

THE INTERNATIONAL FINANCE DILEMMA

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QUESTIONS AND/OR COMMENTS ARE WELCOMED AND SHOULD BE SENT
IN CARE OF THE COUNCIL, 5 EAST 44TH STREET, NEW YORK, NY 10017

There is no mystery surrounding the dilemma of financial bankruptcy now faced by a growing number of oil-producing, less developed nations; and, coincidentally, those American and European banking concerns from which they have obtained billions in financing. The O.P.E.C. induced inflationary spiral of the mid to late 1970s found many participants on both sides of the financial table willing to accept incredible revenue projections derived from oil still in the ground. Despite warnings by economists from nearly all philosophical perspectives, lenders the world over fell over each other first attracting O.P.E.C. deposits and then permitting borrowing nations to greatly overextend themselves for loans at rates of interest as high as 25-26 percent.

Not that O.P.E.C.'s attempts to control oil prices alone were the cause of double-digit inflation and, eventually, world-wide depression. As you have heard today from others (with more to come, I am sure), land speculation has made housing construction costs shoot through the roof (leaving a large percentage of the world's population unable to afford even moderate housing), and the growing unemployment problem has rekindled the call for protective tariffs (measures which can only bring a further contraction to international trade and an even worse depression). However, O.P.E.C. surely did its best by unmercifully escalating the price of crude to make sure the world's economic growth would quickly come to a sudden halt. What's left of the competitive market reacted by conservation measures and shifts to alternative energy sources to stem the flow. Nations as well as businesses everywhere, forced into the money markets to secure badly needed cash, triggered a tremendous rise in interest rates which in 1980 resulted in the largest

number of loan defaults and business bankruptcies since the 1930s. In the beginning there was Chrysler Corporation and Poland. Today its International Harvester and Mexico.

The depression produced the anticipated results. Here in the United States the effects have not been all that bad: Somewhere between the reported 10.5 percent and a more realistically estimated 20 percent unemployment; a projected 250 billion dollar deficit in 1983, possibly increasing to 300 billion in 1984 (which, by the way, at only a conservative rate of interest paid by government on the 1.3 trillion dollar national debt of 9 percent, creates an annual debt service of \$117 billion -- an amount greater than the entire reported gross national product of most nations in the world. Such a large amount of debt (approximately \$5,200 for every American citizen) leaves me wondering how the government manages at all to actually provide from such things as national defense or social services. The answer, of course, is more borrowing.

Will there ever come a day of reckoning? Some economists say "yes" (Arthur Laffer, for instance) and others say "no", deficits and government borrowing are not very important. (I'll withhold mentioning their names so as not to cause Keynes distress in his resting place.) You begin to realize the significance of government deficits worldwide and the consequence of borrowing to pay "current" rather than "capital" expenditures upon examination of the concentration of credit and debt. Fewer than a dozen major international financial conglomerates (Chase Manhattan, Citibank, Barclays, as well as Swiss and German banks) hold as assets the vast majority of all the borrowing by government and the private sector.

Perhaps a few quotations from those who were supposed to know about the international economy would be enlightening. In the October 1981 issue of Euromoney, Hans Friderichs (Chairman of Dresdner Bank), made this prophetic statement:

For the moment, the non-oil developing countries will not stand in the way of world economic recovery. So far this year, Germany's exports to this group have risen by 20%. Nor are there signs of serious financial difficulties which might hamper trade with the third world. To that extent, the more cautious selection exercised by banks in international lending is not without its educational value.

Indeed, the bank's have received an education, and right now my bet is that the taxpayers of the world and most heavily in the United States will end up bailing out the stockholders of those banks. The Reagan administration is "strongly considering" a plan to replenish the coffers of the International Monetary Fund (to the tune of around \$8 billion), so that it can lend financially troubled nations more money for interest payments due their creditor banks. The government will obviously not let monolithic institutions such as Citibank or Chase Manhattan go under. First of all is the memory of what happened in the 1930s when the Bank of The United States failed and Roosevelt was forced to declare a new banking holiday to shore up the financial system. Secondly, does anyone really think the F.D.I.C. could really cover the insured deposits of those banks? Thirdly, we might remember that the world at the top is occupied by a rather small group whose interests are complexly interrelated.

At the head of Chase Manhattan Bank is David Rockefeller. He is, incidentally, also Chairman of the Council on Foreign Relations and of the Trilateral Commission. George Bush, Casper Weinberger, Henry Kissinger

as well as AFL-CIO President Lane Kirkland, Federal Reserve Chairman Paul Volcker and the majority of members of the boards of directors of the nation's key financial and industrial corporations are listed as members of one or both of these organizations. There have been countless attacks on these two "private" groups and their activities. Exactly what is really true or false about them I not sure. What I do know is this. Those who control the international supply of credit certainly have at least as much power over the world's economic wellbeing as O.P.E.C. over the supply and price of oil, probably more. Despite that power they make alot of mistakes and, in the process, hurt millions of people.

Among my activities in the Georgist movement is writing for a limitedly circulated journal called "Equal Rights". The next issue, which ought to be out within two or three months, contains the attached article, exploring the assertions of one particular group in its attack on the international "aristocracy". I hope you will read it and that, given the evidence, take a closer look at a most serious threat to humanity.

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