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James Baker's equity grab at the annual IMF meeting

by David Goldman

Treasury Secretary James Baker III summoned the chiefs of the big international banks to his office on 24 hours' notice, for a meeting Oct. 1. Such consultations are normal prior to the International Monetary Fund's annual meeting, which takes place in Seoul, South Korea starting Oct. 7. The difference, this time, is that wires had word of the meeting before it occurred, giving Baker the opportunity (later that evening) to hint at a grand American policy shift, a new strategy to head off the debt crisis.

There is no shift, there is no strategy to head off the debt crisis, and, in particular, there is no money with which to do any such thing. There is, for the first time since the debt crisis blew up after Volcker's 1980 credit crunch, a well-organized debtors' political opposition. There is a now-universal evaluation on the part of financier factions in Europe and the United States, that a financial disaster cannot long be postponed.

The brunt of what Baker, Fed Chairman Volcker, and Secretary of State Shultz are doing at the IMF and elsewhere, is to set traps for the debtors that may destroy their political cohesion in the midst of such a crisis. A feature of this is the carrots which will be on display at the IMF meeting: a greater role for the IMF's sister institution, the World Bank, with longer-term (but no less horrible) "conditionalities" associated with loans, as well as World Bank guarantees of, or participation in new bank loans. Mexican Finance Minister Jesus Silva Herzog, whose job is in danger, still seems to believe that Mexico will "return to the private market" for loans next year, with some help from the World Bank.

Since no one has yet proposed how the World Bank might raise sufficient funds to make a dent in the problem, the carrots are somewhat shopworn. The U.S. administration has already made clear that it does not want the government to contribute significant new resources to the Bank; that viewpoint is understandable in the midst of a budgetary crisis at home. (It is still possible, at this writing, that the Treasury, in the absence of an increase in the Federal debt ceiling, will run out of cash during the middle of the IMF meeting.) What is left is for the Bank to guarantee other people's loans, borrow more on the markets, or begin to take deposits like a commercial bank. (Now it lends only what it gets from governments, or by issuing long-term bonds.) Even if the IMF's annual meeting were to push through such measures overnight, they cover a fraction of the debtors' requirements. Word around the administration is that no such measures will be forthcoming in less than a year, in any case.

In dollars and cents, there is not much content to Baker's posturing. In briefings to the press, he made sufficiently clear what he has in mind. The IMF's case-by-case strategy, he told reporters just after his Oct. 1 "secret meeting" with the bankers, "has worked now for three years and we need to build upon it." Since the countries are bankrupt, and cannot or will not accept additional blood-drawing at the hands of the IMF, they can no longer borrow, and must sell off assets. Reuters Sept. 28 ran the following account of the Treasury Secretary's pre-IMF-meeting briefing for the press:

"The Reagan Administration will tell the indebted and developing countries of the world next month that Reaganomics, not more borrowing, is their salvation. . . . An administration official said the U.S. position will be that the era of emergency lending is over and something better must follow. He recommended that many of the countries that borrowed more billions from U.S. banks than they can repay now sell some of their business and development opportuni-

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ties to U.S. investors. 'It is quite clear the debtor countries cannot obtain and will not obtain the same levels of lent money, or bank financing, as they did in the 1970s,' the official . . . said. 'So they have to be seeking other resources. . . . These countries could conduct a much more aggressive, open investment policy to attract direct investment. . .
luxury today to have such conditions to impose on incoming investment.'"

The buzzword for the Seoul meeting is "structural change." What Baker and the banks want, the *New York Times* explained, is "structural changes . . . by encouraging development of private enterprise and cutting back on state-owned business." In other words, the debtors should begin to sell off assets. The World Bank, Treasury officials have made clear in advance, would not lend for development projects, but for "structural adjustment loans," co-financed with private banks. A few exemplary packages are already in the pipeline; one of the first, appropriately enough, is reported to be a $150 million loan to Chile.

Fed Chairman Volcker, the stage manager for the U.S. delegation to the IMF meeting, apparently wants to take personal control of the operation. Reports have circulated for months to the effect that Volcker wants to replace World Bank President A. W. Clausen, under whose administration nothing much has happened. Last week, Clausen reportedly called the White House to ask whether he would be reappointed, when his current term of office expires in September.

Secretary of State Shultz, for his part, went out of his way during the current United Nations General Assembly session to spread the good word that the United States now favors economic growth among the debtor nations. He held forth on this theme during his luncheon speech to a gathering of senior officials of 40 Ibero-American and Caribbean countries. Shultz told a Brazilian reporter: "Take this down carefully. 'We support economic growth.'"

Pulling out the GATT

Meanwhile, in a back room in Geneva, more precise terms were offered to the debtors, by lower-level American officials attending a pre-pre-meeting of the General Agreement on Trade and Tariffs (GATT). GATT (pronounced like the slang term in the gangster movies) is the third sibling among the so-called Bretton Woods institutions, founded in parallel with the IMF and World Bank. Between Oct. 1 and Oct. 3, it was the scene of some remarkable events, as trade bureaucrats from around the world gathered to discuss a new "world negotiating round.

Against objections of Brazil, India, Egypt, and developing nations around the world, the United States forced through an agreement to hold the meeting—only a pre-meeting to a pre-meeting to prepare formal negotiations. The reason the debtors objected even to talking, was the outrageous nature of the American proposals. GATT is supposed to prevent governments from throwing up improper barriers to trade, whatever those might be. The United States now wants to treat any national control over banking, insurance, and shipping as a trade barrier. That is as much as asking these countries to turn their presidential palaces into tourist hotels, to raise foreign exchange revenues: in the developing world, national control over finances is the principal means available to foster capital investment of any kind.

Not only developing nations, but most industrial nations (including France, Canada, and Japan) have frustrated the efforts of the American international banks to move in, for very good reasons. But the Treasury and State Department are now telling the Third World exactly what they mean by "structural adjustment": a complete takeover of their economies.

The loan shark sits down with his victim at this point, and, with a show of sympathy, warns against starving his family to make the weekly payments—much better, he explains, would be to sign over title to the family business.

The first word out of the GATT meeting, in Oct. 2 wire-service reports, disparaged the idea that anything but total deadlock would come out of the affair. On Oct. 3, the American delegation bluntly told the assembly that, unless it agreed to convene the preparatory meeting for a new "trade round," they would be swept away by a wave of protectionist legislation in Congress, shutting them out from American markets. The Third World delegates promptly signed on the dotted line.

That is still far from a decisive setback for the debtors, however. "We have declared a truce, but we have not signed a final peace treaty," warned Brazil's trade ambassador, and an Indian official added, "If we are not satisfied by [November], we won't join."

Although Reuters headlined its report on the affair, "U.S. gamble to force world trade talks pays off," the enormous danger for Baker, Shultz, et. al. is that the Third World just might let the United States throw it into the briar patch. The idiocy of the U.S. position at these talks is the implicit assumption that American imports from the developing world represent some kind of favor on the part of the United States. The truth is that the United States is buying a hugely-increased volume of goods from the developing world, at 20% to 80% less than those goods cost in dollar terms in 1980. (A complete *EIR* study on the trade of the Ibero-American debtors is now in progress.) The U.S. absorbs one-third of the exports of the developing countries, while shipping them increasingly less in return.

The Ibero-Americans could do much better to ignore their debts, if it came to that, and simply trade with each other.

There is an additional twist in the affair, prompting Volcker and crew to push the World Bank to the fore: The IMF ran in the red last year after three countries stopped making payment on IMF loans. Two of these were Guyana and Vietnam, with very small amounts involved. There is suspicion that the third might have been Mexico. If several major debtors turn their backs on the IMF, it will go bankrupt.