IMF conference sets November deadline

by Chris White

With the world's top bankers, and other sundry so-called worthies departing from Berlin, and their riot and demonstration-punctuated annual get-together, the word is being put out, through the usual press channels, that nothing much of interest happened at this year's gathering of the International Monetary Fund and World Bank.

That was the line fed to the Sunday, Sept. 23 *New York Times* by representatives of Citibank and other powerful U.S. institutions. It would be foolish, though, to take such remarks at their face value. Both insofar as the public proceedings of the conference are concerned, and insofar as the word, now being circulated through "channels," about what really happened, this year's conference has set in motion some really nasty uglinesses.

To take the private side of things first. Here things are particularly ominous for the United States. According to European insiders, the major powers from the Group of Seven industrial nations are supposed to have agreed among themselves to coordinate their efforts to maintain what they insist on calling "stability," at least through the U.S. elections on Nov. 8.

After that, the report goes, anything can happen. Apparently, the decision has been made, that beginning the second week of November, and proceeding through the fourth quarter of the year, the United States is going to be forced to deal with the so-called "twin deficits," in the federal government's finances, and in the balance of trade.

By "dealing with" the deficits, the International Monetary Fund crowd means imposing the same restructuring policies on the United States that have up to now been so brutally imposed, with genocidal consequences, on the countries of the Southern Hemisphere.

'Mexican' prescription for U.S.

This was the perspective laid out on Mexican television on the eve of the IMF meeting by David Rockefeller of Chase Manhattan Bank. Full of praise for the so-called "Mexican Model," which has ruthlessly reduced that once prospering country to hunger and penury over the last six years, David Rockefeller recommended that the same "Mexican Model" now be applied to the United States itself.

So, the behind the scenes word from the conference, about what was said to be agreed, happens to be coherent with what one of America's finance community front-men was lobbying for in advance of the meeting itself.

Therefore be forewarned. The "Mexican Model" so-called, like the kind of policies that have been dictated to the other major Ibero-American debtors, Brazil and Argentina, is not only a specific combination of fiscal and monetary measures designed to shift most rapidly a country's wealth, in the form of its production potential and labor, into the bank accounts of foreign creditors: It is also a method of "financial shock" treatment, designed to create the conditions in which a country is forced to so submit.

The shock package is invariably the same. In the Ibero-American cases, in the Philippines, and elsewhere, it generally works as follows. Citibank, Chase, and Bank of America will organize a capital flight hemorrhage out of the targeted country's currency and other financial assets. The capital exodus is the means by which a brutal devaluation of the country's currency is enforced, generally in the region of between 50 and 100%. The combination of currency flight and forced massive currency devaluation is the means by which the treacherous are able to impose on the merely fearful and incompetent, the kind of savage austerity through interest

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rate hikes, tax increases and government budget deficit reduction which make up the "restructuring regime."

The tax increase and deficit reduction side of this package was also laid out, on the eve of the IMF meeting, by Democratic Party big-wig and wheeler-dealer Robert Strauss. The occasion was a seminar for the economic advisers of the Bush and Dukakis campaign, organized by the Washington, D.C. public relations outfit, Smick and Medley, named after former congressional aides to Sen. Bill Bradley from New Jersey, and Rep. Jack Kemp from New York State. Kemp and Bradley have taken the lead, within the United States, for the kind of policies put forward by the Basel, Switzerland headquartered Bank for International Settlements, the central bankers' central bank, and the IMF and World Bank.

Foreign dignitaries, like Karl-Otto Pöhl of the German Bundesbank, were brought in to instruct the candidates' representatives on the "realities" of the current financial situation. Strauss's assignment was to tell the gathering, that no matter who won, or what they were saying now, on the campaign trail, the requirements would be the same, tax increases and deficit cuts.

What all this amounts to is the determination, over the course of the fourth quarter of 1988, to create the kind of crisis conditions—if the shock tactics of the "Mexican Model" is any indicator, through capital flight and currency devaluation—that will force the incoming President to submit to the creditors' demands, as represented by the "restructuring" slogans and policies of the International Monetary Fund.

In this case the organizers of the capital flight would probably not necessarily include the usual villains, Chase and Citibank, but given their record of loyalty to U.S. interests, it wouldn't be surprising if they were. More likely it would encompass action by that allied section of the financial crowd which operates out of London, Switzerland, and Japan, through insurance companies, investment houses, and raw materials conglomerates.

One of the signals of their intent will be delivered right after the U.S. elections, in the second week of November, when 90-day commercial paper, floated in August to help the U.S. financial system through the election period, has to be refinanced.

It should also be borne in mind that none of this excludes things already beginning to come apart at the seams during October. If the decisions have indeed been made to force the crisis pace in November, what that will now set into motion, as insiders move to protect themselves from what they think they are about to unleash, could itself overturn the proverbial apple-cart.

What is Brady up to?

The public side of the meeting, of course, has a different emphasis, but if the above background is borne in mind, it is readily explicable. Most press attention, and the *Wall Street Journal*'s coverage has been exemplary, has focused on what is portrayed as a divergence between Nicholas Brady, on the one hand, now replacing James Baker at the U.S. Treasury Department, and Michel Camdessus, the director-general of the IMF, Pierre Beregovoy the French finance minister, and Satoshi Sumita, the Japanese central bank chief, on the other.

What such a line-up might portend is by no means clear. However in the discussions the reports are that Brady ended up opposing the cited Gang of Three on the matters of, first, a proposal from Camdessus to increase member states' paid in quotas by from 50 to 100%; second, a currency reorganization put forward by Camdessus, to downgrade the dollar, and a debt reorganization plan put forward by Sumita, and associated with the absent Japanese Finance Minister Kiichi Miyazawa.

The lack of clarity concerns what Brady was up to. He put himself forward as a proponent of continuity with the policies associated with former Treasury Secretary James Baker, against the reorganization proposals put forward by the Gang of Three.

In so doing he was roundly denounced by the senatorial office of Bill Bradley, on behalf of the Dukakis campaign. Since the Baker policy is in the throes of its demise, Brady and company will ultimately have to come up with something else.

A world central bank

If it's still a mystery what the new U.S. Treasury Secretary will do, there is no such around the intent of the other three. The Camdessus currency proposal, to establish the IMF accountants' Special Drawing Right (SDR) currency basket unit as a reserve currency, including gold in the calculation of the basket, had been presented before the conference in an IMF background briefing.

The aim of the proposal is to begin the process of replacing the dollar as the world's reserve currency, while moving toward a system of currency blocs, interlinked at the level of international institutions like the IMF and the Bank for International Settlements.

The aim of the debt proposal is similar. Sumita and Miyazawa argued for the creation of an escrow account in the IMF, into which Third World debtors would deposit their foreign exchange holdings, where such exist. The escrow deposits would then serve as the collateral for bond issuances which would be used to redeem a portion of outstanding Third World debt at some discount from face value.

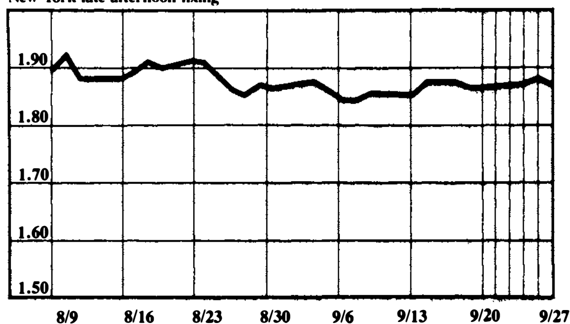
The combination of both proposals aims at establishing the IMF as the core administrative center of a new reorganized world monetary and credit system, in which national sovereignty is trampled on, and national credit and currency are taken out of the hands of inidividual sovereign nations, and run for them by the bureaucrats at the IMF.

Apparently these proposals have been the subject of intense discussion between Camdessus, Sumita, and Beregovoy for the last several months. Both the currency proposal

Currency Rates

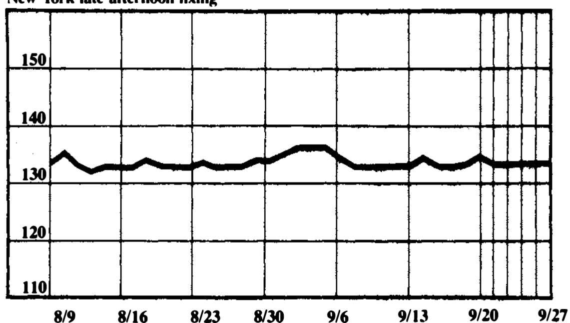
The dollar in deutschemarks

New York late afternoon fixing



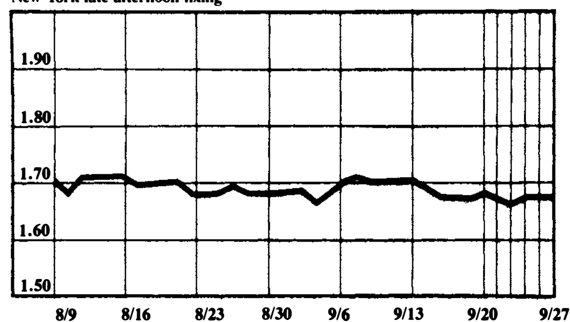
The dollar in yen

New York late afternoon fixing



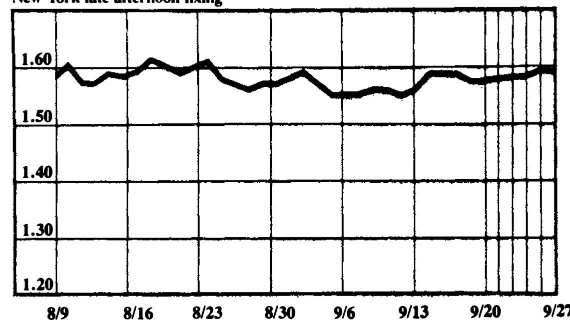
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



associated with Camdessus, and the debt proposal associated with Kiichi Miyazawa and Sumita, were cooked up during the course of those discussions. Both are equally designed to replace the currency regime, and the debt plan, associated with James Baker, and with the Plaza and Versailles agreements on currency exchange rates.

Brady opposed the debt scheme on the pragmatic and technocratic grounds that it is ill-advised to transfer "the risk" in private banking lending to Third World debtors from the private banks to public agencies. In other words, if the IMF were actually to assume a portion of the debt as proposed, then what would stand behind that debt, as guarantor of the issuing outfit, is the combination of countries which finance and underwrite the existence of the IMF.

The debt would thus not be a liability of the IMF, but a liability of the nations themselves. But who would then be lender of last resort against the collapse of whichever part of the world banking system? While stealing Third World assets on the one hand, the proposal is also designed to put taxpayers' money, in bailout guarantee form, behind that portion of the indebtedness which is proposed to be refinanced at a discount from face value.

Both reorganization proposals were accompanied by demands that the United States cut its budget deficit and increase taxes.

So publicly then, the meeting heard proposals which were designed to put major Third World countries into a dictatorial bankruptcy receivership under IMF technocratic guidelines, while also elaborating proposals for downgrading the dollar in the current monetary system, and reorganizing the United States.

Camdessus, Beregovoy, and Sumita, it can safely be assumed, represent that section of the international creditors of the United States who would deploy into capital flight mode to induce the "shock tactics" which would be designed to force United States compliance with the whole hideous scheme.

Fasten your seatbelt

They certainly overlook the reality that unlike Mexico or Brazil, there is between $15 and $20 trillion worth of essentially unsecured liabilities bubbling the U.S. dollar credit and banking system. If, as the whispers of the private agreements portend, the intent is a run on the dollar, in the fourth quarter, building into a first quarter 1989 crisis for the next President, then fasten your proverbial seatbelt.

That kind of shock cannot be organized without uncorking the bottled-up genies of financial blowout. This would indeed force changes in the world financial and banking system, and since sovereign states will be among the institutions with the powers necessary to survive, and bubbled banks not, the changes will most likely not be those proposed by Camdessus, Beregovoy, and Sumita, nor will they be to their liking.