EIR Economics

IMF bankers join the push for NAFTA secret accords

by Richard Freeman

In speeches at the 48th annual International Monetary Fund-World Bank meeting in Washington Sept. 27-30, the heads of both supranational institutions brusquely thrust themselves into the internal, private policy affairs of the United States, Mexico, and Canada, warning that dire consequences will result unless the North American Free Trade Agreement (NAFTA) is rubber-stamped by the U.S. Congress. The audience at this gathering was mainly central bankers, monetarist treasury officials, and private bankers.

On Sept. 28, IMF Managing Director Michel Camdessus ominously sounded the theme that the IMF will globalize the world economy under its control, allegedly to keep up with what he called developing trends. NAFTA is a crucial element of an IMF global dictatorship. "The most significant development of the closing decades of this century," Camdessus said, is "the phenomenon of *globalization* which . . . is transforming our economic life" (emphasis in original). This has led the IMF to "boldly refocus our policy mix." Now, the overriding proposition is that "trade comes first. This is the clear message from the [IMF] Interim Committee. All countries must grasp the opportunities to liberalize trade and exchange arrangements; and the industrial countries must reverse the trends of recent years toward protection." Calling protection of a nation's export trade a "vicious cycle," Camdessus called for countries to reject such sovereign policies. Instead, they should engage "in the game . . . of free trade."

"But what about the growing trend toward regional trading arrangements, such as NAFTA?" Camdessus asked. He answered by applauding it, and said that it would be part of the larger IMF effort on behalf of the General Agreement on Tariffs and Trade (GATT). (The most recent, troubled GATT accord, introduced in Uruguay in 1986, would, if passed, lower world trade levels by 10-20% within two years.)

Lewis Preston, chairman of the World Bank and the former chairman of J.P. Morgan Bank, which has $90 billion in assets and is the most powerful British presence in the American banking community, praised NAFTA. "There should be no doubt that NAFTA holds great potential to boost wages and living standards for all parties concerned," he stated. "A successful NAFTA and a successful Uruguay Round [of GATT], are absolutely essential if we are to take full advantage" of the current period.

U.S. Treasury Secretary Lloyd Bentsen, as expected, profusely praised NAFTA.

Rallying the bankers

Since 95% or more of the audience of bankers and financiers were already in agreement with Camdessus and Preston, the purpose of the speeches was not informational. Rather, they were a rallying cry to use every resource the bankers have to ram NAFTA through the U.S. Congress, the Mexican Congress, and the Canadian Parliament by mid-November. In the U.S. Congress, a majority of congressmen are on record opposed to NAFTA. The "fast-track" authority, which does not allow Congress to amend or debate separate points of the NAFTA accord but forces an up or down vote of its entirety, expires on Dec. 31; if NAFTA is not passed by then, it will likely be killed. The bankers are entirely depending on controlling the media spin on the debate and will blackmail and bully recalcitrant opponents.

But why are the big guns, such as Camdessus and Preston, brought out on behalf of NAFTA?

The stakes are the survival of the bankrupt Anglo-American banking system. Camdessus, Preston, Federal Reserve Chairman Alan Greenspan, and the 2,000 financiers attending the IMF-World Bank meeting know that the issue behind NAFTA is not trade per se. The real issue, from the bankers' standpoint, is that in order to preserve the usury-based financial bubbles which have already sucked sections of the economy dry, they must expand their ability to loot into new, previously untapped areas.

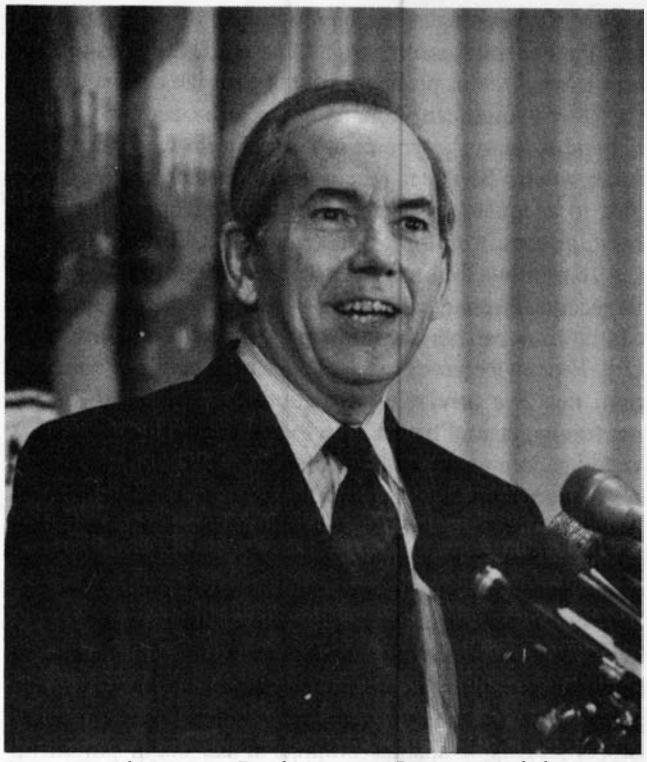
Chapter 14 of the 500-page NAFTA accord, entitled "Financial Services," includes proposed Mexico-United States-Canada tripartite arrangements on commercial banking, investment banking, insurance, and other financial institutions. Chapter 14, along with secret banker agreements and understandings respecting financial services, are the essence of the NAFTA accord. As *EIR* reported last week, they will reorganize the hemipshere under a banking dictatorship, run by the Federal Reserve Board, which is to be transformed into a Super-Fed, in conjunction with the "Big Seven" U.S. derivatives trading banks, Canadian and London banks, investment banks, and non-bank banks, such as the General Electric Credit Corp. If implemented, this would constitute one of the most far-reaching financial-banking reorganizations in this century. The IMF-World Bank rally for NAFTA, led by Camdessus and Preston, is a dramatic message that the international bankers are counting on the NAFTA financial services provisions being in place by early next year.

Banks open in Mexico

If the NAFTA Financial Services chapter goes through, the biggest American banks will flood into Mexico. This invasion will be led by the Big Seven U.S. banks which control 95% of the U.S. commercial bank trade in the derivatives off-balance sheet liabilities market: Morgan Bank, the Morgan-run Bankers Trust, Chase Manhattan, Chemical Bank, Citibank, Bank of America of California, and First Chicago Bank of Illinois. They will seize on the large spreads in Mexico and the attempt to set up derivatives markets, creating a dollarized bubble outside the sovereign control of Mexico or the United States.

Whereas bank spreads in the United States reached a near record 4.5% (the interest rate difference between what a bank pays for its money and what it lends it for), spreads for Mexican banks in 1992 ranged to 7-8.4%. Reporting on the opportunities in Mexico, the Sept. 13 issue of *Business Week*, with uncharacteristic candor, headlined an article "The Gringo Banks Are Drooling." "They're ready to swoop into Mexico once NAFTA is approved," it wrote.

The big U.S. banks are readying to go into derivatives trading, including foreign exchange trading, interest rate swaps, Mexican Treasury strips, and auto loan- and mortgage-securitized bonds. They are also prepared to finance mergers and acquisitions, the Mexican stock market, and the Mexican corporate world. A number of these investments are predominantly in pesos, but several of the derivatives markets have a heavy dollar component. Thus, one would have U.S. banks shipping money to their Mexican subsidiaries, fueling the growth of derivatives markets, which will create potentially hundreds of billions of dollar-denominated obligations in Mexico and other countries of Ibero-America where NAFTA is intended to spread. This creates speculative dollar-denominated obligations in foreign markets outside the United States for which the United States is responsible.


International Monetary Fund Managing Director Michel Camdessus is rallying bankers to push the North American Free Trade Agreement through the U.S. Congress.

American banks' relations with Mexico will change, taking a more hands-on role. American banks have largely been coupon-clippers, holding the huge Mexican debt and sucking out interest payments. Since the early 1980s, Mexico has paid $116 billion in interest debt service to all banks. Now, American banks will set up a physical presence in Mexico (only Citibank has ever had subsidiary offices there) and will tap into two income streams which they never had before: that of Mexican public infrastructure through the privatization and securitization of the toll roads, ports, and other infrastructure, and that of the Mexican family's income, through setting up derivatives market instruments like auto loan-securitized and mortgage-bonds. Thus, the American banks will have more of a physical stake in Mexico (see *EIR*, Oct. 8, "Secret NAFTA Accord Threatens U.S. Sovereignty").

The Super-Fed

Guillermo Calvo, a senior adviser in the research department and a director of macro-economics at the IMF, proposed at a July conference in Bogotá, Colombia on the occasion of the opening of the large Cusiana oil field, a plan to turn the Federal Reserve into a Super-Fed. Calvo said: "The way to resolve this problem would be for the central bank of the [Ibero-American] country to have an accord with the Federal Reserve, a type of affiliation with the Federal Reserve, *to also be able to receive discounted credits,* and to be able to adequately back the banking system serving, as it must, as banker of last resort" (emphasis added).

To translate this into English, the key phrase, "to be able to receive discounted credits," means an Ibero-American central bank can borrow through the discount window at the U.S. Federal Reserve System. Aside from currency intervention, this is a privilege only granted to American banks, not foreign central banks. The Ibero-American central bank would be joining the Federal Reserve System.

Moreover, Calvo explained, the purpose of an Ibero-American central bank, such as the Bank of Mexico, borrowing from the Fed would be to lend the borrowed dollars to its commercial banks, i.e., the Mexican banking system. The Fed would become a supplier of dollars for banking systems throughout the hemisphere which are increasing their dollar lending. The U.S. Fed would be the lender of last resort, because it is the only agency that could print and supply dollars if a crisis erupted in the dollar portion of lending by the Mexican commercial banks which needed bailing out.

In the spring of this year, North American Trilateral Commission head and former Fed chairman Paul Volcker indicated to a reporter that whatever is done to Mexico will be done to other countries in Ibero-America, as NAFTA will rope in all the nations in the hemisphere, starting with Chile.

For example, if the Federal Reserve made loans to the Bank of Mexico, then what are called central bank high-powered funds, which can include newly monetized money, will be multiplied many times, depending on the banking system and the investment vehicle into which they go. The Fed will thus be creating hundreds of billions of dollars of new dollar-obligations, in which the U.S. banking system is even further removed from a national banking system, effectively hijacked to the private purposes of a newly created Super-Fed for a hemispheric banking system.

By this process of moving from a national to a regional central bank, the Fed's overall power, and hence dictatorial grip, over America is thereby enhanced.

NAFTA destroys sovereignty

Meanwhile, two-thirds of America's $311 billion supply of U.S. dollar bills (Federal Reserve notes) circulate outside the United States, including $5 billion in Mexico, $7-10 billion in Bolivia, and $20 billion in Argentina. Citibank in particular is shipping dollars out of the country at record rates. How can the United States control its physical dollar supply, the currency unit of the sovereign United States, when two-thirds of them are no longer here?

The process leading up to these conditions didn't start yesterday. It includes the delinking of the dollar from gold in 1971; the high interest rate regime of Fed chairman Paul Volcker starting in 1979, which shrunk industry; the deregulation of the American banking system in 1982; the explosion in the growth of the off-balance-sheet derivatives market since 1987, and so forth. But the secret NAFTA financial provisions take this process to new heights.

Under it, America no longer functions as a sovereign nation, dirigistically directing credit and bank loans toward building vital infrastructure; capital-intensive and energy-intensive, high-technology goods development; and technology transfers to the Third World. The bankers, assisted and in part directed by the Federal Reserve Bank of New York, now own, through illegal means, the property rights to the dollar, and use it to set up dollarized speculative and looting bubbles globally. The mechanism by which the accords achieve this is that the various levers for determining a nation's sovereign credit policy, its currency, banking system, credit mechanisms, and bond and commercial paper-issuing authority, are systematically usurped for the benefit of a private group of banks and swindlers. Hence, this is what is meant by the globalization of the dollar.

On Sept. 25, U.S. presidential candidate and *EIR* founding editor Lyndon LaRouche stated that "this an attack upon the sovereignty of the United States. And if this attack succeeds, there is no hope from that configuration [of bankers], of any sovereignty for any nation on this planet." LaRouche has vowed to make the destruction of these secret accords a central part of his campaign.

Short-sightedness

The globalization of the dollar and the globalization of the Federal Reserve cannot work. The economies of Mexico and the United States are being taken down, while the NAFTA financial accords would proliferate a new mass of dollar-denominated instruments, added to the already $20-30 trillion of dollar-denominated claims, in the form of debts and speculative markets internal to the United States. The U.S. economy, in its currently collapsed state, even if the economy of Mexico is added to it, cannot support the rates of return claimed by the old mass of paper, let alone the new. The area for looting is circumscribed by the productivities of each economy.

The looting to support globalized dollar instruments will foster genocide, and further reduce the economies' ability to pay. The globalized dollar is the catalyst for blowing up the dollar-based banking and credit world.

It is clear that at the IMF-World Bank 48th annual meeting, neither Camdessus nor Preston grasped this fundamental point. They would be quite at home with the establishment of a Federal Reserve hemispheric dictatorship. Their rallying cry to get behind NAFTA is a cry of ideological madness which, if unchecked, will wreak havoc in the world.