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Henry Kissinger's private keynote at IMF meeting

by David Goldman and *EIR*'s Washington Bureau

The Reagan administration's new gray eminence, Henry Kissinger, set forth the contents of the just-concluded Annual Meeting of the International Monetary Fund in a Sept. 24 speech sponsored by Mocatta Metals: For the first time since it took office, the White House has turned economic policy over to the supra-nationalism of Kissinger and his friends. Specifically, the Reagan administration's nominal hostility to Kissingerian "global negotiations" went silently under the waves a week before the world's finance ministers and bankers gathered in Washington on Sept. 22. The result was an "American proposal" for a super-meeting of the IMF's steering group, the Interim Committee, next April.

One senior U.S. official said grimly: "Don Regan was against this on the public record until a week ago, and his mind got changed for him. He may think this will bring the problem under control. But he may find that he has opened Pandora's box."

One year ago, *EIR* argued that the principal victim of the IMF's plan for global austerity would be the United States, which blindly led the charge for IMF takeover of the economies of developing-sector debtor nations. The brutal measures which Secretary Regan last year demanded are in force, and, for the moment, the largest of the debtors have been able to meet their interest payments, mainly from trade surpluses.

However, since the trade surpluses of the developing sector have been absorbed by the United States, and the United States has been able to afford to buy such surpluses only because of massive capital flows into the United States, the entire fools' paradise will dissolve over the coming months. The International Monetary Fund's Annual Report, discussed in this space last issue, bluntly warned that these capital flows could not continue to finance the United States indefinitely. The collapse of the capital inflows into the United States, and correspondingly sharp declines in import-based consumption, will ruin the developing nations' ability to pay their interest—by exporting everything in their economies that is not tied down.

On the contrary, the IMF now demands that the United States undergo the same austerity measures that have ruined the economies of Ibero-America, despite the nonsense about incipient recovery preached from the IMF's pulpit. Since the United States has employed blackmail and destabilization to put the debtors in line, including the U.S. embassy's open support for the insurrectionary PAN neo-Nazis in Mexico, Ibero-America is on the verge of a political explosion.

The same Henry Kissinger who now demands that the United States undergo the austerity treatment thus far accepted by the debtors also proposes to remove American troops from Western Europe—giving the Soviets the remnants of our NATO allies—in order to free U.S. forces to combat insurrections in Ibero-America. This principal point of Kissingerian strategy must be kept in mind when reading Kissinger's words on Sept. 24:

"In recent years, those charged with international monetary arrangements have tried to establish the IMF as the global disciplinary force. . . . The U.S. and other major industrial democracies have been unwilling to modify their policies in response to IMF criticism. In fact, the U.S. has been tacitly conceded a dominant role for the dollar and a disproportionate autonomy for its decisions. . . . In these circumstances the economic system operates—if at all—as crisis management. The risk is, of course, that some day crisis management may be inadequate.

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"The [exchange rate] problem becomes more acute because we have the strength to impose our views—at least for a while. The dominance of the American economy explains why, no matter what the value of the dollar, we are criticized for its allegedly harmful impact on the world economy. . . . The strength of the American economy is such that, whatever the value of the dollar, the United States can take away with one hand what it gives with the other. Today the growth in imports which is the consequence of a high dollar is balanced by higher debt-service costs and lower commodity prices for the developing countries. Tomorrow a sharp and sustained drop in the value of the dollar could produce—as it did in the seventies—major disruptive effects on international trade and finance. The policy question—unanswerable in the abstract—is whether a desirable one-time drop in the dollar is conceivable. Or whether once the dollar starts weakening it will be difficult to re-establish confidence. In economics as in other fields the gods sometimes punish humanity by fulfilling its wishes too completely."

The reckoning of which Kissinger speaks will occur, in all probability, in the same time frame as the April special sitting of the IMF Interim Committee, at which point the United States will face the combined crises of political explosion in Ibero-America, uncontrollable capital outflows, and Russian domination of Western Europe. IMF managing director Jacques De Larosière will gleefully treat Donald Regan with the same eleemosynary contempt reserved for such petitioners to the IMF as Argentina's finance minister, Bernardo Grinspun.

In a press conference following the IMF Interim Committee meeting last Saturday, De Larosière made it clear that he was the intellectual author of the proposal for a mega-Interim Committee meeting, which Secretary Regan announced at the IMF's Interim Committee meeting Sept. 22. That meeting will kick off a reworking of the IMF, World Bank, the General Agreement on Trade and Tariffs (GATT), and other Bretton Woods institutions into a larger more powerful police agency for the world economy, including policing the U.S. economy, as prescribed in detail by Kissinger in the cited address (see Documentation).

The objective regarding the debtor nations is simple: While the International Monetary Fund dictates economic policy, GATT will force the elimination of trade barriers which protect the industrialization of developing nations, and force them to sell off what assets the creditors please to buy at rock-bottom prices. De Larosière, World Bank President A.W. Clausen, and Secretary Regan spelled out these demands with great clarity.

In response to a question, De Larosière claimed that the debt problem has substantially improved because the IMF solution is a "simple one. . . . [it] looks at the causes of the problem of indebtedness [in a] medium-term framework."

Outlining the IMF's plans to consolidate control during the coming financial crisis, De Larosière mused to the press, "The way I see it is that what is being called for is a reflection on the medium-term aspects of world financial conditions which are intimately linked to trade questions, growth questions, capital movements, openness of capital markets, direct investments, equity versus debt.

"It does not mean that we have abandoned the case by case approach. . . . It means that there is a search for putting these problems within an intellectual framework that brings these different elements together in order to have a coherent view of the whole matter. The Fund can help in that and the World Bank can help too."

"The brutal measures which Secretary Regan last year demanded are in force, and, for the moment, the largest of the debtors have been able to meet their interest payments, mainly from trade surpluses. However, since the trade surpluses of the developing sector have been absorbed by the United States only because of massive capital flows into the United States which must soon end, the entire fools' paradise will dissolve over the coming months."

As De Larosière and Kissinger made clear in their respective speeches, the International Monetary Fund apparatus shall now include GATT, and the rest of the postwar economic and financial institutions, making the IMF a true instrument of world government.

Playing into the Reagan administration fantasy of economic recovery, De Larosière told the Sept. 24 Plenary Session of the Annual Meeting that 1984 was the best year for economic growth in the industrial countries in at least eight years, with other factors doing even better—all due to the successful policies of the United States.

Predictions over the past two years that the debt crisis would lead to an international economic collapse were wrong, he said.

De LaRosière then made his real point: "There are difficult challenges to be met in broadening the basis and making it more durable. . . . In Europe, growth has not made a dent in the unemployment problem. In the United States . . .

determined action to reduce the budget deficit is essential."

The big problem remaining in the world is high interest rates and "the way to achieve lower interest rates" is "through a fiscal policy that reduces the share of savings absorbed by the public sector . . . bring down fiscal deficits and curb the growth of public expenditures. . . . It is therefore of the utmost importance that adequate restraint be exercised over government expenditures."

Other than cutting the defense budget, the United States must also destroy its skilled workforce. So says De Larosière: "Encourage labor mobility and retraining, eliminate indexation provisions in contracts, reduce artificial supports for declining industries, [and introduce] reform of wage bargaining arrangements. To the extent that these countries can exploit the opportunities of new industries and technologies, the pressure to cling to the false security of old ones will be reduced."

'Compensatory financing'

According to senior officials of several industrial nations, including the United States, one priority item on the April agenda will be the creation of a "compensatory financing facility" at the International Monetary Fund to help the big debtor nations cope with higher interest rates. The "interest-rate facility" was a principal demand of the Ibero-American debtor nations gathered at Mar del Plata on Sept. 13 and 14.

Under IMF direction, Brazil has produced a $13 billion trade surplus and Mexico a $15 billion trade surplus, through brutal import restrictions and cannibalization of their internal economies. The much-discussed "rescheduling" agreements which the two countries signed with their banking creditors during the past two months mean nothing in economic terms since they add no current cash flow. The availability of additional IMF funds has become the incentive required to keep the biggest debtors in the game, at least for the time being.

In its poker game with the debtors, the IMF has been able to reduce its own rate of lending to only 5 billion Special Drawing Rights (about $5 billion) this year, against $11 billion the year before, leaving its own liquidity position stronger than it has been for years. Managing Director De Larosière told the meeting that he sees no requirement for additional special funding. These additional IMF resources, U.S. government sources say, are available to fund the "compensatory financing" facility.

Buying out the Third World

Don Regan took the lead in pushing the wholesale buy-out of the so-called Third World—resurrecting the Kissinger dream of a 19th-century colonial world order. Regan told the joint IMF-World Bank Development Committee, "As part of this effort, we as finance ministers should promote greater levels of foreign direct investment . . . and should consider new innovations to help developing countries achieve this goal. . . . Foreign direct investment has been severely underutilized.

"Direct investment can improve a country's foreign exchange position. . . . Unlike debt financing, equity investment does not carry a debt service burden. . . . Foreign exchange shortages, and heavy debt-service burdens, are reduced. . . . Had a better ratio of foreign direct investment to debt been utilized in the last decade, many of today's heavily burdened debtors could have improved their overall economic performance.

"We would like to see an increased conversion of existing foreign indebtedness into foreign direct investment [to] reduce the heavy debt-service burden.

World Bank President A.W. Clausen addressed the opening session of the Annual Meeting to outline the devastation created by the IMF/World Bank managed debt crisis—devastation which he "predicted" would continue no matter what the future shape of the world economy.

Clausen told the crowd of bankers: "Rapid population growth in many nations, if unchecked, and poverty will reinforce each other far into the future."

Clausen predicted that in the decade ahead for most developing countries "it is almost certain to be worse." He added that under World Bank programs, "there are wide differences in prospects between different groups of developing countries and . . . starker differences are likely to emerge. Commercial bank lending to the Third World . . . might fall by as much as 40 or 50%. Per capita consumption in some of the heavily indebted countries will not regain the levels enjoyed in the seventies"

Regarding sub-Saharan Africa, Clausen took credit for an "action" program which promises to shut down all major industrial and infrastructure projects in Africa—while simultaneously discouraging all private bank loans to these countries.

Reagan: no industrialization

President Reagan told the developing countries to cut their budgets and to give up on industrialization, if they want to enjoy the same "dramatic changes" that the U.S. economy has achieved during his administration. Addressing the world's finance ministers at the International Monetary Fund meeting in Washington, Reagan said that "governments can best spark economic growth by spending less and cutting tax rates, not by planning an elaborate industrial policy."

Adopting Henry Kissinger's economic prescriptions, just as he has adopted his strategic nostrums, Reagan told the developing countries that they have to open their economies to looting by adopting debt-for-equity schemes. "It has become clear that a variety of capital inflows in the developing sectors will be necessary," he said. "Countries will have to rely less on external debt and more on private investments—both foreign and domestic," he said, and to attract those

investments, they are going to have to provide "positive real interest rates; a realistic exchange rate; free convertability of currency, and a respect for property rights."

The President also told the IMF delegates to stop complaining about the United States' high interest rates, since the developing countries are receiving "far greater benefits from renewed economic growth and open market policies in the United States." What they should do instead, he said, is join the United States in fighting for "more open markets." Reagan praised the IMF and its twin, the World Bank, as being "two great institutions" that have made "enormous contributions to individual freedoms, prosperity, and initiative."

Documentation

Kissinger attacks the nation-state

The following is excerpted from Henry A. Kissinger's speech, "The International Economic and World Order," a Mocatta Lecture, Sept. 24, 1984, in Washington, D.C.

My preoccupation is with international order: What makes an international system function, the causes of its dislocation, and the possible remedies. My theme here is that the political and economic global systems are no longer congruent. As a result, a number of countries sufficient to upset the equilibrium lack a consistent domestic discipline and pursue incompatible policies, and the global economic system seems incapable of generating—indeed it does not even attempt—a coherent strategy for overall growth. . . .

The growing political nationalism runs counter to the dominant economic trends of this century. For the first time in history, the world economy has become truly international. No geographic region is excluded from international commerce; each, with the possible exception of Africa, contains some major actor. But none is strong enough to impose its design. They compete through national decisions while being simultaneously linked by global markets. Not even the sharp political differences between the Soviet bloc and the West have proved an obstacle to these dominant trends. A conservative American administration has avidly encouraged Soviet grain purchases. Many European industrialists pursue in the less developed economies of the Soviet bloc the opportunity or the mirage—depending on one's point of view—of a market sheltered from Japanese and U.S. competition.

The incongruity between the internationalization of the world economy and the dogged strengthening of national autonomy in economic decision-making is the deepest cause of the gyrations of markets and exchange rates. . . . A case in point is the unilateral decision by the United States in 1971 to suspend the convertibility of the dollar and to impose a 10% (imports) surcharge. The effect was to overthrow the Bretton Woods arrangement affecting all countries—without prior consultation or notice to anyone. Comparable unilateralism has marked the Japanese restrictions on foreign investment and Europe's management of agricultural policy.

We live with the paradox of a global economy which lacks a system for setting agreed long-range goals. . . .

The U.S. and other major industrial democracies have been unwilling to modify their policies in response to IMF criticism. In fact the U.S. has been tacitly conceded a dominant role for the dollar and a disproportionate autonomy for its decisions. IMF discipline has in practice been applied primarily to those countries in economic trouble; most recently to developing countries facing a mounting burden of international debt. . . . The dominance of the United States in economic affairs, the imperfections of financial markets, and the ability of countries to delay remedial adjustment through borrowing has meant that the market can be ignored at least for a while. To be sure, the ultimate reckoning is all the more severe. But the temptation of governments to delay the bitter medicine of reform of economic policies—usually involving some contraction of non-affordable expenditures—beyond their electoral period tends to be irresistable.

Kissinger's ukases

On Trade: . . .GATT must be revamped to bring it closer to the ideals of the International Trade Organization which was proposed by Bretton Woods but proved stillborn. It should be given greater authority to act against restraints on trade and investment as well as predatory trade practices. The newly industrialized nations, like Brazil or Mexico, should be drawn into more active participation.

On exchange rates: The [exchange rate] problem becomes more acute because we have the strength to impose our views—at least for a while. The dominance of the American economy explains why, no matter what the value of the dollar, we are criticized for its allegedly harmful impact on the world economy. . . . The strength of the American economy is such that whatever the value of the dollar, the United States can take away with one hand what it gives with the other. Today, the growth in imports, which is the consequence of a high dollar, is balanced by higher debt service costs and lower commodity prices for the developing countries. Tomorrow a sharp and sustained drop in the value of the dollar could produce—as it did in the seventies—major disruptive effects on international trade and finance. The policy question—unanswerable in the abstract—is whether a desireable one-time drop in the dollar is conceivable. Or

whether once the dollar starts weakening it will be difficult to reestablish confidence. In economics as in other fields, the gods sometimes punish humanity by fulfilling its wishes too completely.

On debt: . . .The governments of the industrial democracies have stood aloof from a process which will determine the future of North-South relations and the stability of the international system for a long time to come. This ostrich-like policy has come to the end of its possibilities.

. . .Sooner rather than later the terms of reference of the debt debate must be changed. The current ad hoc debt strategy led by private institutions and the IMF has given both creditors and debtors some much needed breathing space. The time should be used to change the framework of the dialogue.

. . .The challenge is to recognize that the developing countries cannot grow without considerable access to foreign savings in a world which seems less and less prepared to invested in developing countries. . . . Long-term development finance, which is what most of the highly indebted countries need today, involves a major governmental responsibility—however unpopular such a view is in most industrial democracies, including our own. The economic cost of such a program would be minor compared to the consequences of a global financial and political crisis.

Reagan's IMF address

The following is excerpted from President Reagan's address to the International Monetary Fund and World Bank joint annual meeting Sept. 24 in Washington:

. . .Your quest to improve the condition of humankind, to offer opportunities for fulfillment in our individual lives and the life of our national and world communities, places you in a position of responsibility and leadership second to none. You are true missionaries for a more prosperous world and a more peaceful world. . . .

. . .Rewarding hard work and risk-taking has given birth to an American renaissance. Born in the safe harbor of freedom, economic growth gathered force and rolled out in a rising tide that has reached distant shores. . . .

And as we continue moving forward we're heartened to see that recovery abroad is gaining momentum. Growth of well over 3% is being projected for other industrial countries in 1984 and 1985. And we're seeing a rise in developing-country growth rates, led by those aggressively pursuing outward-looking and market-oriented policies.

This broadening economic growth has had a significant impact on stimulating world trade. Your 1984 IMF Annual Report pointed out, 'With the progress of economic recovery in the industrial countries, the volume of world trade began to expand quite strongly in 1983, and the prolonged deterioration in the terms of trade of non-oil developing countries came to an end.' "

Only last week, I reaffirmed the U.S. commitment to an open world trading system by rejecting protectionist quota and tariff relief for the steel industry. . . .

But we're not just fighting protectionism, we want to go forward toward more open markets. . . . Support with us a new, expanded round of trade liberalization. . . .

As we go forward, we will support our two great institutions, the I.M.F. and World Bank, which have been the cornerstones of the international economic and monetary systems. . . .

Our sensible five-part debt strategy, endorsed at Williamsburg and strengthened in London, has shown itself to be sufficiently flexible and dynamic to meet the diverse needs debtor nations. . . .

[On] the particularly severe economic problems besetting sub-Saharan Africa. The bank issued the third in a series of excellent reports on this subject, and we look forward to working with the bank, the fund, other donors, and African countries, in developing a joint response.

The World Bank's African report

Above, President Reagan stupidly praised a blatant example of the oligarchic bankers' policy toward the world's "developing" peoples: the World Bank's "action program" entitled, "Toward Sustained Development in Sub-Saharan Africa."

World Bank Senior Vice-President of Operations Stern told a press conference that most of Africa will sink into "a political, social, and economic nightmare by the end of the century"—unless development projects are dropped! Backwardness is to be preserved through "better use of existing facilities and grass-roots work."

Stern admitted: "The average African today is worse off than in 1970. . . . If present trends continue, in 10 or 15 years they'll be worse off than at the time of independence in the 1950s."

The World Bank urges "donor countries to abandon preferences emerging from their own commercial interests, or from a view that is no longer relevant to development priorities in Africa—for example, a preference for large infrastructure and industrial projects. . . ." Money will go only into "basic" health care, birth control, "realistic" exchange rates, and existing facilities, rather than new projects.

Stern specifically discouraged commercial bank lending in Africa, saying that "commercial bank lending should be quite severely limited." Equity investment is approved, but countries have to undertake legal and other reforms to facilitate private-sector investments.

"This report emphasizes that additional external assistance is not . . . the solution for Africa's problems: getting

better value from both internal and external resources has to be the primary focus of attention.

In response to a question from a Ghana journalist that the IMF and World Bank were not in a dialogue but a monologue with African countries, Stern praised Ghana for its "major program of structural change," i.e., a "massive [currency] devaluation" and measures "eliminating distortions in price structure" with respect to commodities such as cocoa.

Stern then attacked the building of "too many hotels, conference centers . . . airports, steel mills, refineries. . . . These countries accepted projects not in line with their level of development. . . .

Basic health care was on the approved list, but: "Look at hospitals, they weren't built with evil intent but hospitals can absorb one half the budget of a health ministry while there is a lack of clinics for rural areas. . . ."

Stern indicated that in coordinating bilateral aid to the continent it was no longer acceptable for a country to say " 'we'll let you know which programs you can finance'. . . . We have to look at the entire development strategy."

De Larosière's press conference

At the Saturday night press conference of the Interim Committee of the Board of Governors of the International Monetary Fund, managing-director Jacques De Larosière was asked by an *EIR* correspondent: "With your emphasis on the need to 'improve the structure of government budgets primarily through reduced spending,' and your continued demand for a drop in the value of the dollar, aren't you really trying to blackmail the United States into budget cuts, particularly cuts in defense spending?

"And, what has been the U.S. response to this blackmail?"

De Larosière, in an icey-cool voice, explained that this was clearly referring to paragraph 2 of the joint meeting's communiqué, which was "nothing but classical economics." This paragraph, said De Larosière, explained clearly that it was necessary " 'to improve the structure of government budgets and reduce deficits, primarily through reduced spending.' This is conventional wisdom and it applies to all countries."

EIR: Can I get any comment on what the U.S. response and discussion was to that?

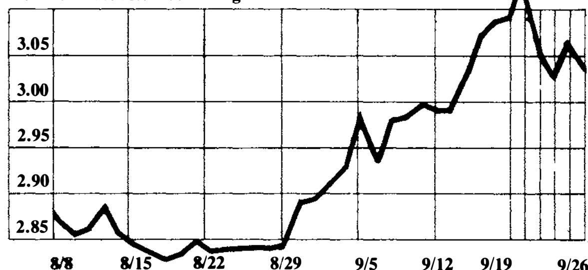
De Larosière: The U.S. agreed fully on that sentence.

At that point, the lights in the press room went out, and the assembled press corps, caught in the dark and silence after De Larosière's declaration on U.S. agreement, broke into hysterical laughter. In the midst of the laughter, the *EIR* correspondent asked, "Can I have an American confirm that?"

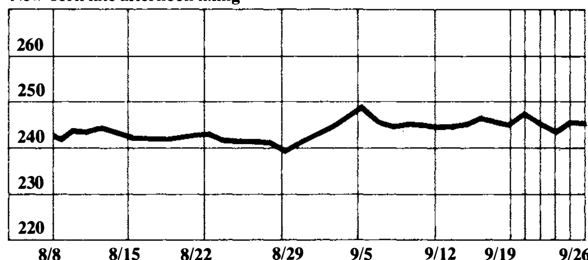
The assembled press responded with more laughter, and someone, who may have been the Belgian finance minister, said, "Now you know [the American response]: The lights went off."

Currency Rates

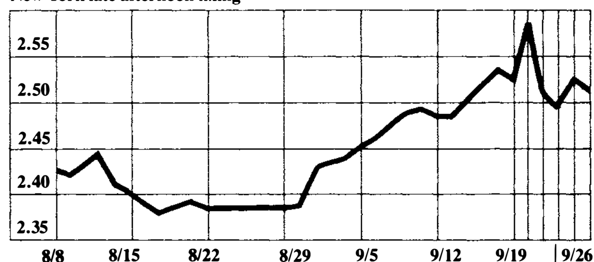
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing