EIR Economics

Debt fears drive oil supply threats

by Chris White

The first week in April begins, in Washington, D.C., the annual festivities associated with the meeting of the International Monetary Fund's Interim Committee. Along with private meetings of central bank governors and finance ministers, there will also be meetings of the Group of Seven—officials from the United States, Canada, Britain, France, Germany, Italy, and Japan—the Third World members of the Group of 24, the IMF-World Bank Development Committee, and then the Interim Committee itself.

Unlike the usual such gatherings, this time there seems to be a real fight developing among the protagonists, a fight, not so much on the question of policy, but, as befits the technocrats in charge of the world's monetary system, over control. In this fight, the lineup, going into the weekend's meetings, seems to be defined by an agreement of sorts between the United States and Japan, to chop down the influence of the British and their allies in continental Europe, such as the Dutch, over the International Monetary Fund.

That such an agreement is in the process of conclusion appeared from the pattern of central bank currency interventions as the final week of March ended. While European central banks were selling the dollar to keep it below the mooted Group of Seven intervention level of 1.90 deutschemarks, the Japanese central bank was maintaining its pattern of selling its own currency to buy dollars. The Japanese were backing a further increase in the dollar. Toward the end of the week, they were joined by Alan Greenspan's Federal Reserve, which, contrary to the expectations of some, deployed against European efforts to bring the dollar down, when it sided with Japanese efforts on behalf of strengthening the dollar-yen exchange rate.

Whether there is such an agreement or not will have become clear by the time the round of meetings is concluded. If the United States backs the Japanese demand that its voting weight within the IMF be increased to reflect its contributions, that could be taken as a strong indication that agreements between the U.S. and Japan are indeed moving ahead. At the moment Japan is ranked number five in the IMF pecking order, in which financial contributions are proportional to votes. Japan is demanding the number-two slot after the United States, a position which is presently occupied by Britain.

Principal among the issues to which U.S.-Japanese agreement would be directed, is a common approach to the package of crises that underlie the Bush administration's adoption of what is called the Brady Plan for dealing with the worsening international debt crisis. Again, the matter is primarily defined as a matter of control: Who will be on top when the $1.3 trillion outstanding of Third World debt is reorganized, though within Japan, according to local reports, there is a faction which has argued forcefully to its American interlocutors, that for the debt crisis to be addressed successfully, IMF conditionalities must be scrapped in favor of a new approach based on economic development of Third World nations. The American side, desirous as it is of Japanese financial support, flatly ruled that approach out of order.

Manipulations of the oil price

The mooted agreement between the United States and Japan is one of the elements contributing to the manipulations

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now being used to increase the international price of crude oil to some level between $20 and $25 per barrel.

The manipulations include managed emergencies, such as the incident now unfolding off the port of Valdez in Alaska. This, coming on top of a pattern of strange "accidents" in and around the North Sea oil field, has had the effect of curtailing production to create perceptions of shortage in the markets sufficient to increase the price back up to the $20 level.

On one level, the increase in the oil price, quoted and traded around the world in dollars, contributes to the strength of the dollar, and thereby also lessens the pressure on U.S. banks to increase interest rates yet further. Additional revenue flows for the banks, especially from the feed-through to the consumer, also have the effect of allaying the pressure for interest rate increases.

In this case, we find the same lineup as on the dollar. The Japanese central bank has resisted pressure, coming especially from the central bankers of Europe over the first quarter of this year, to increase its internal rates of interest. Japan has been alone among the advanced-sector countries in resisting interest rate pressure of that sort. The effect has been to see the differential between rates in the United States and rates in Japan increase so as to favor the continued flow of funds from Japan into U.S. assets.

On the U.S. side, with the banks' prime rate at 11.5%, the entire financial structure is within easy striking distance of the threshold at which a chain reaction liquidation of paper assets might be set off. This could be at any point between the range defined from 12-14%. As soon as the banks' prime rate reaches 12%, rates charged their customers will actually be starting at 13.5% and up, and the consequences, for the savings and loans system, the stock market, the bond market, and holders of other forms of highly leveraged paper, would begin to be incalculable.

Thus it can be presumed that on this matter, the Japanese consensus, the principal American commercial banks, and the Bush administration, outspokenly ineffective so far in its opposition to Alan Greenspan's steady tightening of credit, would agree. They would agree against those British-allied European interests, especially the central banks, which have been pushing for further interest rate increases inside the United States, since the beginning of the year.

Where the debt crisis is concerned, this same manipulated increase in the oil price also has its effect. For it helps restore the export earnings of the shattered Mexican and Venezuelan economies, thereby, from the standpoint of obsessive accountants, permitting renewal of delusions that such countries can continue to make their interest payments.

In this approach, the underlying effort is that which has for so long characterized the team of financial managers associated with present Secretary of State and former Treasury Secretary James Baker. Here, once again, we have under way an effort to buy time to delay the onset of inevitable crisis, using means to that end which will ultimately make that crisis, when it does come, that much worse. Here it must be presumed that time is being bought to create the conditions to get through the weeks and months between now and the Group of Seven heads of state summit scheduled to convene in Paris on the bicentennial of the Fall of the Bastille, July 14. Further, the expectation must be, that if an agreement with the Japanese can be realized over the same time frame, then perhaps time could be additionally bought to stretch matters into the fall weeks, after summer holidays are over.

Mideast war threat

There is another side to this whole business, however. Also under way are determined efforts to unleash some new kind of large-scale bloodletting in the Middle East. There, assets deployed by the same British whose IMF influence is under attack, are co-deployed with the Soviet KGB, as represented in the Salman Rushdie *The Satanic Verses* affair, with help from ideological bedfellows inside the United States, including Henry Kissinger and his circle, who now through Brent Scowcroft at NSC and Lawrence Eagleburger at State, have what some call a preponderance of influence within the Bush administration. While both the British and the Russians would no doubt like to see the price of oil back above $40 per barrel, which might be one of the consequences of a new round of destruction in the Middle East, that would not be their primary objective. Rather it would be the spread of uncontrollable chaos out of such conflagration, chaos creating the conditions for the forced-march adoption of the emergency crisis management methods with which Kissinger was associated from his days back in the Nixon administration.

Most of the talk that is heard about the Brady Plan is mere idle chatter, the more so when it focuses on the question that has been forced to the forefront by the nation's press, namely the question of debt reduction, in and of itself. In putting the matter of reorganization on the table, Treasury Secretary Nicholas Brady has also put on the table the related matter that there will be, even as the "blood and bayonets" austerity imposed on the Third World is continued, winners and losers among the creditor nations, and the creditor banks which helped bring the worsening crisis into existence.

Behind the fight for control going on within the institutions which manage the monetary and financial order, the bottom line is that some will be thrown overboard, and others will be doing the throwing overboard. However, to the extent the hideous austerity policy which has been in place since 1982 is continued, such considerations are ultimately of no significance, for the whole ship is doomed, on its present course, to go down to disaster, no matter who is given the old heave-ho before that time arrives. But those who insist that the choices are defined by time-buying, on the one hand, and crisis management emergency methods, on the other, have never understood that there are different, and better ways to proceed which do not lead to disaster.