IMF group in Congress pushes Rohatyn plan: opponents prepare for September quota vote

by Kathy Burdman

At deadline for adjourning their current session, the U.S. House of Representatives on Aug. 3 voted the authorization bill for an $8.4 billion increase in America's quota contribution to the International Monetary Fund, and then adjourned until September.

The vote was very close: 217-211, with feeble Republican support for what was supposed to have been a Republican administration bill. Only 72 Republicans voted for the authorization, with 94 opposed. Three more no-votes would have killed the measure. Led by House Banking Committee chairman Fernand St. Germain (D-R.I.), Democrats backed the IMF by 145-117.

Authorizations approve funding in principle, while appropriations muster the cash. And the IMF is still a long way from winning its tribute. As *EIR* reported last week, the House killed the key fiscal 1983 appropriations half of the IMF bill on July 29, by a much wider margin of 213 to 165. The earliest the IMF can receive U.S. cash is under the fiscal 1984 appropriations in October, under House procedures.

Given the tiny margin of votes for the IMF and the fact that Congress is recessing for five weeks to be pounded by constituents against the bill, there is every reason to expect that the IMF cash appropriation will be defeated when they open for debate in September. St. Germain, acting as the front man for Paul Volcker, Donald Regan, George Shultz, and Henry Kissinger—the "IMF lobby"—plans to try to force the IMF cash appropriations through Congress when it reconvenes in September as a rider on a series of 1983 "emergency supplemental appropriations." But the vulnerability of any such option is clear.

The lead editorial in the Aug. 5 *Washington Post* declared the authorization vote "a triumph of good sense and good politics," then complains that "it will have to be followed by an appropriation." But the appropriations committee is "firmly in the hands of people hostile to the IMF, and getting that legislation through the House will require another struggle. The authorization alone won't deliver the money."

'Latin America and Congress be damned'

Outside Washington, the national media have clamped a blackout on the July 29 IMF appropriations vote, and wild lying is coming from the Fund and U.S. Treasury Department to try to shore up the IMF's position (see interviews below). A top official of the IMF called the House defeat of the IMF's 1983 funding "irrelevant . . . of no consequence"; Brazil and others judge U.S. policy by what Paul Volcker and other U.S. officials have done, their "fantastic armtwisting to get support for the IMF. . . . There have always been congressmen who say IMF austerity is too tough. . . . No one takes them seriously."

Meanwhile, the House of Representatives is being misrepresented abroad as having backed the IMF with all its might, as the IMF and Treasury claim that the mere authorization vote gives the Fund U.S. carte blanche.

One Treasury official was rather blunt: "No one in Brazil, Venezuela, or those other countries will notice that the Congress has voted against the IMF," he said. "They're too stupid to understand the difference between an appropriations bill and an authorization bill."

The truth is that just enough sand has been thrown into the legislative machinery to give the American people a last chance to stop their elected representatives from signing U.S. sovereignty and resources over to the IMF.

No matter what they say in public, every congressman knows that to the forces backing the IMF bill, $8 billion is a drop in the bucket; what they are really after from Congress is a *political commitment*, a commitment not to resist as the U.S.A. is transformed into a "banana republic" under the supranational financial tyranny of the Swiss-based Bank for International Settlements, the Big Brother financial agency to the IMF.

Only one organized force has opposed that perspective effectively—*EIR* founder Lyndon LaRouche's National Democratic Policy Committee. LaRouche's Operation Juárez plan would scrap the IMF in favor of a new international monetary system to provide hundreds of billions of dollars of credit for worldwide industrialization. The "LaRouche lobby" has been conducting an international mobilization of trade unionists, businessmen, farmers, scientists, and governments to swing the U.S. government behind Operation Juárez; a redoubling of that mobilization during the next six weeks is the only chance to catalyze the resistance to the IMF in Congress.

The House version of the IMF authorization bill passed Aug. 3, most of it written by St. Germain after consultations with Bank of England regulatory chief Peter Cooke, is the first legal step toward committing the United States to a global form of Felix Rohatyn's Big MAC financial dictatorship in New York City.

Title III, the IMF quota section proper of the bill, as amended by St. Germain, would force the U.S. representative at the IMF to see that loan programs are "stretched out." "The United States Executive Director at the International Monetary Fund," it reads, "*shall vote against*" an IMF loan to any borrowing country "unless the U.S. Executive Director first determines . . . that the IMF program converts short-term bank debt which was made at high interest rates into long-term debt at lower rates of interest," and that "the annual external debt service required of the country is a manageable percent of the projected annual export earnings of such country." In practice, this means, not debt relief, but a long-term austerity dictatorship under which no new credit for production is permitted.

The *New York Times* Aug. 5 commented that the authorization approval brings the case of Brazil to the forefront. "The IMF proposes still more stringent austerity, which is ultimately desirable if socially feasible. The House version of the IMF funding bill urges stretching out all developing nations' debts and reducing their interest rates, but someone would have to pay. If it's banks, they'll shy from necessary new credits; if it's IMF member countries, new funding will be hard to get."

Under Title III, the U.S. Secretary of the Treasury is also mandated to "initiate discussions" on setting up an IMF-run "new Bretton Woods" currency rate rigging system, "to reform the floating exchange rate system," and shall report to the Congress within 180 days on U.S. proposals to do so.

Title II of the bill, "The International Economic Recovery Act," is a directive to the President to report annually to Congress on whether or not and how well he has negotiated global economic reforms such as those Rohatyn has proposed. It reads: "The President shall encourage the industrial nations to work together to relieve the pressures of debt payments on the LDCs, in particular for reducing the financial pressures of their short-term debts, by extending, where appropriate, the maturity of such debt."

It also requires the President to work toward submitting the United States and other industrial economies to the economic dictates of the BIS: "The President shall encourage the industrial nations to take actions on a cooperative basis to adopt fiscal [read: cut defense budget] and monetary policies such as to encourage economic growth."

Title IV, International Lending Supervision, contains a bank regulation provision under which the Volcker Federal Reserve must make U.S. bank reserve requirements so tough that they must immediately begin setting aside penalty reserves against (in effect writing off) loans to not only Zaire, but Argentina, Brazil, Mexico, and all the major debtors.

It also contains a congressional GAO auditing power which would force the Fed and other U.S. regulators to "cooperate with international lending supervisors" such as the BIS's Cooke Committee to immediately establish tighter controls over international credit.

This comes at the same time that Kissinger's networks internationally, from Lord Harold Lever and the British Commonwealth Office to the Bank of America, are resurfacing the idea of expanding or restructuring the IMF to deal with the fall debt crisis. Following Lever's July 9 London *Economist* article calling for the IMF to conduct global debt restructuring, Commonwealth financial expert Robert Muldoon, the finance minister of New Zealand, wrote a summer *Foreign Affairs* article on the same theme. The accompanying *Foreign Affairs* piece by Bank of America vice-chairman William Bolin proposed the use of the World Bank to restructure long-term debt, while the IMF handles short-term austerity programs. Meanwhile Kissinger, cosponsor with Rep. Jack Kemp of a recent conference on revamping the IMF, held meetings this month with Bank of America executives at the Bohemian Grove to discuss, among other issues, the global debt crisis.

'IMF out of ammunition'

The fact is, as the leading Swiss daily *Neue Zürcher Zeitung* argued in an Aug. 1 analysis, the IMF is no longer capable of handling even the present short-term crisis, let alone a long-term solution. Current IMF commitments are now $2.7 billion in excess of its present resources, and the sum could rise to $7 billion by the end of the year. Although these commitments for loans will not fall due until 1984, the IMF's present capacity to operate is hobbled by the shortfall. The shortfall will not be made up even if Congress approves the quota increase.

"Of course, the Fund could always fall back upon its own reserves, but this would mean that its contingent obligations—read the automatic drawing rights of its members upon their reserve tranches—could not be fully drawn, or, in an extreme case, could not be drawn at all. It is evident that such a situation is not sustainable. The managing director of the IMF, de Larosière, has been knocking on the doors of member nations of the General Arrangement to Borrow [the emergency kitty of the Group of 10] as well as Saudi Arabia in an effort to close the financial gap. In the headquarters of the IMF in Washington, the main occupation is to find a solution which will satisfy all sides," the Swiss newspaper reported.

"But at the last meeting of the Group of 10 in Paris, and in discussions with Saudi Arabia, it was shown that a boundary has been set to nations' willingness to spend. From the American side, the question must be posed concerning how new financial resources could be assembled before the Eighth Quota Review has been decided. It is a total impossibility to squeeze additional means out of a Congress whose lower house is having trouble with the IMF quota increase. And in West Germany—the next door to knock on—it has been made clear that the German commitment has finally reached the limit of what might be presumed. . . .

"Thus the front has been closed to a great extent. While the Fund's new role as savior in time of need has come into the foreground, the potential donors to the Fund are not willing to back up the institution with more than bridge loans to the next quota increase. Concretely, this means that a great deal of the Fund's future ammunition has already been shot off."

The Swiss view efforts to build up the Fund's operating capacity as illusory. According to a aide close to Swiss National Bank president Fritz Leutwiler: "The Americans are going to have to bear the brunt of it."

The terrible irony of U.S. administration policy is that while the Treasury has tied the future of the U.S. banking system to the IMF system, the IMF is losing its ability to maneuver even in the short term.

IMF: 'Congress is irrelevant; debtors listen to Volcker'

From an Aug. 1 interview with an official of the IMF Research Department, provided to EIR:

Q: What do you think of the U.S. House vote July 29 to kill IMF appropriations for the rest of 1983?

A: It is of no consequence. All it means is that the money may not be available until October. But the deadline for passage of the quota increase is not until Nov. 30, and the actual money is not scheduled to be paid until January. Congress is expected to pass the authorization bill this week, and that is what is important. If there is a strong vote to authorize the IMF quota this week, they that will give assurance that the money will be appropriated and available in October. In that case, the fact of a two- or three-month delay makes little difference.

Q: How long would the United States have to delay appropriation to hurt the IMF?

A: The only problem would be if the U.S did not make the appropriation by the end of this year. That would have severe consequences for the world financial system, and the Congress knows that. But I don't have to tell you that, [Treasury Deputy Secretary] Tim McNamarr and [Secretary of State George] Shultz have already spoken eloquently about the disastrous consequences. De Larosière and the IMF are letting them speak for us; we're keeping above it.

Q: But during that little two- or three-month delay, there may be a monetary crisis, with the Brazilian, Mexican, and Argentinian IMF deals falling apart, at least. Why should these debtors submit to IMF conditions if the U.S. government does not even back it?

A: The IMF will have no problem with that. As long as Congress passes the authorization, there won't be any difficulties, because the appropriation will then be no problem.

Q: But if word gets out in Latin America that the U.S. Congress doesn't back the IMF, in the middle of a crisis. . . .

A: Look, these countries take their ideas of U.S. financial policy not from the U.S. Congress, but from Paul Volcker, Donald Regan, and the rest of the U.S. financial officials. They judge the U.S. policy by the fantastic armtwisting to get support for the IMF, and to get the U.S. banks to cooperate with the IMF in the Latin loan consortia. And they [Ibero-Americans] know they will only continue to get U.S. loans and cooperation if they agree to IMF conditionalities, whether they like it or not. IMF conditionalities are the policy of the U.S. government.

They [Ibero-Americans] don't judge the U.S. by mere legislation on the IMF. Congress's actions mean nothing to them. Whether Congress is only 51 percent or 50 percent behind the IMF has absolutely no effect on the rest of the world.

Q: The statements being made in Congress against the IMF could get out all over Latin America. Bill Patman of Texas charged on Friday, for example, that the Federal Reserve's austerity here has cost the U.S. economy $1 trillion, and "to endorse the policies of the IMF is to export the policies of the Federal Reserve to other countries."

A: Oh, these people are of no consequence. There have always been congressmen who say IMF austerity is too tough. Then there are those who say the IMF has been too lenient, and the debtor countries must learn to crack down with even harsher conditions, and earn their keep. Let Patman talk. There have always been mere populist and cheap money men in Congress. No one takes them seriously.

The debtor countries don't deal with the U.S. Congress—they have to deal with the Fund, and the Fund is backed by the U.S. administration, and that is all there is to say.

Treasury: 'Latins can't grasp what appropriations mean'

From an Aug. 3 interview with an official at the U.S. Treasury's IMF desk, provided to EIR:

Q: How do you think the Latin American debtor countries will react to last Friday's defeat of the IMF appropriation?

A: We wanted the appropriations approved, it's true, but this is not an overwhelming defeat. Regan is counting on the authorization, and they will be told by the Treasury and the Federal Reserve that the U.S. government is fully behind the IMF. Regan will worry about making the payment later.

No one in Brazil, Venezuela, or those other countries will notice that the Congress has voted against the IMF. They're too stupid to understand the difference between an appropriations bill and an authorizations bill. In fact, outside of the

[Washington] Beltway, no one will understand it. It's irrelevant.

All that's relevant for the Brazilians and the rest to know is that the U.S. Congress is going to endorse the IMF, whether they give it money right now or not, and they'd better get their act together and come to terms with the IMF. If we don't have the money by the IMF Annual Meeting [Sept. 25-30] we'll just tell everyone, "Congress has to have time to deliberate."

Congressional aide: 'Trouble when congressmen go home'

From an Aug. 3 interview, provided to EIR, *with a congressional aide who supports the IMF:*

Q: What is your reading on the IMF appropriation's chances?
A: It'll be who can marshal the forces over the next month. These congressmen have to have their backs to the wall, and frankly they're not there yet. Hell, [Rep. Parren] Mitchell [D-Md.] got up the other day and said "There's no emergency or we would have passed this long ago."

Now these guys are going back home, where they're going to hear four or five weeks of constituents saying "don't bail out the big banks," and then they'll come back here with their heads all screwed around. The vote today on authorization doesn't settle anything. These guys are going home! And the delay doesn't help. The problem is these guys are hearing *nothing* from their districts that's pro-IMF. The only pro-IMF talk they hear is from Don Regan, and frankly he's just not that exciting to listen to over and over again on the same theme.

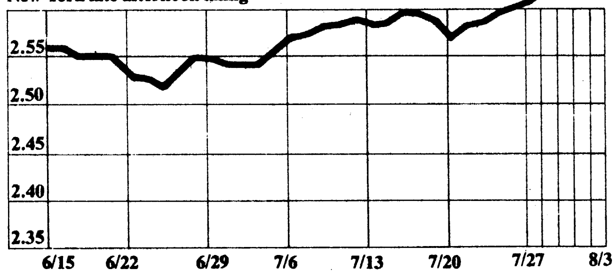
We need something to shake these guys up. Frankly I was amazed at the way the press treated the vote last Friday night [deleting funding for the IMF]. I expected much more hand-wringing, but the press I saw treated it as though nothing happened, no problem. We're not going to make it relying just on editorials in the *Washington Post*—which backfire with Congress anyway. Say, I know this isn't necessarily your line of work, but if you could arrange a little more alarmist press coverage, it sure wouldn't hurt.

Q: Are you anticipating an economic shock during the recess?
A: No, but if you can arrange a few that would be great—ha, ha. What we need is a nice controlled panic or two. Let's face it, voting for the IMF and the big banks isn't exactly the route to political popularity these days. I counted at least 15 votes at first glance in that Friday vote where members who support the IMF were getting one safe anti-IMF vote on the record. So maybe with a little more crisis stuff, we can get these guys to say, "Look, I agree with you about the IMF generally, but there's a crisis now and we can't risk bringing the system down."

Currency Rates

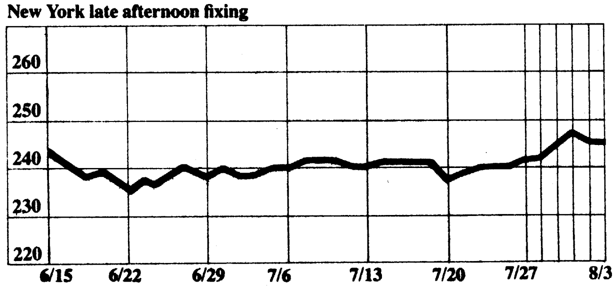
The dollar in deutschemarks

New York late afternoon fixing



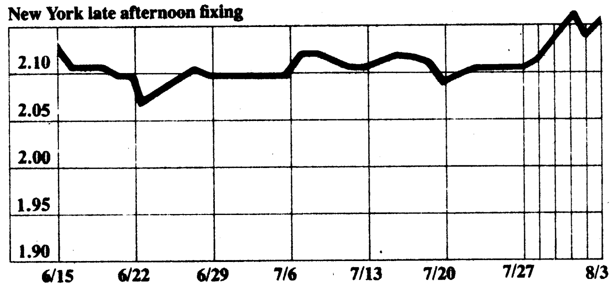
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing