The goal at Versailles: supranational controls

by David Goldman, Economics Editor

With Britain's support, U.S. Treasury Secretary Donald Regan will propose a global economic deal to establish International Monetary Fund "surveillance" over the world's largest economies at the June summit meeting of the six top industrial nations at Versailles.

A principal subject of discussion at both the May 11 meeting of the Organization for Economic Cooperation and Development in Paris and the subsequent meeting of the IMF's Interim Committee in Helsinki, the plan attributed to the American Treasury Secretary will purportedly offer the following trade-off: the United States will accede to Western European demands that the major countries cooperate to stabilize the wild fluctuations of the U.S. dollar on international markets of the past three years, and, in return, the Europeans will phase out trade and industrial policies the U.S. and Britain consider objectionable.

The latter policies fall into the category of what the General Agreement on Trade and Tariffs (GATT) attacked as "bilateralism" in its May 15 annual report: protected trade agreements with other nations, subsidies for export credits, or investment subsidies to industries troubled by the deepening world depression. (According to British sources, under the "trade-off" the IMF would also gain powers to force U.S. budget cuts.)

The German attitude

A top Economics Ministry official told *EIR* May 19 that the Schmidt government is negotiating with the United States in good faith on a currency stabilization package. He added, "although there will be discussion about forms of cooperation, the idea that these forms were to include any enhancement of the powers of the International Monetary Fund is very questionable. The IMF, as you know, is not a represented institution at the Versailles Summit."

What the West Germans want, and are seeking to negotiate, is precisely what Chancellor Schmidt asked for at the Ottawa summit one year ago: lowered American interest rates and American cooperation in stabilizing the dollar's value on the foreign exchange market, which the monetarist-dominated Treasury Department and Undersecretary for Monetary Affairs Beryl Sprinkel had refused at the time.

A cheering section for the IMF has popped up from the predictable quarters, i.e. the Hamburg-based journal *Die Zeit,* which entitled a May 17 commentary, "The [IMF] Governors Need More Power." Journalist Robert Herlt cites agreement between the IMF and its even more influential sister institution, the Basel-based Bank for International Settlements that ". . . a monetary system which deserves the name (according to BIS General Director Gunther Schleiminger) must have the following characteristics: codified rules of the game, centralized oversight, and the responsibility of members to justify their actions, and a code of behavior recognized in international law."

Herldt concludes, "in the world of today, the Governors need more authority than before if they are to measure up to their stability and controls tasks. By the end of 1983 plans should be complete. Helsinki proved that the snail is moving in the right direction.

that the world will be left prey to "the danger of national bankruptcies and an international banking crisis."

The debt picture

However, as the great trading nations are better aware than anyone, the Helsinki meeting's direction, towards tougher conditions for lending to the developing countries, did nothing to steer the world away from an international banking crisis. To the contrary: as the London *Economist* warned editorially May 13, the IMF's policy of refusing credits to developing nations until they put their economies into the shape the IMF wants does not answer the question that now keeps bankers awake at night: "Who will come up with the money to finance the deficits of those countries threatened with national bankruptcy?"

As *EIR* warned last issue, of the $89 billion principal and interest due from Latin America alone this year, no more than $9 billion could be squeezed out of further reductions of imports, and virtually all of that from the country best situated to handle its debt service, namely Mexico. Brazil and Argentina, the other two biggest debtors, have already cut imports to the absolute bone in the course of a severe economic downturn. And the imminence (at deadline) of a British invasion of the Malvinas should eliminate surprise at the fact that the Argentines have drastically increased their imports of *armaments* with a somewhat greater priority than payments of debt service.

In fact, the Bank for International Settlements has now revealed in full statistical detail what *EIR* reported from informal discussions a month ago: during the last quarter of 1981 the rate of lending to developing nations expanded drastically, from $19 billion in the third quarter to $27 billion in the fourth. Additionally, the OPEC nations raised their net borrowings from the market from $3.3 billion to $5.5 billion between the third and fourth quarter. Instead of depositing the funds that might be lent to developing nations into the market, the OPEC nations themselves either drew down deposits or borrowed money to finance their own deficit. With the major source of funds available to the market exhausted, i.e. the fabled OPEC surplus, the major contributors of funds to the market were American banks and corporations, the BIS reported. That is, the American banks (and no other sector of banks) have done what they swore mighty oaths they would never do: lend themselves further into a hole with respect to borrowers on the edge of bankruptcy.

Argentina's likely forced default in the event of British invasion, and the possibility that the United States may officially throw Poland into default (which major banks say their lobbying has put back for the moment), are the most obvious springs of an interna-

A British view

From a May 18 interview with Christopher Taylor, British Alternate Director to the International Monetary Fund, provided to EIR:

Q: Will the Versailles summit set up a new supranational surveillance group at the IMF?
A: We would have to see yet the extent of its powers, but it is my information that it is proposed to move beyond the current IMF surveillance powers. The IMF currently has unilateral surveillance powers, in which it meets with and advises each member nation individually upon its economic policies. This would be more. It would consist of informal but frequent meetings between officials of all the countries concerned, both central banks, finance ministers, and staff level meetings too, with the officials of the IMF. The difference is these meetings would be multilateral, they would discuss all the countries at once.

Q: How far will it go to controlling national policies? For example, would such a group succeed in cutting the U.S. budget?
A: Well, our expectations would be very modest at first, but this kind of consultative group would tend to be able to reason with the U.S. on the American budget deficit—it would be a forum at which such things could be discussed. It would get U.S. representatives, even at the working level, into a room and force them to go over the details of why they are doing thus and such, when other countries have done it differently, and everyone's interests are at stake.

Q: You mean it would lead to a significant reduction in the independent budget policy?
A: Eventually, it is hoped.

Q: What about Donald Regan's plan to demand that continental European nations follow Britain and the U.S. and allow market forces to "phase out uncompetitive industries"?
A: Yes, Britain supports this, we've done it already, and had many bankruptcies, but we have streamlined.

Q: How fast will this multilateral surveillance take effect?
A: Well, it is not yet a step in the direction of a new Bretton Woods . . . but, the first major practical effect of such a new system will be to calm the foreign-exchange markets—the first practical actions will be in exchange-rate coordination.

Q: How far has this gotten? I thought it was just Regan's proposal?
A: No, all the ministers are attracted to the idea.

tional banking crisis, but certainly not the only ones. As one well-informed British banker said in late May, "It is not so much the obvious but rather the unexpected that is likely to bring the whole thing down. Everyone is watching the obvious problems, but there are institutions and mechanisms that no one is in control of." Illustrating the case is the failure of Drysdale Government Securities, which went down May 18 owing $320 million to other securities houses, a bill that will be paid by the Chase Manhattan Bank. The Federal Reserve, for all its ministrations to the near-panicked market, claims it was taken by surprise.

"You've got to have a pretty goddamned big amount of bonds to lose $135 million just on the interest of the bonds," complained a knowledgeable Fed official, who had sat in on the emergency meetings with bankers. "This is like the Crédit Suisse affair in Chaisso [in 1974]. The question is, how did they do so much business with someone who's only been in the markets for four months? Somebody in the back room at Chase really blew it. How the hell did they establish that credit risk?"

Although the Fed is, after the fact, trying to present the case as a "well-ordered fire drill," in the words of one official, Chase was still unwilling to market either certificates of deposit or bankers acceptances as of deadline on May 20, three days after the news broke. The economist for one top British merchant bank explained, "Quite a fascinating relationship, Chase and Drysdale. Word is really going out that Chase Manhattan may be a bad risk, getting involved with a fly-by-night operation such as Drysdale."

The prospects

In this environment comes the endorsement of more austerity as a solution to out-of-control deficits in the Helsinki IMF communiqué. The meeting reversed an earlier IMF leaning toward easier credit access for the developing nations, i.e. an IMF role in financing the deficits, and told the advanced countries: "monetary restraint must remain an essential element of the overall strategy of economic policies in the industrial countries. . . . The Committee stressed the urgency for a decisive commitment on the part of governments of the major industrial countries to budgetary discipline and smaller fiscal deficits." This is the policy that has produced the crisis, and no one active in the world financial scene really believes that more of it will succeed.

On the terms that Treasury Secretary Regan has proposed, the best that could be expected from the Versailles summit is no results of any sort: and the implications of such failure as a 1931-style depression crisis approaches hardly needs elaboration. And success for the Regan-British plan would hasten that collapse.

Profile: Thurn und Taxis, Part I

'Were an atom bomb to our family nonetheless

by David Goldman, Economics Editor

On April 29, the following announcement occupied half a page of West Germany's leading daily newspaper, the *Frankfurter Allgemeine Zeitung:*

Johannes, Sovereign Prince of Thurn und Taxis, makes known in his own name, and in the name of his Consort Mariae Gloria, Sovereign Princess of Thurn und Taxis, Countess of Schönburg-Glauchau, as well as in the name of his sisters, Princess Clotilde von und zu Liechtenstein and Princess Mafalda von Thurn und Taxis, his brothers-in-law, Prince Dr. Hans Moritz von und zu Liechtenstein, and Prince Franz von Thurn und Taxis, his uncles Father Emmeram O.S.B., Prince of Thurn und Taxis, and Prince Raphael von Thurn und Taxis, his aunts Rita and Illa, Princesses of Thurn und Taxis, and in the name of all other relations, the death of his beloved father

His Serenity

Karl August Maria Lamoral, Sovereign Prince of Thurn und Taxis

Prince at Bachau and Prince of Krotoszyn • Duke of Wörth and Donaustauf etc. etc. • Hereditary General Postmaster • Knight of the Order of the Golden Fleece • Honorary Citizen of the City of Regensburg • Bearer of high orders

On May 12, a Spanish priest named Juan Fernández Krohn attempted to murder Pope John Paul II with an open bayonet during the Pope's visit to Portugal. Father Krohn, 34 years old, was a follower of the arch-feudalist Bishop Lefebvre of France, who had ordained the would-be assasin personally.

International security agencies are now evaluating the connections between these two apparently disparate events:

The "Father Emmeram O.S.B., Prince of Thurn und