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IMF meeting plans to loot Western economies

by Kathy Wolfe and David Goldman

The International Monetary Fund's Group of Five finance ministers, composed of Britain, France, Germany, the United States, and Japan, met in Washington on Jan. 15-16 to plan this April's IMF Interim Committee meeting. The news topic was British and French demands that the United States "rein in" the U.S. dollar under an IMF-controlled currency regime and impose austerity on this country.

The meeting issued a statement committing the United States to intervention against the dollar and also committing the United States to an IMF-run "convergence of economic performance" in the West.

Administration sources close to Henry Kissinger say that as treasury secretary, Trilateral Commission member James Baker will be open to Kissinger's plan to use the dollar to put the United States on an IMF leash. Kissinger's speech at the September 1984 Mocatta Metals birthday luncheon, billed as the "secret keynote" of the September IMF annual meeting, stated that a new currency regime will halt "unilateral American decisions" and enforce "coordinated economic policies."

At the meeting Jan. 16, British Chancellor of the Exchequer Nigel Lawson and French Finance Minister Jacques Delor, the Swiss agent, stated that Europe must "persuade the United States to introduce the internal discipline to make for stability in foreign exchange."

More serious, however, than any schemes to rig the dollar down or up, are the real economic consequences planned for Third World, European, and U.S. economies by this "Gang of Five." Led by Federal Reserve Chairman Paul Volcker and IMF Managing Director Jacques de Larosière, the thieves, who had just looted over $360 billion out of the Third World, are plotting continued looting and orderly redistribution of the loot to the "fence," namely the United States.

No matter how the British, French, or German finance ministers may whine about the dollar, the banking oligarchies of those European nations have been profiting handsomely in real terms from the high dollar because it enhances their terms of trade vis-à-vis the famished nations of Asia, Africa, and Latin America. The high dollar has not only bought European bankers, who finance trade in dollars, more and more volumes of Third World raw material production, but has also caused a worldwide deflation of commodity prices which has added to Europe's ability to buy goods cheaply from underdeveloped nations.

Highway robbery

The most obvious question is, why did the European economy not collapse in the course of 1984, given its enormous currency collapse? The answer is twofold. Germany exported like a bandit, dumping cheap goods on the rest of Europe while all Europe dumped cheap goods on the United States. Second, import prices for Europe, which might have risen and hit European industry and oil consumers hard, collapsed globally because of Volcker's deflation.

The German Bundesbank, in particular, did not really object to the dollar's rise at all, and in fact financed West German trade by dumping cheap deutschmarks on the market. The Bundesbank also encouraged West German banks to lend to Germany's European trading partners during 1984, financing a 7.5% rise in West German exports.

The West German central bank even encouraged foreigners to borrow marks by permitting interest rates to fall starting in early summer. In response, West German banks' total foreign loans rose by about DM 25 billion (from DM 196.9 billion to DM 221.8 billion) during the year from October 1983 to October 1984; almost DM 13 billion of this represented loans to other European banks. The other European

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banks promptly converted these marks into dollars, mainly to pay their debt service in dollars, driving the German mark down further.

Worst of all, however, it was the developing sector which paid the real difference by bailing out Europe with cheap imports, in the form of reduced prices for their own exports. According to the International Monetary Fund, Third World export prices fell by 15% between 1980 and 1983. Third World commodity prices measured in dollars collapsed a full 10% during 1984 (according to the Moody index), which indicates how large the deterioration of the Third World's terms of trade was during 1984. Even the drastic reduction of commodity prices does not adequately reflect the utter collapse of terms of trade when the massive devaluation of developing-sector currencies is taken into account.

Judging from preliminary data, the non-oil developing countries exported about $360 billion during 1984, a 12% rise in dollar terms, and (probably) more than 25% in volume terms. The world's poorest nations, and Ibero-America in particular, therefore provided an enormous subsidy to the industrial world, in the form of cut-price goods exported at a record pace.

However, the general collapse of commodity prices represented a net transfer of wealth to the rest of the industrial world as well. While the Moody's commodity index, calculated in dollars, fell by 10%, the Reuters' commodity index fell by 7% during 1984.

The Europeans, being subsidized by the Third World, in turn subsidized the United States to a vast degree. In effect, what Europe looted from the Third World in cheap unprocessed commodities, it sold to the United States, virtually a tenth of whose consumption of physical goods last year consisted of net imports, that is, the trade deficit. The U.S. economy would be in ruins without the trade deficit, which provides every sort of input to the U.S. economy, including capital goods (a net import for the first time ever) and semi-finished goods, as well as consumer goods.

No recovery anywhere

To top it off, the entire scheme utterly failed to create a West German recovery: Unemployment rose on an official basis from 9.1% in 1983 to 9.2% in 1984, and the real numbers are much higher.

Europe's economic results overall were miserable. European unemployment, at an officially estimated 5.1% in 1979, rose to 9.8% in 1983 and 11.8% during 1984. In West Germany, as noted, the count rose from 9.1% to 9.2% for the year averages, and December unemployment was at the year's high point. The rest of Europe was correspondingly worse. Even these data do not take into account (in the case of West Germany) the huge number of unemployed who do not report to the Federal labor offices; with 28% of the unemployed officially out of work for a year or more, another large contingent of uncounted unemployed have exhausted their insurance and are now on welfare.

There was no talk of ending this thievery at the meeting, nor of bashing the dollar, which has become a very convenient vehicle for bashing *real economies*. The Gang of Five discussed how to use rigging the currency markets to better continue this process, by imposing IMF supranational policy on every economy, including that of the United States.

At the meeting, British Chancellor Nigel Lawson and and French Finance Minister Delors used the excuse of the collapse of the pound to demand the dollar be tied down somehow to sterling, and to the European Currency Unit (ECU). Lawson said it would be "a political setback" if sterling fell below $1 and intolerable to Her Majesty's government. Before leaving for the G-5 meeting on the dollar, Delors had called for the ECU to be made into a reserve currency pegged to the dollar, to "share the global burden of monetary management with the dollar."

Last week, an administration source close to Kissinger said that as treasury secretary, James Baker plans to clean out Treasury Deputy Secretary R.T. McNamar and Undersecretary Beryl Sprinkel, Neanderthal free-marketeers who oppose any restraint of the dollar. "Baker will do something about the overvalued dollar, using more intervention where Sprinkel refused, to bring it down gently," he stated.

If the British pound sterling continues to collapse and goes to parity with the dollar, one dollar per pound sterling for the first time in history, this will trigger hysteria in the British oligarchy. At that point, the G-5 and the BIS may call for a currency link.

The G-5 meeting itself issued an explicit statement that they seek "greater exchange market stability and will undertake coordinated interventions in the market as necessary."

The aim is to use the currencies as an excuse to harness the U.S. economy to IMF austerity. The statement also reaffirmed their committment to "pursue monetary and fiscal policies which promote a convergence of economic performance."

It certainly is the case that the dollar has continued to rise, and may do so for a while. Despite a massive hike in U.K. rates by 1.5% to 12% on Jan. 14, the dollar continued to batter sterling down to $1.11 and the DM to 3.20 per dollar. Miecczyslw Karzmar, chief economist of the Société Générale-controlled European American Bank wrote an extensive editorial in the Jan. 17 *Wall Street Journal,* "Hopes Shouldn't Rise for Dollar's Fall." He noted that the dollar has risen nearly 80% in value since mid-1980 against a trade-weighted basket of currencies, a near doubling of its value.

He says, "What the forecasters have failed to recognize is the unique character of the dollar as the pre-eminent world currency." As Karzmar points out, net capital inflow has not been caused as much by the United States sucking funds in, as by the U.S. *halting* the outflow of funds to the Third World. "Between 1982 and 1983, this shift was really significant, from a net lending position of $45 billion to a net borrowing position of $24 billion. During 1984, foreign lending by American banks stopped altogether. . . ."