International Monetary Fund Meeting Is A Washout

None of the annual meetings of the International Monetary Fund since its inception in 1944 has received an evaluation so clear-cut as the one that ended Sept. 30 at the Sheraton-Park Hotel in Washington, D.C.: It was a total washout, at which nothing was accomplished.

From the standpoint of the IMF and the World Bank spokesmen, outgoing Managing Director Johannes Witteveen and World Bank President Robert McNamara, the tasks set forth were no less than a general bailout of the world debt structure and the establishment of inflationary monetary and fiscal policies throughout the advanced sector. Witteveen and McNamara had the strong public backing of the U.S. and British administrations, but faced hostility on every flank, including from the U.S. Congress. U.S. congressional conservatives, most of the Western Europeans, the Japanese, and most of the oil-producing countries have combined to make the word of the IMF a dead letter.

Sophisticated observers, including European Community delegates, considered that events far from the meeting-rooms, such as the visit to Moscow of French Prime Minister Raymond Barre, would determine the world financial outlook, not the conference proceedings. Senior European officials told EIR in background discussions that they had plans in the works to undermine Anglo-American influence in Europe, and to clear the way for a European break with the dollar.

The Reflation Program

In his speech before the Fund meeting Sept. 26, Managing Director Witteveen said on his own behalf what the West Germans and Japanese had censored from the Annual Report of the IMF and from the statement of the IMF's steering body, the Interim Committee of Finance Ministers. Witteveen demanded that the industrial countries now in payments surplus, that is, West Germany, Japan, and the United States, undertake fiscal and monetary stimulation programs to inflate their economies. Otherwise, the managing director said, the world might continue into the current slump. In particular, Witteveen said, the United States need not worry about weakness on its

What The Intl. Journals Are Saying

Euromoney, September 1977
Editorial, "It Won't Work"

A lasting partnership between the banks and the IMF will become increasingly difficult to implement. That partnership, such as it may be, could come about it two ways: one, it may merely involve the collation and pooling of information between the banks and the fund: two, it may go further and involve the IMF in negotiating on behalf of the banks in the event of a default or a rescheduling.. But, in the first case, countries will be reluctant to pass information to the IMF if they believe that the IMF will pass the information on to the banks...in the second case, it will quickly become obvious that the IMF is merely fronting for the banks, and its greatest asset — its apparent independence from the commercial community — will be lost...it is only a year since the Chancellor of the Exchequer (Denis Healey) of a developed country said there would be rioting in the streets if the IMF sought to impose a tough economic programme. Think what capital politicians would make out of the IMF if it is seen to be in bankers' pockets. The partnership is not on.

International Currency Review, September 1977

The boom in the Euromarkets, which reflects continuing subdued loan demand in national economies associated with the recession, has reached proportions reminiscent of 1973 and 1974. Some of the transactions concluded recently have been so risky as to raise questions about whether the Eurobankers concerned have taken collective leave of their senses. As usual, no doubt, an abrupt and nasty setback will lead, in due course, to the familiar shake-out — bringing lenders back to earth again. This time, however, they may well touch down with rather a bump...

The Peruvians have shown that they are prepared to accept money from the West, and to recycle such funds direct to Moscow — which has been supplying them with armaments on a gigantic scale. If these people are seriously contemplating a political default, then such an event might well turn out to be the setback that produces the financial implosion which seems increasingly unavoidable.

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foreign accounts — the stupendous $30 billion per year trade deficit — because it has shown thus far that the rest of the world is willing to reinvest dollars back into U.S. paper.

However, as British Chancellor of the Exchequer Denis Healey made clear in his report for the Interim Committee, "It was clear from the word 'go' that we would not reach a consensus here" on the reflation issue, among others. Despite urgent protestations by U.S. Treasury Secretary Blumenthal at the meeting of the "Group of 5" large industrial countries, according to reliable sources, the Japanese and West Germans refused to undertake reflation programs beyond the modest measures announced earlier in the month.

Without the backing of the Interim Committee, Witteveen's position — backed by Denis Healey, the Italians, and a few other secondary voices — lacks credibility, let alone influence. Firstly, the argument that the United States need not pay attention to its foreign deficit is nonsense, even in the published opinion of the Wall Street establishment, e.g., Citibank Vice-President Ernst Brutsche in *Euromoney* magazine:

"Since the U.S. current account has fallen into a large deficit, the U.S. must either cut back its private lending abroad, rely on OPEC increasing its holdings of dollars, or hope that foreign officials' demand for dollar reserves increases rapidly. Some combination of these actions will be necessary to keep the dollar from weakening. The prospect that this outcome of events would prove less and less likely apparently led to the nervous fluctuation of the dollar at midyear... Two major factors overhanging the long-term outlook for the dollar are the U.S. Administration's new concern with detente, and its involvement in the Middle East. Adverse developments in either of these areas could touch off widespread selling of the U.S. currency, and this makes it potentially costly to hold a substantial long-dollar position."

Secondly, Witteveen announced days before his address that he would not seek a second term as managing director when his current one expires next August. Although he cited personal reasons for his decision, it is reliably reported — and univerally perceived — that he left because he expected the whole program of the IMF to fail miserably, and decided to bail out in advance.

In an interview, West German central bank president Otmar Emminger derided the Witteveen-Healey program. "Only last spring, Healey was warning about inflation and calling for cuts in demand," Emminger said. According to the West German central banker, no negotiations for increases in the IMF's spending power will begin until the next meeting of the Interim Committee in Acapulco next March. Citing the IMF Secretariat's proposal for a 75 to 100 percent increase in IMF quotas, Emminger explained, "No figures can be cited at this time. (West German finance minister Hans) Apel has earlier mentioned 50 percent, and I had mentioned 25 percent. Both Apel and I have withdrawn those figures. There will be no mention of figures until negotiations begin, and that is at Acapulco next March."

The Arab Position

Although IMF officials must be discreet on the subject in public, the orientation of the U.S. Treasury, the Senate International Relations Committee, and Witteveen and McNamara is to force the Arabs to place their funds at the disposal of the IMF and World Bank. Since the Saudis gave the IMF half of what it had wanted for the special financing facility that Witteveen had called for, it has been clear that OPEC will not hand over its oil earnings to the IMF short of military pressure.

The Saudis' $2.4 billion contribution to the so-called Witteveen facility, which is to total almost $10 billion, has not even been paid in yet; it will have to wait until the U.S. Congress votes on the $1.6 billion American share which will not happen until well into 1978. Effectively, the Saudi net contribution to the IMF at the moment and for the immediate future is zero. Arab sources at the IMF meeting reiterated in background discussions that the OPEC countries were concerned with getting a real return on their investments, and were not willing to make loans that would never be paid back.

Even worse, the Saudis are holding up even routine, scheduled contributions to the IMF-World Bank group. The most recent Saudi installment of $250 million to the International Development Agency, a World Bank Group member, was paid in the form of inconvertible Saudi riyals. Presently the World Bank is holding R225 million which it cannot spend, and World Bank officials are frantically searching around the Swiss market for a buyer with dollars.

In addition, European private and official sources say that European countries are intensifying their efforts to attract the Arabs into investments in industrial development in Europe and Third Countries, in direct competition with the IMF.

The main public pressure for the Arabs to hand over their petrodollars to the IMF has come from the Subcommittee on Foreign Economic Policy of the Senate International Relations Committee, from Sens. Jacob Javits and Frank Church. Acknowledging the orneriness of the Arabs, one senior Committee staffer said, "The only real solution to the OPEC problem is military — and I'm not saying I'm against that."

European financial leaders are generally contemptuous of the Javits effort, however; "Name me one person who takes Javits seriously — name me one!", West German central bank chief Emminger exclaimed.

In fact, there is so little hope of getting control of the $42 billion per year Arab oil surplus that the U.S. and British are venting their rage on secondary targets, such as the West Germans and Japanese. At the moment, the leading international banks who have major exposure in loans to the developing countries are still receiving vast amounts of petrodollar deposits. In this sense there is no immediate crisis, because financial resources are still available to finance country payments deficits through the private markets. *International Currency Review* estimates that the total volume of syndicated Euroloans may reach $50.4 billion in 1977, 20 percent above the total raised in 1976 and 50 percent above the total raised in 1974. But this situation is extremely tenuous for, as *ICR* comments, "an abrupt and nasty setback will lead, in due course, to the familiar shakeout."

Interviews off-record with several New York bankers, including senior people at Lazard Freres, indicate there is strong pressure on the Administration to force the West Germans and Japanese to reduce their current-account surplus in order to take strains off the dollar. The bankers' argument is that if the two big trading companies export less and import more from the Third World, they will create more export income and take away less foreign exchange from the debtor countries, easing the LDC's payments positions. In addition, by running a smaller surplus against the dollar, the West Germans and Japanese will reduce the relative magnitude of the dollar's deficit, and take some of the strain off the U.S. currency. The bankers *EIR* interviewed believe that the Treasury should threaten the West Germans and Japanese with protectionist sanctions against their products, since they will not cut their own economic throats voluntarily.

Treasury Secretary Michael Blumenthal's remark at a Thursday morning press conference that "a new wave of protectionism will emerge in many countries, including this one, and justifiably so" if the West Germans and Japanese keep trading, appears to follow this general approach. Blumenthal's statement is by far the strongest on record from any Administration official.

The Position of Congress

As Witteveen emphasized in the press conference following the Sept. 25 Interim Committee meeting, most of what the IMF can do in the short-term depends on passage of the Witteveen facility through Congress. However, according to senior World Bank and IMF staff, total uncertainty prevails on this front. The Witteveen facility, now in hearings before the House Banking Committee, will not even come up for a vote in the Senate until next year, and dozens of pitfalls stand in its way otherwise. A core of congressional conservatives is committed to stopping the facility, along the logic of the Sept. 26 editorial of the Wall Street Journal. The Journal called the facility "the Bankers Relief Act of 1977," and attacked the IMF for imposing "grinding austerity" upon debtor countries.

There are some indications that a conservative steamroller is in the works to defeat Congressional passage of the Witteveen plan. For example, a former senior Nixon Administration official, Wilson E. Schmidt, a former Deputy Assistant Secretary of the Treasury, attacked the facility in Congressional Testimony Sept. 30. "The proposal," Schmidt told a House Banking subcommittee, "adds to this borrowing-money creation-inflation process... the proposal may reduce our real income, move away from clean floating, and, along with other measures to expand the Fund's resources, adds to world inflation."

The Europeans and a New Monetary System

At the moment, according to top-level Western European sources, Europe is not prepared as a whole to follow through the implications of its scuttling action last week and break with the dollar. However, powerful forces inside Europe are, and are looking for openings to start the ball rolling.

The first problem on the agenda is what to do about the British, whose government has been the chief ally of the

Raymond Barre: 'The World Economy Suffers From Absence Of A Real International Monetary System'

The following are excerpts of an interview of French Prime Minister Raymond Barre — who just returned from Washington, D.C., and is now in Moscow — conducted by Le Figaro's *Alain Vernay in the Sept. 28 issue; the questions are not included:*

"While in Washington, if I insisted on the importance of the problems of the Middle East it is because we must seek to reduce tensions in the world and those which manifest themselves in this region are cause for the most concern. I will also bring up this problem in my talks with Soviet leaders... It is in the interest of the balance and peace in the world for the Soviet Union to be associated with the solution of the problems relative to the relations between developing and developed countries. A new international economic order cannot be durably established if a great country, having world responsibilities like the Soviet Union, keeps out of the efforts made to build it and the mechanisms which could be set up to ensure it...

"The monetary conflicts have been appeased over the last two years thanks to an international monetary cooperation which has allowed us to avoid the collapse of the 1930s... This is significant progress, but it cannot allow us to forget that the world economy is presently suffering from the absence of a real international monetary system and that this will only be able to be re-established when the participating countries will have restored the fundamental balances of the economy and will maintain them by respecting individual and collective discipline... If monetary conflicts are particularly acute, it is because money is the synthetic expression of economic activity and also because — which is too often forgotten — money is power...

"(West) Germany suffered on two occasions from a galloping inflation whose social and political consequences were dramatic. German psychology has been marked by this for a long time. One cannot hold it against a country and a government for being attached to the stability of their currency... Let me also recall that the BRD and Japan are important exporters of capital and thus contribute to the support and development of economic activity in other countries...

"... I have the feeling that the American leaders have understood that if we have an independent policy and have no intention whatsoever of giving it up, we are nonetheless disposed to contribute to the solution of international problems and put all our means at the disposal of peace and cooperation between people..."

New York banking group. Healey is hated by most European officials, more so than even U.S. Treasury Secretary Blumenthal. A special worry is European Economic Community commission chairman Roy Jenkins, a Healey cofactionalist in British and European politics. "Isn't it ironic that Jenkins, of all people, has proposed a common European currency?" asked one European central bank chief. "What he wants is a common currency that the City of London will use to control Europe." Even more emphatically, there is general acceptance among French, West German, and Belgian — as well as Arab — officials that Healey and Jenkins are implicated in terrorism against their efforts to break with the dollar, including the July 29 murder of West German banker Jürgen Ponto.

The French, in particular, are anxious to establish closer economic and financial ties with the Soviets and with Eastern Europe, but thus far have not succeeded in breaking through on the most important issues. France's central bank conducted negotiations on the subject of European use of the Comecon's transferable ruble in Moscow two months ago, which yielded no significant results. France's perception is that the now-dominant Soviet faction blocked this development, but that other forces in the Soviet Union and in the East Bloc, especially the Hungarians, are anxious to proceed with the T-ruble.

However, European officials are unanimous that nothing can be done before the "British problem" is cleared up. There are strong indications — from cautious suggestions by senior officials — that some of the continental financial authorities are prepared to take some action on it. The most recent tremors in the London market and the sudden appearance of intermittent pressure against the pound sterling last week may have been encouraged by some of the Europeans, who want to cut down Britain's political influence in Europe. The perception of some top Europeans is that a financial disaster in the City of London would have a more than salutory effect in reducing the influence of Healey and Jenkins, and that they are taking certain actions to encourage this.

More broadly, the more aggressive European proponents believed that a return of instability for the dollar and pound would open up political space for their efforts, and prompt the vacillating elements of the European governments to take stronger action against the dollar.

Also available from EIR are extracts from an IMF publication, "The LDC's and Stable Exchange Rates," by Sir Arthur Lewis. City of London bankers have indicated that the views expressed in Lewis's paper are representative of their own policy-orientation.

International Press Slams IMF Austerity, Reflation

The following excerpts from last week's international press serve as a barometer of opposition to the continuation of International Monetary Fund-World Bank zero-growth:

The Wall Street Journal, Sept. 26, "The Witteveen Facility":

...The plain fact is, the IMF is among the chief sources of the planet's economic problems and it shows no sign of reforming.

The main topic of mischief this week no doubt will be the care and feeding of the Witteveen Facility, named after its creator, Johannes Witteveen, the IMF chairman. What is the Witteveen Facility? First we will tell you the problem the W-F seeks to correct.

Over the past 25 years, a lot of poor countries around the world came to the IMF and asked what they had to do to get ahead. The IMF advised them to borrow lots of money in the world's capital markets — the big New York and London banks, mainly — and use this capital to build "infrastructure." Dutifully, the litte countries did so, but this has not proved the key to development.

So today, throughout the Third World, there is an abundance of rusting infrastructure, creaky steel mills, potholed roads. The cumulative debt now ranges around $200 billion, and the little countries have had to jack up their taxes to pay the debt service. From time to time a team of IMF economists drops by to recommend "austerity," mostly meaning higher taxes. By now the little countries have raised taxes on their miserable citizens to levels that can only be called "grinding." How can they now be further squeezed so the banks can be paid off?

Enter, the Witteveen Facility. The industrial countries should put $5.2 billion into the W-F, and the Arab oil sheiks will put up $4.8 billion. American taxpayers, in other words, will be asked to cough up a few billion for the IMF to loan to the poor countries so that they can pay off the banks.

This indirect approach is necessary in order to fool the taxpayers into thinking they are really helping the poor. Imagine the flap if the problem were solved honestly and directly: The Bankers Relief Act of 1977. How much more heartwarming it is to hear Sen. Jacob Javits, who represents Manhattan, including lower Manhattan, warning that there will be an economic collapse unless we bail out the Third World (banks).

We doubt that such terrible things will happen if we fail to bail out the banks, though the big banks with the most infrastructure loans will no longer be quite so big unless they and the IMF can figure out another way to salvage their loans. We note that their problems can be solved by economic growth in the Third World, and see no reason why the IMF economists couldn't tell the little countries that what they need is not infrastructure but lower taxes, lower government expenditure, lower taxes, freer markets and lower taxes.