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Mexico's battle dominates the IMF conference

by David Goldman, Economics Editor, and Renée Sigerson

For the first time in its 37-year history, the Bretton Woods institutions, meeting in Toronto, heard the truth told about the effect of the International Monetary Fund on the world economy: that unless the murderous policies of the International Monetary Fund "are reversed, the whole international system of trade and finance could collapse," as the Third World countries' ministers warned in their communiqué.

Two issues dominated the proceedings: 1) the challenge to the IMF's authority enacted by the government of Mexico. On Sept. 1 Mexico's government nationalized its banks and imposed full exchange controls in a direct counterattack against the IMF's power; and 2) the visible, growing influence, particularly among the underdeveloped nations, of American economist and Democratic Party leader Lyndon H. LaRouche, *EIR*'s founder, who put forward a program for a new world economic order and has been the most prominent advocate of Mexican banking nationalization, exchange controls, and debt reorganization.

Mexico's decision, and the Mexicans' evident refusal to accept the brutal austerity terms demanded by the Fund in return for the means to pay off their creditors, visited like the Masque of the Red Death through the days of extravagant bankers' receptions. Mexico's action raised the prospect, for the first time since the short-lived effort in 1976 around the Non-Aligned Movement's Colombo declaration, of a unified front of developing nations against the institutions which propose to devastate their economies and populations.

An unusually brief meeting of the IMF's coordinating group, the Interim Committee, on Sept. 5 produced no progress whatever regarding its agenda proposals to raise cash for bankrupt developing nations' creditors—pitiful as those efforts were to begin with. American opposition to a major increase in members' contributions to the Fund, the organization's lending base, left to the indefinite future a means of putting more cash on line that, in any event, would not be available until 1985. A much-touted American proposal for an "emergency fund" to tide countries over went down the same tube as Henry Kissinger's 1975 "Safety Net" plan.

Neither does the IMF have the money to lend, nor will the developing countries accept the brutal conditions attached to such IMF loans. The latter were defined with striking bluntness by IMF Managing Director Jacques Delarosière, in his Sept. 6 opening address to the conference: "Total debt service payments for [non-oil developing countries] will probably account for some 23 percent of export earnings in 1982, compared to 17 percent in 1978, with more than half of the increase due to higher interest payments. . . . This means that countries must shape their economic policies in such a way as to keep their external deficits within manageable bounds in terms of their debt service capacity." That is all there is: economic policy must be dictated by central bankers' needs, despite the lowest Third World export prices in 10 years and the highest interest rates in world history.

Senior International Monetary Fund officials assured reporters that, despite the apparent lack of money, the Fund would draw on all sorts of resources, including borrowings from the oil states (whose surplus has been wiped out by the world depression anyway), or borrowings from the private market. However, according to IMF Deputy Managing Director William B. Dale, no governmental representatives have yet begun to study any such proposals at the level of the Fund's Executive Board.

The reality is that the stances of the developing-sector spokesmen and the IMF are fundamentally irreconcilable.

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The IMF's sponsors are enraged in the wake of Toronto. They will not give an inch, except to briefly hypnotize a victim.

West German central bank chief Karl-Otto Poehl told a German banking conference on Sept. 9 in Kiel, West Germany that central banks have now "agreed to cooperate every step of the way" to shut down credit for "incautious and overly ambitious development projects in the Third World." The German central banker, whose principal loyalty is to the Basel-based Bank for International Settlements, added that "the central banks are not going to follow a love-thy-neighbor policy." Mexico is the principal target of this central bank agreement, Swiss central bank sources added. "A new internationale is emerging," said a top Swiss central bank official. "On its banner is written: 'Debtors of the World, Unite!' It must be stopped." The agreement between the central banks consists of four points, a Swiss banker said: 1) to stop all new loans to the Third World while re-organizing the old debt; 2) to give loans through the International Monetary Fund only for debt rescheduling; 3) to enforce a program of internal re-organization of Third World economies; and 4) to reduce interest rates only after lending has been crushed.

This program implies a "world economic contraction" and a long-term zero-growth perspective for the industrialized countries, the Swiss source concluded. Indeed, German central banker Poehl told his Kiel audience that Germany would suffer zero growth for the period through the end of 1983. But the Swiss banker warned that the Mexican situation still represented an immense danger for the bankers' group. "We must be flexible in order to control Mexico, and lure them into negotiations," he said, "or they might tell the IMF to take a walk."

The British and Swiss are mocking the U.S. administration for its "inflexibility" while overseeing the attempt to clamp down on any development effort. A senior British merchant banker with close ties to the Bank of England stated bluntly, "You will see depopulation in Mexico. Caught in this situation, they will be forced to relocate people from the cities to the countryside and then, when urban workers are pushed into rural areas, you will see the real social explosion."

The British banker continued, "Private banks will no longer lend to the Third World. It will all have to go through the IMF. That is the result of the Mexican action. If they want money, they will have to go to the IMF and accept its conditions."

However, the banker warned that "this extreme hard line won't work. You have to go in with more negotiable demeanor. The International Monetary Fund meeting last week was hysterical; people were not being realistic. It might take a few good crashes to clear their minds. And Citibank will be first in line for a blowout."

The developing sector's choices

Although Brazil's byword for the meeting was, "We are different" from the other, near-bankrupt Latin American countries, some hard-nosed Brazilian planners are already looking at means to protect themselves from a world collapse, through intensified ties with other Latin American nations. Brazilian Finance Minister Ernane Galveas told *EIR*, "We do not anticipate a disaster. But we view it [the Latin American Common Market plan] as a safeguard in case of disaster. If world trade shrinks, we will expand trade with Latin America; that is what the Europeans will do inside the European group, and also others."

As it became clear among the welter of conflicting rumors that Mexico would refuse the conditionalities of the Fund, and lose its right to draw the remaining $1.5 billion of the $1.8 billion "bailout" facility arranged through the IMF, the Latin American delegations went into ferocious debate over how to respond. Venezuelan Planning Minister Maritza Izaguirre Porras called for an all-Latin American effort to aid Mexico should the collapse of negotiations with the Fund result in an American trade cutoff, similar to the aid package made available to Argentina during the Malvinas War, in an interview with *EIR*. Colombian Finance Minister Edgar Gutierrez Castro told *EIR* that it was too early for his government to respond to the potential attack against Mexico. Senior Argentine and Brazilian officials insisted that their case was separate, but watched the Mexicans and weighed their moves carefully. And in two presentations in Toronto, Galveas provided crucial flanking support to Mexico's fight by attacking the "interest rate shock treatment" which has been applied to the world economy since 1979. He described the $500 billion debt of the developing countries as "an intolerable burden on the economies of the Third World," adding: "Without courageous measures, the world will continue in the current depression. We must have political and economic leadership. Without this, our efforts will stand as a denial of the very essence of humanity, which is permanent growth."

In this environment, 250 copies of a special Open Letter authored by LaRouche were rapidly grabbed by conference delegates and intensively studied. The document, titled "IMF Conditionalities are a Nuremberg Crime," warned the international banking community that unless they deal intelligently with Mexico and other developing-sector countries, they risk plunging the world into a depression whose outcome will be as fierce as the 14th century banking crisis which led to the outbreak of the Great Plague.

LaRouche's moves to put together forces in the United States and Western Europe which are prepared to defend economic growth in the developing sector, were well known among the conference delegates. The forces working with LaRouche in the advanced sector will become increasingly important over the coming months as the showdown with Mexico intensifies. If Mexico stands firm, the entire southern half of the Western Hemisphere may well form into an alliance against the IMF; the repercussions of the American betrayal of the Monroe Doctrine during the Malvinas war have intersected the economic crisis.

Ministers emphasized that there is no effective substitute for a straightforward and sufficient increase in quotas to enable the Fund to discharge its due responsibilities. . . .

From the G-24's Toronto communiquè

From the Sept. 3 communiqué of the IMF's Intergovernmental Group of Twenty-Four on International Monetary Affairs:

. . . Ministers reviewed the performance of the world economy in recent years and noted with concern the near stagnation of economic activity in industrial countries, the continuing sharp decline in growth rates in developing countries, and the marked deceleration in the growth of world trade, from 6.5 percent in 1979 to 2 percent in 1980, and the virtual stagnation of world trade in 1981. . . .

Ministers emphasized that economic conditions in the industrial countries have a vital bearing on the prospects of developing countries. In the context of the continuing stagnation in the major industrial countries, the growth prospects of developing countries look grim. . . .

Ministers stressed that the prevailing high interest rates have added enormously to the debt service burden of developing countries. Increasing difficulties of access to the capital markets have made the task of financing these deficits extremely onerous for these economies. Ministers noted that even the oil exporting developing countries were not immune from these developments. In fact, the combined current account surplus of these countries has shrunk sharply from $115 billion in 1980 to an estimated $15 billion in 1982.

Ministers warned that unless the adverse trends in the international economy are reversed, the whole international system of trade and finance could collapse. It is therefore imperative to formulate a world recovery program to stimulate non-inflationary growth in industrial as well as developing countries. . . .

They also noted that the arrangement recently adopted by OECD countries on minimum interest rates on export credits can further inhibit trade in capital goods and aggravate the financial burden on developing countries. Ministers called for the exemption of imports of developing countries financed by export credits from the minimum interest rates provisions of this arrangement. . . .

Ministers deplored the hardening of conditionality evident in the increasing resort to preconditions and the current tendency for the Fund to shift from three-year programs to one-year programs. They regretted the heavy emphasis on domestic demand management in the application of conditionality and felt that the mechanistic and narrow monitoring of performance criteria did scant justice to the structural nature of the problems faced by developing countries. . . .

Brazilian finance minister

From the speech delivered by the Finance Minister of Brazil, Ernane Galveas, at a luncheon in Toronto on Sept. 7:

. . . We have to say that adjustment of the Brazilian economy is being further endangered by the profound disorganization of the world's economic system.

The industrialized countries are blindly insisting on the maintenance of economic policies which have extraordinarily perverse repercussions on the developing countries, notably oil-importing nations, such as Brazil.

It is not without reason that the world economy is going through an unparalleled crisis, of dimensions much greater than could be generated by a simple energy crisis.

Perplexed and defenseless, the Third World has been relegated to the sidelines, as the industrialized nations adopt an exclusivist and recessionary framework of adjustment, based on generalized protectionism, import restrictions and the reduced flow of international trade, inexorably condemning the peripheral nations to swallow the bitter pill of recession, inflation and balance-of-payments disequilibrium. . . .

The maintenance of high interest rates hampers investment, including investment channeled to technological development that could, to a great extent, attenuate the energy crisis. Even more serious is the fact that high interest rates represent an intolerable burden on the foreign debt of the less-developed countries. It is estimated that this debt will rise from $400 billion in 1981 to $466 billion in 1982 and to a level of more than $500 billion in 1983.

The application of the high rates of interest to the voluminous foreign debt of the oil-importing developing countries has resulted in unjustified burdens. One simply has to see that, for the majority of the developing countries dependent on oil imports, a rise of just one percentage point in foreign interest rates is now five to six times more important than a growth of one percent in the price of oil. All of this has inexorably placed the United States in the painful position of villain in the eyes of the ever-poorer less-developed world. . . .

We are all aware that, without courageous measures, the world will continue mired in the current depression. It is not a question of economic systems, for the socialist nations are facing problems of equal or higher magnitude.

Above all, it is a question of political and economic leadership, a commodity so scarce in the international community. We must have that unusual type of leadership which is capable of galvanizing society in its search for new solu-

tions, which can prove itself capable of recovering the economy's flexibility in responding to crisis situations, which will clear the way for solutions to the structural problems we are debating here today. We must have a leadership that can create an environment favorable to the development of the different regions of the world, that will return to the free market forces the freedom of initiative.

Without this, our efforts will stand as a denial of the very essence of humanity, which is permanent growth, and we certainly will not achieve the superior goals of increasing production, enlarging employment opportunities, and improving the world's standard of living.

Egyptian central bank

From an interview with Aly Mohamed Negm, Deputy Governor, Central Bank of Egypt, and Vice-Chairman of the Group of 24, conducted Sept. 7 in Toronto:

EIR: Mr. Governor, the Group of 24 communiqué refers to the problem of high interest rates and the debt-service burden. . . .
Negm: Yes, the debt is one of the major problems. Our economies need all the capital we can get for economic development, and to raise the living standards of our populations. However, with the contraction in the world economy, many countries are now unable to support rising debt burdens considering their falling foreign trade.

EIR: The nations of Latin America are growing increasingly aware that they have a great deal of power, if they act in cooperation, and that they can take leadership in attempting to redirect the world economy. Can Egypt take the leadership in the Arab world, to support the efforts of Latin America, and to demand progress for the developing nations?
Negm: Yes, certainly, as Arabs as well as Africans, we understand the problems of the area. We are a good example of this. We have to fight our battle, as well, to survive. Then, we must fight a battle to develop our economies as rapidly as possible. The Group of 24 communiqué reflects these efforts and problems of the developing nations.

That is why it stresses the magnitude of the problem represented by the external debt burden, and the question which we have, which is, how to have acess to, and, to increase, our resources, of foreign currencies needed for economic development. I cannot comment on the details of the Mexican program, but I may say that we want Mexico to survive. We stand beside Mexico as a developing country, in its battle to develop its economy and to industrialize.

Don Regan's insane posture in Toronto

by Kathy Burdman

U.S. Treasury Secretary Donald Regan, British Chancellor Sir Geoffrey Howe, and the other Group of 10 industrial nations at the IMF Annual Meeting this week re-enacted Shakespeare's "Merchant of Venice." Rejecting charges by the Group of 24 LDCs that the West's austerity is about to cause a world "collapse," and ignoring Mexico's refusal to accept IMF austerity, the G-10 in a Sept. 3 communiqué demanded the Third World tighten its belt, and pay its debts.

On Sept. 4, the Interim Committee of the IMF, the IMF's policy body, issued an identical communiqué, largely written by the G-10, which controls the IMF. It blamed the world's problems upon excess spending by the LDCs. Not only will no new funds be made available, the IMF's final communiqué stated, but any country that refuses to immediately tighten its belt will be cut off from world credit.

"Current difficulties" in the Third World, according to the Interim Committee communiqué, "have stemmed from unduly expansionary financial policies . . . external debt has reached historically high levels in many countries. The Committee stressed the importance, at a time when private financial flows are less readily available, to be taking steps toward *realistic adjustment.*"

Playing the role of Shylock was Donald Regan, who personally scuttled even the G-24's foolish plan to expand IMF resources from $69 billion to $140 billion in the Eighth Quota Review. In fact, Regan acted instead to ensure that "no new quotas will be available until April 1985," as he said in a Sept. 6 press conference. As a result, the Interim Committee final communiqué announced no new funds for the IMF.

Instead, Regan prescribed more austerity for the world. Tight money and budget cuts have licked inflation in the U.S., he lied; "the U.S economy is now up beat, and the recovery is under way." As for the Third World, he said Mexico and others have been "over-ambitious. We've had to cut back, others will have to do it too. It's tough."

Free-market bull

"Listening to U.S. Treasury Secretary Donald Regan making a public fool of himself," a spokesman for *EIR* founder Lyndon H. LaRouche commented Sept. 7, "the only sensible reaction would have been to shout at the poor jerk: 'Enough of your bull, Merrill Lynch.' "

"Whom the gods would destroy, they first make mad. Not only the mentally sick Friedmanites around Washington,