EIR Economics

Clinton puts financial reform on international agenda

by William Jones

Although the Halifax G7 summit began under the shadow of increased violence in Bosnia, a subject that even dominated the Clinton press conference on June 16, the issue of reform of the international financial institutions was the central item of discussion, resulting in a final communiqué that was no real resolution of the problem, but at least pointed in the direction of a solution.

The "reform" mechanisms specified in the communiqué are themselves useless to "manage" the global financial disintegration now under way—an impossible task. But commitment to economic development—insisted upon by President Clinton in the case of financing for Mideast development, is reflected in the final communiqué.

The first working dinner of the Group of Seven heads of state (Canada, United States, France, Germany, Italy, Japan, Britain) at Government House on June 15 was to have been the site of a major discussion of international financial reform. As the Bosnian Army initiated measures to break the Serb stranglehold on the Bosnian capital of Sarajevo, the G7 leaders, concerned over the increasing fighting, decided to call in their respective foreign ministers and get a briefing on events in Bosnia. After discussions, Canadian Prime Minister Jean Chrétien, the host of the summit, issued a statement appealing to the Bosnia Serbs and to the Bosnian government "to establish an immediate moratorium on military operations." Canada was particularly concerned about the fate of their peacekeepers, some of whom remain hostages with the Serbs.

But the economic discussions were duly resumed the following morning, where leaders each explained the economic situation in their respective countries.

Interestingly enough, the communiqué begins with long sections on "growth and employment" that put the creation of jobs in the center of interest. "The central purpose of our economic policy is to improve the well being of our people, allowing them to lead full and productive lives," the communiqué begins, noting that only through the promotion of "durable job creation" can that "well-being" be secured. "Good fiscal and monetary policies will not on their own deliver the full fruits of better economic performance." It will also require "achieving the longer-term potential of our economies to grow and create secure, well-paying jobs," reads the communiqué from the seven leaders. The jobs issue was of prime concern to President Clinton who had taken the initiative to the "Jobs Summit" in Detroit last year and was strongly supported by French President Jacques Chirac, who had been elected on a strong jobs program. The leaders decided to have another "jobs summit" this year, underlining the importance of the problem.

President Clinton, who, at last year's summit in Naples, Italy, had called for a review of the international financial institutions at this year's summit, "engaged in a fairly lively interchange on the financial markets issues," according to U.S. "sherpa" for the G7, Daniel Tarullo, Assistant Secretary of State for Economic and Business Affairs. Clinton recounted for the other leaders the experience the United States had had with Mexico, emphasizing "the importance he attached to the specificity of proposals for both prevention and transparency," and "on the capacity to react with adequate resources when emergencies strike," Tarullo explained.

The measures taken by the G7 Summit leaders do not, however, represent fundamental reform of a bankrupt financial system. They contain, in fact, some rather dubious elements, undoubtedly the result of the numerous political compromises required to write the statement from these seven leaders.

The IMF received a strengthened mandate to monitor countries' economies. The G7 leaders called on the IMF to 1) establish benchmarks for the timely publication of economic data; 2) identify the countries which comply (or don't comply) with those benchmarks; and 3) provide "sharper policy advice to all governments, and deliver franker messages to countries that appear to be avoiding necessary actions." A new "Emergency Financing Mechanism" was to be established that would provide access to Fund arrangements financing to be linked to the IMF's "conditionalities." The goal was to achieve an emergency fund of $58 billion financed through an increase of the Group of Ten's General Agreements to Borrow (GAB), rather than through an increased IMF quota as desired by IMF Managing Director Michel Camdessus.

Nor was the IMF given "dictatorial powers" as Director Camdessus may have wished. The communiqué also contains considerable criticism of the functioning of the multinational institutions. "We will work with the [Bretton Woods] organizations and all their members to ensure relevant multilateral institutions," the communiqué reads. They call on the multilateral institutions to "encourage the development of a healthy private sector, expand guarantees and co-financing arrangements to catalyze private flows, and increase credit for small and medium-sized enterprises" and to continue to provide resources for the infrastructure needed for sustainable development," (which goal they define as "a higher quality of life for all people").

The multinational institutions have received a new lease on life, but their operations are now under the microscope. Representatives for the administration have time and again expressed the President's desire that these institutions orient towards "investing in people"—something the IMF has done everything to sabotage.

Mideast Development Bank

But it is not only reform of the bankrupt Bretton Woods institutions that was the focus of the financial discussion, but also, under strong protest from British and other circles, the question of new institutions for economic development. The U.S. worked hard to rally support for the establishment of a Mideast Development Bank.

A spokesman for the European Union, as late as the first day of the summit, expressed concern about establishing and "new financial institutions." In response to a question from *EIR*, he complained that there is "really no need for new banks when we have the World Bank"—a continual complaint from some of the European governments, particularly the British during the entire course of negotiations around such a bank that have been held throughout this year.

But the commitment of the President to this particular project outweighed objections from some of the apologists for the World Bank. The communiqué clearly states: "We agree on the need to actively support the peace process in the Middle East. Such support would include the establishment of a new institution and financing mechanism enhancing regional cooperation. We therefore urge the Task Force already at work to continue its deliberations with an aim to arriving at a suitable proposal in time for the Amman summit next October." Dan Tarullo, who had successfully maneuvered the issue through the "sherpa" process prior to the review by the G7 leaders, expressed particular pride in having the Bank included in the communiqué.

The leaders also expressed concern about the poorest nations, calling for increasing debt relief. They called on the multinational institutions to develop a "comprehensive approach" to assist countries with multilateral debt problems, through the "flexible implementation of existing instruments" and through "new mechanisms where necessary." They called for "appropriate measures in the multilateral development banks" to advance this objective.

Derivatives, 'the AIDS of our economies'

The discussion over what to do about currency speculation, derivatives and all forms of the highly volatile high-risk capital markets, was hot. French President Chirac went very far in his criticism of aggressive money traders, referring to such speculation as "the AIDS of our economies" during leaders' discussions on June 16.

However, the wording of the communiqué is circumspect. It calls for "close international cooperation in the regulations and supervision of financial institutions and markets," in order "to ensure an effective and integrated approach, on a global basis, to developing and enhancing the safeguards, standards, transparency and systems necessary to monitor and contain risks."

Canadian Prime Minister Chrétien has repeatedly expressed concern that new instruments of investment and currency speculation are destabilizing financial markets. Just a few weeks before the summit, he had a high-profile meeting in Ottawa with Prof. James Tobin of Yale University, author in 1978 of the proposal to tax currency speculation transactions, now called the "Tobin tax." The "LaRouche proposal," made in March 1993, for a one-tenth of one percent tax on derivatives transactions, has also popped up since then in draft bills to Congress, and in European debate.

But under pressure from the "free market" enthusiasts, any such tax was officially tabled in Halifax. In a "Review of International Financial Institutions," issued together with the communiqué, it is remarked that "administrative measures, such as selective taxes or controls on capital transactions, are an ineffective and very costly means to attempt to limit exchange market volatility. Since it would be impractical to implement such controls across geographic areas and financial instruments, they would merely shift the location of activity or the financial vehicle for the transactions."