Substitution Account killed

The IMF made no progress toward official control of OPEC's surplus or displacing the dollar at their recent Hamburg meeting.

The plan for a Substitution Account was quickly defeated at the April 24 session of the International Monetary Fund meeting in Hamburg. The Carter administration-backed proposal would have officially displaced the dollar as the world's principal reserve currency. "Excess" overseas dollar holdings were to be called in, centralized in the IMF, and exchanged for securities valued in Special Drawing Rights, the IMF's basket-of-currencies unit of account.

The peremptory rejection of the plan was termed "a surprise" by most of the American press. The ostensible stumbling block was the question of guarantees for the SDR assets. The U.S. and IMF wanted the Fund's still-large gold reserves to be appropriated as the guarantee. Western Europe protested that the U.S. Treasury itself should bear the financial burden.

This dispute could have been resolved were Europe and the OPEC governments eager to establish the SDR account. Our report last week that they prefer instead to strengthen dollar operations was confirmed by the Saudi announcement—timed to coincide with the IMF meeting—of an agreement to provide up to $2.4 billion a year in dollar credits to cover Japan's current accounts deficit. A similar agreement was concluded with West Germany earlier this year.

Behind the scenes, the French in particular derided the idea of tying up gold reserves to back IMF "funny money" instead of using the gold, as envisioned by the European Monetary Fund framework, to directly back the dollar and the other leading international currencies.

While the Substitution Account has finally died an official death, the question outstanding is control of the $120-odd billion in annual lendable OPEC surplus revenues. The IMF and the Carter administration want to 1) prevent expansion of OPEC's direct dollar flows to Western Europe and Japan, and 2) to absorb as much as possible of the OPEC liquidity into the IMF and World Bank, so that political and economic conditions can be placed by these institutions on the reissuance of the surplus as credit.

The London *Sunday Times* of April 27 triumphantly announced that "Saudi Arabia has agreed in principle to lend large, though unspecified, sums of hard currency to the International Monetary Fund to help finance worsening payments imbalances." But the 20-member Interim Committee of the IMF ended its meeting April 28 without any tangible results of this sort. According to the final communiqué IMF Managing Director Jacques de Larosiere was simply "encouraged to start discussions with potential lenders" in order to prepare a "growing role" for the Fund in financing deficits.

IMF sources themselves underscored after the Hamburg meeting that "no commitments were given" by the Saudis or anyone else from OPEC. IMF spokesmen also denied to *EIR* a report by *Le Monde* correspondent Paul Fabra that the Saudis and Gulf states are "especially receptive" to the proposal because they are being offered better-than-market returns on their presumptive loans to the Fund.

"The Arab countries have already expanded their loans to the less-developed countries," said a Franco-Arab banker in New York April 30. "I doubt that the IMF will be given control over the surplus. The Arabs want to keep for themselves the political influence that goes with the loans." The Brazilian industrial city of Saõ Paulo and the government of Turkey are reported elsewhere to be among the recipients of quiet Saudi lending.

This situation—or rather its potential for expansion—enrages the policymakers represented by the *Sunday Times*, which expostulated that "the countries with two-thirds of the population of the Third World, which rely almost wholly on aid from international agencies," unlike the South Koreas and Mexicos of the Third World, will soon have to borrow from the IMF's general loan facilities, "conditions and all."

At the Hamburg meeting, the Group of 24 less-developed country spokesmen vainly demanded a relaxation in IMF lending conditions. The matter was deferred to the autumn General Assembly meeting of the IMF and World Bank.