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IMF already dictating American policy

by Kathy Burdman

The highly classified 1981 Annual Report on the U.S. Economy of the International Monetary Fund, released to governments July 17, marks a new phase in the open direction of U.S., and world, economic policy by the IMF and its senior advisers at the Basel-based Bank for International Settlements.

The IMF report, as officials reveal in the accompanying interviews, calls upon the Reagan administration to reduce budget expenditures to the point of actual reductions in the U.S. budget deficit, in order to pay for an estimated $20 billion or higher annual increase in government interest-rate payments. The IMF specifically joins with the BIS and Europe's Second International Socialists in demanding a *cut in real U.S. defense outlays* which makes mincemeat of President Reagan's defense program.

Under advice from Treasury Secretary Donald Regan, Federal Reserve Chairman Paul Volcker, Office of Management and Budget Director David Stockman, President Reagan has already "agreed" fully to the IMF's demands, according to an aide to Assistant Treasury Secretary for Economic Policy Paul Craig Roberts. Commenting on projections by Deputy Defense Secretary Frank Carlucci July 12 that the Fed's interest rates could result in $10 to $20 billion in annual cost overruns to the defense budget alone, Roberts's office stated that any such interest-rate costs must be taken directly out of real defense outlays. "Stockman and Regan have made it perfectly clear that they will not allow" any overruns, the aide stated. "Stockman is telling the Defense Depart-

"Stockman is telling the Defense Department: 'Get your act together and come in under your budget.' "

The total subordination of U.S. budget policy to IMF guidelines was underlined in public press briefings by Stockman July 15, on the administration's Mid-Year Economic Report to Congress. Stockman revealed that to pay for an unexpected $17 billion increase in fiscal 1981 and 1982 interest-rate costs, U.S. defense outlays have already been cut for 1981 by $1.6 billion, and the administration's vaunted supply-side tax cuts reduced by $6.7 billion. "Our policy is to cut whatever is necessary to offset interest-rate increases," Stockman told an amazed press.

U.S. economic policy, in short, is no longer made by the elected national government of the United States.

The end of national budgets

The policy guidelines of the BIS annual report, issued in Basel June 16, have thus been realized in significant part. There, BIS Chairman Jelle Zijlstra warned that unless "a high degree of international cooperation" was imposed over all national economic policy, the world would soon see "a repetition of the events witnessed in the 1930s, which ultimately resulted in a disintegration of the world economy."

We now have both conditions. By openly imposing the IMF as the official dictator of U.S. budget policy, the BIS and its old Venetian shareholders have hoisted their banner for all to see. The BIS and IMF are going to impose a world depression, which is this time to be managed by the supranational institutions. The depression will be the weapon used to destroy the remaining

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political power of elected governments.

Although much was made of BIS Chairman Zijlstra's criticism in June of high U.S. interest rates, this attack on American policy can now be seen as a means to an end. Indeed, the IMF's classified Annual Report on the U.S. Economy is said to fully endorse the continuation of the Volcker Federal Reserve's interest rates, provided additional actions are taken. If the U.S. moves as demanded to slash its budget expenditures further, the Volcker policy "is very good," IMF North American director Joaquin Ferran, author of the IMF report, said in an interview, noting that the main problem of the U.S. is inflation.

The high-interest policy of the Fed, and the other BIS member central banks such as the West German Bundesbank and Banca d'Italia, are in any event already fixed policies of those very independent institutions, well out of the control of nation-states. The point is, what other new policy controls can the BIS and IMF devise?

Direct hands-on "surveillance" of not only Third World debtors but of all the "surplus" countries, including the U.S., West Germany, Japan, and every industrial power, is the current goal of the IMF and BIS. The Reagan administration, according to the office of U.S. Executive Director to the IMF Richard Erb, has already agreed to IMF surveillance beyond anything permitted by the Trilateral Commission government of Jimmy Carter; the IMF is well on its way to such power over the industrial world as a whole.

The Reagan White House, Mr. Erb's office said, has agreed to regularly submit the U.S. to the "Article 4 surveillance" procedures of the IMF. In a series of meetings on June 2-4 and 10 of this year, President Reagan's National Advisory Council on international monetary policy (NAC) met with IMF Western Hemisphere Director Thomas Beza to submit all U.S. international monetary and domestic budget policy to IMF scrutiny. U.S. officials from Treasury Secretary Regan, and Fed Chairman Volcker, who head the NAC, down to representatives from the Budget office and State, Commerce, and Defense Departments, were grilled on U.S. policy for interest rates, currency markets, foreign aid, and budget and defense programs.

"The point of surveillance is to strengthen the role of the IMF in the entire world economy," Mr. Erb's office stated. "Now surveillance will give the IMF control over the U.S. . . . How can we criticize Zaire for not adhering to IMF conditionalities, if we won't do as we're told?"

Control the national budget, and you control the nation. The BIS Annual Report made this quite clear: "It is urgently necessary to alter the current policy mix by reducing public-sector borrowing requirements."

Urging the same supranational control over national budgets was the latest semiannual report of the Paris-based Organization for Economic Cooperation and Development, issued July 10 as a policy document for the July 20-21 Ottawa heads of state economic summit. The report urged that nations "conduct monetary and fiscal policies in a complementary fashion, [taking] international implications" into account. The report noted in particular that European budget deficits are growing rapidly, and that if European governments wish world interest rates to be brought down, they must first join with the United States in an effort to sharply curtail budgets.

In other words, "surveillance." Indeed, the IMF is already quietly urging West Germany to slash budget expenditures, according to infuriated German official sources. "The IMF is moving strongly on all nations to urge budget cutting," the source stated, "and here, too."

The OECD report goes beyond recent BIS and IMF prescriptions to point to the next policy phase of the supranational institutions: the top-down *enforced reduction of wage standards in the West,* and the destruction of organized labor as a political power support constituency for the nation-state. The greatest cause of the coming recession in Western Europe, they write, is *overpopulation:* the "sharp rate of increase in working age population," which is projected to rise by millions during 1980-1985. It is the resultant unemployment and need for federal assistance outlays, writes the OECD, that is the cause of uncontrolled budget spending in West Germany and elsewhere.

As a solution, the OECD proposes a return to the corporativist methods of Mussolini: "a stronger consensus through an improved dialogue between the social partners" of government, labor, and business. According to former Federal Reserve Chairman Arthur Burns, now U.S. ambassador to Bonn, the aim of such "consensus" must be to *cut in half* prevailing industrial wage rates in OECD nations, as the "root cause" of inflation.

The end of national currencies

Parallel to the IMF's new hands-on approach to national budgets is the sudden re-emergence of the IMF Special Drawing Right (SDR) as the new standard for a revamped world monetary system. The Fund is now working closely with private banks and oil companies to encourage a private market in SDR-denominated loans, bonds, and bank deposits, a sort of "parallel market" to the $18 billion in official holdings of SDRs proper by governments.

The BIS, he said, may soon set up a new clearing house, modeled on the CHIPS computer which clears international payments for the New York commercial banks, to encourage SDR-denominated banking deposits. Already, Chemical Bank Ltd. in London told *EIR*

July 13, the major London banks are encouraging corporations and Arab monetary authorities to set up SDR-denominated accounts. Royal Dutch Shell and other oil multinationals are encouraging Arab nations to take oil payments in SDR-denominated accounts.

The idea is, and sooner rather than later, to replace the current dollar monetary system with a balkanized set of at least three currency blocs, a dollar-based Western Hemisphere bloc, a European Currency Unit bloc, and an Asian yen bloc. As outlined by former Italian central bank governor Rinaldo Ossola this past March, only the SDR would unite the blocs, clearing payments between them—and the IMF would have world liquidity control.

In "A Possible Gold-SDR Standard," Mr. Ossola writes that the IMF and central banks should organize intervention to "tighten parities" first between currencies in these blocs, as has been done in the European Monetary System, following which the three blocs could be tied together in a new monetary system. To do this, however, governments must give up sovereign control over international payments, and use supranational instruments such as the European Currency Unit within the blocs. Central banks would then feed their gold and dollar reserves into a new IMF "substitution account," and receive SDRs in return for use in international payments.

The IMF, in a March 20 Executive Board decision has already sanctioned exchange controls for such currency blocs, called "multiple currency practices," to facilitate this arrangement. The French government, meanwhile, has floated its first ECU-denominated loan. Only a crisis for the U.S. dollar is needed to cause a stampede into such an SDR system.

'U.S. must cap defense'

The following excerpt comes from a July 13 interview with a senior IMF official.

Q: What do you consider the future of Special Drawing Rights?

A: If the SDR grows into a private market out of the current problems on the currency markets, my response would be hallelujah. . . . Right now, the difficulty is that the market is unbalanced. The banks have SDRs on the liability side, that is, people who have deposits in their London branches in SDRs. But the banks do not have assets, investments in SDRs. You have to encourage people to take out loans or issue bonds in SDRs to get balance. You need to institutionalize a market in private SDRs. To do this, you need a clearing mechanism in SDRs. The IMF can't fill this role, because it is an institution that deals in official government-to-government relations in SDRs.

There are two ways that you can get this SDR private market mechanism. First, it could be run through and by the Bank for International Settlements. Another way is for Chemical Bank International in London and maybe 10 other banks over there to set up a clearinghouse there, like the New York bank clearinghouse, to trade in SDRs.

Currently, outside the IMF, the other official institutions that can trade in SDRs are the BIS, the World Bank, the International Development Agency, the Caribbean Development Bank and a few other public agencies. . . . To get it going in a big way, you need some big multinational companies, like Royal Dutch Shell and some of the other oil companies, as well as some of the manufacturing multinationals to have SDR accounts. If oil were to be priced in SDRs, then you would have governments and big multinational corporations dealing in SDRs and this would create a private market.

'The surveillance power'

The following interview was conducted with a member of the U.S. delegation to the IMF.

Q: How does the U.S. administration react to the IMF's latest report on the U.S. economy?

A: I haven't seen it yet, but in general, they are very happy with what we are doing and I assume this agreement will be reflected in the report.

Q: How does it happen that the IMF makes recommendations on U.S. budget policy?

A: Article 4 of the IMF agreements states that we will submit to surveillance on our exchange rates, and our domestic finance impacts on that. The point of the surveillance policy is to strengthen the role of the IMF across the board in improving the world adjustment process. Surveillance is a key part of that process, because it is an attempt to get at the *surplus countries.* The IMF already has leverage over the debtor countries through its conditionalities, which impose controls on borrowers from the IMF. Now, improved surveillance will give the IMF control over the surplus countries, like the United States, Germany, and Japan, and give the IMF influence over their domestic programs.

Q: But this has been true since the Jamaica accords amended Article 4 in April 1977. Michael Blumenthal wrote Article 4 under Jimmy Carter. Are you saying

there is nothing new in Reagan administration policy?
A: Sure, there is something new—the fact that *this administration reiterates the policy*; that is big news in itself! The Reagan administration, I would have thought, would have perhaps moved to get the IMF out of U.S. affairs. Not so. The big news is the fact that they are allowing us, indeed encouraging us, to continue to encourage the Fund to criticize U.S. policy and help to change it.

Everything we are doing now on international monetary affairs is credited to the IMF and its growing role. Look at Beryl Sprinkel's new policy of nonintervention in the exchange markets. That is straight IMF policy, as detailed in the 1980 Annual IMF Report.

Q: To whom would you attribute this surprising Reagan administration attitude? Sprinkel?
A: No, the Federal Reserve has had a lot of influence. Paul Volcker used to be the Undersecretary of the Treasury for Monetary Affairs, and he is very powerful. Then, Donald Regan and his deputy Tim McNamar had a lot of influence.

'A private SDR market'

From a July 13 interview with Joaquin Ferran, director of the IMF Secretariat's North American Division, which division studies the U.S. economy. Ferran headed up the IMF's Annual Report on the U.S. Economy to the fund's Surveillance team. He reports to Walter Robichek, director of the Western Hemisphere Department of the IMF, and to his deputy director, Theodore Beza, who chairs the IMF Surveillance division.

Q: What are the conclusions of your Annual Report on the U.S. economy?
A: The report is just being sent to the printers and is totally confidential to governments. I cannot divulge the contents.

Q: Perhaps we can discuss specifics. Did you criticize the U.S. tight-money policy, as the Bank for International Settlements did, or do you give support to Mr. Volcker?
A: The most fundamental problem in the U.S. economy is inflation, which must be dealt with at all costs. From that, you can easily conclude our opinion of the U.S. monetary policy.

Q: Why do the Europeans and the BIS complain so?
A: Perhaps Mr. Lamfalussy, Bank for International Settlements executive director, is too sensitive to European charges that U.S. rates are the cause of their difficulties. But this is nonsense. The poor effects on European economies arise from their own inflationary budget policies. . . . Europe will have to take it the way it comes, or change their budget policies. I think, really, Mr. Lamfalussy had this in mind—he is trying to present an argument for the international partners to get together and work out the inflation problem by dealing with the root cause, which is the individual budget programs. All he is saying is that monetary policy can merely mitigate, but not solve, the problem.

Q: Many economists now believe that the Reagan budget deficit will be way out of line with the $50 billion or so deficit projected by the administration for 1982.
A: Certainly, because there will be quite unexpected price pressures on the U.S. budget. The wage and price pressures in the defense budget, in particular, will be tremendous, and are not accounted for in the administration's projections sufficiently. If you expand demand in any sector, such as defense, you get a very strong pressure for price increases. It will be just like what happened in the oil equipment industry, when many people tried to get into a limited sector. The price of equipment rose such that a project's price may have doubled. . . .

Q: Will the administration be forced to cut other programs to pay for its buildup?
A: If there is such a buildup. With such a buildup, this might occur, but I don't think the administration will therefore go that far. They are going to have to curtail the budget, and in particular, they are going to have to constrain parts of the defense budget. This is very clear.

Q: Mr. Carlucci says they will have huge overrun costs.
A: I wasn't aware of this statement, but I do not believe that they will allow [overrun] costs to be actually translated into greater spending. They cannot afford to do so.

Q: The administration projects single-digit interest rates, perhaps 9 percent or lower, for 1982. What does the IMF think will happen? The Fed disagrees.
A: The administration will soon be changing its projections on many areas, and interest rates should be one. It is quite possible that the rates will not come down that fast. This point is clear: There are many, many reasons why the U.S. deficit will be larger than expected by the administration. For example, the U.S. economy, according to our projections will not grow as fast as they expect. This means tax revenues will not be as large as projected.

The administration has said they want to make more adjustments in Social Security. This should be done. If there are cost overruns in certain defense areas, they can cut other defense areas. But they will take the appropriate steps.