IMF demands more powers as financial chaos grows

by William Jones

The semi-annual meeting of the International Monetary Fund Interim Committee in Washington on April 21-27 occurred under the specter of increasing chaos in the world's exchange markets. This fact, although recognized by most of the participants, including the finance ministers of the Group of Seven (G-7) industrialized countries, was nevertheless downplayed by many of the participants, perhaps in the hope that it simply would go away. Attempts by IMF Managing Director Michel Camdessus to "talk up" the world economic situation was given a cold shower by the circulation at the meeting of a thousand or so copies of a statement by U.S. economist Lyndon LaRouche on the global financial crisis, entitled "To Be or Not To Be" (see last week's *EIR*), distributed to delegates by LaRouche supporters outside the meeting. The IMF Directorate was so incensed by the distribution, that they removed this author, an accredited Washington journalist assigned by *EIR* to cover the meeting.

In his statement, LaRouche notes the impossibility of "preventing both general financial collapse, and subsequent global monetary and financial disintegration, unless the IMF system and the central banking systems of all leading nations are placed under bankruptcy-reorganization measures by relevant leading governments." He also expresses grave concern about the refusal of the world's governments, including the U.S. government, to deal effectively with the currency instability now wreaking havoc with the Japanese yen. "Japan's relations with the United States are of a very special nature," LaRouche says. "A lack of adequate response to Japan from Washington could set forth a chain-reaction of collapse of every vital U.S. policy-interest in East Asia, and beyond."

Leading up to the IMF meeting, currencies had been hit by tremendous volatility. The dollar had fallen especially hard in relation to the yen— the yen has appreciated more than 20% against the dollar since Jan 1 of this year— creating significant problems for Japanese exports in their traditional Asian markets. Camdessus placed the blame for this development on the United States, demanding that the Federal Reserve Board raise interest rates. Aware of the devastating effect of such a move on the U.S. economy, the Clinton administration has resisted such pressures.

At the same time, the Treasury Department and Fed Chairman Alan Greenspan have neglected to take *any* action to stop the fall of the dollar. Some pro-British policymaking institutions, such as C. Fred Bergsten's Institute for International Economics, are privately gleeful over this development, because they blame the instability on the Japanese trade surplus and see the shift in the currency rates as a means of "forcing down" that surplus—a rather risky line of thinking, indeed, since such instabilities could easily bring down the entire financial system. Unfortunately, this line of thinking was also reflected in the statements of Treasury Secretary Robert Rubin to the Interim Committee on April 26. "Japan needs to import more and to absorb more of its available savings," he said, "so that its external surplus adjusts to a more sustainable level."

Takemura points at derivatives

Japanese Finance Minister Masayoshi Takemura had a different view of the cause of the present instability, pointing his finger at the increasingly volatile derivatives markets. In his statement to the Interim Committee on April 26, Takemura said, "I have the impression that speculative and erratic elements of derivative trading arising from the recent financial liberalization and technical innovations in the functioning of the exchange markets may have aggravated the fluctuations of the exchange rates."

The obviously destabilizing effect of the derivatives markets has led to ever-greater cries for regulation of the high-risk derivatives trading, including an increasing number of voices echoing LaRouche's call for a 0.1% tax on derivatives. This, however, is a bitter pill to swallow for advocates of the British "free trade" ideology, who continue to play down the problem. British Chancellor of the Exchequer Kenneth Clarke, at his press conference on April 26, when questioned about the role of derivatives trading in the collapse of Barings Bank, claimed, "I don't believe that derivatives were the cause of the Barings crisis, but rather a lack of internal regulation. . . . Derivatives simply tend to speed up the impact of dangerous overexposure."

The concerns of the Japanese were reflected in comments by the French and the Germans, whose currencies have also been effectively revalued in relation to the dollar. This concern was also reflected in the statement issued by the G-7 finance ministers, who stated that "recent movements have gone beyond the levels justified by underlying economic conditions in the major countries," and that "orderly reversal of these [currency] movements is desirable."

No agreement on a course of action

But no indication was given by any of the countries as to what steps should be taken to reverse these movements. Chancellor Clarke admitted that markets may have "overreacted," but insisted that the markets themselves "will compensate for that."

Emerging from Blair House with the other finance ministers directly after their meeting, Canadian Finance Minister Paul Martin was the only one willing to talk. "Currency rates have overshot," Martin said, using the term that several ministers would use to characterize the volatility. At the same time, he said, "each country must do what it has to do." In other words, the ministers agreed to disagree. Martin himself admitted as much, indicating that there was "no agreement on coordinated currency stabilization."

More importantly, Japanese Finance Minister Takemura formally put forward his proposal for revamping the entire "floating exchange rate" system. In comments to the Japanese press on April 25, Takemura said that he had proposed "a mid- to long-term review of the current foreign exchange rate system." He noted, however, that the response was muted. "I threw the ball only today," he said, "so everything is up to future discussion from now on."

In response to a question from this correspondent regarding the Takemura proposal, Treasury Secretary Rubin, at his press conference on April 25, simply remarked that he didn't think he should "discuss specifics with respect to proposals." He added, "But I will say, I don't think there is any significant level of support for eliminating the flexible [sic] exchange rate system."

However, the need for reforming the international monetary institutions was a hot topic of discussion, both at the IMF and at the G-7. Despite all the "upbeat" talk, it is difficult to hide the fact that the Bretton Woods financial system is in an endgame scenario. The IMF, under fire for having "missed the boat" in failing to have "foreseen" the Mexican crisis, is demanding greater surveillance powers and more money. Camdessus is calling on member countries to raise their IMF quotas in order to vest the IMF with more dictatorial powers over the world's economies. "If we are to adapt the Fund to the problems of the next century, we must think big, of what kind of resources will be needed," he said.

However, not even Chancellor Clarke, otherwise a strong supporter of IMF policies, seemed willing to raise IMF quotas, a measure that would undoubtedly evoke a heated parliamentary debate. Camdessus is also into "self-criticism," claiming that the IMF has been too lenient in the implementation of its conditionalities! "We have a kind of tendency in the Fund at times," he said in his April 24 press conference, "to give too much of the benefit of the doubt to our member countries." Camdessus called for greater "frankness" and "harshness" in dealing with recalcitrant member nations. On this point, Clarke was in full agreement. Speaking to the Interim Committee on June 26, Clarke said, "I agree with the Whittome Report's analysis," referring to a report on the IMF's actions in the Mexican crisis, "that too often the Fund has given undue weight to members' sensitivities and has pulled its punches as a result." Ironically, Clarke has been praised for his call for reducing Third World debt, but he made his point quite clear in his remarks to the Interim Committee. "Writing down debt to manageable levels increases the chances that the debtor countries will actually meet those payments," he said.

IMF is part of the problem

Although lip-service is still being paid to the need for increased IMF surveillance, there is growing awareness that the world can no longer proceed as it has up until now. The fundamental instability created by the very IMF measures taken through the years to "roll over" the ever-widening financial crisis is now endemic to the system itself. There is no more "predictability," apart from the predictability of increasing chaos, barring fundamental reform. And in such a reform, as LaRouche has time and again pointed out, the IMF is definitely a part of the problem, rather than part of the solution.

Although the G-7 finance ministers' statement seems to have papered over the intense policy fight going on behind the scenes over what the post-Bretton Woods world will look like, with the rapid pace of economic collapse, it will quickly "lose the name of action." The ball now is in the court of the leaders of the G-7 when they meet in Halifax in June, and, more specifically, in the hands of President Bill Clinton. If fundamental financial reform is to be implemented, it must be the United States and its allies in Europe and Asia that must chart the way—not the bureaucrats of an anachronistic IMF.