Click here for Full Issue of EIR Volume 7, Number 17, May 6, 1980

The IMF meets to plan the dollar's demise

by Richard Freeman

A broad reorganization of the world's monetary system, including the International Monetary Fund's capture of the "big potato" (the $120 billion OPEC oil surplus for this year) is on the agenda for this week's Interim Committee meeting of the IMF in Hamburg. According to the plan, the IMF's "Substitution Account" will take $20 to $50 billion of central bank holdings of dollars and substitute the IMF's funny money, the Special Drawing Rights (SDR), as a critical step toward removing the world from the dollar standard.

By forcing nations into dependency on the IMF's currency, the Fund vastly enlarges its powers. Ultimately, the IMF will be able to dictate financial reorganization and austerity "conditionalities" to every participating nation in the IMF—including all the members of the Western alliance—and subject the world economy to its zero growth vision.

The strategic vehicle for realizing the IMF Substitution Account is the manipulation of the prolonged Iran crisis, which not only threatens Western Europe with an oil cutoff, thus bringing the economies of France and West Germany to their knees, but is intended to occasion a general OPEC nation mistrust of the dollar. Two days before the opening session of the IMF Interim Committee, the April 23 *Financial Times*, which is run by the British oligarchical families that are pushing the IMF Substitution Account, published an article entitled, "Assets freeze 'may assist IMF Scheme' " as its front-page lead. The article proposes that "President Carter's decision last November to freeze Iranian assets in U.S. banks may have brought an unexpected boost to the scheme for a Substitution Account within the International Monetary Fund (IMF)." By the *Financial Times* line of reasoning, the OPEC nations will be so terrified by the U.S. seizure of Iran's assets that they will take their tens of billions of dollars out and search for alternative currencies to invest them in. "It is noted the OPEC states would be able to pay some of their huge dollar holdings into the account, receiving assets expressed in the IMF's Special Drawing Rights (SDR's) in return," states the *Times*. "These assets would not be susceptible to a freeze or similar unilateral action by a national government."

Were OPEC nations, led by Saudi Arabia, forced to take their holdings out of dollars and put them into the IMF, this source of funds will have been withdrawn from investment in West Germay and France, who hope to invest their surplus dollars in the global development projects of the European Monetary System (EMS). This would block all significant West European opposition to the IMF's policy of forced deindustrialization for the rest of the world, doom most of the Third World nations, and consign the advanced sector to worsening depression.

At a press conference April 23, West German Finance Minister Hans Matthoefer threw a chink into the Substitution Account's prospects, although he refused to attack it in principle. Matthoefer cited unresolved technical problems and economic uncertainties as barriers to implementing the plan, adding pointedly that West Ger-

© 1980 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

many prefers a strong dollar in the 1.95-to-the-mark range.

Keynes' offspring

The Substitution Account has been an international football since first proposed in 1978. In fact, the plan goes much further back in time and policy orientation. The Special Drawing Right was created in 1969 by the Keynesian faction inside the IMF. It revived the proposal at the 1944 Bretton Woods conference advanced by Lord John Maynard Keynes to create an international reserve labeled the "bancor" as a front for the then-sagging pound sterling. Instead of expanding dollar credits for world trade and investment, the IMF would ration international liquidity while bailing out Britain.

The Special Drawing Right, created as an extension of Keynes's bancor, now comprises 7 percent of all world reserve assets (excluding gold), although it is strictly an accounting currency. The exception to this has been the few SDR denominated loans issued over the last couple of years.

In the Substitution Account's current form the $800 billion Euromarket dollar overhang would be reduced through an installment phase of retiring dollars and replacing them with interest-bearing SDR's. The first phase, which would supposedly take two to five years to implement, would have the IMF exchange SDR's for $20 to $50 billion worth of dollars. The Carter administration has quietly but energetically backed the plan since former Treasury Secretary Blumenthal's 1977 call for the IMF to guide U.S. domestic policy.

Multiple objections have been raised to the SDR plan. Some of these objections are addressed by the April 19-25 issue of the London *Economist*. Concludes the *Economist*: "Many things could still go wrong. The world desperately needs them to go right. Sudden flights from the dollar during a world recession could be very dangerous, unless there is a sensible new reserve established at the dollar's side."

The technical issue that has created the most controversy is U.S. agreement to fund the IMF's dollar liabilities under the Substitution Account scheme. The New York managing director of Schröder's Bank, Geoffrey Bell, who is also a member of the Group of 30 Rockefeller Foundation advisory body on monetary reform, thinks this is a serious problem. "What happens," Bell commented to *EIR* April 23, "if in five years several nations decide they want to redeem their SDR's for dollars, but the dollar has depreciated by 20 percent? There won't be enough dollars around to redeem the SDR's. The IMF shouldn't have to cover the shortfall. The U.S. should."

Bell said that the U.S. delegation from Treasury and the Federal Reserve, such as the Treasury Department's C. Fred Bergsten, while all supporters of the IMF Substitution Account, have hardened their opposition to U.S. funding of dollar liabilities held at the IMF and have instead seized on the idea of using the IMF's gold reserve to back the Substitution Account's liabilities. "West Germany and France are not too keen on using the IMF gold reserve to fund the liabilities of the SDR. Neither are the Third World countries, which see the SDR as an advanced-sector issue." It is mooted that if the gold-backing of SDR liabilities went into effect, the IMF's monthly gold auction program would be suspended. The program, which provides money to the least developed countries, is up for renewal in May.

A further obstacle to the IMF Substitution Account's realization at Hamburg is the position of West Germany. The Federal Republic's Bundesbank has drawn down $10 billion worth of dollar holdings and is also running a large current account deficit. Germany wants other nations to spend their dollars by buying—and therefore strengthening—the mark, and an SDR facility, according to Schröder's Bell, would be "a competing facility for where dollars could be placed, which the Germans won't be too keen on."

Fall-back option

However, if the SDR Substitution Account is not adopted this weekend, there is a City of London fallback option: to accelerate diversification out of the dollar until the dollar comprises only 50 percent of world reserves—down from its current 80 percent level—which would open the way to the SDR. "This is a likely second path," stated Schröder's Bell. "It would occur over two or three years and would result in yen, dollar, DM blocs and so forth. This is already happening."

In either case, the world would be opened to an SDR-based world monetary system. The companion measure is slated to be expansion alongside a "liberalization" of the IMF-World Bank Third World operations and perhaps their merger into one giant fund with $100 to $200 billion capitalization. Indeed, this is the perspective of the Brandt Commission, the "independent" wing of the World Bank under Second International leader Willy Brandt which this winter released a 250-page "small is beautiful" handbook for turning the globe into a labor-intensive workcamp. Brandt's proposal will also be discussed at Hamburg.

The City of London's preference is for immediate activation of the SDR Substitution Account, as that would clear the way for a specific initiative against the U.S. Upon receiving dollar deposits in exchange for SDR's, the IMF Substitution Account will invest these newly deposited dollars into U.S. Treasury bills. At the point the IMF accumulates $200 to $300 worth of U.S. Treasuries, it will call the shots on the U.S. Treasury policy and the U.S. government itself.