Fight resurges over new monetary order

The most important event at the Havana Conference of the Nonaligned Movement as of Sept. 6 has gone unreported in the advanced-sector press. That was Cuban Premier Fidel Castro's biting call for the abolition of the International Monetary Fund and creation of a new world economic order. In his Sept. 2 address to the non-aligned heads of state, Castro said: "Many governments making noble efforts to develop their countries are overwhelmed and threatened by the unfavorable conditions forced on them by international

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monetary institutions. What price have you had to pay because of the IMF? We Cubans ... are excluded from participation in the IMF, but we are not sure whether this is a burden or a privilege....Let us unite for our right to develop."

In corridors and dinner sessions, according to *EIR* correspondents at the conference, the speech has triggered a wave of discussions of economic development and possibilities of junking the IMF. The response was unprecedented on the eve of an IMF Annual Meeting, a time when less-developed nations customarily go into a cringing posture in preparation for begging the IMF for petty concessions.

Castro's initiative cannot be explained by any reflex thrust on the part of his Soviet allies alone, who have been relatively restrained of late in their criticisms of IMF policy. What we are witnessing is a new level of strategic coordination among the pro-industrial development factions in the Third World, led by Mexico and Cuba, in the European Monetary System, in the USSR and among Arab oil producers.

Yugoslavia, backed by the Indian government, has had a slippery time in Havana trying to "soften" the Cuban-proposed conference resolutions IMF. The Yugoslavs, who will host the Oct. 3-5 IMF meeting in Belgrade, want to replace the resolutions with a 20-year "restructuring" proposal that would give the Third World a certain amount of extra cash and voting rights—within a Special Drawing Rights world reserve arrangement and a World Bank "basic needs" counterdevelopment policy.

The European angle

In our report last month on the inconclusive results of the Lomé negotiations between the European Community and Third World commodity producers, we noted that the Nonaligned conference would be a good indication of the actual state of relations between the European Monetary System and the Third World. At issue is the potential for the EMS to activate its European Monetary Fund, which has already pooled 20 percent of its members' gold and dollar reserves, in and to start centralizing gold-backed dollar credits for world technological development, superseding the IMF's "conditional" strangulation of its debtors' economies. The Comecon, to which Cuba belongs, has since 1976 indicated its interest in and ability to join a new gold-backed credit arrangement for expansion of world trade and industrial investment.

The European Monetary Fund discussion, slated for summits later this autumn, has proceeded totally behind the scenes. What is clear is the Euro-Arab elevation of gold's monetary status (see Gold).

Another public move came from Dresdner Bank, the leading West German gold intermediary for central bank gold reserve purchases and related Arab buying. Dresdner has started to issue a special new four-to-six-year bond, pegged to the six-month Eurodeutschemark rate, and is specifically designed for foreign central banks to hold deutschemarks in. Because of its term, the instrument is exempt from West German minimum reserve requirements; its longer-term character also means it cushions the problems for West Germany of expanding the mark's international reserve role.

It should be noted that among the Big Three West German banks, Dresdner has traditionally taken the lead in expanding East-West economic relations.

In this connection, it is a more than picturesque circumstance that West German institutions are aggressively offering Soviet gold rubles commemorating the 1980 Moscow Olympic Games, and the West German public is buying them up like mad.

Whether the buildup of central banks' gold and mark reserves is a prelude to an autumn EMF offensive cannot be determined at this point. The West Germans are becoming largely independent of the dollar as a source of liquidity, without bowing to the IMF's drive to officially phase out the dollar and impose stringent credit rationing on the world economy. Indeed, West German bankers and industrialists continue to elude the Bundesbank's domestic credit squeeze (a billion-mark ceiling on Lombard borrowings from the central bank went into effect this month, on top of interest rate hikes). Raising funds internationally and continuing to lend for exports, the *Grossbanken* are also thought to be behind the heavy attacks being launched against the Ruhr's regional bank, the Westdeutsche Landesbank. The WdL is under fire for having thrown into bankruptcy last year the giant Beton und Monierbau construction firm, which was widely involved in Third World development projects, especially in Africa.

IMF bluffs

Relying on American and British sources, however, one would imagine that the key world financial development at this point is imminent IMF success in implementing its eight-year-old "substitution account" plan. Central banks, and then private investors, would turn their dollar-denominated reserve holdings in to the IMF. In return they would receive assets denominated in the SDR basket-of-currencies numeraire.

At the end of August, U.S. Treasury Undersecretary for Monetary Affairs Anthony Solomon told a European Forum conference in Alpbach, Austria that the Treasury urges approval of the substitution account at the October IMF meeting in Belgrade. Further, he insisted, the substitution must be "permanent." The IMF, he said, should invest the substituted dollars in U.S. government securities.

For the U.S. economy, this would mean that the IMF would "directly own the U.S. government," as one New York economist put it Aug. 28. Solomon indeed is openly pressing for "a more 'active' IMF...coordinating and ultimately directing national economic policies." On the foreign side, dollar holders would receive what everyone concedes is an "unattractive" asset, especially compared with gold.

Despite recent claims by the London *Economist* and New York *Journal of Commerce* in particular, the West Germans, French and Saudi Arabians are utterly unlikely to go with the SDR, no matter what the proposed SDR assets' yield or liquidity. Backhandedly acknowledging the fact, Solomon and the *Economist* are now angling to use the EMS's European Currency Unit (ECU) as a more respectable sort of SDR dollar substitute, and warning West Germany of the perils of the deutschemark internationalization they had pressed for not so long ago.

—*Susan Johnson*

World Bank mandates

In preparation for the September United Nations General Assembly session in New York and the October annual meeting of the International Monetary Fund/World Bank in Belgrade, the World Bank has issued its latest official policy statement on Third World economic development. Titled "World Development Report, 1979," the 188-page document reads like a modern rendition of a quaint British Colonial Office tract. But the report is a very specific attack on the basic tenets and key proponents of the new world economic order—from the specialized treatment of "energy" to the direct and extended attack on urbanization—that is, citybuilding.

The report's basic prescriptions are familiar ones. *Population control* (there are not enough productive jobs because there are too many people); *cottage industry and appropriate technology* (industrialization is most "inappropriate" in the third world because it is capital intensive); *"bucolic agrarianism,"* as Mexican President López Portillo labeled it in his powerful state-of-the-union message this past week. (Subsidized credit programs in the agricultural sector "have often had the unintended effect of encouraging mechanization" says the Bank, and this is very bad). And the Bank *attacks state sector industries*, the key to many Third World industrialization efforts.

This year the World Bank decided to highlight "energy." 1979 is also the year that the Mexican government issued a call for a producer-consumer energy conference to fuel new practical steps toward realizing a new world economic order—a call which gained official support in key East bloc countries and France, and which was echoed among the OPEC oil producers. Mexican President López Portillo will formally present the proposal and its wider implications for progress in the developing sector at the upcoming General Assembly session. The Bank program is two-sided. Its short-term political gambit against the Portillo initiative is contained in its program for underwriting oil exploration in non-OPEC developing countries—a program which, interestingly, was given more hype in the *New York Times* than in the report itself. This is nothing but a bald attempt to counter Mexico.

For the rest, the Bank insists on "energy conservation" and the proliferation of primitive "non-conventional" energy sources (wind, dung, biogas, wood-burning) for the developing sector. Nuclear energy is mentioned once in passing as of "limited" use in the Third World.