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The Orwellian vision of the new Bretton Woods commission

by Richard Freeman

In 1944, in the White Mountains of New Hampshire, at a resort town called Bretton Woods, the world's finance ministers and central bankers adopted a new international monetary system. Though there was much bitter acrimony, and some compromises, the new system established a fixed exchange rate system, anchored to the U.S. dollar, which itself was pegged to gold.

But first and foremost, the system embodied the malthusian ideas of John Maynard Keynes. Keynes, a British intelligence and financial world insider, a notorious homosexual, and member of the British Eugenics Society, had been admitted in 1903 at Cambridge University to the Apostles, a Satan-worshipping sect which prepared young men to rule the world for the British crown. In the first edition of his celebrated economics textbook *General Theory of Employment, Interest, and Money,* published in Berlin in 1936, Keynes characterized his own economic theory as fascist.

The 1944 New Hampshire conference spawned two institutions, which became known as the Bretton Woods institutions: the International Monetary Fund (IMF) and the World Bank. A third institution proposed by Keynes, an International Trade Organization (ITO), died in the cradle when the U.S. Congress repeatedly refused to authorize America's joining it, since the Congress rightly viewed it as an encroachment upon U.S. national sovereignty.

The IMF and World Bank evolved into two of the world's leading institutions for evil. Especially after the fixed exchange rate system broke down in August 1971, and a second phase of the Bretton Woods system based on floating rates was ushered in, the IMF and World Bank relied increasingly on imposing harsh conditionalities, particularly on Third World countries, but also on the advanced sector. Much mass starvation, breakdown of health systems and infrastructure, and intense looting of physical economies, can be traced directly to these IMF and World Bank's conditionality and "adjustment" programs. Today, 1.3 billion people live at an income level of less than $1 per day—a poverty so grinding that it denies the physical and spiritual qualities and humanity of the afflicted persons. This, too, is the deliberate handiwork of the IMF and World Bank.

On July 20-22, a group of 400 British-run central bankers, private bankers, and think-tankers, met at the Loy Henderson conference room of the U.S. State Department in Washington, to celebrate the 50th anniversary of the Bretton Woods system. Convening the meeting, and directing its agenda, was an elite bankers' group called the Commission on the Future of the Bretton Woods Institution. This was no sentimental anniversary bash put on in order to dispense gold watches. Both at the conference, and in an accompanying 380-page book released in early July, the commission set forth the most radical, top-down restructuring plan for the world economy and financial system since Keynes and his friends conspired 50 years ago.

"But why should the financiers change anything, since they're making so much money already?" one might ask. For two reasons: First, the world financial elites are finding that in order to keep afloat their current financial bubble of upwards of $40 trillion—the biggest bubble in human history—requires that they secure new sources of loot by extending into new areas of the world, including the advanced sector, but particularly former eastern Europe, and into parts of the Third World. As a result, the purpose of foreign investment becomes degraded as the "emerging market"—as the Third World and former East bloc combined are called—becomes the target for advanced sector investment looking for purely monetary gains, since advanced sector yields are no longer high enough. In 1993, according to the International Finance Institute, a record $181 billion of such non-productive investment flooded into the "emerging markets."

Second, these same financiers wish to establish an ironclad economic dictatorship which could rule both the advanced and developing sectors. To that end, they seek to rip up the sovereignty of individual nations. Back in October 1942, Keynes had sought something similar with his original proposals for a world central bank and related matters, which he hoped to see pass at Bretton Woods in 1944. But Keynes's package of proposals, which included a world central bank, was successfully blocked by the U.S. insistence on sovereignty.

A half-century later, the proposals now being advanced go a long way toward establishing what Keynes had originally called for, but with a "free market" twist. They are a plan

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for a global fascist dictatorship, coupled with a decidedly Thatcherite slash-and-burn orientation.

Roughly speaking, the commission plans to bring about, from the outside, a reform of the IMF and World Bank, making these two institutions even more deadly than they are at present, while creating a third institution, the World Trade Organization, to collaborate with the first two. The radical restructuring of the IMF and World Bank would have an implied division of labor: The IMF would handle affairs with advanced sector nations, while the World Bank would deal with the rest of the world. In the past, the IMF has been heavily involved with Third World nations, lending emergency funds and setting down conditionalities. The commission would still have the IMF enforce conditionalities on the Third World; but it wants the IMF to draw back its currency and loan stabilization lending to the Third World, and to concentrate much more on applying itself to advanced sector nations. One plan, advanced at the conference by Bank of Tokyo chairman Toyoo Gyohten, would give the IMF power to dictate policy to advanced sector nations on fiscal, monetary, credit, and trade matters, thereby, as one participant said, "giving teeth" to IMF surveillance powers.

The World Bank's current focus is lending to the Third World, and also setting conditionalities for such lending. The commission's thrust here is to have the World Bank cut back on direct lending, instead having this increasingly done through its subsidiary, the free market-oriented International Finance Corp. (IFC), while the World Bank itself brings in the private sector markets. Deryck Maughan, the chairman of Salomon Brothers, argued that in this way, the private markets will discipline the Third World better than the Bretton Woods institutions have done. It would also make the looting more ferocious, because the lending terms will be even more stringent. The World Bank would play an institutional role in bringing this to fruition.

The commission has planned out a campaign to induce the U.S. Congress to pass legislation this year authorizing the creation of a World Trade Organization, which in effect would run a dictatorship over foreign trade.

An imperial triangle, composed of the IMF-World Bank-WTO, is the commission's plan for the financial-economic side of a one-world government.

Throughout the proceedings, this reporter was struck by the participants' refusal to face reality, as that reality was pointed out by Lyndon LaRouche in his "ninth economic forecast" (see *EIR,* June 24, "The Coming Disintegration of Financial Markets"). LaRouche has warned that "the near-term disintegration of the presently bloating global financial and monetary bubble is unstoppable by any means alternative to governments acting to place the relevant institutions into bankruptcy reorganization." The conference participants, for the most part, hysterically refused to hear of this. For example, *EIR* attempted to raise the question of reality at the end of a panel on "Development and the Private Sector." But instead of allowing an answer, the moderator closed the panel down.

One is reminded of the story of the *Titanic*. The reason why the *Titanic* crashed into an iceberg and sank in 1912, killing over 1,500 passengers, was not the ship's construction, but rather the *bad decisions made by the ship's captain.* The captain was intent on setting a new world speed record for an Atlantic Ocean ship crossing from Europe to America, and chose as the shortest great-circle route from Southampton, England, heading west-northwest. He knew that there were ice floes in those waters, but proceeded through them, despite the fact that he knew that the ship was not equipped with enough lifeboats to safely transport all passengers in the event of an accident. As the ship progressed and the icebergs grew more frequent, he had several opportunities to turn back; but all the captain cared for was his *idée fixe* of setting the world record, regardless of the possible cost in human life.

The organizers of the Bretton Woods anniversary conference are blotting out reality in a similar way. They spoke obsessively about the endless spread of "global capital markets," *even as these markets are just about to vanish.* Crash or no, they intend to blindly pursue their plans for global dictatorship.

A bankers' private club

The conference was held thanks to generous support from some of the world's biggest financial institutions and foundations. Among the commission's funders are: Nestlé, Crédit Suisse, the Ford Foundation, ABN-AMRO Bank of the Netherlands, Deutsche Bank, Dresdner Bank, the German Marshall Fund, Morgan Guaranty Trust, Morgan Stanley, Banque Paribas, Nomura Securities (Japan), and Goldman Sachs.

Members of the commission's board range from Viscount Etienne Davignon, who did so much in the 1970s to shut down the European steel industry; Fritz Leutwiler, former president of the Bank for International Settlements; and Dr. I.G. Patel, former director of the London School of Economics; to Sir Jeremy Morse, KCMG, director of the Bank of England; and Felix Rohatyn, senior partner of Lazard Frères investment bank. The convenor and chair of the conference was Paul Volcker, current chairman of the James Wolfensohn investment bank, and former chairman of the U.S. Federal Reserve Board (1979-85), who implemented what he called the "controlled disintegration" of the U.S. and world economies.

The commission has an extensive overlap of its board with the Group of Thirty, which shares its Washington, D.C. offices with the former. The Group of Thirty, composed of many current and former central bank heads, and led by Morgan chairman Dennis Weatherstone, is the leading force behind various (in fact, futile) proposals for bankers' "self-regulation" of the ballooning financial derivatives market.

For example, a May 1994 report on derivatives by the General Accounting Office quotes extensively from the Group of Thirty's recommendations.

The reform plans in detail

We now proceed to examine in succession the commission's plans to reform the World Bank and the IMF, and to create a World Trade Organization. Many of these schemes are way beyond the planning stage, and have already made serious inroads into the "emerging markets" of the Third World and former East bloc.

Moreover, the commission's plans have zeroed in on smashing the real economic growth and nation-building policies of Alexander Hamilton, Friedrich List, and the French Ecole Polytechnique. This is the dirigistic tradition of mercantilism or cameralism, in which the state, by directing credit, building infrastructure, aiding industry and agriculture, etc., fosters high rates of growth. The commission is outspoken in its attacks against all forms of "dirigism."

On July 8, the commission released a its book-length study, *Looking to the Future,* which consisted of three sections: a) the commission's findings; b) its staff review; and c) 33 background papers, written by economists, bankers, and so forth. A key background paper, on the transition from planned to market economies, is by University of California at Los Angeles economist Deepak Lal, who labels dirigism as a form of "Platonic guardian state." He complains that the idea of "benevolent Platonic guardians has been more tenacious," and harder to get rid of. Lal quotes a British authority claiming that the problem of dirigism and the idea of seeing "a moral purpose to the state," as well as "protecting the general welfare," "goes back to the Judeo-Christian tradition." In Lal's view, the problem in the developing world is not underdevelopment, but how to get rid of the infiltration of the "religious roots of the West," which bring with them "centralized institutions" such as the sovereign nation-state. Instead, Lal champions what he understands to be eastern religions and eastern cultures, and what he calls value-free "civil associations." As the best representation of non-dirigist, non-Judeo-Christian thinking in the West, Lal identifies "the Scottish Enlightenment—particularly David Hume and Adam Smith."

Free market nightmare

The reform of the World Bank has a twofold purpose: to disintegrate the Third World, making it more pliable to looting; and to attempt the near-impossible: to sustain the global financial bubble with new sources of loot.

The World Bank is being radically changed. Some of the functions it has performed even in a limited way in the past, will now be eliminated. The World Bank currently makes concessional loans to the poorest countries, through its International Development Agency, and also direct loans. The former will be contracted, while the latter will be slashed. Instead, countries will be thrown onto the usurious world capital markets, or else they will be told to borrow from the IFC, the World Bank's "free enterprise" financing arm.

The World Bank is already directly cutting its direct lending. This year, the Bank has the capacity of making approvals for direct lending in the amount of $18 billion, but it will make only $14 billion in loan approvals—22% less than what it could have lent.

In a background paper written for *Looking to the Future,* Sir William Ryrie details the commission's strategy. Ryrie, who for many years was in charge of the IFC, is now executive director of Barings, one of Britain's imperial banks and today a central force in building the marketing of "emerging market debt." In his paper, Ryrie identifies his enemy in the following terms: In its earliest phase, "The [World] Bank's role was to provide resources for capital investments believed to be essential for economic development: power generation, transportation, irrigation systems, and the like. It was taken for granted that the Bank should finance capital expenditure and not current expenditure. Because the Bank was dealing with governments, these investments were generally in the public sector. . . . The Bank did not concern itself much with the general economic policies being followed by its borrowing member countries."

But, Ryrie fulminates, "There can be little doubt that the flow of official funds on a huge scale through the 1960s, 1970s, and 1980s had the effect of making developing countries more state-centered than they would otherwise have been. Because capital came from official sources, especially the World Bank, many industries developed in the public sector. . . . The prevailing view was that it was appropriate for the government to direct credit to investments it believed should have priority." Furthermore, "Government-owned development banks proliferated. Often created on the Bank's initiative, these institutions were used to channel funds to domestic businesses."

It is such Hamiltonian dirigism that Ryrie identifies as his chief enemy.

Contrary to Ryrie's assertions, the World Bank's policy was in fact never to promote growth. What really concerns Ryrie is that some enterprising nations, following their own dirigistic growth policy, have been able to divert or even hijack a share of World Bank funds to their own purposes. Ryrie wants to make sure that that never happens again.

Ryrie spells out the different approach that the World Bank must follow:

"The market economy requires that the state restrict its activities and its financings. . . . In the case of many developing countries, where the role of the state . . . has been very dominant, a very substantial cutback is required. . . . The Bank has a large influence in this matter mainly because it has been the financier of so much state activity in developing countries. . . . It should be using its influence to bring about a reduction in state activity."

The last two sentences contain an unmistakable blackmail threat, saying, in effect: "The World Bank will use its control over the purse string to force Third World countries to open up to the 'free' or 'private' markets. Any country that disagrees, will receive no money from the World Bank or anywhere else."

Ryrie demands that the World Bank lend only on condition that the borrower country execute "free market" or "private market" reforms. To back this up, the UCLA's Deepak Lal comes forward with a Thatcherite list of draconian reforms: a) "the removal of price controls and all forms of industrial licensing"; b) "the liberalization and rationalization of domestic capital markets, *with the removal of interest rate ceilings and centrally planned direction of credit*"; c) "privatization of state enterprises"; d) "*the removal of exchange controls* and the maintenance of realistic exchange rates"; and e) trade liberalization with tariffs "reduced to as close to zero as possible" (emphases added). What goes unsaid, is that any country which manages to do all that, will be entirely defenseless and open to looting by foreign capital.

The IFC's intended role

While the World Bank curtails its direct lending, that of its "free enterprise" division, the IFC, is being increased. The IFC often also lends in tandem with the "private markets." We consider each case in turn.

The IFC generally engages in co-financing, putting up usually in loans one-sixth or one-seventh the value of a project. The IFC loan serves as seed money, both because the IFC can often give partial loan guarantees to a project, and because it means the World Bank has given its seal of approval to a project. This in turn attracts private financial sources to put up the remainder of the loans. In 1988, the IFC made $1 billion in loan approvals. That figure rose to $2.5 billion in 1994, and is projected to rise to $5 billion in 1998—a fivefold increase in 10 years. While $5 billion is a modest sum by global standards, through co-financing that sum could be made to leverage a total financing of projects worth $30 to $35 billion in 1998.

The IFC's lending objective is nothing less than the destruction of economies through Thatcherite privatization. Recently, the IFC led in the sale of a large part of Peru's entire electricity distribution network, Perú Electrolima. The IFC also assisted in the privatization of agricultural lands in Russia's Nizhny Novgorod region, which is now a model for privatizing and looting land throughout Russia. But the IFC loans, while involving the World Bank as an institutional force in the "private markets," represent only a fraction of the private markets as a whole. It is those "emerging markets" which are supposed to "save" the financial bubble.

Bretton Woods commission member Felix Rohatyn, senior partner of the Lazard Frères investment bank, laid bare the plan to make the Third World totally dependent on the liquidity and the will of the "global private capital markets." In an article in the July 14 *New York Review of Books*, Rohatyn wrote: "A genuine worldwide market in stocks, bonds, currencies, and other financial instruments has emerged, tied together by modern data-processing and communications technology, and operating 24 hours a day. . . . The continued growth and stability of this market is vital for the . . . developing world as well as for the western countries. For the last 50 years, the Bretton Woods institutions, the World Bank and the IMF, have been directly involved in financing economic development in the emerging economies. This role will, more and more, be taken over by the global capital markets. The *cold-blooded selection process* by which world capital is invested will determine the economic progress [by which he means not production, but purely financial flows—ed.] of many nations."

Deryck Maughan, chairman of Salomon Brothers, told the commission conference in a menacing and threatening tone, that the banks will carry out "restructuring in the Third World that will cause the loss of jobs . . . and resistance and revulsion. So what. . . ? This is Wall Street." He predicted that private markets will discipline the Third World better than the IMF and World Bank ever could.

The speculative stakes that the financiers have placed on the "emerging markets" are immense. The banks' conceit is that these markets will keep growing, producing superprofits—when in fact, they are on the verge of exploding.

Most money flows actually go to only 10-15 countries. A few facts give the parameters:

- The IFC says that the capitalization of 25 Third World and eastern European stock markets which it tracks, has exploded from $485 billion in January 1993, to $875 billion in May 1994, a near-doubling in size. Five-sixths of this is artificial appreciation in stocks' prices. This run-up in prices is insane: The recently privatized Mexican telephone company, for example, has a stock valuation of $32.9 billion, which is bigger than all but a handful of American companies, even though many American companies are many times its physical size.
- In 1993, there were $181 billion in capital inflows into "emerging markets," mostly into stocks and bonds.
- In 1981, fully 60% of all money extended to the Third World was through commercial bank loans, whereas in 1993, bank loans accounted for a mere 13% of all monies extended. Investment banks and insurance companies now manage much of the investment into the Third World, but a good percentage of that isn't their own money: It is money taken from American mutual funds and pension funds.
- Worldwide, over the past 10 years there were $100 billion worth of privatization sales; over the next five years, there is expected to be a whopping $300 billion. This is the "big potato" which every financial institution is now betting on for a future payoff. It is the single most important, and in many cases, the sole reason why Third World and "emerging market" stock markets are functioning at all. Advanced sector stock markets heavily depend on this same "big potato," because their financial worth is based on the share price of

companies, which are deriving an increasing percentage of share price from their portfolio investments in the Third World.

This gigantic house of cards, enmeshing the Third World and advanced sector together, is what the Bretton Woods commission is betting on in order that its "new world financial order" may succeed. "Lunatic" is too mild a word to describe such expectations.

IMF to pull out of Third World

In the findings section of its study, the commission states that "the time is ripe to restore the original focus" of the IMF. The commission recommends that the IMF lend less for currency adjustment problems in the Third World, and instead concentrate more on managing the problems of the advanced sector nations—"its original focus."

To that end, the commission recommends that two objectives be pursued: first, an orderly exchange rate system, which it felt could be established only after the economic policies of the advanced sector nations had converged somewhat. C. Fred Bergsten, a former Carter administration official who is now the director of the Institute for International Economics in Washington, D.C., delivered the commission's views on this topic. Bergsten made no recommendation for a fixed exchange-rate system as existed prior to Aug. 15, 1971. Rather, he presented a case for an exchange-rate system with "currency zones" or "currency bands," in which a country's currency would be set at a notional midpoint relative to another country's currency, and would be allowed to vary by some range on either side of that midpoint. Bergsten recommended a range or zone of 10% on either side, for a total zone of 20%.

Bergsten said that ever since the 1987 Louvre accords, the world has been acting on a de facto zone system: a dollar-deutschemark zone of DM 1.4-1.8 to the dollar, and a dollar-yen zone of 120-160 yen to the dollar. The dollar-yen zone only broke down this year.

Toyoo Gyohten, chairman of the Bank of Tokyo, who in the past co-authored a book with commission convenor Paul Volcker, advanced a proposal which made clear how, by using a currency zone system, the IMF could gain dictatorial "surveillance" power over almost all the policies of advanced sector nations. Several conference participants had said that the problem was that unless an advanced sector nation needed to borrow from the IMF, it usually disregarded fund recommendations and directives. One person summed up, "IMF surveillance power lacks teeth."

Gyohten conceded that when the IMF was set up, they had "the castle of the Bretton Woods system," but "no captain of the garrison" had been installed in the IMF to run certain things. Therefore what is necessary now, he suggested, is a captain of the garrison, a "forum inside the IMF that will first monitor the situation in the exchange markets and see if it needs action, and second, to urge countries to determine action." His proposed "forum" would be "a committee of three countries," the United States, Japan, and Germany, representing the world's three major currencies. It would be staffed by people who "are senior enough so that their views and advice can carry through." He said that the forum and committee would have the power "to dictate policies to the central banks and to the governments. That is why they would have to be senior people, whose decisions would be followed." If liquidity were needed to stabilize currencies, then the three-person committee would draw on funds from the IMF, either from the IMF's General Agreement to Borrow (GAB) or other funds that are created. The forum or committee would then command structural adjustment policies—changes in money supply, budget policy, trade policy—for an advanced sector nation whose currency was out of line. This, Gyohten claimed, would give the IMF dictatorship powers it has long sought.

The commission's third prong of recommendations is that now is the time to revive the still-born International Trade Organization of John Maynard Keynes, this time renamed the World Trade Organization . . . But the U.S. Congress must vote on it, and could still reject it.

A bad idea gets worse

The commission's third prong of recommendations is that now is the time to revive the still-born International Trade Organization of John Maynard Keynes, this time renamed the World Trade Organization (WTO). The idea of a WTO was approved at the December 1993 negotiations meeting in Geneva, Switzerland of the General Agreement on Tariffs and Trade (GATT). But the U.S. Congress must vote on it, and could still reject it.

John Jackson, a University of Michigan law professor who is one of America's leading experts on GATT and the WTO, in a paper published by the commission, states that the new WTO would have the delegated authority "to range broadly into policies which may be having damaging effects on trading partners and neighbors, *even though they are not inconsistent with any treaty obligations*" (emphasis added). I.e., the WTO may intervene, regardless of whether or not a country is in violation of multilateral trade treaties—virtually a blank check to set trade flows and override sovereignty. Jackson states that the WTO would correct the flaws which limited the previous GATT's power.