To build Europe, we must defeat the International Monetary Fund order

by Jacques Cheminade

My presentation has the purpose of telling you why you who come from the East have not been helped by the West as you deserve, and as you ought to be, in the face of the historical challenge. I will put it bluntly, because in times of tragedy, it is not always a good thing to be too aloof. The truth is that the Western Europeans have been cattle, who worship the Golden Calf, finance economics, and not the goose that lays the golden eggs of which Mr. LaRouche speaks, the golden goose of economic development and industrial growth.

Today we hear countless politicians' speeches about the destiny of the East, stressing the need to aid Eastern Europe and concluding with fine and generous gestures. Countless official delegations from France, Germany, and Italy go to get their pictures taken in Bucharest, Leipzig, or Warsaw. Not all these words, and deployments, are useless, nor are they all guided by fads or demagogy. Yet not one is answering the real challenge, because behind all the clamor, the governments of the Western democracies are not up to the task at hand. By passivity or deliberate will, in spite of or because of themselves, they are all adopting a malthusian standpoint, starting from *financial* constraints, and not from the needs of physical economy.

Instead of acting in the real interest of the Eastern peoples, so as to raise their standard of living, culture, and freedom, they are submitting to the rules of rentier finance and the imperative of debt repayment.

At a time when, east of the Elbe, the passage from a totalitarian order to an order of freedom is at stake, their attitude—and most notably, their acceptance of the usurious policies of the International Monetary Fund—is leading straight to disaster.

In fact, we cannot build Europe, nor set the world economy back on course around Europe's construction, *except against the IMF order*. On this point, no compromise is possible. This is not a sectarian statement regarding an institution or certain persons, but arises from the examination of the concrete consequences of an intolerable policy that destroys the very substance, human and material, of the economies to which it is applied.

In the Third World countries, the IMF advisers have always imposed reforms which, under the pretext of "balancing" revenues and spending, have aimed at cutting back internal demand (brutal reduction of credits for consumption, creation of taxes on construction, transport, and trade, encouraging exports for debt payments).

More concretely, upon those countries—Latin American, African, or Asian—which had gone into debt to invest and were no longer able to repay their debts, the IMF imposed lowered living standards and a reduction in productive investments and imports, as well as a sharp revival of exports, so as to skim off the surplus, so that debt payment could again be assured.

Such a policy, even under normal conditions, would amount to prescribing leeches to a sick person. Today in the Third World, the patient is dying, for the loans contracted by these countries were not invested to develop them. More than three-quarters of the sums obtained were directly or indirectly recycled into the lenders' financial circuits, both by the worsening terms of trade, and by capital flight, and by the effect of the rise in interest rates and the fall in exchange rates.

Thus, the Third World countries were forced to pay a debt which, due to the interplay of composite interest, represents often several times the initial capital, and from which they have not drawn the slightest benefit.

This resulted in the "hunger riots" in Egypt and Tunisia, or more recently, in Venezuela, in February 1989, with 1,000 dead and thousands wounded. Above all, the choices imposed by the IMF have led to a decline in public health, with galloping infant mortality and epidemics (classic ones, like yellow fever, trypanosomiasis or leprosy, as well as AIDS).

To claim to apply these "prescriptions" to the Eastern European countries hence betrays both suicidal incompetence and cynicism bordering on criminality. Yesterday the case of Romania, today that of Poland, demonstrate this already in spades.

Ceausescu was IMF favorite

One forgets too readily that Nicolae Ceausescu's Romania was the IMF's "good boy." It was not just nationalist deviations and the effects of the Soviet system which provoked the Romanian Winter, but also IMF *conditionalities*.

It was the IMF advisers, after the brutal deterioration of the Romanian balance of payments in 1980, who imposed a program of "structural adjustments" on Bucharest, resulting in a price increase to consumers of 35% since 1982. Yet, these first measures were judged inadequate by the IMF to "reduce internal demand." Hence, the Oct. 17, 1981 decree fixed maximum levels of consumption, under the pretext of the "exigencies of rational nutrition." In 1982-83, Ceausescu imposed—to the IMF's satisfaction—a "virtually unified exchange rate" which accelerated the lowering of living standards, as well as of investments and imports.

Ceausescu proceeded then to the "full and early repayment of the debt," ruining the country, with the full approbation of the IMF, which nonetheless scolded him for not doing enough. More "human" than the international financial institutions, the Nero of the Danube had refused to further hike the price of energy!

The totality of this policy was carried out with the *tacit complicity of Western governments,* against popular resistance against these intolerable policies (the strikes of 1977 and 1980, the Brasov uprising in 1987).

Today, the IMF congratulates itself that the Romanian people "after such a cruel trial," are "less demanding in terms of consumption than those in countries like Poland and Hungary." Yet it is not a different policy that is today being imposed on Poland, but the same one—doubtless in order to teach its people to behave better.

The Balcerowicz plan

The consequences of the accord signed between Poland and the IMF in December 1989, and the *Balcerowicz Plan* (from the name of the current, Harvard-trained economics minister) which followed, are in fact terrible: a 12% drop in projected production, due to rising costs; a 25% drop in living standards and real wages; a sevenfold increase in the price of energy to private users (with all the consequences that that implies in wintertime). Poland today finds itself thus in the situation of France in 1943-44, when penury determined all behavior, and when the most impoverished—the elderly, the sick, and very young children—were hit the hardest.

The impact of these measures has had direct repercussions on Polish peasants: There is an attempt to make the Poles swallow austerity by keeping the price of ordinary food products relatively low, with this gouged out of the farmers' living standards. Rural people are facing a tenfold increase in cost of inputs and pesticides, a fifteenfold hike in that of farm machinery, and a doubling of fuel costs. As a result many are unable to equip themselves to produce and others refuse to deliver. Thus, Western food aid has ended up by putting pressure on domestic production! The result of this "program" is a foreseeable drop in farm production of 30%, according to Rural Solidarity's leaders.

Same choices as vis-à-vis the Third World countries, same catastrophic results: Poland is coming out of the Soviet totalitarian system, only to fall into a "Argentina" scenario for its economy—as it is cynically put by World Bank functionaries.

Czechoslovakia and Hungary are no better treated. Under the pretext of "liberalizing" the Eastern economies, they are being handed over to financial pillage.

Western Europe—the European Community of the 12—cannot continue to tolerate this, because if the fruits of "freedom" are so bitter to our future partners, the Eastern countries, they will become easy prey for any adventure, rather than constituting a new area of joint development and prosperity.

Financial totalitarianism

If the European governments, despite their fine words, have not yet changed strategy, it is not because they do not know the consequences of the IMF's policies. Numerous West German leaders have been heard saying that while IMF conditionalities are all right for Poland or Czechoslovakia, they should not be applied to East Germany, implicitly recognizing that they are harmful. Without saying so aloud, these things are being pondered quietly, and in some cases not so quietly, in France itself.

Yet the alternative is not clearly spelled out. Why? After all, it is precisely the countries of the European Community which are the owners of three-quarters of the Polish foreign debt, and which thus, in principle, have dominion over their subject, right in the bosom of the Club of Paris.

The reason for the "paralysis of will" is our governments' subjection to the enslavement of the financial markets. To act, they fear, would be to deal a death-blow to a pyramid whose equilibrium is already very fragile.

Thus, as the French economist and 1988 Nobel Economics Prize-winner Maurice Allais rightly points out, the amount of capital traded each day on the financial markets (to the tune of $500 billion) represents about 25 times the daily volume of trade in goods and services (about $20 billion). This abnormal growth prohibits institutional investors from playing a stabilizing role on the markets, which have been given over to speculation, where the law of buy-sell and quick profits dominates that of long-term investment.

The capitalization of the Paris Bourse, for example, represents six times the present real-estate value of cultivated land in France, and two to three times the total real-estate value in France.

As money draws money into a "speculative cycle" as opposed to a "cycle of production," the phenomenon is worsening day by day, and the "snowball" swells, with less and less relationship to real goods' production.

Prévision, a financial newspaper, thus wrote on Jan. 12:

"Never have social inequalities been more accentuated than now, and that is because the capital benefits from the inflationary increases of the stock markets have been distributed to a small number of people. Through this enrichment, nothing productive has been achieved; the enrichment is not a compensation for a positive contribution to the community." The stock market is not a place where investments are prepared and financed, but a place in which one buys and sells firms—with the money of others, to then asset-strip them of muscle and bone.

People forget that Ceausescu's Romania was the IMF's 'good boy.' Yet, more 'human' than the international financial institutions, the Nero of the Danube refused to further hike the price of energy—as they demanded!

The political authorities have abandoned their powers to the central banks, completely awed by their own power. The use to which they have put this power has led to a two-, three-, or fourfold multiplication in short-term rates, floating on the bond markets—to a situation in which firms can no longer borrow to invest, because money costs too much. That is the cycle of speculative money, of which the IMF "system" represents the apex.

One therefore understands the cause of the paralysis, or of the complicity, of national governments, caught in the trap.

Europe's aces

Europe, despite the penetration of these interests, has a special responsibility in this context. Financier economics has destroyed less of the basic infrastructure there, than elsewhere. Europe has the aces to play, more than anywhere else in the world, for a strategy of breakout.

We still have available, in fact:

- a good physical infrastructure (highways, ports, canals, railroads, etc.);
- a human services infrastructure (schools, hospitals, laboratories) which is certainly threatened, but resistant;
- an economy whose development has been relatively maintained, while the real, physical economy of the United States has been falling apart for 10 years, along with the average income of its operatives (a 17% drop in living standards of American workers since 1972).

We Western Europeans represent today 25% of the total world product, with a constantly rising portion for the past 20 years.

Especially, we have the largest *intellectual capital:* 44% of the world's patents are in Western Europe, and more than one-third are in the 12-nation European Community (contrasted to barely 13% in the United States, and 32% in Japan).

Finally, the part of our economy which has been "financierized," as they say today, although it has increased greatly, is still much smaller than that of other industrialized countries: In total stock-market value with respect to the Gross Domestic Product, Paris and Frankfurt "only" represent 16%, while New York represents 55% (of which a large part is fictitious holdings, linked to "bad debt") London 89%, and Tokyo 160%.

Furthermore, Eastern Europe, with the heightened level of human knowledge of its people and the relative ruin of its economy, resembles, all other things being equal, the conditions of Western Europe in 1945.

With our potentials, we know what to do, we have the means to seize the challenge of developing the East by creating a "lever" which will also free ourselves from financial totalitarianism and relaunch the agricultural and industrial "machine" into the world. The experiences of the postwar Marshall Plan and Fulbright Scholarships should be reexamined more closely in this perspective, such that training and investment may go hand in hand with creating the conditions of recovery.

It is in that perspective that we have elaborated here the alternative to the present financier economics, which itself is leading straight toward disaster and potential war. We are not, of course, presenting a "turnkey" economic program, all neatly wrapped up, which would just be one more illusion! We are sketching a framework, a "discussion document" for builders: Europe has the chance today to become the "heart of the world." It should not let this chance pass. Much is expected of us in Warsaw, in Prague, in Budapest, in Bucharest, and even in Moscow.

In our country, we have seen a tremendous surge of solidarity toward what was perceived as the liberation of Romania, where almost everything, today, has yet to be done. Well, our framework aims to give a concrete perspective to that surge of charitable feeling which was unleashed during the events in Romania. Our project for a Paris-Berlin-Vienna "European Triangle," symbolized by the East-West TGV network, shows what we must mobilize around to "awaken" Eastern Europe—to save it—and at the same time to transform ourselves, reorienting our system toward production, for the common good of Europe, first of all, but also of the Third World and the entire world economy.

In a word, can we tolerate—we Western Europeans—that only financial austerity is offered to the Eastern peoples who are demanding freedom and growth? We must change this! To save, to relaunch, to give new life to the Eastern countries, the ball is now in our court, in Western Europe. We must become worthy of the battle our Eastern brothers are fighting.