The IMF is crowned at Versailles summit

by George Gregory from Paris

Most analysts had presumed that the Versailles economic summit of 1982 would result, at most, in a twist on Marie Antoinette's famous dictum, to the effect of "Let them eat words." That evaluation, chiefly due to the fact that the final communiqué was known in its essentials long before the seven heads of state and government gathered at Versailles Palace, was proven false by a second communiqué, the "Statement on International Monetary Undertakings." This "Statement," with its seven paragraphs, constitutes an agreement in principle to hand over to the International Monetary Fund (IMF) the power to put the United States under supranational economic and financial management, as the first step in global economic depression crisis-management.

As far as the "principle" of the "Statement" goes, each of the nations which agreed to it ultimately knows that it applies to them as well, but they were all also aware that the United States would be the first victim of the IMF.

French Finance Minister Jacques Delors, who worked closely with U.S. Treasury Secretary Don Regan in formulating the "Statement," triumphantly claimed early in the summit deliberations that "we have the agreement of the U.S.," meaning he had the Treasury Secretary's agreement. Meanwhile, Regan calmly claimed "I can not say that Mr. Delors did not say that, but we have not agreed to anything." In the end, it turned out that Delors was right, and the French minister had this to say: "We have total agreement on the principles of our monetary policy. We all think that this extended principle of IMF surveillance is excellent. But the chief problem remains the United States. We Europeans should probably send a Falklands-type expedition to the U.S. Congress and Senate to change the U.S. budget." The newly installed West German Finance Minister, Manfred Lahnstein, reflected a good deal of the deliberations when he told *EIR* correspondents that "The IMF ought to have as much surveillance power over the U.S. as it does over Bangladesh."

Not fit to manage its own affairs

Formally, Section 3 of the "Statement" says that "We are ready to strengthen our cooperation with the IMF in its work on surveillance, and to develop this on a multilateral basis, taking into account particularly the currencies constituting the SDR," the IMF's funny-money. Section 5 says that "We are ready, if necessary, to use intervention in the exchange markets to counter disorderly conditions, as provided for under Article IV of the IMF Articles of Agreement."

Unlike the British, the French, Don Regan, and Paul Volcker back home in the United States, neither Japan, Italy, nor West Germany (as far as Chancellor Helmut Schmidt is concerned) wanted these resolutions. Italian Prime Minister Spadolini refused to mention the "Statement" at all in his final remarks; Prime Minister Suzuki claimed that the "Statement" was a mere formality, and refused to commit himself to anything concrete in that regard until the summit meeting in Washington, D.C., next year. Discussions, Suzuki revealed, will be conducted on details at the Toronto, Canada IMF meeting in September.

But despite weak-kneed attempts to talk their way out of the fact, seven heads of allegedly sovereign states did sign the "Statement." They did so, perhaps unbeknownst to President Reagan, in the conviction that the United States government is no longer fit to manage its own affairs—or, just about as fit as Bangladesh is considered to be by the international banking community.

First, there is the fact that Reagan had not succeeded in taking hold of the credit and monetary affairs of the nation, as he had promised last year, nor in firing Paul Volcker, as he has wanted to do, nor in reversing the economic strangulation of the U.S. high interest rates. Then, the President arrived in Versailles having failed to achieve a "budget compromise" with Congress, which made Reagan look considerably smaller than a President of the United States, even though a compromise would have been like putting a bandaid on a brain hemorrhage. The other six heads of state were treated to the President's explanation that high interest rates were merely a "psychological phenomenon" of the anxiety-ridden financial markets. Thus, part of the foot-in-the-door for the IMF was managed over the issue of managing exchange markets, because there is a commonly spread fear that the dollar will sooner or later go bust.

More important still, the entire first day of discussion was dominated by the British colonial expedition to the South Atlantic. Alexander Haig giggled as he claimed that decisions on American action on the Malvinas were "not a matter that the President has to be consulted on." Members of other delegations, all the way up to the rank of Minister, openly announced to anyone who cared to know that there was "little coordination between what President Reagan is saying in the talks and what his delegation is saying."

Perhaps the crowning touch was Israeli Prime Minister Begin's response to President Reagan's appeal to stop the invasion of Lebanon: contempt.

The summit therefore accepted as a fait accompli that the United States had surrendered sovereignty over its economic and monetary policies. The formal statement of principle in the "Monetary Undertakings" section of the communiqué are to be filled with content and detail in the course of a further unravelling of the U.S. economy and the ultimate declaration of U.S. government financial bankruptcy. The West German Economics Minister, Otto Count Lambsdorff, was looking ahead to this content when he said that "this summit expended far too much energy, compared with its results. I was thinking that far more would have been achieved if central bankers had been involved from the very beginning." The Bank for International Settlements has, in the meantime, informed us that they "take the commitments on monetary surveillance very seriously," and are eagerly anticipating the content and procedures to be reported on at the Toronto IMF meeting. Of course, the BIS managed the Fed back in the 1930s, and kept the U.S. in depression for a good long time—just as they manage Paul Volcker today.

Surveillance over East-West relations

The U.S. has also managed to let itself be bamboozled into the role of hired gun for British colonial geopolitiking on the East-West credit and trade front. The communiqué says that "... we will exchange information in the OECD on all aspects of our economic, commercial, and financial relations with the Soviet Union and Eastern Europe.... Taking into account existing economic and financial considerations, we have agreed to handle cautiously financial relations with the U.S.S.R. and Eastern Europe ... and will exercise commercial prudence in limiting export credits."

President Reagan went into the summit well-profiled, with the simple-minded cowboy brashness of "We ought not to sell the Soviets the rope they will hang us with." That line succeeded in making the West Germans so paranoid that Chancellor Schmidt cringed and pleaded that, since West Germany had already reduced its trade with the Soviets 20 percent it was "not fair" just to pick on the West Germans.

With the West Germans on the defensive and just as manipulable as the Americans, the British and French had a field-day. "We agree on restrictions," said French Foreign Trade Minister Michel Jobert, "but we want these restrictions applied progressively, and the British are on our side." Robert Hormats and Don Regan agreed with the British and French colonial powers.

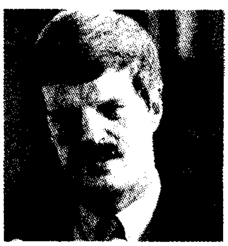
The chief aim is to apply a tourniquet, rather than a sledgehammer, to credits to and trade with the Soviets. "Each country will be surveilled by the other six, and this surveillance within the OECD will ultimately lead to cuts in credits," said Don Regan. U.S. "muscle" was used merely to support the British and French colonial "brains." Do not "quarantine" the Soviets, said Pierre Trudeau. "Finlandize the Soviet satellites," wrote Nora Beloff, wife of Sir Max Beloff of the Committee for the Free World, in London's *Sunday Telegraph*. Do not "inhibit liberalization" in Eastern Europe said the London *Guardian*, all reflecting official British views.

Of course, this presumes that Britain and France can "fine-tune" their relations with Soviet and East bloc economies to exert leverage on Soviet response to British and French colonial administration of "population wars" and raw-materials conflicts in the Third World. The West Germans have been assigned the role of using their surviving East/West trade as a "sweet carrot" to "tame" the Soviets, part of managing Third World conflicts below the level of general thermonuclear war. Decisions have been made in principle to reclassify Soviet credits, increasing the cost $1\frac{1}{2}$ points according to OECD guidelines.

As a result, the Versailles summit will also turn out to be very influential in Moscow. Firstly, Brezhnev factional groups can hardly be expected to keep it a secret that there is little content left to Chancellor Schmidt's proclamation that he does "not want economic warfare." If he did not accept *de jure* restrictions on trade, he accepted them *de facto*. Secondly, certain other factions in Moscow will be delighted to have such help in knocking out their internal opponents; and doubly delighted at the prospect of the United States, undergoing extended economic debilitation, while another chief Western economic pillar, West Germany, is further weakened.

The only nation that fell out of line at the summit was Japan. Japan severely condemned the Israeli invasion of Lebanon, and ordered its delegation to the U.N. Security Council to vote against the British on the Malvinas. They wanted new initiatives among industrial countries for cooperation on atomic power, high-technology and space research and development. They wanted initiatives to spur technology-transfer to the Third World, including nuclear energy, for in-depth industrial development. Prime Minister Suzuki balked at the implications of the established principle of IMF abrogation of national sovereignty in economic and monetary policies.

As long as there are Third World nations capable of defending themselves against the IMF/BIS onslaught of enforced depression, these policy orientations will undoubtedly win the Japanese a strong position in the Third World. But, if the United States does not quickly rip the "Statement on International Monetary Undertakings" to shreds, the chances of Japanese success are meager.



Interview: German Finance Minister Manfred Lahnstein

by Sophie Tanapura from Paris

At the closing of the Versailles Summit June 6, West German Chancellor Schmidt appeared a very tired man. Total resignation seemed to be the key characterization of German policies at this summit. Germany's determination to act on national interest has been faltering over the past year under the pressure of Global 2000 circles, of NATO, of the worsening world situation, and of internal political opponents. The serious defeat of the SPD over the same weekend in Schmidt's own home city of Hamburg is a direct result of this kind of capitulation.

The fact that Germany borders the East bloc has always made her very sensitive to the question of war and peace. However, at the summit discussion, the Germans reiterated total support for the British in the Malvinas crisis. When questioned on its creating a precedent for other out-of-area deployments, Schmidt remarked that "it is not the first time" and that further questions should be put to Mrs. Thatcher, washing his hands totally of any responsibility in key world events. This attitude was once again predominant in Chancellor Schmidt's admission that Germany had nothing to say in the present Iran-Iraq conflict, as she is not present in the Gulf area. Such capitulation on world affairs should viewed with great concern by those who are looking to Europe for a third option.

A similar or worse attitude prevailed in the economic domain. At the closing national press conference, Schmidt emphasized that the main economic problem today is the problem of over-population, showing the influence of Carter's *Global 2000 Report* on his judgement. In the same resigned manner, under pressure of heated anti-Soviet ravings of U.S. Secretary of State Alexander Haig and Secretary of the Treasury Donald Regan, Schmidt defensively argued that Germany's East-West trade had dropped by 20 percent since 1980, and France's by 25 percent, while that of Japan and the United States had been on the rise. In this debate, which lasted for two hours, he only intervened during a total of two minutes, he admitted to the press.

In comments to the *EIR*, newly appointed West German Federal Finance Minister Manfred Lahnstein, on the question of export credits, reiterated the Finance Ministry's total support for the Wallen compromise on the question of export credits. Swedish Count Wallen is the author of the present OECD proposal for reform of export credit conditions just discussed at the Versailles Summit. Wallen is known by insiders to be a "British" mouthpiece for "adapting" interest rates for export credits to the fluctuating rates in the markets, a notion which until recently had been abhorred by the French.

On the question of multilateral surveillance in the framework of the IMF and export credits, both the German Economic and Finance Ministers have no qualms about placing their national economy under the scrutiny of supranational entities such as the IMF and the OECD. Economics Minister Count Lambsdorff declared to *EIR* that the German delegation is "basically in favor of a monitoring role [of the IMF] and found that this view is shared by almost all Economic and Finance Ministers."

On this question, Finance Minister Lahnstein went