Alexandre Sanguinetti, to the second congress of Michel Jobert's Movement of Democrats. His statements were reported in L'Aurore, *Oct. 25.*

I see no real inconvenience, other than of propagandistic excuses, to fighting on the side of the French Communists, as we have already done during other difficult times in our history....The Left of the Common Program is not doomed to failure. I have decided to engage myself at its sides to save what can be saved. This is the real problem, and we must not allow ourselves to be taken in by the slanted propaganda of the privileged ones who dominate us."