NEW SOLIDARITY INTERNATIONAL PRESS SERVICE

International Markets Newsletter

Europe, Third World Ponder Dumping Dollar

Oct. 9 (NSIPS) — Financial press headlines last week were dominated by the antics of simon, Witteveen and Co. at the Manila annual meeting of the International Monetary Fund (IMF)—World Bank. Taking advantage of a temporary lull in the Third World offensive towards a debt moratorium and a new international economic order, and indecision on the part of the Europeans to actually enact a fixed exchange, gold backed monetary system, the U.S. Treasury and the IMF proceeded to terrorize their usually docile kudience or central bankers and treasury officials.

The performances at Manila, however, did not obscure the facts on the mind of every delegate: that the IMF is hopelessly bankrupt and that Western Europe, led by Britain and Italy is in full scale revolt aginst the dollar. What came through in only vailed form in the IMF meeting was that the decisions ove the future and disposition of that dollar empire institution are being made not at the conference but in rebellious Europe.

Supplementing the IMF annua report and I;F Director Johannes Witteveen's speech, U.S. Treasury Secretary William Simon painted a bleak picture of what lies ahead and proposed a "solution" along the following lines: "A debt grows to finance the continuing deficits, an increasing number of nations which have already delayed adjustment (of their economies) will approach limits beyond which they cannot afford to borrow and beyond which prudent lenders won't lend to them...A country with unsustainable deficits should resort to internal stabilization, accompanied by exchange rate change in response to market forces; a country with a tendency toward surplus shouldn't simply accumulate reserves but should allow its exchange rate to move in order to accomodate these fundamental adjustments to others."

Considering the battles waged by the Third World, the governmetn of Italy and the political battled within the rest of Europe and the U.S. for a new international economic order, Simon's speech is acutally an open admission that the solution to the monehary collapse lies outside the powers of the IMF and the U.S. Treasury. This was underscored by the absence of a number of key financial ministers from Manila, including the French, British, German and Japanese. What Simon said and the IMF demanded in Manila is that the third World pay up, and that the West Germans and the Japanese revalue their currencies to reduce the deficit of the weaker industrial countries — including the U.S. — who will have to be put through severe deflationary austerity. This set of proposals are not only suidical but, **in their totality**, politically unfeasible. The negative response to the Simon-Witteveen "solution" took different forms as central bankers and finance ministers tried to safeguard national interests within the context of the present dollar-based monetary system.

Negative Responses The West Germans complained bitterly that even though they were a prime example of the self-discipline advocated by the I;F and West Germany had the lowest rate of inflation among the industrialized countries (4 per cent), they were asked to revalue and in that sense give up some of their hard-earned surplus. The Japanese agreed completely with the austerity demands of the IMF as far as the deficit-ridden countries were concerned, but when it came to revaluing the yen, the governor of the Bank of Japan, Morinaga, maintained tht "each government must protect its citizens from the destabilizing effects of world economic developments or international monetary disturbances." The governor of the central bank of France, Bernard Clappier, accused the floating exchange rate regime (now officially sanctioned by the I;F) of being the cause of inflation at home, and so did the Italian Minister of the Treasury, Gaetano Stammati, after noting that the Third World debt overhang is about to bring the whole monetary system down.

The Canadians sided with the French and the Italians in attacking the I;F gold sales which have been instrumental in brcnging down the price of gold. Since the demonetization of gold is the cornerstone of the U.S. policy to keep the dollar afloat (in the sense that if an agreement were reached on gold as a recognized medium on which to fix exchange rates, there would be no reason not to dump the dollar), Undersecretary Yeo hastened to suggest in Manila that the IMF auction take place on a weekly basis to avoid wide fluctuations due to speculation. This hardly adequate response merely indicates the quickness with which the U.S. will act to forestall any moves — however timid — towards the formation of the basis of a dollar-independent monetary systrm. In the words of a State Department official, the U.S. doesn't have a thing to worry about "as long as these people don't have a shadow monetary system that they can turn to."

The most eloquent description of the European perception was given in the pages of the London Times by its financial editor Peter Jay. After noting that the dangers from the Third World loans, production and trade collapse loom greater than ever, he exposes the present system of floating exchange rates as being useful only in propping up temporarily the monetary system (the U.S. dollar). Since this system provides not incentives to growth, underneath the superficial stability the economy is continuing collapsing. Jay ends by wondering whether the world now has the political will to do to itself what the U.S. did to Europe after the Second World War.

The decision of the Group of 24 (developing countries within I;F-World Bank) not to demand a generalized debt moratorium was played up in the major U.S. press as a victory for the present monetary system. However, it is generally known that it has never been the strategy of the pro-development Third World nations to push for a debt moratorium within the "reliable" Group of 24. The speech of the Indian Finance Minister Subramanian, which brought the subject up, was reported only in the Mexican and Indian press.

The most severe test to the I;F exhortation to nations to fight inflation and to resist turning on "international monetary printing presses" came as the British pound collapsed and British Finance Minister Healey announced that he was planning to ask another $3.9 billion loan from the IMF before their curretn $5.3 billion loan from OECD comes due in December. Since the IMF has no funds to satisfy all the loan demands currently being made (Italy, Mexico, Argentina, and England, as well as countless other nations) and a permission needs to be secured from surplus nations to contribute to the General Agreement to Borrow Fund (GAB), rumors were widely circulated that neither the West Germans nor the Arab surplus holders would give their consent. In turn, London and international financial circles including THE U.S. Treasury were pondering the probability that England would either freeze sterling balances or impose currency controls or a mixture of both. Towards the end of the week however, the British Prime Minister, in an apparent reversal of his policy for a rejuvation of British industry, announced draconian austerity measures. The raising of the minimu lending rate to 15 per cent and the increase by 2 per cent of banking reserves to the Bank of England, hardly an impetus to the rejuvenation of industry, were immediately hailed by Witteveen frlm Manila as "a step in the right direction." Witteveen then hinted that the loan application would now be viewed favorably.

In a sudden change of plans, West German Chancellor Schmidt will start his two-week vacation by visiting Callaghan tomorrow. Caught in a vise between the pressure by the Americans to revalue and the danger of losing his thin but crucial support from industrialists at home should he succumb to the dollar monetary pressures, Schmidt has no choice but to opt for a European "golden" solution. If he goes along with an inflationary bailout of England he is finished. If he doesn't, the weak European currencies will drop through the bottom of the snake and the deutschemark will be revalued taking whatever prop there is to German industry.

Should the West German refuse to participate in the new British bailout and the U.S. is sorced to go it alone, the renewed inflationary pressure will finish the U.S. dollar as noted by Henry Wallich of the Federal Reserve. The hard reality of the U.S. situation was tersely underscored by J. Roger Wallace of Gilbert M. Haas and Co. in their newsletter of Oct. 5: "Total public and private debt, aggregating $3.0 trillion at the end of last year, is continuing to rise at a rapid rate. In all probability, much of the private debt — which aggregated $2.26 trillion at the end of last year and is considerably larger now — never will be repaid but will be liquidated the hard way."

Japan Banker Bucks Revaluation But Accepts Need For Austerity

Oct. 8 (NSIPS) — The following are excerpts from the remarks of Bank of Japan Governor Morinaga at the Manila IMF conference, as reported in the Wall St. Journal Oct. 5.

"A member country obviously must not seek to enhance its interest at the expense of others, ... but each member country must protect its citizens from the destabilizing effect of world economic developments and international monetary disturbances. In partiuclar, exchange rate stability is of obvious and central importance for the maintenance of stability in a nation's economic activities and external transactions.... Timely and disciplined management of domestic economic policies is, in my view, of utmost importance."

France At IMF

Oct. 8 (NSIPS) — The following are excerpts of the speech given by Bernard Clappier, head of the Banque de France at the IMF conference in Manila, as reported in Le Figaro Oct. 5.

"The erratic fluctuations (of the monetary markets) are distorting the conditions of exchange and weighing even more on the poor countries.... From now on the credit facilities which the IMF grants to countries which have payments difficulties should be accompanied by conditions which are necessary for a return to the equilibrium of balances of payments which are in excess.... The IMF must exert a mission of surveillance over the international monetary system...."

Clappier called for "reinforcing solidarity" with the developing nations including setting up an organization of the raw materials markets and examination of the problem of indebtedness. "The case by case approach does not exclude the application of general principles in whose definition France is ready to participate."

Il Tempo Castigates IMF Loan Plan For Rocky

The Oct. 7 Italian daily Il Tempo was sharply critical of the plan for the IMF to grant a new loan to Italy which was announced by Italian Finance Minister Gaetano Stammati when he returned from the IMF meeting in Manila. The amount of the loan is still under consideration, and is expected to be between $500 million and $1 billion. Il Tempo's comments follow.

An apparently consistent figure, but, given the attack on the lira, this amount would be burned up within a few weeks. This amount would not solve the fundamental problems of the Italian economy, but rather it would aggravate the problem by increasing our foreign indebtedness....

While the United States is attempting a demonetization, the Europeans and the Canadians would like to maintain the price of gold; otherwise their own gold reserves would be devalued.

India's Finance Minister To IMF: 'No Alternative' To Debt Moratorium

Oct. 8 (NSIPSO)—The following are excerpts from Indian Finance Minister C. Subramaniam's speech at the International Monetary Fund meeting in Manila, as reported in the Mexican daily El Sol on Oct. 6.

"The strong growth in the balance of payments deficits of the developing countries that don't have oil, and the reduction of the flow of concessional aid, has left no alternative to the developing countries but to seek commerical loans abroad in unusual quantities.... The urgency of renegotiating the external debt of the developing countries, the thing we have been discussing, is the essential element in a policy of global economic cooperation. But for (U.S. Treasury Secretary) Mr. Simon, 'numerous negotiations or pardons of debt' are an 'unreal possibility.' ... In reality there is no other alternative.... A common attitute of this type ... can only cause important damage to practically all international borrowers."

Responding to Secretary Simon's characterization of the international monetary system as "structurally solid" Mr. Subramaniam said that the Jamaica IMF accord was "basically a receipt prepared and put into effect by a group of rich countries.... The 110 developing countries united here again, with a population of 2 billion people, must have more power or they will continue to be relegated to the position of a minority with no importance. The process of adjustment of which we have spoken will weigh more, I fear, on the developing than the developed countries."

U.S. War On Gold 'A Fiasco'

Oct. 6 (NSIPS)— The following is an excerpt from an article which appeared in the newspaper of the Polish United Workers Party, Trybuna Ludu, on Oct. 4, 1976, under the title, "The Demonetization of Gold — Condemned to be a Fiasco," by Stanislaw Albinowski.

The United States has fought for the conception of demonetizing gold for several years, especially from the time that the United States' own gold reserves had so shrunk that they no longer represented a foundation for dollar hegemony in the capitalist world. Demonetization of gold means robbing it of its function as a global reserve currency. Washington's intentions were thus simple and Machiavellian: If the USA no longer possesses sufficient gold to maintain the dollar in the position of the leading reserve currency, then it becomes necessary for Washington to insure that gold ceases to be an international means of exchange. The dollar for Washington is not only an instrument of domestic, but also of foreign policy.

The course of monetary events from 1968-71 proved to Washington, however, that a policy of splitting the official gold parity into a private and official rate was, unavoidably, a fiasco. Washington introduced a shift in its economic policy in 1971, and completely cut off dollar convertibility into gold.

Gradually, Washington succeeded in pushing the International Monetary Fund's "paper gold," the Special Drawing Rights, as a replacement for gold reserves in calculating the value of national reserves. European opposition to Washington's gold policy awoke in November 1973, when the European Economic Community succeeded in getting Washington to remove the two-tier gold parity internationally. Washington by no means ceased its battle to lower the price of gold: in June 1974, the International Monetary Fund established a schedule of 16 gold auctions, each of which has been used to drive the price of gold downwards.

Who is Washington targetting in its fight to undermine the value of gold? It is targetting its ancient opponents on currency policy matters in France; the Italians, who guaranteed a $2 billion loan from West Germany with their gold reserves; those nations whose reserves are largely covered by gold, such as Portugal, and the gold producers, like the Republic of South Africa. It is also no wonder that we have become witnesses to the formation of a kind of front of many nations against the American policy of gold demonetization. Switzerland is also one of these nations.

If gold is in fact supposed to be demonetized, then why are the central banks of West Germany, Switzerland and France attending the gold auctions? Certainly not for anniversary celebrations.

The currency committee of the European Economic Community, in its communique of Sept. 10, complains about the insecurities and shifts in the price of gold. Similarly, rumors are circulating that a few central banks are planning to intervene on the gold market, if the price should sink below 100 dollars. If gold is no longer to be a decisive element in currency reserves, but only a commodity like any other, then why don't the central banks intervene when, for example, the price of coffee sinks?