

British Ready To Collapse Euromarket "Within Days Or Hours"

Oct. 8 (NSIPS) — Collapse of the Eurodollar market is now a matter of days or hours, in the estimation of sources close to the British Cabinet — which is preparing to impose a partial debt moratorium and deliver the final blow to the Eurodollar-based monetary system itself.

The collapse of the British pound sterling this week leaves the British with no choice but to "freeze" foreign holdings of sterling over \$10 billion which will trigger an immediate collapse of the Eurodollar pool. Traders in the London commodities market — sterling's tie to the Eurodollar bubble — report that the government is preparing to immediately shut down sterling's speculative use in commodities trading, while ensuring that vital trade with Third World producers is maintained. Reviving its World War II policy towards the Commonwealth, the government is reportedly negotiating with the Third World countries to guarantee both sale of resources and financing for development projects in those countries.

The British government will force the issue. After sterling dropped to \$1.64 — the fall would have been sharper if not for the dollar's parallel drop against other currencies — the British Cabinet is estimating that unless it deals with the \$10 billion-plus foreign sterling deposits, the pound will quickly drop to \$1.00, half its January 1976 level. A freeze on sterling is "under discussion" in the government now, the London Daily Telegraph reported earlier in the week.

The last straw for sterling was the collapse of negotiations for a new International Monetary Fund credit of \$4 billion, which British Chancellor of the Exchequer Denis Healey requested last week. U.S. Treasury officials today confirmed reports already in wide circulation at the Manila IMF meeting and in the financial press that no loan will come through before December, when the British must repay more than \$1.5 billion to other central banks.

But the shambles of the IMF's finances are a small problem compared with the refusal of the British government — on Chancellor Healey's word to last week's conference of the British Labour Party — to accept any austerity conditions in return for an IMF loan. Healey and Prime Minister James Callaghan have no choice left but to slap a freeze on Sterling and set off a chain-reaction collapse of the Eurodollar market.

Virtually the entire industrial world is encouraging Britain to pull the plug, with various behind-the-scenes negotiations taking place in Manila and Europe over the shape of a replacement for the IMF. By last week, what Chicago banking sources called "high-level discussions" between U.S. and European industrial leaders had produced an informal working agreement on what a new monetary system would look like. This agreement centers on the destruction of the Eurodollar market, gold backing for currencies, and a development program for the Third World.

On Oct. 4, the basic features of this discussion broke into the public press, in a commentary by London Times economic editor Peter Jay, an advisor to Prime Minister Callaghan. Citing the "degeneration" of the monetary system as a result of "the collapse of American authority," Jay called for "an exercise of heroic statesmanship (to) persuade the world community to reject the new mercantilism of regional blocs and to do for itself what the United States imposed upon it during 1945 and 1971" (under the now-defunct Bretton Woods system - ed.).

Support for Callaghan

Callaghan has been moving over the past week to educate key industrial and banking layers, as well as members of foreign governments, on the crisis Britain is now facing because of its

allegiance to the bankrupt dollar empire. Speaking before top U.S. executives at the American Chamber of Commerce in London last Wednesday, Callaghan reaffirmed that any new loans the government received would go immediately toward industrial expansion. "Our long-term industrial strategy is set and we must not be diverted from it by short-term considerations whether in the money markets or elsewhere," he said. Repeating his message to last week's conference of the British Labour Party, Callaghan said the government is "committed to a massive regeneration of British industry to put a stop to the relative decline in our industrial base, which has so bedevilled our economic policies over the last 30 years."

In Europe, as West German Chancellor Helmut Schmidt commended Callaghan's economic strategy, British Agricultural Minister Silkin blocked a move to devalue the "green pound" — Britain's agricultural unit of account with the European Community — which would have seriously jeopardized Callaghan's strategy. Silkin stressed to EEC ministers that his position reflected the government's over-riding concern to get inflation under control which was "as necessary for the Community as for ourselves."

Concurrently, former Conservative Prime Minister Edward Heath staged a so-called reconciliation with the present Tory leadership at the party's annual conference in Blackpool last Thursday — a move which Heath allies in the Conservative party are calling a bid to reassert his influence over the party. In his speech to the conference, Heath stressed the need to control the collapse of the pound, calling it "catastrophic, particularly so for us as a great trading nation, depending as we do almost entirely on imports for our supply of raw materials and as we import 50 per cent of our food supplies."

Earlier in the week, Lord Thorneycroft, chairman of the Conservative Party, congratulated Callaghan on his "courageous" speech, telling the House of Lords that he is convinced the government has prepared a policy to stop the collapse of the pound.

British Press On IMF, Debt And Collapse

Oct. 8 (NSIPS) — A brief selection of excerpts from the British press this week on the International Monetary Fund and debt moratoria appears below:

Rodney Lord in The Daily Telegraph, Sept. 27

"When the IMF was set up at Bretton Woods after the war, the 'Pax Americana' ruled and the Fund was its international Policeman so far as exchange rates were concerned. The 'Pax Americana' no longer rules. The United States' mood has turned against the extension of 'government' both internally and externally and even if it had not, new economic powers have developed in Japan, Germany and the oil producers to challenge United States dominance...."

"In an exchange rate world where the laws have nearly disappeared, the role of the policeman becomes almost redundant. The power of the IMF has often been exaggerated in this country, doubtless because of Britain's recurring need to supplicate the Fund for foreign currency loans. But in any case, the Fund can only exercise its discretion effectively within a framework of clear and firm rules. If that framework dissolves, as it has largely done...the Fund's effective power diminishes."

International Markets 5

Malcolm Rutherford in *The Financial Times*, Sept. 27

"What is the use of a group of countries continuing to be saddled with a debt that everybody knows has no chance of being repaid except by the wholly transparent device of giving them the money to do so."

The London Times, Sept. 30

"...The IMF is an international organization of governments...with Executive Directors who represent member governments, particularly the leading ones in the Group of Ten major industrial nations....The governments of the U.S., West Germany, France, and Japan and the like are not private bankers. They have no interest whatever in the collapse of a major currency, the departure of a major trading nation from effective membership in the world economy, or the breakdown of democratic government in one of the Western nations. They have moreover, some experience of the problems in a free society of reconciling reasonable employment and inflation targets. And they have some respect for the right of governments who have been victorious at the polls to govern according to the basis on which they secured popular support."

The Daily Telegraph, Oct. 4

"...Mr. Witteveen (managing director of the IMF - ed.) and the members of the interim committee...are clearly concerned at the danger of Britain and Italy collapsing and bringing down the whole of the post-war economic system."

"(Witteveen is) a practising mystic...."

Melvyn Westlake in *The Financial Times*, Oct. 4

(On the question of debt moratoria)

"Time is running out."

British Conservative Party Chairman Praises "Brave" Callaghan Speech

Oct. 6 (NSIPS) — Lord Thorneycroft, chairman of the British Conservative Party commended British Prime Minister James Callaghan's "brave speech" at the Labour Party Conference during a debate on the government's policy in the House of Lords yesterday. Stressing the need to stabilize the pound sterling which has dropped steadily on the international markets, Thorneycroft said he was confident that the Cabinet had developed policies to achieve this. "They must have a package now. They know it. I know it, and I suspect the International Monetary Fund knows it." Urging Callaghan to make a decisive push on his outlined strategy, Thorneycroft warned: "It is not that there is a danger of dictatorship if we abandon present policies. There is a real danger of something like it if we keep them."

Heath:

The Crunch Is Now Upon Us

Oct. 8 (NSIPS) — Following are excerpts from former British Prime Minister Edward Heath's speech to the Conservative Party conference at Blackpool this week. *The Times of London* described Heath's remarks as intending to portray him as "virtually the only statesman left in Britain, a major political figure who is available for call in almost any coalition government." Noteworthy in Heath's speech was the total absence of traditional party conference attacks on the Labour government and its policies.

"Britain has now come to the end of the present road...The crunch so long awaited, so often discussed, is now upon us. When

the Chancellor announced in a desperate attempt to save the slide of the pound, that he was going to call in our last remaining funds from the IMF, he was announcing that our friends who had been prepared to help us in July were no prepared to do so any longer....

"This means that the time available to us now is very short, very short indeed. It means that action which has to be taken to deal with this situation is urgent...."

"The external value of the pound has lost one third of its value since...Feb. 1974. It has lost one fifth of its value in the last six months. Towards the end of these months the slide became precipitate and we are in daily danger of a recurrence of this situation.

"What we are seeing today is the repeated slide of our currency. Ultimately, unless this is dealt with, the result is just as catastrophic, particularly so for us as a great trading nation, depending as we do almost entirely on imports for our supply of raw materials and as we import 50 per cent of our food supplies.

"When your currency slides repeatedly and there is a catastrophe, we ask ourselves: where are our raw materials and our food coming from. This is now a matter of a very short time.

"The prime consideration in all of our actions and policy in this country must be the maintenance of the external value of the pound. The threatened collapse is something which is too horrible to contemplate. Even while it slides it automatically increases inflation in the country. It is at the moment a major cause of the increase in wholesale prices...

"The present living standards of the British people are only sustained by borrowing overseas, and when that borrowing is no longer available the present living standards of the British people cannot be sustained...

"This is much more for the British than an economic crisis. It is much more than economics, much more than financial incentives or levels of taxation...This crisis is for the British a political, a social and a moral crisis.

"It is a political crisis as to how we can find ourselves working together again in the national interest on the shop floor, in the farm, in the shops, in all our daily activities. The British used at one time to be immensely proud that they did always work together. We have lost some of that and it is that which has to be restored by leadership in this country.

"It is a moral problem. The question is when we, the British are going to establish those standards in every aspect of our daily activity and our political life of which we were once intensely proud...."

"That is what we as a country want to do. And so that is the crisis that faces us: when are we as a country going to get up and go? That is what the rest of the world is asking...."