The IMF plans world deflation

The British-dominated International Monetary Fund, in collaboration with U.S. Secretary of the Treasury W. Michael Blumenthal, has written a program for the Tokyo Economic Summit calling for world deflation—starting with the United States. The program is detailed in the confidential IMF Staff—U.S. Authorities Annual Discussion paper, written by an IMF Secretariat team under IMF Western Hemisphere Department North American Division Director Joaquin Ferran. It will be reviewed by the IMF Executive Directors of the Group

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of 21 at their annual meeting on the U.S. economy just before the June 26 Tokyo Summit.

The plan contemplates a full implementation of the IMF "surveillance" mechanism over international credit flows, with the aim of returning to the scarcity economics of Parson Malthus. First, each advanced industrial nation, led by the U.S., is to undergo large-scale voluntary deflation at home, directed by IMF Secretariat advisors attached to the national treasury or finance ministry. Second, the developing sector is to be denied condition-free private sector Euromarket financing. All future recycling of petro- and other Eurodollars will be done by means of IMF *cofinancing*, through consortia of the IMF-World Bank with commercial banks and only under IMF-imposed austerity conditions.

Observers, including the Paris financial daily *Les Echos*, are astounded by the extent to which the IMF proposes that the U.S. surrender not merely its national sovereignty but its American System tradition of industrial growth. "The U.S. is on the spot once more," *Les Echos* wrote in leaking on June 11 the first news of the IMF Annual Discussion paper. "This time it is a report prepared by the economists of the IMF which attacks the insufficiency of the measures taken by Washington to reduce inflation.... It is a question of raising the level of interest rates, which are barely positive (after inflation)'," the article cites IMF economists as saying. Other proposals include the traditional IMF formulae of large cuts, import restrictions, credit volume cuts, and government debt reductions.

Even more astounding, however, is the fact that the Carter Administration's Treasury Department, far from protesting, has helped to formulate this policy. The IMF's Director Ferran, confirming the existence and title of the Annual Discussion paper, protested that "we discussed this policy fully with the people at Treasury, Federal Reserve, OMB, and the National Security Council... these were the regular annual discussions with the U.S. on the U.S. economy."

Speaking to the International Monetary Conference in London on June 13, Blumenthal announced that this policy "requires that we change our fundamental approach to economic management... We have our inventories under control... later this year, after some tough months, the desired results will emerge: an economic slowdown accompanied by an abatement of inflation. The *London Financial Times* noted with approval that Blumenthal was "echoing the U.K. budget speech of Sir Geoffrey Howe, Britain's Chancellor of the Exchequer, with whom he conferred shortly afterwards."

"Blumenthal will take it (the discussion paper—ed.) as the U.S. policy draft to the Tokyo Summit," said another IMF source when asked how the paper would be used. At the summit, a Washington source close to the NSC said, Blumenthal will use the fact that the U.S. Treasury is ready to plunge America into recession to demand that they deflate their economies, to cool off the world economy." If the U.S. jacks up interest rates—and they'd have to be really austere to mean anything at this point—then Japan and Germany would have to do the same to protect their currencies."

According to this source, the IMF discussion paper was fully coordinated with the more public annual report of the Basel Bank for International Settlements, the central bank clearing house, whose staff is dominated by Britain's Cambridge economics department, the British-leaning Swiss National Bank, and the Dutch Central Bank. The BIS report made headlines such as "U.S. Urged to Induce Slowdown" in the June 11 *New York Times*, by urging the U.S. Treasury and Federal Reserve to "ensure that the present cyclical upturn dies a natural and gentle death or more realistically turns into a mild recession." The U.S. must also "apply a radical policy of reducing oil imports."

This, threatens the BIS report, is the most "optimistic scenario." If the U.S. rejects it, the BIS's "pessimistic" scenario assumes that "the cyclical upswing in the U.S. degenerates into a genuinely overheated inflationary boom... Germany and Japan would intensify restrictive measures to prevent inflation being carried over to their economies," and the result would be "renewed currency unrest and international inflation culminating in a major world recession."

Also part of Blumenthal's planned proposal for the summit, the source said, was the public demand by BIS president and Dutch Central Bank chief Jelle Zjilstra at the BIS annual meeting for central banks to use IMF surveillance to force their countries' commercial banks to cut back lending to the developing sector. Zjilstra announced that the central banks—led by U.S. Fed Chief G.W. Miller and Bank of England Governor Gordon Richardson, had actually agreed to begin pressuring the banks due to the tripling in their foreign loans over the past four years.

The existence of this liquidity has "tended to crowd out the IMF," complained BIS consultant Alexandre Lamfalussy, "which is the only organization able to impose conditions on borrowing countries." He demanded the IMF be given a greater role in surveillance over the loan process.

David Rockefeller, chairman of the Chase Manhattan Bank, addressed the American Chamber of Commerce in London June 13 and endorsed this approach as the only way left to the commercial banks to avoid the Miller-Richardson drive for stringent reserve requirements. "The commercial banks," he said, "are not now able to assume the prime responsibility of recycling OPEC funds... Some developing nations may have already reached their borrowing capacity and some commercial banks may be confronted with limits of country exposure."

The commercial banks, under pressure from Blumenthal et. al., are therefore ready, Rockefeller said, to enter into the bulk of new loans in cofinancing consortia with the IMF, with the IMF imposing its conditions. This might be done through the IMF's Witteveen special $10 billion fund for LDCs—or even through taxing the industrial countries a sum of some $25 billion for a "safety net" managed by the OECD as proposed by anglophile Henry Kissinger. This also raises the possibility that commercial bank lending to the advanced industrial members of the OECD will be placed directly under IMF surveillance.

—Kathy Burdman

GOLD

Remonetization with a British twist

In a special June 12 survey on world gold markets, the London *Financial Times* outlined the British financial elite's strategy to undermine the gold remonetization content of the European Monetary System. What the *Times* suggests is that the pound take over as the world reserve currency supplemented by a refurbished version of the International Monetary Fund's Special Drawing Right with a gold backup.

What about the current world reserve currency? The dollar is to be phased out in favor of the SDR, the *Times* recommends, and the U.S. economy is to be placed in receivership to the IMF just like a Third World pauper.

"Gold has crept back on to the world monetary stage as a direct result of the weakening in the international reserve role of the dollar over the past 18 months," said the *Times*'s correspondent David Marsh. "What is emerging is a multicomponent international reserve system in which gold, alongside the dollar, the 'hard' currencies of West Germany, Switzerland and Japan, and the currency 'cocktails' of the Special Drawing Right and the European Currency Unit, are playing an increasingly important role...."

What London would like to see is a face-off between the U.S. and the French and West German governments, who originally proposed the EMS as a plan to expand world development and thus revitalize the dollar. It would be a fight between Europe's "gold bloc" and the U.S. "dollar bloc" where both sides lose in favor of an IMF-dominated system.

In another development this week, the Bank of International Settlements decided at its June 11 meeting to increase the rate at which it converts currencies on its balance sheet into gold francs, the official BIS accounting unit. The BIS had previously valued gold at $42.22 per ounce. Now the basis will be $208. Senior BIS officials downplayed this step as "taken solely for internal housekeeping reasons."

—Alice Roth