IMF: 'Bankers are dangerous people!'

Hysteria is spreading at International Monetary Fund (IMF) headquarters. Contacted on May 21 by a reporter for Resumen Ejecutivo *about the latest Indonesian developments, an IMF official said he could not speak for attribution, but was eager, in fact, aggressively so, to expound the IMF's view on background. The following is a portion of the exchange, which is revealing of the state of mind reigning at that institution: defensive, but ferociously committed to doing whatever is required to crush opposition to IMF dictatorship.*

Q: There are reports that the IMF is now saying that [Indonesian President] Suharto went "too far" in implementing price increases.
A: There was no schedule agreed . . . with the IMF. The general agreement was that the budget and costs associated with below-market prices had to be resolved at some point, but never had the IMF requested in the agreement that the gap should be filled at once, and immediately. In this regard . . . the decision to raise them at once, was of Mr. Suharto's own making. . . . In this regard, Mr. Suharto went *way* beyond what the IMF had agreed with his own government.

Q: Is the IMF feeling the heat on this, and is that why you're insisting on this point?
A: It's a fact! It's a fact! Why should the IMF feel the heat on this? It's factual!

Q: And you had to pull your people out?
A: Well, everybody did too, Ma'am. . . . To keep Indonesia in perspective: The restructuring of the banking sector which triggered the financial crisis was *urged* by the IMF executive in 1996, as written in public documents. . . . The IMF *urged* Indonesia *urgently* to restructure its banking sector. What Indonesia shows is that we have no leverage whatsoever on a government which doesn't want to do anything. That's the bottom line. That's a fact, and it's proven in the public record. That's the big lesson of Indonesia. . . .

The origin of the crisis, as in Thailand and South Korea, was the private banking sector, as it was in the savings and loans crisis in the U.S. The bottom line is that *bankers* are dangerous people!

Q: And not the IMF.
A: *No. Bankers* are dangerous people. And until now, we were not in charge of supervising private bankers. That was the job of the Fed and Office of the Comptroller of the Currency in the U.S., and in other countries, the central banks. And it is a fact that those central banks have *miserably failed,* for sure. . . . Proposals now, are to change completely the legal framework of the central banks. To devise an international banking code that can be applied everywhere. . . .

Let me tell you about Korea, to reframe the whole thing. . . . When the IMF did the program urgently in December, in less than a week for them, they had $6 billion left in their coffers. On Dec. 4, 1997. The whole country, the 11th country [largest economy] in the world, had $6 billion in their pockets, knowing that they owed $150 billion, and that money was flowing out at more than $1 billion a day. They were five days away from being completely bankrupt. The whole country! Five days away. Not two weeks or three weeks away, but *five days* away. . . . Indonesia is on a smaller scale than South Korea. Korea was a financial nuclear explosion in the making. And let me tell you: We save the world. We really save the world. . . . And I want you to reflect on that! . . .

If there had been a default situation, what happens in an economy when you don't pay for your imports anymore? Total trade operations are disrupted. *Petroleum imports stop.* Right away. . . . Less than three weeks later, the strategic stocks of the country are probably exhausted. That means transportation stops in the country. All transportation: ground, air. Air transportation with the rest of the world is cut off, because no planes can land, because you have no supplies in the country. Total breakdown of delivery of goods and services. Total breakdown of transportation of food from rural areas to the cities. To some extent you see that happening today in Indonesia. . . . What else is the next thing that collapses if there are no petroleum imports? Electricity! . . . Maybe 10% of Korea's energy comes from nuclear sources; the rest is from petroleum and coal. They collapse, you have no electricity after two weeks of time, maybe three weeks, electricity collapses completely. You are talking about a whole country going back to the Middle Ages. In less than three weeks. . . .

In the first half of March, the Bank of Indonesia lost $6 billion in reserves in 10 days, by paying banks $600 million a day, so they could pay their creditors. But none of the creditors got the money. What was going on? *The rats were leaving the boat, and we couldn't stop it.* This is corruption at its worst—

Q: Are you referring, as did [IMF Managing Director] Michel Camdessus last January, to the need for revolutions like the French Revolution?
A: There are many similarities. . . . No one thinks of the French Revolution as a magnificent example of a structural adjustment crisis, but it's a *perfect* example of a structural adjustment crisis!