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U.S. economic policy collapses at IMF meeting

by David Goldman

After the 1982 IMF Annual Meeting in Toronto, where then-Treasury Secretary Donald Regan won the industrial nations' agreement to crush the resistance of developing-sector debtors, *EIR* warned that the United States would become the principal victim of Regan's policy. Mexico, whose current $12 billion payments gap for the next 12 months makes it again one of the world's most dangerous flashpoints, at that time had just imposed exchange controls and, in effect, stopped paying its debts.

The 1982 decisions postponed the reckoning, by changing the shape of world trade in a disastrous way.

The United States received notice of the bill for Regan's policy of 1982 at the just-concluded meeting of the International Monetary Fund in Washington, where, for the first time since the organization's founding at Anglo-American behest, American policy was laughed out of the hall.

After the 1982 decisions, the United States and the IMF bureaucracy forced the ntions of the developing sector to drastically devalue their currencies, shut off all development projects, eliminate most imports, and export everything loose at garage-sale prices. As a result, world trade remains well below 1980 levels, and the United States faces:

1) A 1986 trade deficit in excess of $200 billion;

2) A 1986 balance-of-payments deficit of $150 billion, after "invisible" income is deducted from the trade deficit;

3) A foreign debt which will exceed $300 billion by the end of 1986;

4) A federal government deficit of $250 to $300 billion in the fiscal year beginning Oct. 1, not counting scores of billions of dollars of additional funds required to bail out the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, the Farm Credit System, and various other federal credit and guarantee agencies;

5) A banking collapse that has, thus far, claimed not only multibillion-dollar institutions in the energy belt, but threatens such giants as Bank of America and Merrill Lynch.

The United States destroyed both its external markets and its internal productive capacity, and the financial disaster follows from this directly. To the Houston real-estate lawyer's mind that belongs to Treasury Secretary Baker, the problem appears as follows:

"External imbalances are . . . increasing this year, with the U.S. current account deficit climbing to the range of $140 billion; while Japan's surplus grows by more than 50 percent, and Germany's surplus more than doubles. Both Japan's and Germany's 1986 surpluses are, in fact, larger as a percent of GDP than the U.S. deficit. While projections suggest some reductions in those imbalances in 1987, they may well increase again in 1988 and remain at politically and economically unacceptable levels. In fact, the Fund's illustrative projections imply that without policy changes, and at current exchange rate levels, the 1991 current account deficit for the U.S. would be about $120 billion. The 1991 Japanese current account surplus would be $80 billion.

"Clearly, these imbalances have got to be reduced, either through greater competitiveness of the dollar, or increased growth outside the United States, or a combination of these factors."

(Speech to the IMF Interim Committee meeting Sept. 28).

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Translated into English, Baker told his colleagues the following: You are subsidizing us with $200 billion of goods per year, worth $300 billion at domestic U.S. prices. You are subsidizing our financial markets with your earnings from these exports. This subsidy is not sufficient to refinance our domestic and international debts, and prevent a banking crisis. We want you to print money and make your banks lend that money to us, to stall the crisis. If you don't, we will collapse the exchange-market value of the U.S. dollar, and punish you by devaluing your present investments in the United States!

The U.S. dollar now barely buys two German marks on the foreign exchange market; a year ago it bought 3.4 marks. Foreign investors, who have financed America's payments deficit by investing more than $300 billion in the past two years in American paper, have lost 40% on their money. Federal Reserve chairman Paul Volcker is warning that a further collapse of the dollar will prompt these foreign investors to pull their money out of the United States—collapsing American money markets.

Bond market collapse

In fact, the collapse of U.S. bond markets, triggering a smaller collapse of the stock market during September, followed the first hints that foreign money might not be so generous during the months ahead.

Understandably, the Japanese and West Germans have continued to put money into the U.S. economy, propping up the most important member of the Western alliance against the Soviet Empire. Just as understandably, they are unwilling to compromise the soundness of their own banking systems and national currencies, on behalf of an incompetent American economic policy.

But Baker's threats go even further than the warning of a dollar collapse, which will hurt the United States more than anyone else. He warned West Germany and Japan that they only have until spring to deliver an "economic upturn," said European officials. Baker made the statement at the IMF meeting along with his warning about a new trend of protectionism coming to the United States. All protectionist legislation before the current Congress will have to be reintroduced to the new Congress in January, and it generally takes at least a month even for popular measures to acquire the momentum needed for passage.

The Reagan administration is acting with the subtlety of a maniac with a live hand-grenade holding a school bus for ransom. European and Japanese officials shook their heads in disbelief. Japan has already introduced a $23 billion "reflationary" package, in response to American demands, and the country's finance minister, Kiichi Miyazawa, told the IMF meeting that it could do no more. "This is the largest such package in Japanese history," Miyazawa said, "and it is, given the current state of Japanese government finances, the very most we can possibly do. . . . I cannot meet the expectations for increased growth fully."

It is unlikely that the Japanese, who have been putting more than $60 billion a year into the American markets, will pull their money out. They do not want the United States, their major export market, to collapse, and even less do they want to take the blame for the American banking crash now in progress.

However, as many commentators have noted with alarm, they began buying gold at an annual rate of $25 billion or more during July and August, accumulating a hard-money reserve against the likelihood of the collapse of literally trillions in bad dollar paper.

All this had been made painfully clear at the Sept. 27 meeting of the industrial nations' leaders, the so-called Group of 7, which preceded the public portion of the IMF event. The United States had sought to pressure Japan and Germany to "reflate" at last May's Tokyo Summit, by concocting a set of indicators which would "automatically" compel the industrial nations to change policy. In the terse language of the Group of 7 communiqué, the industrial world rejected America's proposed policy change: "The ministers agreed that cooperative efforts need to be intensified in order to reduce the imbalances in the context of an open, growing world economy." They also agreed that they bear "a special responsibility to foster an open, growing world economy, which is particularly important for the resolution of the international debt problem." But they said measures already in place—a lower dollar, lower inflationary growth, and lower interest rates—would be continued for now.

Third World debt crisis

Meeting Sept. 28, the Interim Committee of the IMF, the organization's steering group, said that the dimensions of the international debt crisis this year and next could exceed the crisis triggered by Mexico in 1982. It admitted that the ratio of debt payments to export earnings was going to be worse in 1986 "than that prevailing at the outset of the debt crisis."

In general, the IMF staff conceded, growth in the first half of 1986 was disappointing, though signs pointed to an improvement in coming months and next year. In particular, the IMF report noted a sharp falloff in developing nations' exports—both in terms of price and quantity—during the past year, which means that these nations, no matter what they do, are less able than ever to maintain debt-service payments.

Nonetheless, the Interim Committee demanded further sacrifices from the debtors, under the name of "economic adjustment," as well as the opening of their economies to a garage-sale buyout by foreign creditors.

The Interim Committee's decision to accelerate the looting of the debtor countries puts the world economy on track for financial disaster. Having done this, the Western leaders proceeded to fall out among themselves over who would pick up the bill for the disaster.