EIR Economics

The IMF's annual meeting issues a death sentence

by David Goldman and Laurent Murawiec

Treasury Secretary Donald Regan's efforts to portray America in an aggressor role to the contrary, the principal victim at the International Monetary Fund's annual rites in Washington was the United States. That is not to minimize the ghastly demands placed on the oil-importing countries in the developing world, who were told to undertake sacrifices that will endanger the near-term existence of a large part of their populations. However, the events of Sept. 26-Oct. 1 might well be cited among future historians as the final coming apart of America's leading role in the postwar period. No one appeared to understand this less than President Reagan, who appeared before the delegates Sept. 29 to praise the "magic of the marketplace," at a moment when markets were going through the first squall of an international financial crisis.

The difficulty in sorting through the results of the world's chief forum for deliberation over the world economy is that the facade presented by the IMF leadership is ugly enough to divert attention from an even uglier underlying truth. IMF Managing Director Jacques de Larosière's annual assessment of the world economy was frankly chilling, and the demands for tougher economic restrictions on the almost-broken economy of the developing world he presented provoked screams of pain and rage from many developing-sector delegates. Treasury Secretary Regan, meanwhile, cast himself in the "tough cop" role in a grand exercise to intimidate the developing nations into accepting tougher conditionalities from the IMF, losing America more friends than any treasury secretary since John Connally in the midst of the 1971 currency crisis.

Zijlstra's policy

Nonetheless, Donald Regan's thuggishness and Managing Director de Larosière's brutal pessimism were merely instruments of another policy rather than ends unto themselves. Virtually ignored in the press accounts was the only major policy statement in which a fully elaborated policy was brought out: the Sept. 27 speech of the retiring president of the IMF's older and more powerful sister institution, Jelle Zijlstra of the Bank for International Settlements.

Zijlstra stated bluntly that the crude methods of the Federal Reserve, modeled on those of Britain's Thatcher government, would not outlast the immediate period ahead. He wants, instead, a world central bankers' dictatorship: management of the gold price, management of individual nations' exchange rates, credit controls in all national sectors, and wage controls in all national sectors. An index of how far the Zijlstra address stood above the dumb brutality of the IMF's pronouncement is that his speech, to the private Per Jacobsson Foundation, was the only one (excepting the South Africans) to mention the word "gold." The monetary management of the Federal Reserve merely

World Bank

Peasants in Sri Lanka: no technology without credit.

produces self-feeding, uncontrollable consequences, Zijlstra implied, and the outcome must be some return to gold as a principal reserve asset, if only because the Federal Reserve will have destroyed the dollar's capacity to function as such. He additionally wants to ensure that the central banks, for whom the Bank for International Settlements acts as central banker, controls the entire process from the top.

'Unsustainable' proposal

The formal proposal of the U.S. Treasury, which colored the tone of the communiqué issued by the IMF's directing Interim Committee, is that the "unsustainable" $100 billion current account deficit of the developing countries must be reduced at the expense of these countries' imports. That such action is impossible is indicated by the sole fact that three-quarters of these deficits are due to the impact of record high interest rates on their debt service, and only one-quarter is due to their trade deficit. In an August speech, de Larosière argued that preventing "overpopulation" was the overriding issue determining all other policy toward the developing countries. But he reacted angrily to a journalist's suggestion that his proposals for import reductions in the developing sector would accomplish this goal through ensuing famine and disease.

In different ways, both American and European bankers treated this suggestion with contempt. Chase Manhattan Chairman Willard C. Butcher called for more IMF resources to cover the developing nations' deficits in an interview. More to the point, Deutsche Bank Chairman Wilfried Guth, the most influential West German financier, growled, "[Treasury Secretary Donald] Regan cannot get away with this. All of world opinion is against him."

The hard fact is that the bankers, who have been financing roughly 80 percent of the expanded Third World current account payments deficit, cannot continue to do so without massive support from the International Monetary Fund. Backhandedly, Secretary Regan acknowledged this by indicating sympathy for a plan for a "private loan guarantee agency" surfaced in the Joint IMF-World Bank Development Committee. But the IMF cannot provide the required resources, certainly not on the scale of its $12 billion annual rate of lending during 1981, for the simple reason that no one is prepared to give it the money. The U.S. Congress, in the midst of a bitter struggle over budget cuts, is less than likely to consider new contributions to IMF quotas. It therefore costs Secretary Regan nothing to oppose them, since he is not likely to persuade Congress to give them. The Saudis, who made substantial loans to the IMF earlier this year, have little intention of throwing good money after bad, and the Europeans view the IMF as an enemy. West German Finance Minister Hans Matthöffer reportedly made clear to the Americans during the Sept. 26 meeting of the Interim Committee that the Europeans would under no circumstances step in to replace the role of the Americans in financing the International Monetary Fund.

The world's path to financial crisis was neither slowed nor diverted by the exercise. On the contrary, the sudden collapse of international stock markets on Monday, Sept. 26, struck the delegates almost as a Sophoclean foreshadowing. Those interventions were important that started from this standpoint.

How the British set the United States up

The Bank of England cannot be accused of ignoring the important issues, in the same way that Britain's Chancellor of the Exchequer Sir Geoffrey Howe did in his performance during the monetary fund meeting. In its most recent quarterly review, released a week before the Washington event, the Bank outlined in some detail how a crisis in the $600 billion interbank market might bring the entire banking system crashing down. Briefly, the Bank explained that the enormous dependence banks have developed on each other's short-term deposits means that a crisis in any part of the system might immediately turn into a chain reaction that would engulf the entire system.

The logical assumption is that the Old Lady of Threadneedle Street is prepared for crisis. However, the

British Exchequer's principal activity over the past several weeks has been to set the United States up as the apparent culprit. As a senior British source explained, all of the Treasury's (and Federal Reserve's) monetarist bravado were imported from Britain's Thatcher government, largely through the Washington-based Heritage Foundation, the semi-official U.S. outlet for Thatcher politics. Once having persuaded the United States to adopt the Thatcher approach, Britain's Chancellor of the Exchequer Sir Geoffrey Howe proceeded to distance himself from the American position. At the Commonwealth ministers' meeting in the Bahamas Sept. 22-23, Howe put together a communiqué bashing the United States on the interest-rate issue, the tough loan conditionalities issue, and other relevant items. Britain is "building bridges to the developing countries," as Howe noted at his Sept. 30 press conference in Washington, letting the U.S. do the hatchet work.

Considering the short time between this meeting and the Cancún summit meeting at the end of October, the effect of this gambit will be to ensure that the United States has no capacity whatsoever to strike an agreement with the Third World, i.e., that President Reagan will be unable to talk sensibly with such developing-world leaders as Mexican President José López Portillo or India's Indira Gandhi. President Reagan's sermon on the wonders of the free market did not impress nations who are struggling to preserve the functioning of state-owned industries which, in the case of India, Mexico, and others, form the foundation of their economies. His praise for the Caribbean basin model for development was an insult, however unintentional, to every competent financial official in the Third World. The "Caribbean basin" slogan, hatched by David Rockefeller and a handful of American bankers, is a code-word for endorsement of Jamaican Prime Minister Edward Seaga's efforts to base development financing on the proceeds of the local marijuana crop.

British ambitions

As the attached interview with Commonwealth Development Corporation Chairman Peter Meinertzhagen indicates, the British are nursing imperial ambitions. They honestly seem to believe that the new incarnation of the old empire, the British Commonwealth, will emerge as the only functioning forum for negotiations between advanced and developing countries (a notion which senior Australian and New Zealand officials dismissed as a good try without much prospect of success). They envision Britain's role as a mediator between East and West, North and South, Europe and the United States—and set the dumb Americans up to this purpose.

Only slightly more surprising than this is the fact that the French "Imperials," the old Orléans crowd who put new French President Mitterrand into power, are wholeheartedly in on the game. French Development Minister Jean-Pierre Cot, a second-generation French anglophile, told *EIR* that "the British, and Sir Geoffrey Howe, have softened their position considerably over the course of the summer. With the British on this track, we now think that we can have a unified position toward the Third World." If the British are out to pick up the pieces of a shattered American century, the French "Imperials," the banques d'affaires and old nobility who pushed the Giscard government out last spring, want a piece of the action.

Canadian Finance Minister Allan MacEachen, the chairman of the Interim Committee this year, gave some indication of what the British have in mind for the United States, in a fairly blunt call for currency surveillance by the IMF over the American dollar. MacEachen stated in his address to the IMF, "I fully support the emphasis placed by the Interim Committee on the Fund's surveillance role and the need for timely and frequent consultations with member countries whose policies impact on the orderly functioning of the international monetary system. This is particularly important at a time of major payments imbalances and turbulent international financial and exchange markets." Politely stated, this is again Jelle Zijlstra's management of exchange rates on a supranational basis.

Survival tactics

Whether Britain's Imperial game will succeed is highly questionable, since most of the rest of the world has no intention of playing along. The West Germans came to the Washington meeting to lie as bold-facedly as they could, and draw attention away from the present negotiation of a DM 120 billion industrial deal with the Soviet Union. "I have never considered Eastern exports to be a stabilizing factor," said one German official in an off-the-record exchange. "They seem to be destabilizing the Reagan administration, for example." However, for the public record, Germany's big four banks called in the entire German press corps in the middle of the meeting to deliver a resounding, hypocritical endorsement of everything the Americans had to say.

Third World reaction divides itself into three areas. At the Interim Committee meeting, Philippines Finance Minister Cesar Virata was reported to have told the Americans that if the IMF did what the U.S. demanded, some Third World countries would simply pull out. He later told journalists that he had only said that the Third World might no longer come to the IMF for loans. As an adviser to the Philippines delegation explained privately, this country, like some other Asian countries, is confident that Japan will continue to support them with trade and development credits, no matter what the IMF does. Hence, they are confident enough to tell the IMF where to get off.

On the opposite side of the spectrum are countries who are cringing for the good graces of the IMF and the leading American banks, e.g., Turkey. They see themselves with little other choice than to knuckle under to the Americans' demands and hope for money. Turkey's Finance Minister Turqut Ozal explained his country's position eloquently in an interview with *EIR*. The same is true for Argentina, Uruguay, and a large number of other countries.

In a different way from the Philippines, the Indians came out fighting. Secretary Regan has made the IMF's proposed \$5.8 billion loan to India a major issue, demanding a review of the agreement, even though India was entitled to that amount under the agreed present lending roles of the Fund. Indian journalists intervened at every press conference to denounce the American position, to the point of demanding that Sir Geoffrey Howe denounce Secretary Regan for this outrage during Howe's own press conference! (Taken aback, the British Chancellor demurred.) The simple point is that while the Philippines is close to Japan, India is close to the Soviet Union. Both countries have a fallback position outside the orbit of the United States and the International Monetary Fund.

Japan's delegate, the Bank of Japan Governor Haruo Mayekawa, told the meeting that "we intend to cooperate steadily with the developing countries so that the living standards of the public in these countries will be stabilized and improved." He emphasized that the "improvement of the economic fundamentals in each country is essential," which should be read as a statement that Japan will continue to do whatever it pleases, whoever likes it or not. Of course, the impact of Japan's policy is limited to a relatively small group of its Asian trading partners.

Centrifugal forces

As the outgoing Bank for International Settlements president recognized, the centrifugal forces set loose by the Federal Reserve's interest-rate program have taken over. Every nation in the world is scrambling for survival as best it can, and the status of friend and ally of the United States has lost its meaning, until American policy changes. Chiefly to be regarded in this situation is the danger and unpredictability of forthcoming events. Should the crisis merely proceed, the world might well end up in the hands of Jelle Zijlstra and his collaborators, to its great detriment. But other forces are at work. No matter how self-injuring was the performance of the United States at the just-concluded meeting, the possibility still exists that Americans will wake up one morning to the realization that the once-dominant world leader is becoming a second-rate power, and decide to do something about it.

Documentation

Regan: 'Financial resources are limited'

U.S. Treasury Secretary Donald Regan held a briefing for a small group of reporters attending the conference on Sept. 29:

Q: The problem with world liquidity, the LDCs say, is not the volume, but the composition and distribution; they have piled up \$400 billion of debts in the last decade.
Regan: The argument has some validity. But what would happen to a new tranche of Special Drawing Rights? There are other means available: increase exports, watch the balance of payments carefully. . . . I am pleased that the idea shared by everybody here is get your own house in order, combat inflation, get the deficits under control.

Q: Is conditionality strong enough, in your mind?
Regan: For IMF conditionality, our concern is that perhaps, with the added resources gained by the Fund in recent years, there might have been an easing of conditionality. We do not want to see that happen, that's it. So we surfaced the problem, drew attention to it, got people alerted. They will be strict: we are satisfied.

Q: You have proposed to "graduate" countries into the hard-loan windows from the concessional or favored-loan windows. How do you want to do that?
Regan: If a country is able to get hard loans, it will be "matured" from IDA [the World Bank's International Dvelopment Agency] to the hard window. Other, more developed nations, will have to go to the market. They will not entirely be thrown out of the [World] Bank, but they will have to set more reliance on the markets . . . and many countries are still able to borrow on the private markets. . . .

Q: Will the Fund continue to borrow 5 to 6 billion SDRs a year, and will the U.S. continue to contribute?
Regan: Lengthy negotiations between the U.S. and the Fund will be required to determine this.

Q: What did you discuss with your fellow finance minister?
Regan: The ministers will leave Washington encouraged to get their budget deficits under control. There was no discussion on interest rates, and there was no pressure applied on us on the question of interest rates.

Q: Some Third World countries are very pessimistic after this meeting about their prospects of obtaining funding. Do you intend to provide them with assurance, or is the aim of your statements precisely to deprive them of such reassurance?
Regan: We are very sympathetic to the plight of these countries—but resources are limited. We are cutting our own expenditures. We do not have enough funds.

Q: The Canadian finance minister did not seem to adhere completely to your view that conditionality must be tightened. Does the communiqué of the Interim Committee fully reflect the U.S. position?
Regan: Well, they are all asking now for tighter conditionality. So we are pleased to see that our position has received support.

Regan: 'No effect on the Cancun summit'

Treasury Secretary Regan had the following discussion with EIR *European Economics Editor Laurent Murawiec on Sept. 29:*

Regan: I am pleased to see that in this whole IMF meeting, nobody at all brought up the subject of gold.

Murawiec: What about Jelle Zijlstra? His whole Per Jacobsson Memorial Lecture was a call for the remonetization of gold. I would not consider the 10-year head of the Bank for International Settlements a nobody.
Regan: Well, it is of course, interesting, interesting that someone has shed some light on this subject. . . . As far as the U.S. is concerned, we remain neutral until the Presidential Commission on Gold has delivered its conclusions.

Murawiec: Out of $96 billion that is officially required to finance the Third World's current account deficit in 1981, about $40 billion remain to be lent in the fourth quarter alone. Now you are talking about tougher conditionality while Third World countries have already cut down their imports to the bone. Are you just playing a Mutt-and-Jeff routine with them?
Regan: I don't know about Mutt and Jeff. They are comics. When I want to be comical, I am comical. We are just trying to put forth our view that the IMF should give a hard look to any loans they grant, and be strict on the rules.

Murawiec: Bankers here say they are desperate, that it is not going to be possible to finance the deficits, which will lead to many defaults and more rescheduling. Do you think your own well-publicized comments are helpful to them?
Regan: Are you implying that the bankers would ask the IMF to ease off on conditionality? That would be funny coming from bankers. I'd rather think they would want us to be tougher. With stable economies come more stable currencies, and that's it. Why intervene on the foreign-exchange markets? We think that fluctuations of the exchange rate set the terms of the rate of exchange properly. Intervention does not help. We have not intervened in the recent period.

Murawiec: You have intervened with interest rates.
Regan: With monetary policy, yes, naturally.

Murawiec: How do you think your behavior here and your line on conditionality is going to affect President Reagan's position at the Cancún [North-South] summit?
Regan: Not at all. No effect at all. Conditionality we discuss here; at Cancún they will discuss something else. Conditionality won't have any effect on the Cancún summit.

De Larosière: 'No other path to follow'

From the address by Jacques de Larosière, managing director of the IMF on Sept. 29:

The world is experiencing the ravages of persistent, unevenly controlled inflation and of economic stagnation, while still adjusting to the effects of the second increase in oil prices. These conditions are reflected in an alarming and rising level of unemployment, massive balance of payments disequilibria, high interest rates, and exchange markets more unstable than at any time since the major currency realignments of the early 1970s.

The world economy must adjust to the demands of the present situation. . . . This adjustment effort is already under way. It is only at its beginnings, however, and progress too often seems hesitant. The initial effects of adjustment policies are often hard to distinguish from the shocks of the crisis itself. Reaction to the measure adopted often masks the underlying progress achieved.

Progress is apparent in five areas. . . . First, the energy dependence of the industrial countries is continuing to decline. . . . Second, domestic monetary management has generally been more prudent than it was from 1974 to 1978. . . . Third, improved control over the growth of the money supply helped to explain the more moderate behavior of prices and wages . . . wages have reacted more moderately than after 1973 to the upsurge in prices during 1979 and 1980. . . . Fourth, whereas consumption by households rose faster than total output in 1974-75, it is productive investment that has performed especially well since 1979. . . .

Fifth and last, the balance of payments on current account of the major industrial countries, which had deteriorated sharply from 1978 to 1980 in the wake of the oil price increases, is now righting itself. . . . Whatever the criticisms and pressures in this area, however, I think it would be a great mistake to surrender to them by raising the monetary targets.

The fact remains that the current account deficits of the non-oil developing countries are still excessive, and reinforcement of their adjustment policies is essential. Half of these countries have deficits amounting to at least 13 percent of GDP, more than three times as large as a decade ago. Such imbalances cannot be long sustained. The debt burden involved in financing them is growing, rising from an average of 14 percent to 18 percent of exports of goods and services between 1973 and 1981. In some cases, this burden is intolerable.

Clearly the progress yet to be made in this direction will require great courage and perseverence on the part of low-income developing countries, for it is in these countries that adjustment is particularly costly in human terms. But there is no other path to follow. . . .

Reagan: 'The magic of the marketplace'

Excerpts from President Reagan's address to the IMF meeting Sept. 28:

We who live in free market societies believe that growth, prosperity, and ultimately human fulfillment, are created from the bottom up, and not the government down. . . .

The societies which have achieved the most spectacular broad-based economic progress in the shortest period of time are not the most tightly controlled, nor necessarily the biggest in size, or the wealthiest, in natural resources. No, what unites them all is their willingness to believe in the magic of the marketplace. . . .

So let me speak plainly: we cannot have prosperity and successful development without economic freedom. Nor can we preserve our personal and political freedoms without economic freedom. Governments that set out to regiment their people with the stated objective of providing security and liberty have ended up losing both. Those which put freedom as the first priority also find they have provided security and economic progress.

The domestic policies of developing countries are likewise the most critical contribution they can make to development. Unless a nation puts its own financial and economic house in order, no amount of aid will produce progress. Many countries are recognizing this fact and taking dramatic steps to get their economies back on a sound footing. I know it's not easy—but it must be done.

We are committed to a pragmatic search for solutions to produce lasting results. Let us put an end to the divisive rhetoric of us versus them, North versus South. Instead let us decide what all of us—both developed and developing countries—can accomplish together. Our plans for the Caribbean Basin are one example of how we would like to harness economic energies within a region to promote stronger growth.

Butcher: 'Conditionalities and more IMF resources'

Willard C. Butcher, the new chairman of Chase Manhattan Bank, had the following discussion with EIR's David Goldman.

Goldman: The Treasury's position seems to be hostile to any major increase of IMF resources. Doesn't this worry the private banks?

Butcher: I don't know how hostile the Treasury position is. What I think the Treasury is saying is that the IMF shouldn't lend for development—that's the World Bank's job.

Goldman: The Treasury is saying that the reduction in the developing countries' payments deficits is going to have to come out of their imports. Do you think this is realistic?

Butcher: We have imbalances, and that means we need an adjustment process, but it also means we need conditionalities to assure that the right kind of steps are taken by these countries. I believe that the IMF needs more resources. The developing countries have been helped in a way by the interest-rate situation, which has allowed them to earn more interest on their reserves, but they have also been helped by the fall in oil prices. That won't be with us forever. I strongly feel that the strength of the dollar has kept oil prices down, as well as the willingness of the Saudis to produce more—and we can't count on them to do that forever. So I think there will be a healthy demand for funds out there a year from now.

Goldman: Are you confident the market can handle the deficit countries' credit requirements over the next few months? When do you see the IMF needing additional resources?

Butcher: It's very difficult to predict the timing. I'd say roughly toward the third quarter of 1982. But the IMF isn't the kind of institution that can wait to assemble funds until it needs them. Look at how long it took us to get our last IMF quota increase through Congress. The IMF is going to have to—from the monetary side—have more resources.

Lazard: 'Private funds to Third World will drop'

A partner of Lazard Frères, Paris, in a discussion with Laurent Murawiec:

Q: What do you think of Secretary Regan's "more conditionality, less money" line for the Third World?
A: The IMF is the system of the carrot; you need to have a big, big carrot if you want countries to accept conditionalities. Now, Regan wants to cut off the carrot, diminish its size—it's crazy. It makes lending conditions of the Fund more impossible to accept. You can ask that of an individual, he will work more, consume less for some time—you cannot impose this on a government. Or then you will have military governments in these Third World countries, complete chaos. Either Regan displays the most amazing ignorance of the realities and the pathways of the financial flows in the world financial system, or he is determined to do "wishful harm." Why? Well, nobody, is going to be willing to invest in the Third World (except in mines and the like). Take Costa Rica: nobody will go invest there for years now. And the same goes for much of the Third World. The Americans are crazy. What I am concerned with is not so much the [World] Bank but the Fund. It is already extraordinarily difficult to have people go invest in the Third World—but if the IMF is going to give little money, less than until now, it becomes impossible! Regan says that by diminishing official flows of money we will generate an increase of private flow—this is insane! Private funds will not go, their flow to the Third World will diminish, since the Fund will put on less of a seal of approval.

Delors: 'Emphasis on the agricultural sector'

From the speech of French Finance Minister Jacques Delors on Sept. 29:

While stressing the urgency of concerted action with respect to exchange rates, I by no means wish to obscure the negative impact of high interest rates, especially when the effects go beyond the borders of one country and influence all money markets. In this area, however, the countries of the European Economic Community, including France, have as yet been unable to convince their U.S. partner of the seriousness of the resulting risks to the international community. These risks include a dangerous destabilization of the developing countries, crushed by their debt burden, and of the industrial countries, undermined by unemployment, and accentuation of inequalities, and the desperation of the younger generation knocking in vain at the door of the labor market. In other words, we are still faced by the interest-rate problem in all its breadth and with all its consequences. . . .

Likewise, France is more than ever in favor of organizing the major international markets for primary products. It is essential that the developing countries be able to count on more stable and predictable export revenues. . . . As regards the sectoral dimension, our view is that the emphasis must be put on developing the rural sector and agriculture, in conjunction with the other multilateral institutions.

Commonwealth chair: 'The United States is isolated'

Sir Peter Meinertzhagen, chairman of the Commonwealth Development Corporation, gave the following interview to Laurent Murawiec at the IMF conference:

Murawiec: Do you think that the Bank of England's warnings and scenario of a major crisis on the interbank markets are reassuring?
Meinertzhagen: I do not think that the Bank of England's comments are very reassuring. There are very rough experiences ahead for all of us. I do not think that the "escalator" effect the Bank described could play, because there are effective checks and balances. But if some—including the U.S. Treasury and the Fed—think that they could get a Herstatt started and controlled, they're just irresponsible.

Murawiec: Now that the U.S. has alienated the totality of the Third World with Regan's line on conditionality, and since the Fund will not have the money to help, is there anything politically, institutionally, that could help keep the world together?
Meinertzhagen: The Commonwealth could be a great help, in this situation defined by the very tough attitude taken by the U.S. administration. The Commonwealth is there, well operated; the machinery is there, and the U.S. is isolated.