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On IMF 'Titanic,' a scramble for the best deck chairs

by William Jones

The annual meeting of the International Monetary Fund in Washington this year occurred in the wake of the biggest financial collapse in 50 years. On Sept. 14, the German Bundesbank had cut its interest rates for the first time in five years, acceding, ever so cautiously, to the increasing demands of the other Group of Seven countries and the IMF to lower its rates, in tandem with the low-interest policy being pursued by Great Britain and the United States, where keeping interest rates low was seen as the only way of staving off a depression collapse and winning George Bush a second term. The Bundesbank, calculating the costs of reunification and footing the major burden of lending to Russia and the other former Soviet republics, has been chiefly concerned with avoiding inflation which could easily spin out of control. On the other hand, the high-interest rate policy has also caused considerable discomfort for the Helmut Kohl government, which has been highly criticized for the rising unemployment and increasing social decay resulting from that same policy. Under pressure from the German government, with Kohl spending the previous weekend in Frankfurt lobbying for a cut in the interest rate, the relatively independent Bundesbank agreed to minimal cuts.

However, the unexpectedly small size of the rate cuts—a quarter-point drop in the emergency overnight lending rate and a half-point drop in the longer-term standard rate—caused more turbulence on the currency markets. The pound plunged to its lowest level against the deutschemark since Britain joined the European Exchange Rate Mechanism (ERM), the rate coordination mechanism of the European Monetary System. On Sept. 16, the fragile international monetary unity plunged into chaos.

Twice during the course of the day, the British Chancellor of the Exchequer raised interest rates, first 2% and then an additional 3%, to try to halt speculative moves against the pound—but to no avail. Finally, British Prime Minister John Major announced that "the interests of Britain would best be served" by suspending British participation in the ERM. The Swedish "welfare state" was forced to raise interest rates to an astronomical 500% to stop the currency flight from the country. Faced with a near panic, the European Community called an emergency midnight meeting to consider a realignment of the European Monetary System. By Sept. 17, Italy had joined Britain in suspending the lira from the ERM, and the Spanish peseta had also been devalued.

Participants in the preliminary meetings of the IMF in Washington were confronted with a statement by imprisoned presidential candidate Lyndon LaRouche, declaring the crash to be the end of the monetary system. Over 1,000 copies of the statement were distributed to IMF officials and visiting ministers. Now that the central banking system led by the IMF had failed, said LaRouche in his statement, the governments of the world "must establish national banking in the tradition of Hamilton in the United States, or Friedrich List and others in Europe" as the only means of starting a recovery.

Resilience?

The initial statements on the collapse by IMF Managing Director Michel Camessus, at a press conference on Sept. 17, were clearly aimed at "damage control." Camdessus tried to play down the British and Italian withdrawal from the ERM as "temporary," although with an "unspecified deadline." Camdessus assured the press that despite "the impression of chaos," the European Monetary Committee was unanimously in favor of maintaining the European Monetary System as "a key factor of their economic stability and prosperity in Europe," and urged the full participation of the pound sterling and the lira in that system "as soon as possi-

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ble." Camdessus then tried to portray the previous days' chaos as a "proof" of the "remarkable resilience" of the monetary system.

But despite the upbeat talk, the problem remained: how to put Humpty Dumpty together again. Part of the prescription was clear, and had been announced before the September massacre on the currency markets: Camdessus himself said that the United States must cut expenditures and increase taxes. That was the last thing George Bush wanted to hear in this election year. Under ordinary circumstances, the IMF Executive would show much more sensitivity to the political predicaments of its biggest donor. Their failure to do so this time is a clear indication that the IMF director wished to make a point: that the U.S. government must "bite the bullet" and cut the budget deficit, or else.

Perhaps, however, Camdessus may have committed a major blunder. The U.S. Congress has not yet given its approval to the IMF quota increase. And with the present frenzy over deficit reduction, this is not the type of budget item that can win friends and influence people back in the congressional districts. Although cloaked this year in the form of a "Freedom Support Act" (since a small portion of the increase will go to the former republics of the Soviet Union), the quota increase is by no means assured. Although passed by both houses of Congress, some rather problematic amendments attached to it by the House have not yet been eliminated by the House-Senate conference committee. The Camdessus ultimatum could mean "fightin' words" for some pretty angry congressmen.

But whatever happens to the IMF quota increase, it was clear after the convulsions on the exchange markets, that more would be demanded. Shailendra Anjaria, the director of the IMF External Relations Department, in a press conference on Sept. 17, indicated that any new monetary stability, in the eyes of the IMF, would require a lowering of German interest rates and raising interest rates in the United States—a direct attack on the sovereignty of both of these nations. A few days after Camdessus issued his ultimatum to the United States, LaRouche had issued an appeal to all the presidential candidates to join him in rejecting the IMF demands. As long as IMF conditionalities were imposed only on the brown, black, and yellow peoples of the developing sector, the institution could count on passive, albeit sometimes grudging, support from the U.S. Congress. But now, when these conditionalities are being imposed on the United States itself as the number one debtor nation, the resistance could suddenly become quite significant.

Charges and countercharges

The consternation on the currency markets revealed the underlying conflict between the British and the Germans, with the British attacking the German Bundesbank for undermining the credibility of the pound by indicating that it was overvalued. On Sept. 18, British Chancellor of the Exchequer Norman Lamont claimed that German policy had "produced many of the tensions" that had caused Britain and Italy to withdraw from the ERM. An angry Chancellor Kohl responded by labeling Lamont's comments "inappropriate for a minister."

Although the Group of Seven meeting on Sept. 19 was considerably more cordial than the exchanges of the previous week, very little was accomplished. Germany was adamant on the question of interest rates, as Finance Minister Theo Waigel said the high rates stemmed from deficit spending by Germany on reunification, indicating that his goal was to reduce inflation from 3.5% to 2%. The Americans and the British tried to shift the blame on the Germans, with U.S. Treasury Undersecretary for International Affairs David Mulford saying that it was hard to imagine Europe putting the system together again "without Germany taking some kind of action" on its interest rates.

But the United States also came under fire. French Foreign Minister Michel Sapin called on the U.S. "to make an effort to reduce that deficit." On Sept. 20, President Bush invited the finance ministers to the White House, where he presented his own plan for resolving the chaos on the financial markets: a system of coordinating exchange rates by linking currencies with a "basket of commodities, including gold." This proposal is similar to that made by James Baker back in 1987 when he was treasury secretary, and earlier by Henry Kissinger. Bush gave no indication that he felt the budget deficit was his chief concern.

Although a narrow vote in favor of the Maastricht Treaty on European Union on Sept. 20 prevented an expected attack on the French franc, the major finance ministers of the world seem to have agreed to disagree for the time being, as to the direction of economic policy. In fact, the closeness of the French vote on Maastricht signaled quite clearly that "European unity," as earlier envisaged, will be seriously hampered for the time being, with each country following the beat of a different drummer. The British, for the time being, will probably go it alone, with Major struggling to maintain his tenuous hold on power.

The situation in Russia took something of a back seat at this year's IMF meeting. Although Russia has met few of the goals set out for it at the last discussion with the IMF in July, the measures that have been taken have already caused a political firestorm. In spite of that, the IMF director had little but praise and encouragement for the Russian leaders. With the Freedom Support Act—which includes the IMF quota increase—still tied up on the Hill in conference, Camdessus probably thought it wise not to rock the boat by giving any discouraging words on Russia's ability to "adjust" to IMF demands—and perhaps thereby end up shipwrecked himself.

But the fact is that the shipwreck has already occurred, with the collapse of the international financial system. What will now take its place is still not clear. Either world leaders heed LaRouche's advice to implement Hamiltonian national banking, or the world will be subject to even greater convulsions as the economy unravels.