

Monetary Affairs

Holding together the system that can no longer be held together

by Christopher White

Commerce Secretary Malcolm Baldrige—repeating hints from Treasury Secretary James Baker III six weeks ago—said Sept. 24 that the dollar would have to come down 25% from its Sept. 20 value against other major currencies to have any substantial impact on the trade deficit. That leaves another 20% to go, following Sept. 23's sharp drop on the market in the wake of the Group of Five's effort to talk the dollar down.

The plunge of the dollar, from a boosted level of about 2.90 deutschemarks prior to the snap meeting, to under DM2.70 in its aftermath, fed the impression, cultivated by most of the international press, that the overvalued dollar was the subject of the meeting. That was not the case.

The most important subject of the G-5 meeting, was the exploding Third World debt crisis. This had been leaked to the *Washington Post* by the State Department on the Friday (Sept. 18) the meeting was apparently convened. In such coverage, the fate of Donald Regan's bloated dollar was linked to two proposals, one directed against Africa, the other against primarily the nations of Ibero-America, to transform the World Bank into the institution which would manage the debt crisis.

More than this, according to the State Department leakers, the G-5 officials met under conditions of spreading panic engendered by the knowledge that they now face a spreading international revolt against the "System" of International Monetary Fund conditionalities, spearheaded by Peruvian President Alan García. This revolt was expected to surface during the United Nations General Assembly, as it in fact did.

The foolish finance ministers and central bankers met, in their capacity as guardians of the "System," to elaborate a counter-strategy to the revolt. Such a counter-strategy would include the kind of blood-bath-type prescriptions, such as assassinations, coups, and so forth, generally set into motion by the friends of Henry Kissinger under such circumstances.

The perhaps irredeemable folly of the meeting's participants is shown by the following. The "System" they are trying, bloodily, to hold together, cannot be held together. It is bankrupt, as *EIR* has repeatedly demonstrated. This unfolding bankruptcy is the principal weapon deployed on behalf of Russian imperial domination by the late 1980s. In

now opposing García, and his allies, the finance ministers and central bankers are acting to ensure Soviet advantage under crisis conditions.

Since all of Ibero-America pegs its currencies to the dollar (and has devalued them to 40-60% of their market-basket value), no drop in the dollar's value against the European currencies or the Japanese yen will help the debt situation. Instead, a dollar devaluation will only force existing governments to the wall, creating the political conditions internationally for Soviet takeover. Only a catastrophic and irregular decline of the dollar would raise the debtor nations' commodity prices, given the shrinkage of world consumption of these commodities. But in this case, the financial consequences of the dollar decline would make commodity prices a trivial issue. Either way, the keepers of the "System" are presiding over its destruction.

Therefore, it would not be unfair to say, that the finance ministers of the top five industrial nations staged a grandstand show of "unity" Sept. 21, anticipating a blowout of the world financial system during this year's last financial quarter.

Bankers' "panic" over the debt crisis prompted the meeting at New York's Plaza Hotel, the London *Financial Times* reported Sept. 23. If the meeting were not called in a panic, the Treasury went to enormous lengths to give that impression: It publicized the event at a moment when European finance ministers pleaded ignorance of its existence. Gerhard Stoltenberg of West Germany expressed amazement that he was invited. British and French officials knew nothing of the meeting.

Although Treasury Secretary Baker admitted, in response to a question from *EIR*, that he and his colleagues from Germany, Britain, France, and Japan had discussed the debt crisis, the meeting's public statement is one of the most insipid documents in world economic history. The "G-5" claimed that "significant progress has been made in their efforts to promote a convergence of favorable economic performance among their countries on a path of steady noninflationary growth."

But the imminent collapse of the world banking system, not an "economic recovery," persuaded the G-5 to abandon its usual secrecy and pose for photographers.

Officially, the main subject of the meeting was the wild

overvaluation of the U.S. dollar, now worth 70% more in terms of the European currencies than at its 1980 low-point. America's \$150 billion per year trade deficit now amounts to about 15% of all goods it consumes.

The five nations announced that "some further orderly appreciation of the main non-dollar currencies against the dollar is desirable. They stand ready to cooperate more closely to encourage this. . . ." The dollar fell 5% on international markets the next morning, although Commerce Secretary Baldrige warned that a 25% drop would be needed to make a dent in the deficit.

On Sept. 23, President Reagan announced a program supposedly aimed at reducing the trade deficit, but designed, in fact, to cool off congressional proposals for trade war on Japan and other nations. The President's plan, including a \$300 million "war-chest," does not measure well against a deficit of \$150 billion.

Officials of the 'Group of Five' met under conditions of spreading panic, engendered by the knowledge that they now face an international revolt against the "System" of International Monetary Fund conditionalities, a revolt spearheaded by Peruvian President Alan García.

Some cynics, including Britain's chancellor of the exchequer, Nigel Lawson, hinted after the G-5 meeting that the whole affair was an American publicity stunt, aimed against the President's protectionist opponents. That is both true and not true. Admittedly, the G-5 came up with the emptiest program since the World Financial Conference of 1934 broke up, without results, at the worst of the Great Depression. But at the same time, the potential for a protectionist binge like the Smoot-Hawley tariff of the last depression, was evident in President Reagan's own threats of trade war against Japan.

Whether the finance ministers are as stupid as they seem will become clear in early October, at the IMF's Annual Meeting in Seoul, Korea, where Peru, and perhaps others, may walk out unless the Western industrial nations exhibit some signs of mental balance in debt negotiations.

World Bank alternative?

Following Alan García's powerful denunciation of the IMF Sept. 23, and its echo in the United Nations speech of the Brazilian president, Kissinger and his friends are not

convinced that thuggery alone will work. Fed chairman Paul Volcker, with Baker's backing, now wants to set up an emergency bailout fund at the World Bank—the sister institution of the IMF.

According to State Department leakers, there are two elements of this plan afloat. One is designed especially for the African continent. There, commercial banks are no longer significantly involved in the continent's \$80 billion debt. A fund would be put together from the proceeds of IMF gold sales to be deployed through the World Bank to secure Africa's debt. The conditions for such "aid" were laid out by George Shultz during his speech to the General Assembly, when he attributed Africa's current crisis to the continued existence of "command economies," i.e., nation states.

The second tier would create a \$40 billion fund, again under the World Bank, a pittance to move from one column of the accounting sheet to another for roll-over and bail-out schemes, under conditions that so-called debt-for-equity schemes are implemented. These kinds of policies are simply a recipe for strategic disaster.

Volcker's plans for the World Bank represent only a nominal political retreat from the open brutality of the IMF against debtor nations—culminating in its cut-off of funds to Mexico on the same day that an earthquake struck Mexico City. By offering pitiful amounts to prostrate debtor nations in return for brutal economic "conditionalities," the IMF has already thrown most developing nations into chaos. This plan will, at best, continue the same brutal policy, under a different name.

Faced with an international revolt by the debtors, Volcker and Baker are now talking about softer terms for World Bank loans. The World Bank would still impose "conditionalities," according to reports of the scheme, but with a somewhat longer duration. Behind such "sweet talk," the friends of Kissinger are planning their bloody-handed rampage, knowing, that by so doing, they will be turning the developing sector as a whole over to the Soviet Union.

From an economic standpoint, the World Bank plan is ridiculous: The largest figure Volcker has circulated for World Bank lending is \$40 billion over five years, or a mere \$8 billion a year. Even before the earthquake, Mexico alone was known to require more to get through the next year alone. The "plan" clearly has nothing to do with economics. Its simply rhetoric to buy time.

More than anything else, the bankers' scheme to put the IMF into the background reflects simple political reality: The balance of forces has turned against them. Unless they can overthrow the Peruvian and some other governments, the Kissinger group among U.S. and British bankers stand to lose everything. And if they do overthrow such governments, they will still lose everything.

Any concession to the debtors' revolt, however miserable, will strengthen the forces associated with President García.