World's financial power blocs are squaring off

by Chris White

During the second week in January, Treasury Secretary-designate Nicholas Brady began his consultations on the international financial situation with his opposite numbers from Britain and West Germany. He met in sequence with British Treasury Secretary Nigel Lawson and then the next day with West Germany's Finance Minister Gerhard Stoltenberg. A third meeting is scheduled with new Japanese Finance Minister Tatsuo Murayama in the coming days.

The succession of bilateral meetings breaks the mold set in Paris during post-election consultations with representatives of the same group of nations, plus the French. At that time, it seemed, the finance officials and their senior underlings had agreed that in exchange for concerted November action to stop the accelerating fall of the U.S. dollar, the United States would hike its interest rates, and there would be a meeting of the Group of Seven shortly after the Jan. 20 inauguration of the Bush administration. France and West Germany had appeared to be the most outspoken lobbyists for the rapid convening of a G-7 coordinating meeting. The British had seen no need for such before the already-scheduled gathering in advance of the International Monetary Fund's April Interim Committee meeting.

Out of the bilateral meetings with Brady, the scheduling of the Group of Seven meeting has moved from November's "soon after Jan. 20," to January's "in the next few weeks." The agenda has reportedly shifted from November's insistence that the dollar and exchange rate policy be first up, to the present ambiguity of the meeting being either "a getting to know you" session with Brady, to Stoltenberg's reported hard stance that the meeting take up, as a matter of urgency, the question of Third World debt. This was developed further by Stoltenberg in an address to the Konrad Adenauer Foundation.

Ultimatum from Kissinger and the bankers

Stoltenberg's insistence reflected the agenda of priorities laid out on Jan. 8 by Henry Kissinger, in a syndicated column published in the *Los Angeles Times*, and by the Washington, D.C.-based Institute for International Finance (IIF).

Kissinger demanded that Mexico be made the test case in a new drive to eliminate what he called "Latin American populism," this to be accomplished through a new round of Schachtian looting schemes based on stealing state sector industries and raw materials extraction concerns across the continent. Kissinger, one of the architects of the 1970s détente with the Soviet Union, vented his spleen at what he called the "Marxist" character of the institutionalized commitment to industrial progress which is mediated through such institutions as state-run industries.

Two days later, the 186 banks affiliated with the IIF issued an ultimatum to the incoming Bush administration, demanding full government guarantees for their international activities before they would invest in the grand larceny schemes Kissinger advocated. They call such schemes "debt-for-equity swaps" and "local currency conversions." The general manager of the IIF, West Germany's Horst Shulman, a former adviser to ex-Chancellor Helmut Schmidt on international finance, described the ultimatum as "not a bail-out for the banks" but "a bail-in" for the governments. In between the two events, Mexico's budding Porfirio Díaz-style dictator, Carlos Salinas de Gortari, arrested the leadership of that nation's oil workers union in a nationwide military dragnet designed to clear the way for the privatization of the state owned oil company, Pemex.

The Kissinger article and the bankers' ultimatum clarify the ambiguities around whether or not there is to be a Group of Seven meeting, and what it is to discuss. From these, and the visits of Lawson and Stoltenberg, a very clear blackmail message was delivered to the new U.S. administration, on the eve of its taking office: Accede to our demands on the handling of Third World debt, and the dollar will be maintained at roughly its present levels, against both the deutschemark and the yen. The message is roughly similar to that delivered by the headsman to his execution victim: "Don't worry, there's nothing to fear; afterwards, you'll be able to choose which part you wish to keep, the part above the neck, or the part below."

Such a message should help to clarify the illusions of those who continue to maintain that the new U.S. government can exercise control internationally without acting to overturn the constraints imposed by the international economic collapse, the fact that the United States is now the world's largest debtor nation, and that its banks, including emphatically the largest commercial banks which comprise the core of the IIF—Citibank, Chase, Bank of America, Manufacturers Hanover, and Chemical among them—are bankrupt many times over. As the latest developments in Mexico indicate, assuming charitably that things were cooked up outside the administration, preemptive action by the financial crowd will continue to change the international agenda, even before the new Bush team has got its "wish list" itemized.

Otherwise, the "do what we demand on the debt, or the dollar will get bashed" ultimatum does strangely reflect the fact that the Bush team had been moving in its own idiosyncratic way, against the principal sponsors of an early dollar crisis. As befits a combination long on bureaucratic intelligence community strengths, and short on economic policy fundamentals, the methods chosen have been the intelligence community's power political warfare manipulations and muscle-flexing. Such methods may have some impact on the players, but they don't have any effect on the kind of game that is being played.

Part of the reason for the present downplaying among official circles of the dollar's exchange rate, is the political pressure that has been brought to bear against advocates of an early dollar crisis as the means to break the will of the incoming administration.

Scandals and takeover battles

At the September meeting of the International Monetary Fund in Berlin, a line-up emerged against the United States on three questions. Leading the charge were the French through Finance Minister Pierre Bérégovoy, the Japanese through Central Bank chief Sumita, and the International Monetary Fund itself, through Managing Director Michel Camdessus. They were advocating, first, a downgrading of the dollar as an international reserve currency, along with a strengthening of the IMF's Special Drawing Right bookkeeping unit of account; second, the creation of a new entity within the IMF, to trade in Third World debt holdings for long-term bonds collateralized against Third World foreign exchange holdings, the so-called Miyazawa Plan; and third, savage U.S. budget cuts.

This outline was opposed at the time by U.S. representative Nicholas Brady. Since then, under the impact of the Recruit Cosmos insider trading scandal, Japanese Finance Minister Kiichi Miyazawa and others of his ilk have been ousted from Japanese government. Beregovoy and others of President François Mitterrand's economic team have come under the taint of another insider trading scandal—Pechiney's takeover of the U.S. company Triangle Industries—and are expected to be further weakened by a scandal around dealings with the takeover of Belgium's Société Générale. The Pechiney matter is the outgrowth of U.S. investigations of the international activities of Drexel Burnham Lambert, and extends into Swiss financial circles, where Justice Minister Elizabeth Kopp resigned from office in another matter, the billion-dollar money-laundering associated with Sakarachi's "Lebanese Connection."

The international hype around the "chemical weapons for Libya" targeting of West Germany has functioned similarly, the more so since it is now revealed that the United States has actually been negotiating with Muammar Qaddafi for the return of the oil companies taken over by Libya in 1986—Marathon, Occidental, Conoco, and Gulf—along with the $4 billion in assets that Qaddafi then seized. Libyan oil is important to Germany, Italy, and France, among others in Europe.

While U.S. political involvement in such affairs is beyond dispute, the profile remains that of the core financial power bloc based upon Britain, the Netherlands, Canada, and the United States, acting to direct the U.S. as a battering ram against what that grouping dislikes in continental Europe, while directing Europeans as a battering ram against what it wishes to smash in the United States, namely the independence of the presidency. Japan's job seems to be to provide the funding for the transatlantic bullfight.

This kind of arrangement is like playing musical chairs on the Titanic, with the captain's role being to pull out another chair at the end of each round. The hurt of those who are left out at the end of each round is nothing compared to what lies ahead for all participants.

Typified by the new levels of austerity demanded by Kissinger and his associates from the International Institute of Finance, the international economy, taken as the capacity to produce a late-1960s standard market basket of producer and consumer goods, is being collapsed at an accelerating pace, while the pile of usurious debt serviced by that collapsing output is increased at a faster pace. The bankers' demands for what Shulman called the "bail-in" are desperation-driven on that account. Yet what those same bankers demand will only make things worse. Until governments wake up to the reality that the bankers' desperation is a measure of weakness, not strength, that will go on, but by then it may be too late.