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Financial crisis: The IMF is the disease, not the cure

by Marcia Merry Baker

In the opening days of 1998, the headline crisis events in South Korea, Indonesia, and elsewhere in Asia and around the globe, showed clearly that the epic task before citizens and statesmen right now is to come up with the right ways to *save nations*. The events of the hour prove conclusively what has been true for decades: The International Monetary Fund approach is deadly to nations. Lyndon LaRouche, who a year ago initiated a campaign "to annihilate the IMF," stressed that the Asian events show: "The IMF is the disease, not the cure."

Criticisms of the IMF, and alternative scenarios of what should be done, are now coming forward from all sides—including from anti-nation speculator George Soros, shock therapist Jeffrey Sachs, and others. Even Joe Stiglitz (formerly chairman of President Clinton's Council of Economic Advisers) of the World Bank, criticized the IMF—the World Bank's sister organization—for causing a "crisis in confidence." Stiglitz, speaking of IMF measures in Asia, said, "You don't want to push these countries into severe recession. One ought to focus on things that caused the crisis, not on things that make it more difficult to deal with."

The German financial daily *Handelsblatt* charged on Jan. 2, that the discrediting of the IMF also discredits all the textbooks economics that goes with the IMF era. Similarly, a Jan. 8 article in the German daily *Süddeutsche Zeitung* emphasizes that the IMF approach is "threatening to destroy the very economic basis of national economies" (see *Documentation*).

The question is, what is right? The answer lies in the direction of taking measures to preserve the functioning of nations, for the economic good of the population. No effort to preserve the rights of speculators and banks to loot nations will succeed, nor should it. Lyndon LaRouche explains this in detail for South Korea, in a Jan. 7 radio interview with "EIR Talks" (p. 11).

As this issue of *EIR* goes to press, events on two fronts were breaking in East Asia: the crisis in Indonesia, and the counter-moves by several nations of the region to curb speculation and globalization. Meantime, in the financial centers of New York City, Europe, and elsewhere, frantic bankers continued their meetings on how major creditor/speculator banks would deal with their $20-plus billions of South Korean private short-term debt, after U.S. Treasury Secretary Robert Rubin, had declared on Dec. 24, that "not one nickel" of any government aid should find its way to the private creditors of a nation in trouble.

Indonesia, part of IMF disaster record

On Jan. 8, President Bill Clinton was in overnight telephone talks with Indonesian President Suharto and Singapore Prime Minister Goh Chok Tung, on the financial meltdown there. As of Jan. 8, the Indonesian currency had closed at 9,700 to the U.S. dollar (in January 1997, the exchange ratio was 2,400 to the dollar); values on the Jakarta stock exchange plunged 12% in one day. Also Jan. 8, the Singapore dollar fell to 1.88 to the U.S. dollar, the lowest ratio since 1990. In Indonesia—home to 200 million people, and fourth most populous country in the world—some panic–buying of food staples took place.

White House spokesman Mike McCurry said that President Clinton stressed, in his discussion with the two Asian leaders, the interest of the United States in the "key role of Indonesia" in a "stable and prosperous Asia Pacific" region. Then, in contradiction, McCurry reported that "the President made it quite clear that the IMF program needs to be followed." Within hours, President Suharto announced he would make efforts to comply with IMF demands.

The standard IMF prescription includes import cuts (including food), and government expenditure cuts (including provision for power, water, and social services). If Indonesia

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takes the IMF medicine, it's a poison pill.

In fact, this play-up of the IMF amounts to backing a *new* IMF "rescue" effort to bail out the *old* Indonesian IMF "rescue" effort, which is only three months old, and which led to the most recent crisis in the first place. On Halloween, Oct. 31, 1997, the IMF announced a $43 billion (figures vary) bail-out package for Indonesia, on standard austerity and stringency terms. Earlier, in July 1997, the IMF announced a bail-out, on similar terms, for Thailand, of $17 billion. Then on Dec. 3, the IMF announced a bail-out of $53 billion for South Korea; this was later upped to some $60 billions. All three "rescues" had crashed before 1997-98 New Year's Eve. As of January, Thai leaders were caucusing on how to renegotiate the five-month-old IMF bail-out terms, which had become unattainable.

LaRouche: IMF policies are insane

Lyndon LaRouche, in his Jan. 7 radio interview, stressed understanding the reasons why the IMF can't work. He said: "The IMF doesn't function, for two reasons. First of all, its policies are insane. That is, the medicine it gives actually *is* the disease, not the cure. . . .

"For example. The basic problem of why the IMF is a disease, rather than the cure of the disease, is the fact that the IMF is operating on the assumption of radical monetarist theory. It goes into a country which is operating ostensibly below the breakeven point—maybe it's only below the financial breakeven point. That is, maybe on trade account, what the country is importing, is more than covered by what it's exporting, which means the country *is in balance*. And it may be financially out of balance, because of an *artificial collapse* of the value of its currency, which means that the things themselves are suddenly dropped in price, at least temporarily, and the country *appears to be* on the deficit side.

"What does the IMF come in and do? The IMF comes in and increases the financial obligations, which is the cause of the crisis, and tells the country *to cut* that production on which its ability to produce and export depend, as was done in Korea, for example.

"So, for that reason, the IMF recommendations are clinically insane. They actually work to enhance the problem, or the sickness, and to prevent the cure, or prevent the body from recovering on its own.

"Secondly, the IMF does not have the capability, even if it were sane, of managing the kinds of crises which are going on now. So therefore, there is much talk, with much division in opinion on what the alternative is; but, there's much talk of alternatives to the IMF. And some wild-eyed fanatics still insist the IMF has to manage things. But the number of people who insist upon that, is rapidly diminishing."

Furthermore, the financial crisis is not Asian, but rather, the Asian events are part of the breakdown of the *entire financial system*. (As reference for that, see the summary charts on pages 7-10, showing the de facto bankruptcy of the U.S. financial system.)

Serve nations, not speculators

A number of announcements, and actions in-the-works as of mid-January, show moves in the direction of protecting national interests over "the markets."

1. On Jan. 9 Thai Finance Minister Tarrin Nimmanahaeminda said that new measures would be detailed soon on curbing speculation in the baht (which fell against the dollar by 50% since last July).

2. Japan recently announced measures against short-selling, or selling on margin, in the stock market, including confiscation of ill-gained profits.

3. The Singapore Monetary Authority announced that it "stands ready to act decisively against speculative attack on the Singapore dollar."

4. The G-10 central banks have put their private banks under an unprecedented monitoring regime, to take control of banks' credit policies toward South Korea, according to the *Neue Zürcher Zeitung* reports.

5. There is discussion of re-pegging some Asian currencies to benefit trade in commodity essentials, such as food. On Jan. 8, Malaysian Finance Minister Anwar Ibrahim said, "For example, if we were to buy things from Thailand, we will buy it in Thai baht and when they buy anything from us, it would be pegged to the ringgit. . . . The ASEAN heads of governments have given their consent to this." There are also reports of discussions of increased coordination among the United States, Germany, and Japan to support the Japanese yen.

6. Other discussions concern a "special solution" for Asia, which could involve central banks freezing the profits that banks and hedge funds make on short-term speculative currency trading, particularly on short-selling conducted to drive a currency down. This is described as a compromise between what is being advocated by U.S. Treasury Secretary Rubin, and the position of the major private banks. Thailand could be a test case for limiting convertibility and free trading of currencies.

The nation-serving direction of these kinds of measures is summed up by Malaysian Finance Minister Anwar, saying that it is wrong for there to exist a situation "where exchange rates determine the [economic] fundamentals." National economic interests come first.

Other scenarios

Other alternatives to the IMF, from the vantage point of the speculators and banks, are coming forward.

Mega-speculator George Soros, writing in the "personal view" column of the London *Financial Times,* on Dec. 31, 1997, called for a new "sister institution" to the IMF, to bail out private banks and financial institutions. Soros opined, "The international financial system is suffering a systemic breakdown," and all the "large bail-out programs implemented by the International Monetary Fund have not worked," so the time has now come for something new. He continued, "I propose setting up an International Credit Insur-

ance Corporation as a sister institution to the IMF. This new authority would guarantee international loans for a modest fee."

Then there are the competing plans aimed at protecting world bank syndicates, not nations, such as the "J.P. Morgan" plan for South Korea. The gist of it is that private debt owed to major world banks, should be backed as a sovereign responsibility of the debtor government. As described by the *Wall Street Journal* in its Jan. 8 editorial: "The Korean government would issue some $20 billion in long-term bonds; half of that would be swapped for short-term Korean bank debt, while the other $10 billion would be used to replenish the foreign-exchange reserves. The Morgan plan, it would appear, would mean that the Korean government [read: taxpayer] would take on some bank obligations."

Documentation

The end of virtual reality

From German press coverage of the crisis in Southeast Asia:

Handelsblatt, Jan. 2, commentary by Hans Mundorf:

After the Asian crisis, textbook liberals are looking quite stupid, writes Mundorf. The article quotes a pamphlet, "Globalization—Threat or Chance?" published by the Institute of the German Economy, which praises the Southeast Asian "tiger economies," in particular Hong Kong, Taiwan, South Korea, and Singapore, as shining examples, which Germany should follow. However, as the commentary sarcastically notes, when the pamphlet was sent out to the media shortly before Christmas, some of the mentioned economies were already on artificial life support by foreign intervention. This is just another example, "revealing the simplicity of textbook liberals in dealing with the global reality," says Mundorf.

What has to be noted, is the "overall decoupling of financial markets from the fundamental markets." While in 1975, cross-border transactions of German stocks and bonds amounted to only 5.1% of the German GDP, by 1995, this figure had risen to 168.3%. Between 1990 and 1995, the worldwide derivatives trade increased by a factor of five. And in 1995, some $1.6 trillion was traded on global foreign exchange markets per day, which is more than the $1.4 trillion of all foreign exchange reserves in the world.

"Above the real economy, there exists now the virtuality of speculative markets, with products that can almost no longer be defined, but which nonetheless, due to their incalculable dynamic, determine the real foreign exchange ratios, and thereby investments, foreign trade, wages, and income distribution." Until the eruption of the Southeast Asian financial crisis, textbook liberalism had strictly denied "that financial markets are posing a risk for the world economy." If financial data are becoming a measure for the economy, it has to be kept in mind, "that these data, like interest rates or foreign exchange ratios, are very often just artificial and can change over the weekend."

Therefore, investors and politicians should not become victims of the "erroneous appearances of financial markets." We are living in a world where the price of the 1 million pork bellies that are produced per year, is determined by the 1 billion pork bellies that are being *traded* per year, even though they only exist inside computers. The commentary concludes: "Whoever goes out onto the ice of financial markets, should also be allowed to go under there. It cannot be tolerated, that national taxes are being increased and other measures taken, to put together the international packages, with which the international financial markets are being rescued."

Süddeutsche Zeitung, Jan. 8, Nikolaus Piper, "Delicate Questions to the IMF—New Stock Market Crashes in Asia: Who Pays for the Globalization?"

"The IMF and the other big masters of globalization" have lost control of their own forces, writes Piper. All the experts have completely underestimated the Asian financial crisis, which is now turning into "a collapse of the Asian monetary order" and could even cause a world recession. "More and more, fundamental questions concerning the order of the world economy under the regime of globalized financial markets are now coming into the foreground: Who takes responsibility, if something goes wrong on these financial markets? What role should the international community play, that is, the community of taxpayers in the industrialized countries? Has this community any idea, of how to deal with such crises?"

Piper emphasizes that financial markets have become "incalculable." They "are falling into panic and are thereby causing irreparable damage to the real economy. Therefore, they need a framework of order. The urgent question is, whether the IMF, as some form of a fire brigade, should be part of this framework of order. The problem is delicate, and criticism against the IMF has increased in the recent weeks." The case of South Korea has shown that even record bailouts by the IMF are not preventing the collapse of currencies. And, "if rumors are right, then over Christmas we were alarmingly close to a financial catastrophe."

Following the stock market crashes of the week of Jan. 5, Piper continues, more is certainly to come. Perhaps we need the IMF as a factor of stability and confidence, but the IMF medicine is now "threatening to destroy the very economic basis of the national economies." The IMF measures are even spreading nervousness on the global financial markets. He concludes, "The IMF and the other big masters of globalization are already far away from controlling [globalization's] forces."