Philadelphia conference finds little support for IMF plan

Half-way through the second annual Conference on International Monetary Reform hosted by the Group of 30 in Philadelphia Nov. 14-15, a largely American audience of businessmen and bankers was asked to give a show of hands as to whether they supported international monetary reform, or preferred to keep the current monetary system as it is. Bank of American chief economist Robert Heller gave the call for the vote, and then announced, "The nays win. The audience is overwhelmingly in favor of keeping the system as it is."

Heller's humorous gesture had a deeper meaning. In a recent interview with *EIR*, Heller reported that one of the more fortunate results of the Reagan victory in this election is that the U.S. government will reverse the Carter administration's support of international monetary reforms based on giving more power to such "globalist" agencies as the International Monetary Fund (IMF). Heller and his associates expect that the conservative layers around Reagan will move to bring monetary initiatives back under the control of the U.S. government.

Reports from Washington are that one of the ways the Reagan team aims to achieve this goal is by stabilizing the exchange rate of the U.S. dollar on the basis of an export promotion program which is being designed by the new Senate Banking Committee chairman, Utah Republican Jake Garn.

Reserve roles

What the audience in Philadelphia had voted against was a set of proposals, most clearly enunciated by Johannes Witteveen, former managing director of the IMF, for replacing the U.S. dollar as the chief global reserve asset in favor of an increased role in reserve management for Special Drawing Rights (SDRs), the IMF's unit of account.

After Witteveen left the IMF in 1979, he was offered the chairmanship of the Group of 30, a team of economists brought together by a Rockefeller Foundation and Ford Foundation grant. Since then, the Group of 30 has hosted a number of "roadshow" events to stir up business and government support for creation of an IMF "substitution account," the SDR pool which would be used to soak up surplus dollar assets held by governments worldwide.

Last spring, the Interim Committee of the IMF, which is influenced by a number of Third World governments, rejected proposals for formal creation of a substitution account and it looked as if the unpopular proposal had been put to rest. The Carter administration, however, kept publicly plugging for its creation, as shown by a speech delivered by New York Federal Reserve Chairman Anthony Solomon at the October conference of the National Foreign Trade Council.

There is little chance that a formal substitution account will come into being. However, during 1981, Witteveen reported, the IMF will attempt to expand SDR-denominated transactions with the international private banking system. David Lomax, a top banker from Britain's National Westminster, reported in Philadelphia that since September, when the IMF reduced the currency basket on which the SDR's value is based from 16 to 5 currencies, British banks have set up computerized accounts which are giving SDR-denominated portfolio packages to central bank customers.

A sensible proposal

What the Group of 30 argues is that the advantage of pumping SDRs into the international financial system, in contrast to buildup of liquidity in dollars, marks, yen, or any other national currency, is that the volume and allocation of SDRs can be "managed" by one

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central, internationally-based institution. Currencies, in the final analysis, are always subject to the interests of sovereign governments. At an early point in the Group of 30 conference, Frederick Heldring, Deputy Chairman of Philadelphia National Bank, motivated the apparent contradiction between global and national interests as follows: "How do you get anything done in a world in which no one is in charge?"

In reality, the SDR is not only different from a national currency, whose value is based in real terms on the ability of a national economy to generate economic wealth in real terms; but the SDR has been chiefly used by the IMF as a political instrument for subjecting governments to IMF policy dictates. In recent months, the IMF has come under heavy public denunciation by Third World and European governments for attaching such harsh austerity terms to SDR-denominated loans to deficit countries, that in several cases—Turkey being the most recent—IMF programs have provoked severe political repression and coups.

A sensible proposal

Heldring's question was more than answered by the only sensible presentation delivered during the two days of proceedings. Dr. Kurt Riechebächer, chief economist of Germany's Dresdner Bank, asserted that all of the problems in the current world financial system—inflation, overindebtedness, low growth rates—are attributable to the collapse of investment in the advanced industrial countries. Even development in the Third World, Riechebächer noted, is ultimately dependent on the generation of surplus from investment in the industrial nations.

"[I]f we want to understand . . . the fundamental conditions for economic growth," Richebächer argued, "we must think in physical terms and not in money terms. The real problems lie below the monetary surface, and they cannot be solved by financial gadgets." Asserting that the advanced sector had "underinvested" across the board, he added, "Speaking of capital formation has its great difficulties in our time, because both these terms are shrouded in great ambiguity. . . . Let me, therefore stress one distinction of absolutely crucial importance: namely the distinction between bits of paper, all coming from the printing press, like money, government bonds, or Special Drawing Rights . . . and the realities of capital in the form of productive plant and equipment . . . and the realities of capital formation, representing the current additions to the real capital stock already in existence."

To get economic growth adequate to meet debt payments in the Third World, Riechebächer suggested that what needs to be examined is "the capacity of the industrial nations to export surplus investible resources, meaning resources in excess of the requirements for their own economic growth." To finance such expansions of capital, he proposed that Western governments had to seriously examine the avenues for cooperation with the oil-producing nations. The oil surplus, hovering around $100 billion annually, he stated, should be seen as "the forced savings" extracted from oil consumers, savings which are otherwise lacking in the industrial countries due to spreading economic downturn and reductions in living standards. Savings, he reiterated, using the examples of postwar Germany and Japan, are the motor force of capital investment. In this connection, Riechebächer characterized the U.S. and Britain as nations which had lost "economic dynamism," due to the shift of investments in these countries away from productive capital formation into inflation-generating service sectors.

The impact of American influence

One of the most remarkable things about the Philadelphia conference was that for the two-day period that this writer was present, the name of U.S. President-elect Reagan was not mentioned once from the podium. The Group of 30 has been attempting to create a climate in the international banking community in which a Reagan administration is assumed to have "no policy" on global monetary relations.

The effort to give this impression was most obvious in the presentation by William Hood, a Canadian professor currently with the IMF's research division. Hood reviewed the history of the IMF since its founding, emphasizing one single point: the influence of the IMF in recent years has grown as a direct result of the diminution of American economic and political power over the last decade.

Referring to this shift of influence as a "diffusion of power," Hood noted that when the U.S. was the center of Western affairs, the dollar had a fixed exchange rate against all other currencies. "I therefore count the breakup of the fixed-rate system" in 1976 at the Jamaica economic summit "as one of the major consequences of the diffusion of power," he stated.

As long as fixed exchange rates are not restored, he intimated, the IMF still has the opportunity to expand its power on the basis of the SDR. The "IMF is very much concerned with exchange-rate and reserve management," he reported. "Instability associated with the diffusion of power induces countries to turn to the Fund" for help in restoring stability.

We can only conclude from this perspective that if currency shakeups of the magnitude of those in recent weeks continue during 1981, the IMF will see itself in position to compete for world influence with the resurgent nationalist movement in the U.S. which could restore American influence.