

After security success at the summit comes the debt bomb showdown

by David Goldman

President Reagan confounded political opponents and drew fury from the Kremlin at the seventh summit meeting of the top seven industrial nations in Williamsburg May 28 to 30. TASS's comment in response to the seven nations' May 29 statement on Intermediate Nuclear Force (INF) negotiations is by and large correct: the President "bullied" at least the Canadians, French, and Germans into signing a tough statement warning against Soviet efforts to divide the allies. In doing so, he had enthusiastic, and unexpected support from Japan's Prime Minister Yasuhiro Nakasone.

Avoiding the widely advertised splitup of the Western world at Williamsburg, President Reagan nonetheless avoided what should have been the central topic of deliberation: the fact that a declaration of debt moratoria by a large group of Ibero-American debtor nations, what *EIR* has dubbed "Operation Juárez" is probably days or weeks away. Although the developing-sector debt problem was mentioned, and lip-service paid to the developing nations' recent high-level meetings at New Delhi and Buenos Aires, the leaders remained committed to the bankrupt International Monetary Fund framework.

When the debt crisis hits, President Reagan will have the choice of assuming leadership of the industrial countries to negotiate sweeping new credit arrangements with the developing sector, or facing a financial crisis that might crush American sovereignty.

Japan's special role

Nakasone consolidated a strategic deal which he and President Reagan began to elaborate earlier this year: in return for Japan's full support for the President's defense policy, the United States will consider the West's security interests to be "global and indivisible," in the language of the May 29 communiqué. This means simply that the United States will not regard the transfer to Asia of Soviet SS-20 missiles as an acceptable way to reduce Soviet intermediate nuclear forces in Europe.

All delegation spokesmen insisted that the security statement was not pre-planned, and it appears that President Reagan won a gamble by raising the issue, for the first time, at the heads of delegations' May 28 private dinner. The Soviets had issued a strong threat of missile counterdeployment in response to the Pershing II missiles later this year on May

26, possibly to test the seven nations' common reaction. With strong, and unprecedented, Japanese support for his tough response, the President rode roughshod over Canadian and other wavering, and produced a unified Western response.

As *EIR* suggested last week, the dominating issues at Williamsburg were not the economic ones at all—despite the dubious billing of the affair as an "economic summit." President Reagan played to his strengths, namely the strategic situation, rather than his weaknesses, the supposed American economic recovery. Soviet leader Yuri Andropov left him little choice, in any event. This caused upset for French President François Mitterrand, whose country does not belong to NATO; the French signed the security statement (which they agree with) under protest, on the grounds that the first statement issued should have been on economic policy.

Canadian Prime Minister Pierre Trudeau, who has indicated recently that he wants to accept the Soviets' demand to treat the array of French and British missiles as part of the items considered in the INF negotiations, nearly blew up the affair by arguing against inclusion of the following statement in the May 29 draft: "Attempts to divide the West by proposing inclusion of the deterrent forces of third countries such as those of France and the United Kingdom will fail. Consideration of these systems has no place in the INF negotiations."

Non-inclusion of this statement was, for obvious reasons, unacceptable to the British and French, and the ensuing wrangle May 29 delayed issuance of the statement from 12:00 noon as first scheduled to 6:30 p.m.

Although it cannot have been a principal topic of discussion, the President's March 23 speech on defensive anti-missile technologies provided a backdrop for the conference, giving the President the authority to override such objections as Trudeau raised. It demonstrated that the United States is deadly serious, and gave even those governments who fear "provoking" the Soviets (e.g., West German Chancellor Helmut Kohl) no choice but to follow Reagan's lead.

Where Reagan's temporary success at Williamsburg may turn into a Pyrrhic victory is on the international economic issues. The Western "economic recovery" and emerging banking crisis are also strategic threats of priority equal, in the last analysis, to Soviet missile deployments. Here the American flank remains wide open. The "Williamsburg Declaration" on economic cooperation issued May 31 is only an

agreement to disagree in private rather than public, to lend credence to the public-relations hoax known as "economic recovery." When the hoax evaporates—perhaps with a Brazilian debt default at the end of June—President Reagan will face the challenge of his life.

In the meantime, the seven leaders' warning that Soviet "efforts to divide the West would fail" frustrated, at least for the moment, the aim of Britain's Lord Peter Carrington, Henry Kissinger, and other global players who want to sacrifice American power in a grand gambit with the Soviet Union. Carrington had faced off against National Security Council official Norman Bailey in a recent Brussels banking conference, pressing his case for European rather than transatlantic policy; Bailey reminded Carrington (see *EIR*, June 7) that the economic center of gravity of the world had shifted to the Pacific. Reagan's Japanese flank is a new factor of potentially inestimable importance.

White House officials emphasize that Prime Minister Nakasone's own maneuvering room is limited by his domestic political problems, and that he must avoid appearing too pro-American; for this reason, it is difficult to see where the excellent relations between the American and Japanese heads of state may lead in the immediate future. Nonetheless, the most significant development of the summit was the emergence of Japan as a new kind of factor in international relations. French President Mitterrand, according to a senior Japanese official, told Mr. Nakasone that the old quip about Japan, the "economic animal," was out of date; Japan was now a major political factor in the world. Nakasone bore out Mitterrand's insight throughout the weekend.

Emphasizing the urgency of the world strategic situation, Reagan pre-empted efforts by some of Mitterrand's advisers to stage an anti-American binge at the summit. "Once the leaders discovered that they agreed completely on the security issue," commented European Community president Gaston Thorn, "it was easier to agree on the other issues. It was a surprise to spend so much time on the Intermediate Nuclear Force [Euromissiles] issue. But when we came to an agreement on this issue, the other discussions suddenly became easier, as if by miracle."

Thorn, who represented the nine-nation European Community at the summit, speaks for those European oligarchical forces who want to split Europe from the United States in the midst of the worst post-war strategic crisis. His praise of the President is grudging.

In a press conference May 31, Thorn threw cold water on the "Williamsburg Declaration," which begins with an affirmation that the world is in the midst of economic recovery. "I have some doubts that the U.S. economy is recovering. Last year at the Versailles summit, we all saw signs that the economy was recovering, but nothing happened. Interest rates are still two or three times the normal level, so there is no investment."

Although world leaders discussed the Third World debt

problem during their private meeting the evening of May 29, nothing emerged but a re-affirmation of support for the International Monetary Fund, whose brutal austerity demands upon developing-country borrowers provoked the present, "second-wave" crisis, a British government spokesman said. In particular, the leaders declined to ease the IMF's conditions for lending to Brazil—a stance that may lead to a Brazilian debt moratorium before the end of June.

A senior U.S. official said that a bitter fight is underway inside the U.S. administration, in which a half-dozen departments and agencies are attacking the Treasury Department and State Department position that the IMF can handle the situation.

At the point the debt bomb explodes, President Reagan will have the choice of turning over control of the world economy to the International Monetary Fund—a deadly blow to American sovereignty—or accepting a long-term debt stretch out on terms acceptable to both the developing and industrial nations. This fundamental question went right under the rug.

The emerging banking crisis is a threat equal to Soviet missile deployment. When the debt crisis hits, President Reagan will have the choice of assuming leadership of the industrial countries to negotiate sweeping new credit arrangements with the underdeveloped nations, or succumbing to financial disaster.

Instead, the "Williamsburg Declaration" re-stated the countries' established, misguided support for the IMF. The relevant section of the declaration states:

"We will seek early ratification of the increases in resources for the International Monetary Fund and the General Arrangements to Borrow. We encourage closer cooperation and timely sharing of information among countries and the international institutions, in particular between the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the GATT (General Arrangement on Trade and Tariffs)."

Even worse, a British spokesman told the press, the heads of state agreed that the IMF should maintain tough conditions with respect to Brazil, i.e., refuse to disburse further money to Brazil unless the latter meets the IMF's (in fact) impossible

conditions. This is a prescription for a debt crisis by the end of the present month.

One glimmer of sense in the declaration was introduced, reportedly at the behest of Japanese Prime Minister Nakasone, who had promised Indian Prime Minister Indira Gandhi and other Third World leaders to explain their position to the other leaders. Nakasone kept his promise, a senior Japanese official said, and the result is the following statement in the declaration (which did not appear in the drafts submitted to their leaders by the seven nations' officials):

"We welcome the openness to dialogue which the developing countries evinced at the recent conferences of the Non-Aligned movement in New Delhi and the Group of 77 in Buenos Aires, and we share their commitment to engage with understanding and cooperation in the forthcoming meeting of the United Nations Conference on Trade and Development in Belgrade."

That is a verbal gesture only, but it is still a gesture. The New Delhi summit of Non-Aligned leaders called for a new world monetary system outside the framework of the hated International Monetary Fund, a theme which none of the industrial nations' leaders would touch. Mitterrand, who advocated a "new Bretton Woods" in a speech two weeks before the summit, discovered that he had touched a sensitive chord in the White House: that phrase is employed by President Reagan's enemies here and abroad to mean a super-IMF with power to dictate terms to the United States. In particular, IMF Managing Director Jacques de Larosière has demanded that the United States cut its defense budget, and wants the power to enforce it.

Rather than the confrontation between the French and American leaders which the *New York Times* and *Washington Post* predicted, Mitterrand arrived with a public denunciation of the American press for distorting his position!

Mitterrand explained that he did not foresee any immediate big international conference to re-organize the monetary system—a demand that the U.S. press had read into his speech. The French President is well aware that the monetary issue is also a military issue: the complaints about high U.S. budget deficits and interest rates have become the pretext, at the IMF and in London, to demand that the United States stop spending money on arms.

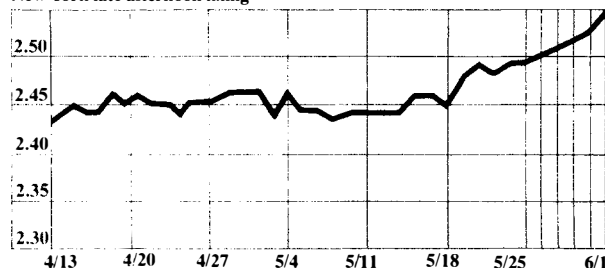
The fact that Reagan impressed upon his colleagues the urgency of the strategic danger pre-empted the expected confrontation over the U.S. budget deficit. The final declaration contents itself with vague language about reducing budget deficits and pursuing policies which will lead to lower interest rates.

What success may be ascribed to the summit rests on Japanese-American cooperation in the security field. If Reagan and Nakasone can pursue the direction indicated by the gesture towards the New Delhi Non-Aligned meeting, the summit may turn out to have been a key turning point in modern history; if they cannot confront the world debt crisis, the modest success at Williamsburg may turn into a disaster.

Currency Rates

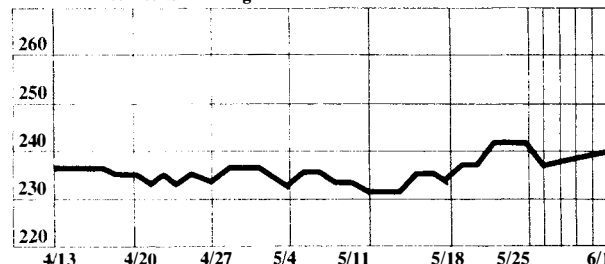
The dollar in deutschemarks

New York late afternoon fixing



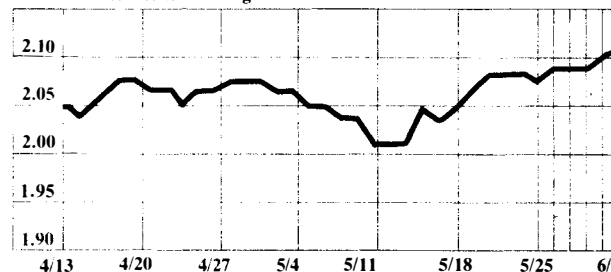
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

