Administration walks into the IMF's trap

by our Washington correspondent

If the extraordinary instability of currencies internationally did not disturb any U.S. banker or politician with half his wits about him, you would think that the ominous warnings of the IMF Annual Report asking that the "dollar fall slowly" would have done so. But the Reagan administration is taking no more serious measures than keeping its fingers crossed, walking unprepared into the IMF meeting trap.

Speaking before the Overseas Writers' Club on Sept. 17, Treasury Secretary Donald Regan said that the world is being led out of the deepest recession in postwar history by the U.S. "recovery," which he characterized as the strongest, and he predicted would be the longest, in postwar history.

Regan denied that the U.S. recovery was based on unwarranted flight of capital here. He said the capital came in because of the stability and freedom of the U.S. markets. "In many of them [sic] Latin nations, and other nations of that sort you can get triple the rates of interest you can here," Regan argued, implying that it couldn't be the murderous high interest rates that are bringing in flight capital.

Program for disaster

Regan said that the United States would support the following measures at the IMF/World Bank annual meeting:

1) Phase out the extended borrowing facilities, which were the marginal increases in the IMF/World Bank's lending authorities approved last year as a gesture in the direction of alleviating depression horrors in the developing sector. (Regan's implication was that they were no longer necessary due to the "recovery.")

2) Lean against increased distribution of Special Drawing Rights, the special "currency" promoted by the IMF.

3) Discuss Third World debt in World Bank Economic Development Committee as proposed by the June London summit of industrialized nations, in lieu of responding to the call of the Ibero-American debtor nations for dialogue on the debt crisis. Regan explained, "They are calling down there for some sort of dialogue. . . . That is something that has been provided for in the London communiqué." In fact, the London summit simply pointed to the World Bank "Development Committee" as the "proper forum for that discussion," thus telling the debtor nations to carry out the discussion with their executioners.

4) Push for expanding equity investment in debtor nations, and demand the lifting of restrictions on imported capital from those countries. "There is an enormous amount of equity investment available from the U.S., Japan, Switzerland, the EC . . . if there are no onerous restrictions placed on them. . . . We will be trying to encourage them to increase the amount of equity coming in."

In short, this is the same "magic of the marketplace" program which has turned the United States against virtually all of its allies, at least on economic policy, and which continues to exacerbate the real economic devastation which will eventually bring the paper prosperity to an end even more dramatically than bankruptcy came to Continental Illinois bank.

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Asked about the *Wall Street Journal*'s characterization of administration policy as "America First," Regan said, "America First, in terms of getting the U.S. economy going first, was an absolute necessity."

The only hint of reality came when Regan was asked about complaints from World Bank officials that the Treasury had asked them to hold down borrowing in U.S. capital markets until after the election—a request geared to preventing the rise of interest rates which could be harmful to President Reagan's reelection. Regan at first denied that he or any administration official had made such a request. Pressed, he said, "Well, we didn't tell them to hold off. We just wanted them to explain why they were borrowing so much here. We asked them what the point of it was."

Don't gloat too soon

Regan's outlook was mirrored in the Sept. 18 editorial in the *Wall Street Journal* entitled "Three Years from Cancún."

Ignoring the fact that only political awe before the "emperor's new clothes" stands between the international financial system and bankruptcy, the *Journal* congratulates itself on how the industrialized world has avoided concessions to the demands for a "new international economic order" which arose at the Cancún meeting.

Ignoring the fact that in-depth industrialization of the "South" is the only means by which the industrialized countries can escape the impending disasters of full-scale depression and financial collapse, the *Journal* tells the Third World that they got what they deserve. In extolling the "realism" of the IMF austerity "remedies," the *Journal* embraces the system that will bring the United States also to its knees—most likely under the heel of a Swiss-Soviet-IMF dictatorship.

We quote:

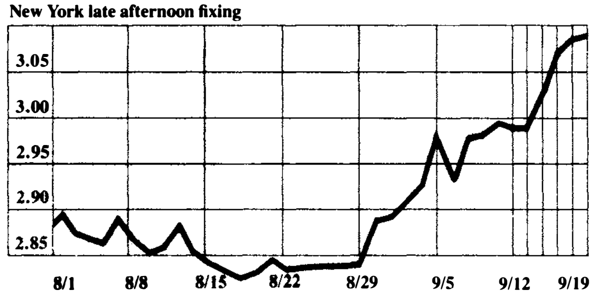
"In short, the New International Economic Order that has in fact emerged since Cancún has been precisely the opposite of the one Mrs. Gandhi and her Third World colleagues had hoped for. Some recognition of that fact was evident a year ago when Mrs. Gandhi called a meeting of national leaders at the U.N. to talk, among other things, about what progress had been made in the North-South dialogue that Cancún supposedly had set in motion. The turnout was small and the discussion dispirited. Worst of all, Pierre Trudeau, sensing the changing world mood, ended up telling Julius Nyerere of Tanzania that maybe Third World leaders were to blame for some of their own problems.

"To be sure, Mr. Reagan last year faced down domestic opposition to an increase in IMF quotas, which laid another $8.5 billion obligation on the U.S. Treasury as part of the burden of bailing out big Third World debtors. [Read U.S. bankers—ed.] But now that the debt crisis is beginning to ease, there is less political disposition in favor of easy money. The Third World itself is partly to blame. The international politics conducted by the General Assembly majority and the so-called non-aligned nations have hardly been of a sort to endear these countries to Americans. As reality has set in, they have toned down their rhetoric, but it is a little bit late.

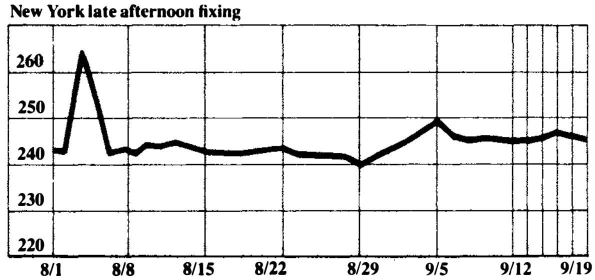
"All of which sets the stage for the IMF annual meeting, and the related annual meeting of the World Bank, next week. We have come a long way from Cancún in the direction of dealing more realistically with the problems of world economic development. A lot of people have learned that big helpings of SDRs and soft loans are more of a hindrance than a help to development; they make Third World politicians dependent on international institutions rather than on the latent talents and industry of the people they govern. A successful international economic order can be built only when leaders are forced to create an environment that allows work and investment to prosper. The Common Market [which could not agree on a new batch of IMF Special Drawing Rights for the Third World at its pre-meeting in Ireland last weekend—ed.] is groping toward that realization. We hope further progress will be made next week."

Currency Rates

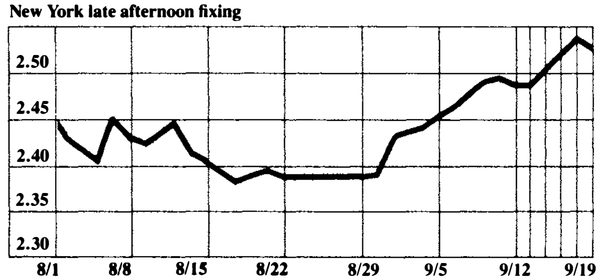
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing