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 Nonaligned and with the French strategists behind President Giscard is the principal public spokesman for the majority of the Nonaligned nations. Conditionalities are France's President Giscard d'Estaing and Mexico's President Lopez Portillo.

Monetary affairs. Second, they will provide nations with 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.

---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.

---Susan Johnson---

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 fain with horror at the idea. But, without some such, they will wake up one day and find the IMF has died on its feet.

October 9-15, 1979  EXECUTIVE INTELLIGENCE REVIEW  International  17