

Chicago Consolidates Around "No Bailouts" —Hesitates On IDB

Oct. 9 (NSIPS) |— Varied layers of the Chicago industrial and financial directorate signaled last week that they consider the present international monetary arrangements untenable and that immediate measures to reform international monetary arrangements are a must. In the words of an informed banker, "Chicago forces are now coordinating their moves with British and European forces to bring down the present monetary order in favor of one based on fixed exchange rates and backed by gold. Agreement has been reached on a negative policy of "no bail-outs, no Simon policy for Britain, and the dumping of the debt."

Although Chicago forces have consolidated around this defensive policy, the banker also reported that no agreement has been reached on a "positive policy" of development. Refusal to seize political initiative and lack of agreement by Chicago forces to move behind the LaRouche-Evans campaign's International Development Bank proposal have reportedly been fed by a perceived pull back on the part of critical Third World nations from the declaration of debt moratoria.

Chicago's near-unanimous opposition to any bailout to private U.S. banks in the wake of defaults on Third World debt, and its support for a new gold-based monetary system, were reported from several sources. A leading economist from a large Chicago bank commented: "Certainly these nations' debts are out of hand.... Refinancing is no solution and should not be practiced... But if some banks like for example Citibank of New York have gone in and run up huge loans in the Third World, I think the Government should stay out of it." He added, "The government can assist the overall recovery process by sitting down and negotiating with other countries the new monetary system and new credits from this new institution (the IDB) you've been talking about.... I see that it would work.... Gold could serve as, really, an additional security factor in the negotiations."

Inside sources at First National Bank of Chicago went so far as to report that "we wouldn't object to a gold-based monetary system |— we want a new monetary system where the dollar would play a lesser role... It would be a currency or a group of currencies tied to gold. Either we use the old bootstrap method or something like your International Development Bank proposal."

While Chicago forces have consolidated around this "negative policy," admitted fuzziness on the IDB has blocked any open action by the faction. Speaking in Tokyo, Continental Illinois Chairman Roger Anderson called for a program for Third World industrialization. Anderson, the first Chicago figure to elaborate anything resembling a development program, characterized it as a private sector initiative aimed at industrializing the Third World which would in turn increase Third World exports and income. The further increase in Third World demand for advanced sector capital goods exports would then increase more Third World industrialization. The theme of Anderson's perspective was echoed by Secretary of Commerce Elliot Richardson speaking in San Francisco last week. Richardson called for a massive increase in the export of U.S. technology to the Comecon bloc. His argument for increased East-West trade concluded that U.S. technology transfer to the Soviet Union in no way interferes with U.S. national security.

Chicago Banker:

**"There'll Be A Lot Of People
Screaming On The East Coast"**

Oct. 8 (NSIPS) |— Following are excerpts from an interview with a leading Chicago banker.

The word we have picked up from our good sources, who should know, is that Britain is preparing to suspend convertibility of the pound.... It could come at any time, especially if Simon keeps this up.... If they pull the pound out as a reserve currency for even just a few days there'll be a lot of people heard screaming their bloody heads off, especially on the East Coast.... Well they can scream all they want to, but the British aren't bluffing....

With all that's going on I can certainly see why the New York Times would be running these articles now trying to debunk the Third World's call for debt moratoria.... They didn't cover the debt moratoria demands when they were made at the U.N. and Colombo.... Now they cover these stories that there are **not** any debt moratoria demands at Manila! Well, I can see why they would try this....

Yes, we are watching the European moves, especially the British very carefully.... I can say, in answer to your question, that we know many of the European and British bankers and other key figures personally.... We like the whole idea of personal banking, so we like to handle these contacts personally.... I would say that there is a very high level of coordination between certain people in Chicago and the Europeans and British....

"No Problem" With Defaults On Citibank

Oct. 8 (NSIPS) |— Following are excerpts from an interview with the economist for a major midwestern bank.

We think that the standby process is alright for nations like Britain on an emergency basis.... But the IMF should really stay out of refinancing, whether it be government debt, balance of payments deficits, or commercial bank debt....

Kissinger's IRB and safety net proposals are not workable.... Indexation would destroy all faith in currencies and on the other hand the liquidity is just not there....

Certainly these nations' debts are out of hand.... Refinancing is no solution and should not be practiced.... But if some banks, like for example Citibank of New York, have gone in and run up huge loans in the Third World, well I think government should stay out of it... If these nations can't pay it's the fault of the bank for making a bad loan... That's part of the business... Bad loans happen all the time... We make some bad loans ourselves... Bad, but the government cannot and should not come in to bail out the investors... That's their problem... Neither do I think that our government should step in and declare that it's O.K. to repudiate debts... As a banker I don't think that's a good policy at all... Then again, I have no problem whatsoever if some nations default on Citibank... Leave it a private matter... Let the debt be defaulted on... The government should say or do nothing about the debt... Once the debt is on default, then the

government can assist the overall recovery process by sitting down and negotiating with the other countries the new monetary system and new credits from this new institution you're talking about.... I see that it would work.... Gold could serve as really an additional security factor in the monetary agreements.... My only questions now are two: 1) how would you capitalize the new development bank, and 2) how can you get the Congress to pass the necessary enabling legislation without them botching the whole job?

Continental Banks Chairman Calls For Capital-Intensive Development

Oct. 8 (NSIPS) — Following are excerpts from a statement by Roger Anderson, Chairman of the Continental Illinois Bank and Trust Co. of Chicago, released in Tokyo this week as Anderson was enroute to the IMF meeting in Manila. Anderson plans a tour of the Far East following the IMF meeting.

The disparity of wealth between rich and poor nations and the lack of a strong production base for development in the Third World are problems which must be overcome if we are to achieve a healthier world economy. Balance-of-payments deficit financing from both international agencies and commercial banks like Continental can only provide breathing space for these nations. What is needed is far more capital to build industries, which are compatible with their environment, resources, and cultures, so that these nations can generate enough revenue from exports to pay for the capital goods they must import to improve that industrial base. Only then will they be able to break out of the sickening cycle of poverty that they now experience.

Regional Banks Say NO To Bailout

Oct. 8 (NSIPS) — The following are excerpts from interviews with top officials at Federal Reserve Banks in the Midwest and South conducted on Oct. 4.

Interview with international banking vice-president at the Federal Reserve Bank of Dallas (Monday, Oct. 4).

Dallas: Then what you are saying is that in order to implement the International Resources Bank, these folks would have to have national planning in this country. I see. Well, you know we will not be favorable to any ICNEP-type approaches in this country ... just as we indicated to you the other day that a bailout of some of New York's banks isn't that good of an idea. Thank you for keeping us posted.

Interview with international banking vice-president at the Federal Reserve Bank of Kansas City (Mon. Oct. 4).

Kansas City: I'm glad you think we helped mobilize opinion against a bailout of the New York banks. Now on the IRB, I don't know enough to evaluate the thing. But let us do some thinking on the subject here before we make a judgment one way or the other on it.

Wallich:

"The Dollar Is Like An Ocean"

Oct. 8 (NSIPS) — The following are excerpts from an article by Henry Wallich, a member of the Board of Governors of the Federal Reserve in the Journal of Commerce Oct. 4. The excerpts are in the context of a discussion of proposed new IMF articles.

"The United States ... could not, by intervening in the exchange markets, do very much to counteract fundamental market forces working on the dollar now that expectations of stability have evaporated. The dollar is like an ocean. To dip into this mass of perhaps five trillion dollars worth of dollar denominated assets in order to add to or remove from the total supply a few millions or even billions would not affect the dollar very much in the long run.

"For temporary and limited purposes, to be sure, such as to support a currency until newly taken domestic monetary and fiscal restraint policies begin to bite, exchange market intervention may continue to be appropriate.

"The reserve role of the dollar implies one further obligation: the United States ... must at least keep its rate of inflation low... Only then will the dollar remain an internationally acceptable asset.

A high inflation rate ... would cause widespread efforts, on the part of private and later also of official holders, to shift out of dollars."

State Dept.:

Europe Will Bitch And Moan, But...

Oct. 9 (NSIPS) — The following are excerpts from an interview with a State Department staff member responsible for developments concerning Secretary Kissinger's International Resources Bank proposal. The interviews were conducted on two consecutive days, Oct. 6 and 7.

NSIPS: What are the chances of adoption of the IRB in Manila?

State: Not very good, you know. The U.S. isn't even going to formally propose it in Manila. All we want is a sounding out of the proposal in the corridors. That kind of thing.

NSIPS: What is your reading of the responses of both the developing countries and the developed nations to it so far?

State: Although the Nairobi vote (at the UNCTAD IV Conference in May, 1976) was taken under unusual circumstances, I think most Third World, the so-called Third World nations, are not very enthusiastic and the Europeans, I think, don't like it too much either.

THE NEXT DAY

NSIPS: The question is: based on all that the Italians are saying and Callaghan is saying, don't you think the Europeans are about to make a move toward a new gold-based monetary system?

State: Are you joking? As long as these people don't have a 'shadow' monetary system that they can turn to or don't know that there is an alternative monetary system possible, they'll bitch and moan all they want but do exactly as we propose in the end.