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Europe Treads Water As Monetary Storm Approaches

FOREIGN EXCHANGE

After almost five months of general stability obtained by tight European central bank controls over foreign exchange market trends and by the absence of any intense pressure against the dollar, the situation facing the monetary officials of western Europe and Japan has begun to resemble the agenda of the Pickwick Club. Last week started with solemn debates in Britain as to the benefits of allowing the pound, for some time held down by the Bank of England at the $1.72 level, to freely appreciate. At week's end, the Bank of England had laid out half a billion dollars of its precious reserves to keep the pound from tumbling below that level. New York, London, and Paris sources predict that such support will quickly end, however.

The upward trend in U.S. interest rates mainly responsible for this speculative run out of sterling also intersected with continued lavishings of liquidity by West Germany and Japan to their impecunious trading partners. Perhaps in belated reaction to the inflationary consequences of their money-printing at a time when the U.S. Federal Reserve itself is being pressured toward deflation, Western European central bankers and finance ministers deliberated on upvaluation of the deutsche mark and Dutch guilder, according to widespread rumors. Meanwhile, on May 26, a low-keyed competition took place between the mark and the dollar as to which would drop more from bad news concerning trade. While the U.S. again ran a record trade deficit in April, West German imports dropped 12 percent and exports 15 percent, reflecting the fact that West German bailouts are going to finance old deficits rather than incoming business orders.

According to a familiar New York bankers' scenario revived this week by Morgan Guaranty's financial newsletter and by a lead editorial in the May 25 *Journal of Commerce*, not only ought the mark and guilder appreciate, but April's Scandinavian devaluations were insufficient and the Swedish crown in particular should be subjected to another sizeable depreciation. The advocates of this move conceded that, though both are considerable, neither Sweden's balance of payments deficit nor its foreign debt has reached emergency proportions, and the crown's decline in trade-weighted value of only 1 percent since September, despite the devaluation, confirms that the economy is not yet a basket case. But the scenario, in any case, is less concerned with Sweden per se than in finding a pressure point to impose the kind of domestic austerity Italy and Britain have still fudged on — and, most important, breaking up the European joint currency float, or "snake." A Bankers Trust official was explicit on this score: "If Sweden devalues, all the other Scandinavian countries will follow." Wouldn't this disrupt the snake? "The snake will disappear. It has to. It is wrong for the Swedish krona to be tied to the German mark ... the Scandinavian countries are heavily indebted and have to devalue. This means the cost of the devaluation will be very high...." Other bankers and foreign exchange traders — emphasizing that there is no immediate market pressure for such devaluations — noted that the mere fact of rapid snake adjustments in succession tends to jeopardize the useful existence of the snake.

A second destabilizing development has already taken effect by way of the Swiss banking crisis around the Chiasso scandal, as Crédit Suisse had to sell considerable amounts of gold to cover its losses, driving the gold price below $145 at a time when gold otherwise would have been sought as a hedge by investors intelligent enough to look past the rise in U.S. interest rates. The Swiss crisis has also had a dampening effect on Arab depositors in Switzerland. The London correspondent for the Italian daily *L'Expresso* reported the New York banks to be far from discontented about the incentive to switch from Swiss franc to dollar deposits, while London banker Rupert Hambro was described as full of ungentlemanly glee at a situation which the City expects to enhance its domination of both the gold markets and "hot money" flows in general. For several weeks already, the London *Economist* had underscored the loss of Zürich's reputation as a bastion of conservative banking solidarity.

It is also interesting to speculate who will benefit from exposés in the Milan daily *Corriere della Sera* and elsewhere about the use of Swiss banks for drug revenue, assassination payoffs and the like. Crédit Suisse is linked to pro-industrial allies in both the Italian Communist Party and Christian Democracy of Prime Minister Giulio Andreotti.

International response to the new market shakeups has thus far occurred mainly on the level of disoriented reaction, rather than the discussions of a return to a fixed-rate gold-based monetary system that were popping up around December and January. At the International Monetary Conference in Tokyo, Commerzbank official Robert Dhom derided U.S. Treasury Secretary Blumenthal's claim that a mammoth U.S. trade deficit would help "stabilize" the rest of the world; it will simply unsettle the dollar, said Dhom, and pressure the mark parity upward 5 percent, damaging exports. The main counterweight to this mark trend at present is equally inauspicious: the Bundesbank central bankers' policy of continued loose money for patchwork financing of Scandinavia, Italy and so forth.

Whereas the New York banks have a clear idea how they want to alter the situation — including renewed

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International Monetary Fund pressures for an outright devaluation of the pound sterling — other policymakers seem to be merely trying to tread water in an increasingly turbulent sea. Japan — whose industrial growth slowed significantly last month — may soon follow West Germany in having nothing to show for its combination of printing-press activation and compromise currency appreciation but the kind of reduced surpluses that some West Germans pretend make a contribution to world economic recovery. When each sector slides toward bankruptcy, the allocation of relative surpluses and deficits may become a bitter question, but remains a ludicrous one.

Rockefeller Missing At Inter'l Monetary Conference

BANKING

For the first time, the New York banks were almost completely excluded from a key meeting of the world's major private commerical bankers. This cordon sanitaire against the Rockefellers has been built up by their international colleagues at the 24th International Monetary Conference (IMC) meeting — a private-sector counterpart to the International Monetary Fund (IMF) — now taking place in Tokyo. But the general approach of these financial forces to the economic crisis still remains incompetent: while they are opposed to a bailout of the Rockefeller banks, they expect to maintain all their own financial holdings and avoid a debt moratorium through a reinforcement of the IMF and World Bank, orienting those institutions toward cheap, long-term credit, which in itself can only trigger an hyperinflationary crash.

The major topic of the Tokyo discussions will be the "possibility that some of the world's lesser developed countries may default on their massive debts to commercial banking institutions," according to the May 23 *Journal of Commerce*. informed sources report a "high concern about the LDC's bad loans," notably for the European banking community. Japan's leading bankers, less exposed than their Western counterparts, are in a position to act more independently and stress that this is the first IMC meeting to be held in Asia.

The Conference is the pet project of Bank of America President Q.W. Clausen, and the list of attendants reads like an international summary of all non-Rockefeller interests: Japanese bankers and officials, British-Rothschild forces such as representatives of Barclays, Standard Chartered, the Hong Kong financial community, U.S. West Coast banks, most of the leading European bankers together with governors of the West European central banks and René Larre, head of the Bank for International Settlements (BIS) — the clearinghouse of Europe's central bankers.

Among the guest speakers is British Petroleum (BP) Chairman David Steel. The Rothschild-controlled British oil companies BP and Shell decided to side with other public-sector European companies against Rockefeller interference in Europe through Exxon and other "oil multinationals." Contributions of traditional British outlets like the *Far East Economic Review* Oxford University are also expected.

But despite the obvious importance of the conference, Rockefeller's Federal reserve Chairman Arthur Burns decided at the last minute not to go, as did Citibank Chairman Walter Wriston. Reached for comment, a senior Vice President at Citibank admitted the "primary importance of the gathering," and acknowledged that West European and Japanese interests were controlling it together with the "West Coast banks, which are undoubtedly much better represented than the East Coast banking community."

The Citibank official also pointed out that Bank of America's Clausen was very preoccupied by the need to insure that sufficient long-term credit is available by 1978 for sound development projects and not for servicing and repayment of existing external debt — a view directly in conflict with that of the Rockefellers. Finally, the Citibank representative implied that his own bank is planning to join the anti-Rockefeller bandwagon with the declaration that the "head of our organization in Japan follows the meeting and we are ready to react if something important comes out of it."

No Alternative

Clinging to their own bankrupt financial assets, the bankers' state of mind is one of terror that "any attempt to write off Third World loans would start a world financial depression," as accurately stated by the Japanese financial daily *Nikkei*.

Bank for International Settlements head René Larre expressed the intellectual confusion in a speech in Tokyo where he admitted that IMF resources are inadequate to bail out the banks, even if a new "special fund" is set up in the near future. Therefore, Larre recommends, the IMF should borrow directly from the private banks. Such a vicious circle did not meet an enthusiastic response, neither from IMF officials nor from private bankers. Some attendants commented that such a scheme would destroy the chances of the IMF ever getting money from Saudi Arabia.

Other proposals included the transformation of the IMF and the World Bank into a single long-term lending institution, to promote "projects" in the Third World without cancelling the Third World debts, along the line advanced in the U.S. by circles linked to Averell Harriman.

Refusing to freeze part of their financial holdings, plan the proper bankruptcy proceedings, and endorse an International Development Bank-type of institution based upon the principle of hard commodity only credit issuance, the bankers are left with no visible alternative.