THE INSIDE STORY

JOHN JUDIS

Courtesy International Monetary Fund

H. Johannes Witteveen

A world government behind closed doors

A good many Americans know who Kurt Waldheim is but few have heard of H. Johannes Witteveen.

Even more Americans have heard of Andrew Young, and still less have heard of Sam Y. Cross.

Waldheim is the secretary general of and Young is the American ambassador to the United Nations. Witteveen is the managing director of and Cross the American representative to the International Monetary Fund. The IMF is an international economic agency that had its 33rd annual meeting in Washington last week.

While the UN gets more of the press's attention, the IMF may be becoming the more important world body. It lives and works in that rarefied realm of international capitalist enterprise where daily decisions can make or break countries and their governments.

This year, IMF decisions nearly toppled governments in Italy and Great Britain, precipitated riots in Egypt, and a continuing governmental crisis in Peru. In Brazil, Indonesia, Argentina, and, of course, Chile, it has established a reputation for encouraging sharp right turns. And in Portugal it helped dampen Premier Mario Soares' enthusiasm for a transition to socialism.

Much of the credit for the IMF's growing power must go to Witteveen, who refashioned the IMF's role to fit the needs of the advanced capitalist countries in a period when they were torn by economic recession and fearful that the less-developed countries would renege on their growing debts to them.

Floating dollars.

The IMF was founded in 1944. The British wanted it to be a lending agency that would promote postwar recovery aid, but the U.S. wanted it primarily to police currency relations among the capitalist nations. The U.S. preferred to grant aid on its own terms.

Until 1971, when Richard Nixon stopped backing the dollar with gold, the IMF was concerned primarily with maintaining fixed exchange rates, based on the dollar (one oz. of gold = $35). If a country wanted to raise or lower the value of its currency in relation to the dollar, it had to seek the IMF's approval.

Nixon's move led to fixed exchange rates being replaced by floating rates, regulated by the market and by government intervention. It was predicted that the IMF would soon expire. But the economic recession of the '70s, of which the dollar crisis was only one aspect, provided the IMF with new possibilities.

In the early '70s, the developed capitalist countries, threatened by shrinking profits and rising wages and prices, pulled in their belts. Government cut expenditures; central banks raised interest rates; unemployment went up, threatening the wages and bargaining power of workers; and imports declined as the level of demand sunk.

During this time, the oil-producing countries, united in OPEC and in cooperation with the oil multinationals, drove up the price of oil. The OPEC countries found themselves with huge trade surpluses ($158 billion from 1974 through 1976), most of which they put in Western banks (about 50 percent in American banks, according to Morgan Guaranty Trust).

What the IMF calls the non-oil less-developed countries (LDCs) found themselves in big trouble. The decline of demand in the developed countries cut into their export earnings, while the rise in the price of oil (and other raw materials) drove up their expenses.

Banks to the rescue.

Into this breach stepped the banks. The banks had a problem of their own, with huge petrodollar accounts gathering interest in their vaults. Unless they could find an outlet for this wealth, they would lose money on it.

They found it in the demand for loans from the lower-rung developed countries and the better-off LDCs like Mexico, Brazil, Peru, and Zaire. These countries needed loans to balance their trade accounts.

Exact figures on the bank loans are not available, but in 1967 the total debt of non-oil LDCs was approximately $12 billion of which 28 percent was owed to private banks. By 1976, the debt was up to about $185 billion; 40 percent was owed to banks, more than half to U.S. banks.

But by 1976 the banks were beginning to worry about their investment. Zaire's debts, which were 75 percent of its GNP, had required rescheduling; other countries required new loans to pay their debt interest. At the Manila meeting of the IMF last year, the poorer non-oil LDCs asked for a debt moratorium, a demand that created ulcers among Western bankers.

Enter the IMF.

Johannes Witteveen became the IMF's director in 1973 and set about adjusting the IMF to the new world situation.

Along with the World Bank, the IMF had always extended loans to its member countries. It had also played a role in "disciplining" LDCs by requiring that they undertake austerity programs and abandon socialist experiments in exchange for loans.

Austerity was necessary because the only way a country could correct a trade imbalance, and prevent devaluation of its currency, was by holding down its imports and encouraging private investment in export-production. To do this, it had to discourage domestic demand and cut wages.

But the size of the IMF loans was strictly limited by the amount that the member countries had contributed to the fund. This meant that most LDCs and needy developed capitalist countries had to look elsewhere for help.

In 1974 Witteveen began creating special loan facilities, financed through special member contributions, to enable the IMF to extend loans. These loans had one important advantage over the private ones: as a condition for them, the IMF could secure government agreement to austerity.

Riots in Egypt.

While the required austerity measures often led to political instability and to stark oppression for workers and peasants, they provided the necessary condition, from the banks' standpoint, for the eventual repayment of their loans. In 1976 the U.S. Treasury published an honors list of countries that had successfully undergone austerity; Kenya, Taiwan, and Chile were at the top of the list.

In 1977, the most vivid example of the IMF's role with indebted LDCs was in Egypt, where requirements that the government cut its subsidies on food (driving down real wages and decreasing demand) precipitated the January riots that nearly toppled Anwar Sadat's regime.

The IMF was even able to exact concessions from Great Britain and, to a lesser extent, from Italy. Common Market members had not dared to ask Italy to abandon its wage escalator system as a condition for received loans. The IMF did.

The U.S. or West Germany could never have gotten the British parliament to approve austerity measures as a condition for its loans, but the IMF, with under-the-table German and American support, was able to.

The Bankers Relief Act.

The newest Witteveen proposal kills two birds with one stone. He has proposed creating a "Witteveen facility" with half of its initial $10 billion loan capital to come from the OPEC nations themselves. That way the petrodollars would not enter the already bloated banks, but would be used by the IMF to provide conditional loans to LDCs and other countries with which they might pay back their debts to the banks.

The *Wall Street Journal* editorialized that "this indirect approach is necessary in order to fool the taxpayers into thinking they are really helping the poor [when American taxdollars go for the new facility] . . . Imagine the flap if the problem were solved honestly and directly: The Bankers Relief Act of 1977."

But the Carter administration gave the go ahead to Witteveen in January to push for the new loan facility and has also proposed that members' regular contributions to the IMF be increased by 50 percent. Carter and his Treasury secretary W. Michael Blumenthal know a good deal when they see it. Blumenthal has urged private banks to secure joint IMF participation whenever they extend loans to countries.

Last week's IMF meeting was not expected to finalize the Witteveen facility. Several issues remain unsettled. The Saudis want their own executive director, as the major capitalist powers do. They also may join an LDC demand that Witteveen be replaced with a Third World person when he retires next year.

In any case, the results of the meeting will not be widely heard. Except for when visiting dignitaries speak, the IMF meetings are closed to the public. This befits the deliberations of one of the world's invisible governments.

Recommended reading: the new pamphlet by Howard M. Wachtel, *The New Gnomes: Multinational Banks in the Third World*, available from the Transnational Institute, 1901 Q St. N.W., Washington, D.C. 20009.

This edition published Oct. 5, 1977 for newsstand sales Oct. 5-Oct. 11.

IN THESE TIMES
THE INDEPENDENT SOCIALIST NEWSPAPER

Published 50 times a year: weekly except the last week of July and the fourth week of December by New Majority Publishing Co., Inc. 509 North Milwaukee Avenue, Chicago, Illinois 60622, (312)489-4444, TWX: 910-221-5401, Cable: THESE TIMES, Chicago, Ill

Imports not the issue in steel

By David Moberg
Staff Writer

"Everybody in this valley is really scared, scared as hell," Ed Mann said.

Mann, president of Steelworkers Local 2462 at the Brier Hill works of Youngstown Sheet and Tube, was talking about "Steel Valley"—the Mahoning River Valley—and Youngstown, Ohio, in particular. With sooty grey hulks of steel mills lining the overheated, oily stream that meanders through the center of this grim city, Youngstown has been a mainstay of the iron industry since the late 19th century.

For decades the companies have been threatening to shut down the aging mills and move out. Then on September 19 Youngstown Sheet and Tube—a division of the Lykes conglomerate, which had bought the steel firm to obtain capital for its other operations—announced that it was closing three-fourths of its steelmaking capacity in Youngstown. Within three months 5,000 workers will be jobless.

As many as 16,000 steelworkers have lost jobs in recent weeks due to permanent cutbacks by Bethlehem Steel and Armco in flood-ravaged Johnstown, Pa., Lackawanna, N.Y., and Middletown, Ohio, the bankruptcy of the small Alan Wood company, the Youngstown closings and other layoffs.

The shock of the layoffs will hurt the old steel cities even more as business closings and job reductions ripple through the steel-dependent local economies. Already financially strapped, many of the cities—like tiny Campbell, the suburb where the abandoned Sheet and Tube mill is located—will be deeply hurt by loss of sales and property taxes.

Companies blame imports.

In the wake of the plant closings, the cries of steel corporations against foreign imports and environmental regulations have reached a new shrill pitch.

The industry claims that unfair competition has eaten into the domestic market. They accuse foreign companies of selling here below their cost, with their national governments often subsidizing the loss to protect jobs and their steel industry.

Steel producers also blame pollution controls for lessening productivity and diverting capital from modernization, making it harder to compete.

Despite embarassing admissions from Youngstown Sheet and Tube and other steelmakers that even they buy foreign steel, the industry is increasing pressure for import restrictions on President Carter, who received a special study of the industry from his Council on Wage and Price Stability at the end of September.

Imports not main problem.

But imports are not the main problem with the industry.

Despite laments about rising imports, there has been only a slight increase in recent years. The current level is well below the peak import years of 1968 and 1971, when around 18 million tons of steel, or 17 to 18 percent of the market, came from abroad. The import share dropped to 12.4 percent in 1972, rising slowly to 14.1 percent last year.

Imports shot up in May and June by 50 percent but quickly dropped back down again and will probably take 14.4 percent of the market this year, according to Charles Bradford, steel analyst for Merrill Lynch, the stockbrokers.

Bradford greatly angered American steelmakers when he concluded in a recent report on the industry that the Japanese were much more efficient than American steel firms. After briefly losing some of their edge when oil prices went up in 1973, the Japanese rebounded and now have a 30 percent ($83 per ton) price advantage over the American companies, he claims.

The big advantage for the Japanese—in efficient use of energy and in lower unit costs—comes from having more large modern mills, although currently the best American steel factories basically match the best Japanese.

Bradford denies that the Japanese are selling in the United States below cost or below their prices at home. Other industry observers add that the Japanese have carved out a large share of particular steel markets here, such as stainless, tool and other specialty steels, because they are more innovative and aggressive in meeting customers' needs.

Conservatism and oligopoly.

The American steel industry is in trouble today in large part because of its conservatism and oligopolistic insulation from competition in the past. During the first decade after World War II, the American steel industry coasted along with old methods and ample profits while Japan and Europe modernized. In the mid-60s, when imports offered some competition, the American companies belatedly began a still unfinished process of converting from the old open hearth method to the more efficient basic oxygen process.

Bradford thinks the competitive stimulus is still needed. "We do not believe that protectionism is the answer for the industry," he wrote, "because that might inhibit the industry from becoming more efficient."

Accustomed as they are to a cozy, non-competitive pricing arrangement domestically, the steel industry has persisted with pricing policies that draw heavy flak from many quarters.

Although a few companies, such as Armco with its selective "import fighting" discounts, occasionally cut prices to increase sales when times are tough, generally the steel industry reacts to declining markets by raising prices to maintain profits.

During this past year, while the chorus of complaints about imports and weak demand for steel has grown stronger, the price of American-made steel has gone up 12 percent. The fifth increase in eight months came in August. More are expected before the end of the year.

That may seem like an odd way to beat out lower-priced competitors. Yet Bethlehem and other steel executives even maintain that there's no point in cutting prices, because foreigners will always go lower.

Efficiency is key.

Despite the higher prices, however, companies have had lower profits, or even losses, this year because profits are down from their 1974 peak, in part because the companies are operating at only 79 percent capacity, down from 85 percent last year.

In an industry with so much expensive equipment, efficiency requires keeping production near capacity.

That's the Japanese strategy—cut prices to sell more and maintain high capacity when times are tough.

Since the steel industry throughout the capitalist world is now in a slump, Japanese and European firms are trying to stay afloat by exporting more. Steel executives in this country say that informal restrictions on Japanese exports to Common Market countries made last year have led to diversion of more Japanese steel to the U.S., but their evidence is inconclusive.

Steel's problems are a special case stemming from the weak recovery of the world economy from the last deep recession and a generally faltering pace in basic investment.

A year ago a steel analyst with a large Wall Street brokerage firm was extremely optimistic. Now he's "gloomy." He criticizes environmentalists and gripes that federal "jawboning" and price controls over the years prevented steel from making a killing in good years to make up for the lean periods in the strongly cyclical industry.

But when asked what brought about his abrupt change of forecast, he said, "The one single thing is the lack of a real upturn in capital spending. Not having that has made problems in the industry worse.

Could be profitable.

If the main problems are old and inefficient equipment, non-competitive pricing, low capacity utilization and a sluggish economy, does the industry need import quotas, freedom from even minimal government efforts against inflation, a relaxation of environmental protection and the right to escape anti-trust prosecution as it consolidates, as some observers claim?

Or does it need competition, lower prices, higher capacity utilization, efficiency, modernization and more imaginative management, as others maintain?

Generally the Council on Wage and Price Stability has concluded that without increasing prices the industry could be profitable enough to grow if demand were great enough to keep them near full capacity.

"Attempts to improve profitability by raising prices," the Council concluded in a December 1976 report, "will not only worsen the economic inefficiency of idle capacity and unemployed labor, but may erode the competitive advantage of American steel producers *vis a vis* foreign producers."

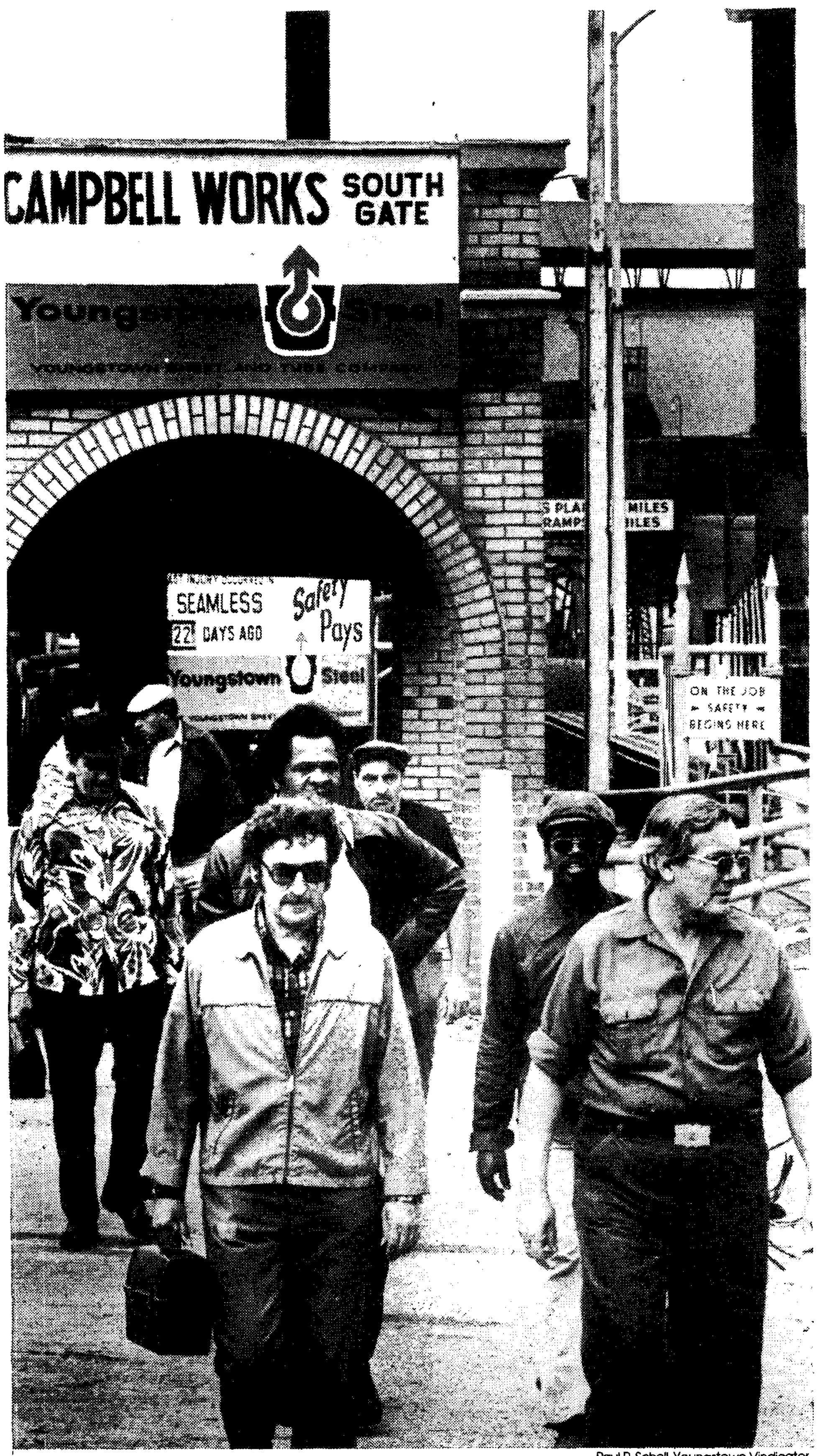
Higher prices won't help workers.

The American steel industry's past behavior suggests that if they get the import restraints they want, they will use it as an excuse to raise prices. It is also unlikely that such price increases will result in any more jobs for American steelworkers.

"Voluntary" quotas were instituted at the end of 1968, one of the two peak import years. In 1969 imports dropped and prices went up, but steel employment did not, according to a study by economist A. F. Shorrocks.

Likewise, in 1974, imports dropped because of price controls in the U.S. and higher fuel costs overseas. When price

Continued on page 18



Paul R. Schell, Youngstown Vindicator

The steel industry is in trouble because of its conservatism and insulation from competition.