Bipartisan suicide pact pledges support for IMF

by Marcia Merry Baker

On Feb. 11, a two-page newspaper advertisement appeared in the *New York Times* and the *Washington Post,* called an "Open Letter to the Congress of the United States," urging U.S. financial backing for the International Monetary Fund (IMF). This intervention epitomizes the sure-fire-catastrophe approach to the world financial crisis, which could bring on economic chaos on a scale never before seen. In a radio interview on Feb. 11 with "EIR Talks," Lyndon LaRouche described the ad as creating "an appearance of a bipartisan suicide pact, because everything they propose is wrong."

Signing onto the pro-IMF statement (which also called for money for the United Nations, and for fast-track free trade), were dozens of famous Democrats (including former President Jimmy Carter and former Labor Secretary Robert Reich), Republicans (former Secretary of State Henry Kissinger, former President Gerald Ford, former Federal Reserve Chairman Paul Volcker), and long lists of other officials and businessmen. The Open Letter was timed for a series of Washington, D.C. hearings in the Senate (Feb. 12) and House of Representatives (Jan. 30, Feb. 3, Feb. 11), taking testimony on the Asian crisis and on the funding and role of the IMF.

As *EIR* has documented, the IMF is *the disease,* not the *cure* for today's crises. On Feb. 3, *EIR* submitted testimony on this to the House Banking and Financial Services Committee (published in last week's issue), which then was circulated internationally, including at the Group of 24 meeting in Caracas, Venezuela on Feb. 9-11. "Of course, LaRouche!" was the universal recognition among attendees at this conference, when the issue of replacing the IMF was raised.

Behind-the-scenes brawls

The fact is, whatever may be said publicly, behind closed doors, the fight is raging about how to deal with the failed IMF system. One of the most quoted names, apart from LaRouche, is Henry Kaufman (former chief economist of Salomon Brothers), who warned in a Jan. 13 speech in Toronto, that the IMF and sister institutions are outdated, and incapable of preventing a "financial holocaust." (Kaufman wants to create a Board of Overseers of Major International Institutions and Markets to supervise the IMF and sister agencies.)

EIR's testimony stressed that, "the defaults of entire nations in Asia, and pending in Brazil, Russia, and elsewhere, reflect, not the realities of the national economies involved, but the bursting of the world bubble of untenable rates and volumes of speculation. Hundreds of trillions of dollars' worth of debts and claims are unpayable." Therefore, "New Bretton Woods" financial arrangements are in order to selectively bundle and bury debts, while preserving and expanding national economies, not shutting them down. What's up for debate are such measures as re-establishing pegged currencies and exchange controls, capital movements controls, national-interest trade policies, not "free," rigged trade, and so on.

For certain, the $18-plus billions being requisitioned from the United States for the IMF, will do no one any good.

Dramatic proof of the failure of IMF policies is seen in the day-by-day financial chaos and economic breakdown in Indonesia (see article, p. 7). The IMF announced its largest ever so-called bailout, for Indonesia, $43 billion, only last October. Now, basic supplies of food, medicine, power, and water for the vast island country are breaking down.

U.S. Treasury Secretary Robert Rubin addressed this, affirming the "national interest" of the United States to aid Indonesia, in three speeches to Congress between Jan. 30 and Feb. 12, and called for a "new architecture" of world financial arrangements. What this could be, was hotly debated in closed sessions at the Davos World Economic Forum on Jan. 29-Feb. 3.

However, the consensus among those addressing Con-

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gress—as shown in the "Open Letter" ad, is still ideologically to demand backing for the IMF. Such a consensus policy opens the door for the worst imaginable proposals. On Jan. 30, Steve Hanke, a speculator and tenured Johns Hopkins University faculty member in "applied economics," told the House Banking Committee that Indonesia, and other nations, need *currency boards*—the British Empire's monetary control policy for colonies! Hanke wasn't hooted down. He went on to Jakarta, met with President Suharto, who has made him a special counsellor to Indonesia's Board of Economic and Monetary Stability (see box).

'Belshazzar's Feast Committee'

The "Open Letter" ad featured these four points: "1) The International Monetary Fund must have the resources to respond in a crisis. 2) Preserve existing flexibility in the access to the Exchange Stabilization Fund [of the Treasury]. 3) Pay the $1 billion in back dues owed to the United Nations. 4) Approve new 'Fast Track' negotiating authority."

The group's headline was, "A Time for American Leadership on Key Global Issues; the Asia Crisis Requires American Action Now."

LaRouche commented, "Now, that's a terrible name of an organization. Why don't we call it, 'The Belshazzar's Feast Committee'? That would be the appropriate thing." He continued: "The leading causes of this crisis are *precisely* what these guys are now recommending as a stronger dose of the same medicine. And, it's absolute insanity. It's like Belshazzar's Feast."

LaRouche said of their big push for IMF money, "Well, the IMF is the disease, it is not the cure. The UNO's role, the United Nations Organization's role in these current financial crises, which is what these guys address, is not positive, it's negative. The fast track is a piece of insanity, which actually has been part of the *cause* of this global crisis, and more of the same medicine is not going to cure anything, it's going to kill the patient. *What this represents, is a stubborn adherence to, clinging to a fatal ideology*. It's like a guy who is dying of a cyanide poisoning, or something, and is trying to cure himself by overdosing, or something of that sort.

"For example, here are some of the things they say, apart from the things I just listed. They say the primary solution to the Asia crisis lies in actions those affected countries must take to correct unwise economic, monetary, and financial policies. They add, 'several are already taking strong and painful steps to reform their economies.'

"Well, first of all, the unwise actions, if any, taken by these countries, are recommendations, strong recommendations, from the ideologues in the United States, and in western Europe, *and* in the IMF, *and* in the UNO, to do precisely what led into this crisis. The crisis itself was largely caused, triggered, by the unleashing of British swine—shall we say, the Gadarene swine—against Southeast Asia, beginning earlier this year, or last year, typified by George Soros. These are the guys—for example, Madeleine Albright, and, to some degree, the President himself has defended this swine, who is one of the triggers of the crisis. So, what has *caused* the crisis, is a shift, over a period of thirty years, more than thirty years, away from an industrial economy to what is called sometimes a 'post-industrial economy.' The breakdown of these economies is caused by an increase in so-called liberalization.

"In point of fact, we are now headed, within weeks, for a new round of this crisis. We are headed, if we continue on this course, for the collapse of the international monetary and financial system, possibly as early as this year, at least severe shocks to it this year. We are headed toward the disintegration of the present world economy, if we continue on this track. And, these guys are saying, like poor Oliver Twist, 'More!'

"But the interesting thing is the absolute, ideological fanaticism, and wild-eyed insanity of such people, to form such committees, to advocate such policies. Any rational person must, by now, recognize what the leading causes of this crisis are. The leading causes of this crisis are *precisely* what these guys are now recommending as a stronger dose of the same medicine."

Beware the Ides of March

The financial crisis deadlines piling up over the next few weeks, add up to special reasons to "beware the Ides of March." In Japan, where March 31 is the end of the fiscal year, the countdown continues of foredoomed bailout attempts in the banking and corporate sectors. In South Korea, a volcano of domestic debt is erupting, even while international focus has been on ways to handle foreign-held obligations.

The estimated total domestic debt in South Korea, at today's level of devaluated won, is over $300 billion; another $50 billion worth of off-balance-sheet corporate promissory notes is held by banks in Korea. As much as 50% of the debt is in the form of short-term obligations, some three- to six-month promissory notes; some are due in the February-to-March period, and some mid-November. Estimates are that as of January, smaller and mid-sized companies were failing at a rate of 100 per week.

The dry-up of new credit has hit exports and imports throughout East Asia. In Indonesia, banks and corporations have ceased entirely paying foreign debts, since the government announced its debt moratorium on Jan. 27. No letters of credit are forthcoming for trade. Organizing for a $20 billion export credit guarantee by Singapore and the United States is on hold until the March 11 elections; a delegation from Japan arrived on Feb. 13 to take up the issue of trade financing.

The currency devaluations in Southeast and East Asian nations automatically mean that the price of food imports have soared. Orders are being cancelled. Likewise, flows of inputs for assembly and fabricating plants in these nations are drying up. There is no financing.

Over recent weeks, unilateral measures have been taken by various trading partner nations, including Australia, the United States, and Germany. In late December, the U.S. Department of Agriculture set up a $1 billion fund for Asian nations to obtain guarantees for bank financing to import food from the United States. As of mid-January, South Korean importers had used $350 million of this. The USDA expects to spend $2 billion of its annual budget for these purposes this year.

The Australian government on Jan. 20 agreed to put up Aus$300 million as insurance for Australia's Aus$7 billion export trade with South Korea, because South Korean importers could not arrange financing. Australian Industry Minister John Moore said that the $300 million insurance package was desperately needed. "This is an emergency situation," he said. The Australian government-owned Export Finance Insurance Corporation, which normally provides insurance for risky markets, recently hit its limit.

As of mid-February, the Group of Seven (United States, Canada, Japan, France, U.K., Germany, Italy) was involved in discussions, with the backing of Treasury Secretary Rubin, to create a trade-finance pool of funds. Representatives of Hermes, the German export credit agency, were expected for meetings in Washington, D.C. on Feb. 11; and meetings were under way in Europe. James Harmon, chairman of the U.S. Export-Import Bank, said the pool may total $10 billion, and marks "the first time ever that export credit agencies of all G-7 nations, which normally compete with one another, actually get together and cooperate like this in order to deal with an emergency."

That $10 billion is a drop in the bucket. But the direction posed, of addressing questions of real output and trade of hard commodities—foods, fuels, intermediate and finished goods, is the right direction. If this, and the real interests of keeping national functions going, were taken up at the conference of nations on the financial crisis, later this spring (over 22 nations pledged to attend so far), there is potential for getting beyond the IMF collapse. The United States is hosting the meeting. The Caracas Group of 24, meeting in Venezuela on Feb. 9-11, issued an official declaration, calling for a new monetary system, and requesting collaboration with the Group of Seven on this task.

A tool for British colonial domination

On Feb. 10, the government of Indonesia confirmed the appointment of Steven Hanke as special counsellor to the Board of Economic and Monetary Stability. Hanke, since the 1960s, has been a professor of applied economics at Johns Hopkins University in Baltimore; and since the 1990s, part of the Friedberg Group of Companies (FGOC) of Toronto, Canada—a hedge fund, specializing in currency speculation. Though he travels on an American passport, Hanke himself, and his pet policy of the "currency board," are strictly British goods. Hanke met with President Suharto in early February, and shuttled back to Indonesia mid-month, to push his career specialty—the currency board—which was devised and implemented over the past 150 years as a practice of the British Empire for controlling colonies through monetary reins.

The currency board practice means that the colony only emits local currency in a one-to-one relation to holdings of the designated "mother" or "metropolitan" currency; the colony has no sovereignty over currency volume, credit, etc. The practice dates back to Britain's Bank Charter Act of 1844. London set up its first colonial currency board in 1849.

As of the 1970s, currency boards had all but died out, as former British colonies gained their independence, and ditched their monetary ties to London. But, in recent years, Hanke functioned as part of a concerted effort of financial interests in London to reimpose currency boards, on any vulnerable nation, in the name of "stability" and "investor confidence." Hanke did his dirty work as counsellor to Argentina (1995-96), to Bulgaria (1997), to the eastern Baltic nations, and so forth.

Meantime, Hanke pursues his related specialty, speculation against national currencies. The 1997 fourth-quarter corporate report of the speculation house Hanke is affiliated with, boasts of the company's success in gambling in Asia. The currency trading division of the Friedberg Group of Companies reported: "It was a far better quarter than we had ever imagined it would be. . . . The rapidly depreciating Malaysian ringgit provided almost 50% of our total gross profits, with another 25% attributable to bear strategies (selling calls and outright forwards) in the Japanese yen. The remaining profits came from . . . short positions in the Thai baht, the *Indonesian rupiah* and the Czech koruna" (emphasis added).

On Jan. 30, Hanke testified to the U.S. House Banking and Financial Services Committee, calling on Congress to mandate that the International Monetary Fund become more currency-board-friendly. Hanke extolled the case of Bulgaria in 1997, in which the IMF ordered that nation to relinquish its sovereignty, and set up a currency board, or get no IMF credits. Bulgaria complied, under conditions of desperation from national food shortages and economic breakdown.

Forthcoming issues of *EIR* will give full profiles of Professor Hanke, his speculation, and his currency boards.—*Richard Freeman.*