Click here for Full Issue of EIR Volume 6, Number 50, December 25, 1979

Kissinger's IRB is back

In April 1976, then-Secretary of State Henry Kissinger began circulating a plan for the creation of what he termed an "International Resources Bank" to channel hundreds of billions of dollars of private-sector capital into resource-extraction projects in developing countries. The plan was rejected at the time, and with good reason. Its effect would be to put the world economy into a classic British-colonial mode based on maintaining pockets of cash-and-carry speculative resource looting, and generally enforced backwardness.

The World Bank and International Monetary Fund are attempting step-by-step to implement this policy today.

Kissinger in effect proposed to "solve" the Third World debt problem, which, in the wake of the 1973-74 oil price run-up and 1975 world recession, had reached crisis proportions, by linking debt repayments to a flow of commodities generated through IRB projects. The financial success of Kissinger's program in turn depended on the ability to sustain large price hikes for energy and other raw materials—a gigantic "tax" which manufacturing industry in the United States, Western Europe, and Japan would be forced to pay.

To make the IRB plan palatable to developing sector governments, Kissinger coordinated closely during 1976 with United Nations agencies, such as the "radical redistributionist" United Nations Commission on Trade and Development (UNCTAD). Kissinger's Undersecretary, Charles Robinson, consulted UNCTAD officials while preparing the IRB proposal. UNCTAD, meanwhile, circulated its own version of the IRB in the form of the "Common Fund," a plan to artificially prop up raw materials prices through large-scale financing of commodity buffer-stocks.

Neither the IRB nor the Common Fund gained international acceptance during 1976-77. Many Western European businessmen, as well as some developing country officials, surmised that the key to Third World financial health is industrialization and that this can be achieved only through heavy imports of capital goods and technology from the advanced countries. High energy and primary commodity costs hinder the ability of Western industry to play this supplier role.

Despite widespread discrediting of the IRB, top policy-planners in New York and London have recently sought to revive the old Kissinger scheme in the context of the present Iranian crisis. Non-OPEC developing countries could run a collective balance of payments deficit of more than $70 billion in 1980, reflecting escalating oil import prices and declining export earnings due to a U.S. depression. According to the *Financial Times*, Brazil alone may have to borrow $25 billion on international capital markets next year, an amount which three years ago was considered sufficient to cover the financing needs of the entire non-OPEC Third World.

In this atmosphere, the New York-London banking axis is prepared to act on either one (or both) of two scenarios: 1) a series of forced defaults in which Third World debtors are stripped of their foreign reserve holdings and denied access to credit (as in the Iran case); or 2) selective lending to those countries which submit to reorganization of their economies around high-priced energy and raw materials "development"—the IRB program.

UNITAR's "appropriate" energy technologies

The second approach was the major theme of a two-week conference on world energy resources sponsored by the United Nations Institute for Training and Research (UNITAR), another "left"-profiled agency, in Montreal, Quebec. In its final document issued on December 7, the conference concluded that the world is *not*

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

running out of energy—which should be news to no one—but went on to recommend that each country investigates those resources that "could be most economically exploited *within the context of a national economy,* particularly in the developing nations and those not endowed with abundant resources of conventional energy." (emphasis added)

In other words, UNITAR's energy experts simply assumed that the "decoupling" of North and South had already occurred, that no credit was available to the Third World from the outside, that each country would be forced to fall back on resources as defined by its own "national economy." And what kind of energy technologies did UNITAR recommend?

According to the *New York Times*, "one example cited was China's widespread use of 'biodigestives,' which use animal and vegetable wastes to make methane gas for heating and cooking and, as a byproduct, liquid ammonia for fertilizer." Other resources discussed included "solar heating, wind, the conversion of biomass, or vegetation, into gases and liquid fuels, large- and small-scale hydroelectric power, wood burning and geothermal power, such as natural steam and hot water fields"—sixteenth century technologies—and no mention anywhere of nuclear power, the one technology capable of bringing these countries into the modern age.

"There's no question that we need something like the IRB," one UNITAR official commented later, adding that the question of international financial mechanisms had not been taken up at the Montreal conference. Despite this lack of a formal institution, the World Bank and leading U.S. and British commercial banks are already undertaking to redirect lending along lines envisaged by Kissinger. Since early November, very few sizeable syndicated Euromarket loans have been announced and virtually all of these have been linked to energy or metals mining projects. Many involve metals, like silver or copper, whose prices have recently soared to new historic highs and are expected to move still higher in tandem with oil. A few examples follow below:

• **Guyana.** The World Bank may provide the Guyana government with financing for a $50 million 750 Mw hydropower project. A draft bank report has already commented favorably on the scheme and Guyanese officials believe that, if the World Bank funds become available, the government can obtain an additional $400 million in private foreign financing for an aluminum smelter project. This is surprising news given that Guyana has been virtually shut off from international credit markets in recent years.

• **Brazil.** Brazil received a "jumbo" credit of $1.2 billion in late November, which was perhaps the only jumbo to have been signed since the Iran crisis snarled the Euromarkets. The proceeds of the loan are to be used largely for development of "gasohol," a ludicrously inefficient energy form. On December 7, the government announced a 30 percent devaluaton of the cruzeiro and called for further belt-tightening by the Brazilian population which recently suffered a nearly 60 percent hike in gasoline prices.

• **Peru.** Peru's "return to financial health" was ballyhooed in the financial media following an early-December seminar sponsored by Manufacturers Hanover Trust, where Peruvian officials announced that the country would be able to amortize $280 to $300 million in outstanding debt falling due in 1979-80 ahead of schedule. Peru's banking creditors have in turn announced that they will refinance $400 million in debt service falling due in 1980. Peru, which defaulted in all but name during 1977, expects to chalk up a $1 billion balance of payments *surplus* in 1979.

The reason for this turnaround is not hard to find; although domestic living standards continue to drop, the sharp rise in prices of Peru's major export commodities this year, including copper, silver, and oil, has brought in plenty of cash. Peru became a net exporter of oil during 1978 and companies like Royal Dutch Shell are now lining up with the government for production-sharing contracts. Since Peru sells most of its oil in the spot market, government officials expect that the country will earn an average of $40 a barrel on its oil exports in 1980. This would result in nearly doubling Peru's oil export revenue to $1.2 billion next year.

Like Mexico and Bolivia, the Peruvian government has stepped up its purchases from domestic silver mines, and is counting the silver as part of its official reserves to back up the country's enormous foreign debt. When the U.S. government proposed to sell 15 million ounces of its silver stocks on the open market earlier this month—with a dampening effect on the metal's prices—the Peruvian government, whose leading financial advisor is the London-based Lazard banking group, threatened to purchase the entire amount. Mexico has also been acting to keep supplies off the market. Mexican silver production is largely in the hands of Penoles Mexicanos and other companies associated with the oligarchist "Monterrey Group." In effect, both governments have joined the "silver cartel" (see GOLD) featuring Swiss and British financial interests, the Texas-based Hunt family and Arab investors, whose goal in cornering the market reflects London's intention of having major currencies indexed to overvalued silver and gold as the world economy is reorganized around the "International Resources Bank" commodity flows.

—Alice Roth

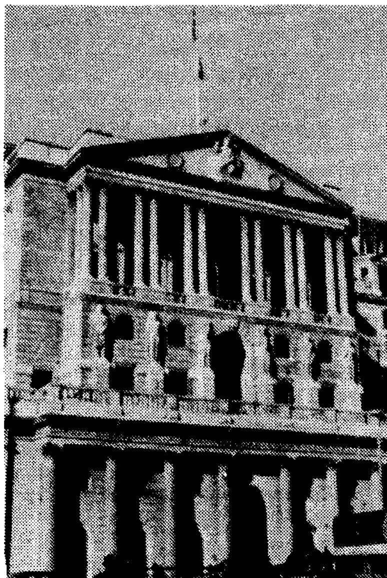
Documentation

Sir George Bolton's world 'overview'

In a June 11, 1979, memorandum to Bank of England Governor Gordon Richardson, Sir George Bolton, the former chairman of the Bank of London and South America (BOLSA), presented his "forecast" of geo-political events to occur in late 1979 and 1980. We printed excerpts from this memo in the July 10-16 issue of *EIR*. We reproduce the memo here because it has so far proved remarkably accurate—the recent Rhodesian settlement, the present threatened destabilization of the Saudi Arabian regime, and the continued bidding up of the price of oil are all as Bolton "anticipated."

Bolton was also quite clear about where he believes things will go from here: "America seems likely to suffer a series of misfortunes with political consequences." "Western Europe... cannot remain prosperous," etc. The pound sterling, Bolton claimed, would shortly emerge as the only truly strong currency and the raw materials-rich British Commonwealth would again emerge as the only secure set of economies.

Bolton, of course, is no mere seer. As a director of the British mining company, Lonrho, which is notorious in Africa for its intelligence operations, Bolton played a key role in the recent Rhodesian settlement on behalf of British Foreign Minister Lord Carrington, also a board member of Lonrho. Since this memo was written, Bolton has begun to predict the emergence of "commodity-based" currencies, that is, currencies whose value is linked to the price of one or more strategic raw materials produced by the country in question rather than any measure of industrial capability.


The Bank of England.

The following are excerpts from Sir George Bolton's June 11 memorandum to Bank of England Governor Richardson.

"Southern Africa is degenerating into chaos due to lack of international leadership on Rhodesia. The only thing which can deter economic chaos is for the new British conservative government to end the sanctions and stabilize the situation.... Camp David has brought no semblance of peace in the Mideast ... frictions there are the worst in 30 years. The U.S. has abandoned the area, starting with its only ally, the Shah ... the flow of funds from the Gulf of Sudan has ceased because of their support of Sadat, and Libya has troops there ... It is well known that the senior members of the Saudi royal family are trying to build up conciliation with Russia ... other members of the family are taking actions against the royal family ... Saudi oil production cannot avoid this difficult domestic consideration...

"It is probable there will be no international price of oil by fall because producers will sell to the highest bidder, not to any fixed OPEC price. It is impossible to suggest a price, but based on current activities in Rotterdam it would seem over $30 per barrel.

" ... The only countries in this condition with the means of surviving would be the U.K., Canada, Australia, and others who are self-sufficient in energy resources ... America seems likely to suffer a series of misfortunes with political consequences ... and the resultant confusion will have unfortunate economic and social consequences ... a fall in production, higher unemployment, with insoluble political consequences ... The longer the White House remains impotent the greater the possibility of violent public reaction against the government.

"... Western Europe ... in these circumstances cannot remain prosperous ... it may live off the fat for a time but eventually production will fall and unemployment problems must rise.

" ... It would seem likely that the tendency for foreign funds to flow into the U.K. would continue and ensure that sterling remains a strong currency ... the U.K. has a new government which shows every intention of dealing with inflation and restoring Britain's international standing with the aid of its unique situation of being self-sufficient in energy ... In this context we must reexamine the role of the Commonwealth.

"There is no hope of the restoration of the fabric of international trade through the International Monetary Fund or European Monetary System as America is unable to lead the world until 1981 at the earliest. The Commonwealth might provide the example. They have the means to organize a currency with a metallic convertibility that would help restore some belief in money ... which retains its value only for a fleeting moment. That moment is much too close for comfort."

How the scheme emerged

November 1975. At UNCTAD meeting in New York and Geneva, the Committee on Invisibles and Financing of Trade proposes the Integrated Commodity Plan and an international debt-funding bank. A forerunner to the plan for an International Resources Bank, the proposal originated from British Prime Minister Callaghan and Rio Tinto Zinc, Ltd. The Committee is chaired by Gerissimo Arsenis, a British intelligence operative.

November 18. The heads of state summit meeting in Rambouillet, France ends with Henry Kissinger forcing Italy and Japan to back down from efforts to grant debt moratoria to the Third World and begin international development.

April 12-13, 1976. The Club of Rome, the number one proponent of zero growth, meets in Philadelphia. Shifting its strategy in response to pressure for Third World development, the Club adopts a push for labor-intensive energy programs as the "alternative" to economic stagnation, and advocates a new international structure (and IRB-type institution) to replace national governments.

April 16. A *New York Times* article by Ann Crittenden "leaks" a State Department plan for the creation of an International Resources Bank. Designed by Charles Robinson, then Henry Kissinger's Undersecretary of State for Economic Affairs and previously an officer of the Marcona mining firm, the proposal projects channeling private funds into specific resource extraction projects in the Third World. Interest and amortization of less developed country debt would thus be linked with commodity flows guaranteed by long-term delivery contracts.

April 20. *Le Monde Diplomatique* reports UNCTAD chief Gamani Corea's call for Third World debt cancellation. With no mention of an institution to finance real development, Corea instead proposes a "refinancing mechanism" linked to raw materials prices to transform the structure of debt. Corea's plan was also offered one week earlier at an OECD meeting, where officials of The Netherlands, Sweden, Norway and Switzerland pushed for limited debt moratoria.

April 21. Federal Energy Administrator Frank Zarb (now at Lazard Freres) warns of "a disturbingly great chance of being subjected to another oil embargo" in the face of increasing Mideast turmoil.

April 26. Citibank writes that further monetary instability would break the international hegemony of the dollar and give rise to at least three currency blocs under IMF control: a dollar/yen zone, a deutschemark-"mini-snake" bloc, and a stratum of very weak currencies like sterling, the franc and the lire.

West Germany's most prominent business newspaper, *Handelsblatt*, attacks the International Resources Bank proposal and the U.S. White House, Treasury and Department of Agriculture.

April 30. A Financial Times conference on international banking features calls for currency zones from Louis Camu of Banques Bruxelles Lambert and others. Citibank's Richard Costanzo and IMF head Johannes Witteveen insist that the IMF and private banks will have to function jointly as lenders and managers of Third World debt, while Europe must necessarily submit to austerity to contain inflation and bolster domestic currencies.

May 4. Nairobi UNCTAD meeting begins and continues until early June with virtually no decisions made.

May 18-19. International Labor Organization conference in part discussing labor operations in an IRB-dominated world.

March, 1977. U.S. government proposes $6 billion "Common Fund" to finance raw materials buffer stock, which would keep commodity prices sufficiently high so as to guarantee Third World debt service payments.

Summer, 1979. Bank of England advisor Sir George Boulton proposes a commodity-based monetary system, with currency strength pegged to its "metalic" content.