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The IMF meets in Belgrade

The shape of the new monetary

For the first time since the International Monetary Fund and World Bank were founded at Bretton Woods in 1944, a representative of a leading industrialized nation has stood up and publicly attacked IMF policy toward the underdeveloped world. French Finance Minister René Monory, who led the French delegation to the IMF-World Bank annual conference in Belgrade this week, delivered "the bombshell" he had promised the press the day before when, on Oct. 1, he told the 7,000 assembled bankers and monetary officials that developing countries' access to IMF funds must not be conditioned, as they now are, on the recipients' adoption of savage austerity policies.

Monory's attack against conditionality was a joint attack. The Mexican leadership of the Group of 24 Third World nations had arrived with a call to bypass IMF conditionality because the conditions violate national sovereignty. Monory himself told the press Oct. 1 that "Industrialization of the underdeveloped world is an historic necessity. France considers it unacceptable that by the year 2000 one billion people are expected to be existing in utter poverty."

France's Wall Street Journal, the Paris daily *Les Echos*, followed Monory's speech with a call for "a new Bretton Woods conference under French influence" to establish an official gold-backed monetary system that would create appropriate credit for reversing the U.S. payments deficit and canceling Third World debt.

The day of Monory's speech, World Bank President Robert McNamara made a direct reply to France and Mexico. Addressing as well Yugoslav President Tito's opening statement that North-South economic relations are the world's central issue, McNamara said the following: "The main problem in the world is overpopulation. Either birth rates will decline or mortality rates will increase. To increase mortality rates in a thermonuclear age presents no problem. A war could meet the goal very rapidly."

Reports on how Europe responded to this statement from the Vietnam War veteran are not yet available. The U.S. government, however, through Treasury Secretary G. William Miller, promptly put itself on record as standing in agreement with Mr. McNamara.

The Mexican finance minister, David Ibara Muñoz, who heads the Group of 24, stated the next day that "the international community must undertake structural adjustments promoting the expansion of productive potential in developing countries and industrialized countries alike. Such urgent measures are difficult to realize when disunity or obstruction prevails."

The followup

The IMF and World Bank were designed, as the record shows, to ration credit to payments-deficit advanced economies and to derail post colonial nations from industrializing. The World Bank, which handles the "project loans," as distinct from balance-of-payments lending, then grants Third World nations "development loans" tied to policies of subsistence agriculture and depopulation. The European Monetary System, founded in July 1978, set out to junk these policies.

The intra-EMS debate pending is how and when EMS leaders will junk the institutions—the IMF and World Bank—themselves.

According to the French embassy summary of Monory's Oct. 2 speech—at deadline the only source available—the French finance minister emphasized the success to date of the European Monetary System and its openness "to cooperate toward a better world economic order."

He went on to suggest that other industrialized countries follow France's example and ratify the doubling of World Bank capital. Monory also stressed in calling for softer conditionality that the IMF must play a "central role" in ensuring that underdeveloped nations get enough balance of payments assistance. The directorate of Italy's Christian Democratic Party the

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system

same week passed a resolution stating that Third World development is essential and the IMF should promote it.

European private banking and governmental comments to *Executive Intelligence Review* this week provide some background to these formulations. What one well-placed West German spokesman referred to as the Europeans' "nonconditionality approach" involves taking the IMF's liquidity and using it to meet the Third World's immediate current-accounts needs, while dismantling the "teams" that used to dictate policy to debtors. The private banking consortia cited below would undertake *real* project lending.

On the state-to-state level, after his speech René Monory flew to Moscow, where he concluded major agreements on aerospace projects. Since the Soviets are major gold producers and responsible bullion market participants, the emerging gold-backed currency and credit system was undoubtedly discussed. According to European sources, the French government is pursuing the same discussion with leading OPEC representatives. The three negotiating parties—the French EMS leadership, the USSR, and the OPEC officials in question, as well as France's Mexican allies—have made it explicit over the past months and weeks that failure to resolve the development, energy and monetary questions is likely to trigger a new war.

Monory: EMS or vertigo of monetary disorder

The following is from the Oct. 3 statement to the Belgrade International Monetary Fund Conference by French Finance Minister Rene Monory: as briefly summarized by the French Embassy Bulletin.

We must wrest the world from the vertigo of monetary disorder and poverty. ... The establishment of the European Monetary System is a notable step toward more stable monetary relations. This monetary community is open to dialogue, and willing to cooperate toward a better world monetary order.

The American currency is undervalued, M. Monory declared.

M. Monory otherwise declared himself in favor of softening conditions of access to IMF resources for the developing countries. The IMF, he believes, has sufficient resources so as to treble its annual lending volume and play a central role in financing balance of payments deficits of developing countries.

Addressing himself particularly to representatives of the industrialized world, M. Monory first asked that these countries increase their public aid to developing countries (non-petroleum producers), which, he added, will have to pay in 1980 an addition to their oil bill totaling half the public aid granted by OECD and OPEC countries.

The French minister then invited the industrialized countries to strive at reaching the internationally set target of .7 percent of their GNP for aid. After recalling that France voted the doubling of the World Bank's capital, M. Monory wished that France be followed by all the participating countries.

"Dead on its feet"

According to Paul Fabra in the Oct. 3 *Le Monde*, IMF Managing Director Jacques Delarosière has already agreed to the IMF Development Committee's demand that the $10 billion special Witteveen Facility for the Third World drop its conditionality. The IMF lent a total of less than $4 billion in the 12 months to May 1979, or less than the year before, because commercial banks were financing its potential borrowers. In the past six months, according to U.S. Senate Banking Committee sources, whatever transfers the IMF has made were through conditionality-weakened facilities.

"We cannot have the kind of conditions which say cut the government budget deficit, cut inflation, cut monetary expansion, cut foreign borrowing, etc. That's all nonsense. We've got to really take part in the development of the country," said one of the EMS banker-strategists, based in Frankfurt on Oct. 4. "That means that every country has to lay down what it wants to do for its development, its industry, in a big plan, so we can really see what's going on."

Making the IMF unconditionally lend its cash while bankers and recipients set policy—this already-existing tendency was the subject of a horrified *London Economist* essay Sept. 29 (see below). Instead of commerical banks presiding over the bulk of the flow of funds to the LDCs, says the *Economist*, the IMF itself must absorb private-sector liquidity away from the private sector. Otherwise the world "will wake up one day and find the IMF has died on its feet."

It should be added that European opposition to austerity conditions is far from a charitable stance. French President Giscard and West German Chancellor Schmidt took the step of founding the EMS because they considered (a) that there is no reason to let the IMF and World Bank go on destroying potential multibillion-dollar markets for high-technology industrial exports, and (b) that the war and depopulation threat made explicit by McNamara is an imminent one.

McNamara's statement in Belgrade is fresh evidence that no justification exists for allowing the IMF and its policy makers "dual power." Contributing editor Lyndon LaRouche, author of the 1975 International Development Bank proposal which helped shape the EMS, elaborates this analysis below.

The SDR question

The EMS was set up not only to initiate financing of mammoth development projects, with eventual treaty participation from Eastern Europe and the U.S.S.R., but to draw "excess" dollars into the financing. The IMF's counterplan, to place these dollars in a "substitution account facility" and issue Special Drawing Rights reserves, was the main item on the formal agenda at Belgrade. It was effectively shelved. Instead of the agreement in principle expected by the *New York Times* and, till last week, by the London *Economist*, there emerged no more than a lip-service agreement to study the plan details until the spring IMF Interim Committee meeting—as *EIR* had reported over the past months would be the case.

The Mexican delegation, on behalf of the Group of 24's 119 Third World members, opposed the substitution account proposal as having potentially "adverse effects

Showdown at the Belgrade corral

Following is an analysis of what's at stake at the Belgrade conference submitted on Oct. 1 by our contributing editor Lyndon H. LaRouche, Jr. who was in Detroit, Mich. at the time to address a campaign event. Mr. LaRouche is a candidate for the Democratic Party presidential nomination.

This week's Belgrade conference of the International Monetary Fund (IMF) nations will probably turn out to be the most consequential summit conference to date since World War II. Already, two factions among a majority of the world's nations are lining up, openly and behind the scenes, for a brutal showdown on the issue of "IMF conditionalities." As U.S. spokesman, Yugoslavia's Josip Broz Tito, argued at the recent Havana conference of the Nonaligned nations grouping, the issue of the IMF is the issue which will decide the question of war or peace in our time. Which side prevails at Belgrade this week could decide the fate of all mankind for decades to come.

The "IMF conditionalities" policy is essentially an arrangement under which the IMF assumes supragovernmental authority, assuming the power to dictate all the vital points of internal as well as trade policies of individual nations. The IMF's efforts to destroy the essential sovereignty of nations in this way is one of the leading issues being fought out at Belgrade.

The "IMF conditionalities" policy is also a policy of austerity modeled on the precedent of policies of Nazi Finance Minister Hjalmar Schacht. Just as Nazi continuation of Schacht's policy led to the genocidal practices of the wartime Hitler regime, so the effect of IMF conditionalities imposed on the so-called least-developed among developing nations is already creating genocide through combined effects of hunger, epidemic and associated social chaos. Otherwise, this combined Schachtian austerity and genocide is the policy of not only the neo-Malthusian Club of Rome, but also of the Royal Institute of International Affairs of Britain, and is the "controlled economic disintegration policy" of Cyrus Vance and other spokesmen for the New York Council on Foreign Relations.

The New York Council on Foreign Relations was created and remains a subsidiary of the British Royal Institute of International Affairs. The Royal Institute of International Affairs is itself the principal conduit for British foreign policy and the policies of the British Secret Intelligence Service.

Hence, it is not properly astonishing that the London and New York bankers are the principal backers of the "IMF conditionalities" policy, or that the Carter administration, controlled by the New York Council on Foreign Relations, should be in fact supporting such genocidal policies.

on the capital markets," i.e. on credit flows, while later repeating the usual formula that if SDR issues are expanded, they must be used to meet Third World needs.

Mexican Finance Minister Ibarra Muñoz again stressed Oct. 3 the view Mexico shares with OPEC, with the Nonaligned and with the French strategists behind *Les Echos'* manifesto: Namely, that energy, resource-development and modernization questions are inseparable from monetary ones, and that transforming the Third World technologically is the key to the advanced sector's own economic recovery. McNamara and Miller are equally aware that these policies are inseparable—from the other side. The conferences at Belgrade, public and private, continue as of this writing. The European opponents of IMF policy have the upper hand.

—*Susan Johnson*

The leading figures of the opposition to IMF conditionalities are France's President Giscard d'Estaing and Mexico's President Lopez Portillo. President Giscard is the principal public spokesman for the political side of the European Monetary System. President Lopez Portillo is acting as leading spokesman for the majority of the Nonaligned nations group.

Present indications are that the opponents of IMF conditionalities will push to modify the rules of the IMF to three effects. First, they will seek to propose to end the IMF's efforts to make itself a kind of world super-government, by asserting the principle of the sovereignty of nations in world monetary affairs. Second, they will provide nations the right to turn to alternative monetary-credit institutions outside the IMF-World Bank without being obliged to secure IMF or World Bank consent to this. Third, they will propose to end the IMF and World Bank's abuse of their powers to cause genocidal austerity conditions or to impose economic devolution of states.

It is also proposed that SDRs be backed by gold. I disagree with this. Such a measure might have been workable in 1968, during President Johnson's mismanagement of the economic crisis then, or during 1971, at the time John Connally misled President Nixon into creating the present spiral of inflation. Now it is too late for such reforms of the IMF. The IMF must be pushed aside to make way for a new, gold-based monetary system, and gold reserves should be directed toward the new institutions, rather than wasted in efforts to bail out the bankrupt IMF.

Economist: 'Fall-guy to the banks'

The following is from the Sept. 29 business lead in the London Economist, *titled "Say something at the IMF, if it's only goodbye."*

... The IMF has been trying to do two things about [exchange rate instability], neither very effectively.

The first is its new function of "surveillance" of exchange rates, with all the trappings of bogus power: consultations and knuckle-rapping for governments with perverse policies. This only diminishes the IMF's meagre stock of authority. The second failure is not the IMF's fault, but entirely member governments': they have been dragging their feet over the IMF's plan for a substitution account into which the world could tip some of its overload of dollar reserves....

... Yet the IMF is asking for no extra resources to finance [the $40 billion less-developed country balance of payments] deficits, as it managed to whip up after the mid-1970s jump in oil prices. With a supplementary facility and an increase in quotas agreed last year, the IMF's rich members believe the IMF has plenty.

And so, on the scale of its previous loans, it has. Nor, with IMF approval, do LDCs have difficulty in raising money from the commercial banks. But there are risks in the diminishing share of financing coming from international institutions. Overlending to countries with no earthly ability to repay on time (Peru, Turkey) is only one of them. ... A second is that the IMF is diminished to the role of fall-guy to the banks, with little to give itself; and that its role of channeling into sensible economic directions funds that have been handed out by governments for political reasons (Turkey again, or Egypt) may be by-passed.

Both of these ways of depreciating the IMF's influence would be harmful to the world's hopes of economic stability. Throughout the painful death of the high-growth hopes of the early 1970s, the IMF's influence on mismanaged and unstable economies has been a force for good. As the servant of the governments which set it up, it retains its influence precariously. If it loses its role as clearing house for co-ordination of economic policies; if its role as ruler of the international monetary system is seen to be a farce; if its share of official financing shrinks, its authority will be worn threadbare. If the finance ministers going to Belgrade won't—or can't—play demand management; and if they won't back substitution, they must find another way to bolster the IMF's role. The most imaginative would be a major expansion in the IMF's capacity: to allow it to go out and raise money in the markets to on-lend to deficit countries. Most finance ministers faint with horror at the idea. But, without some such, they will wake up one day and find the IMF has died on its feet.