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Congressional 'summit' admits the system is broke

by Ronald Kokinda

Recognition that the current international monetary system is "broke, and needs fixing," was the dominant theme at a Nov. 12-13 conference in Washington, D.C. called the "U.S. Congressional Summit on Exchange Rates and the Dollar." Sponsored chiefly by would-be presidential aspirants Rep. Jack Kemp (R-N.Y.) and Sen. Bill Bradley (D-N.J.), a high-level group of government officials, financiers, economists, and other frontmen for the international financial oligarchy, met to propose and consider remedies to the "volatility" of currency exchange rates.

More interesting than the proposals advanced was the participation of officials from the U.S. Federal Reserve, the Treasury Department, European central banks, and the French, Italian, German, and Japanese governments, which gave the conference a semi-official status. Also unusual was its billing as a "U.S. Congressional Summit." Congress usually holds "hearings" on matters it will consider.

There were several suggestions at the conference to increase the "macro-economic policy coordination" among nations including holding multinational parliamentary or congressional commissions. Treasury Secretary James Baker reported on the G-5 emphasis on increasing International Monetary Fund surveillance and oversight, and Assistant Treasury Secretary Richard Darman expressed concern that the G-5 participants could not deliver on their agreements within their respective national sectors.

The potential for subordinating the U.S. Congress to supranational decision-making was clear.

The conference had the endorsement of House Majority Leader Jim Wright (D-Texas), Budget Committee chairman Rep. Bill Gray (D-Pa.), House Minority Whip Rep. Trent Lott (R-Miss.), and Sen. William Armstrong (R-Colo.), chairman of the Senate Republican Policy Committee.

As Kemp outlined his intent at the opening, he wanted the establishment of "an official congressional commission on international monetary reform" to result from the conference. Also, a resolution asking heads of state, finance ministers, and other officials, to consider world monetary reform at the next G-5 meeting in April 1986. Bradley demanded that the U.S. government "stop pretending there is no problem and start offering solutions."

Action against the IMF by Peru, and growing hostility to the IMF by a number of nations, forced the U.S. Treasury under Baker to begin addressing the crisis, even if not meaningfully. The present conference was in essence addressed to the problem of how to ensure that those dominating the present system continue to dominate as the system collapses.

Prominent among those insisting that, from this standpoint, there is a crisis, was former Treasury Secretary and Trilateral Commission member Alan Greenspan, who moderated many of the panels. "Many here would say there is an extraordinary problem with the system," Greenspan said, "and I share most of those views." He said that there was now an "extraordinary consensus in the business community" that high capital costs and floating exchange rates have penalized durable goods especially, and goods production overall. Chief executive officers (CEOs) of several major industrial firms, including Du Pont, Dow Chemical, Archer Daniels Midland, and others, emphatically concurred.

Greenspan was also backed by economist Robert Triffin, who called the current system a "non-system," and the "World Monetary Scandal." "It's a disaster," he said, in which the Third World countries have become the major creditors and the advanced countries the major debtors in terms of world

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reserves. Felix Rohatyn, partner at Lazard Frères and author of New York City's disastrous "Big MAC" reorganization, also backed Greenspan. Financial markets have "been turned into junk-bond casinos." If the United States keeps its market open, it destroys its industry and agriculture; if it closes its markets, it destroys its banks. Pushing the Trilaterals to the hilt, Rohatyn called for a monetary reform commission to be headed by former West German Chancellor Helmut Schmidt, Arthur Burns, and Greenspan.

Dr. Norman Bailey, former National Security Council international economics director, said participants were converging on the idea that "the system is broke, it must be fixed, or we face a crisis of 1930s proportions. . . ."

Prominent among those who felt the current floating exchange rate system was not that bad were several German and Japanese participants including Toyoo Gyohten, of Japan's International Finance Bureau. Perhaps the most laughable defense of the status quo was by Rainer Gut, president of Crédit Suisse, who countered Rohatyn that the junk-bond business was "not necessarily bad, it created ingenuity, new financial instruments," and allowed financiers to go after new investment areas. Allan Schwartz of Bear, Stearns, and Co., suggested that floating rates had accomplished what they were designed for, changing domestic economic policies that were out of balance.

Greenspan was also the most prominent in putting forward proposals for changing the status quo. "A restoration of something approximating the old gold standard in today's environment would, in my judgment, clearly be desirable," Greenspan offered. He said that while he had come to doubt the "feasibility" of returning to the gold standard, this was because governments remained politically "wedded to expansionary fiscal and monetary policies." Gold had to be rethought, he insisted. "When the history of this century is written, I suspect the abandonment of this gold standard will not be hailed as it was at mid-century or even today." He was seconded by Columbia University's Robert Mundell.

Other proposals generally compared the merits of moving from floating to fixed exchange rates. Consensus emerged that fixed rates were not possible, but rather a "managed floating exchange rate system," or as French President Mitterrand's chief adviser, Jacques Attali, proposed, a "reference zone" for currency exchange rates.

But the objective of this exercise, to ensure that the financial interests who produced the crisis are the ones to reorganize things, was apparent in the demands for "discipline," limitations on sovereignty, structural adjustment, and other euphemisms for austerity. Occasionally, a speaker would chastise the group for no longer paying lip-service to economic growth. Renato Ruggiero, secretary general of the Italian ministry of foreign affairs, advanced a quaint term for supranational control, "a collective exercise of sovereignty." "The importance of sound, coordinated macro-economic policies have been underestimated," he said. "We need multilateral surveillance" by the G-10.

Attali was more explicit. He demanded "stronger international institutions," "increasing the resources" of these institutions, "the greater opening up of economies [which is the] only way to get acceptance of the discipline that will be required," and for a greater role for SDRs, IMF funny-money.

Some protests

A handful of protests stated that such proposals did nothing to address the reality of the current debt crisis, and attacked usury—Bowen Wells, member of parliament from the United Kingdom; Shirley Williams, president of the Social Democratic Party, U.K.; Ajit Singh, Queens College, Cambridge; and Rep. Jim Wright. Wells said that the current system was only helping the "money-lenders of the world [who] never produce anything," and vociferously insisted that it was "immoral" to forget the impoverishment of the Third World "if only because they are our future markets." Williams warned of political action on the debt front, pointing to Mexico for the next debt moratorium, especially if oil prices drop. She defended discussion of tying export growth to debt repayment. Singh gave his "view from the south" that none of the proposals discussed at the conference would "ameliorate the current crisis" for years, and said that the debt issue would come to a head within two or three years. "Six or seven percent rates of real growth" are needed in these countries, he argued.

But MIT economist Lester Thurow summed things up: This is "an Anglo-Saxon conference . . . we don't pay attention to industry."

Representative Wright argued that the "prerequisite" for any real reform of the monetary system is "our willingness to come to grips with the twin problems of high pervasive debt and high interest rates." Not only governments, but the private sector as well, have swallowed the "tapeworm of debt" which is now threatening not only financial but political solvency of nations. Unless interest rates can be dropped so that Latin American nations can retire debt, he warned, these "democracies will be doomed to perpetual economic stagnation and quite possibly political chaos."

Wright went into an impassioned attack on usury and urged a worldwide effort to drop interest rates, as did Henry Kaufman of Solomon Brothers, Inc. Some call it "heresy" to control interest rates, Wright said, "but no function of society is more hallowed by historical precedent. Legal injunctions against usury date back through more than 3,000 years of human history to the Pentateuch. Economics embraces among other things the historic struggle between those who must work for money and those whose money works for them. One function of civilized society—at once both moral and sensible—is to curb the greed of the lender before it leads, as untethered it can, to his own self-destruction, and to see that those who must borrow to set aflow the wellsprings of economic growth are not doomed to see their hopes of a better future rendered stillborn by oppressive rates of interest."