

IMF is a classic 'zombie'; bury it fast and deep

by Marcia Merry Baker

As of mid-July 1998, the Webster's dictionary entry for a "zombie," applies in all essentials, to define the current condition of the International Monetary Fund (IMF): "A person held to resemble the so-called walking dead." Or, an entity which "is held to have died and been supernaturally reanimated."

The present-day IMF, known to be insolvent, known to perpetrate disasters, suffering, and failures, nevertheless still walks and talks in capital cities around the world, for lack of action to bury it. "Bring in the undertaker," was Lyndon LaRouche's advice in February 1997, when he called for an international mobilization for a "New Bretton Woods," an effort by nations to replace the dying IMF-era monetary system. Now, 18 months later, criticism of the Fund is stronger by the day, but still, the man with the shovel has not arrived. The upcoming weeks are the decisive period for action.

Bailout agency is denied bailout

At present, missions and agents of the IMF are still posted in many countries around the globe, in the name of "rescuing" those nations, including Russia, Pakistan, and Ukraine, and IMF delegations are travelling back and forth to Indonesia, South Korea, Thailand, and elsewhere. Since summer 1997, the IMF has been involved in more than 10 bailout packages (four of them for Indonesia; two for South Korea, Russia, and so on), all of them turning out to be a bust within weeks. Now, the IMF itself is running out of funds, and begging the United States for a bailout. Yet, still, it lurches on.

In an interview with the July 29 *Washington Post*, IMF Principal Deputy Director Stanley Fischer importuned for more money, by reporting that the IMF has only \$3-8 billion of its own money left to deal with an array of crises. "The

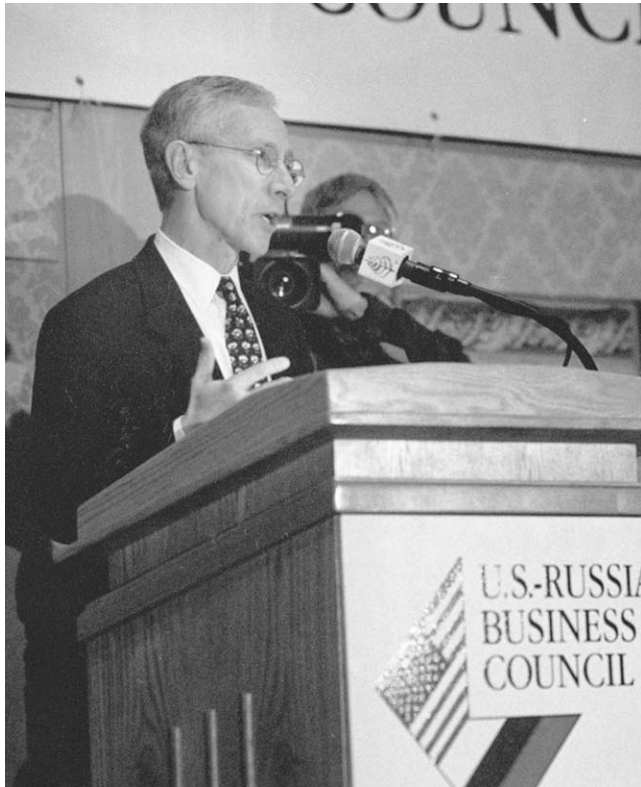
constraints on our ability to deal with any widening of the crisis are becoming stronger and stronger," he said.

Congressional action to fund the IMF has been stalled since 1997, reflecting the deepening anti-IMF mood in the United States public. As of now, the House of Representatives vote on the U.S. component of the funding increase for the IMF has been postponed until fall. In a late-night maneuver on July 21, House Speaker Newt Gingrich (R-Ga.) withdrew the IMF funding authorization bill which had been scheduled for a full committee mark-up the next day. Most news accounts reported the official explanation, that Gingrich decided to delay consideration of IMF funding until after the effectiveness of the IMF policies in dealing with the Asian and Russian economies, could be better assessed. However, by a plain head count, Gingrich just didn't have the votes.

Capitol Hill sources told *EIR* that not only were there insufficient votes to pass the \$18.5 billion IMF funding request made by the Clinton administration, but even the \$3.5 billion for the IMF's "New Arrangements to Borrow" was in question. Therefore, Gingrich pulled the bill before a vote could take place, which now is delayed at least until September. Earlier in the year, the Senate had passed the \$18.5 billion request, but nothing can happen without House action.

The *Congressional Monitor* noted that Gingrich did not want to run the risk of a contentious floor fight, which would have pitted GOP committee chairmen against one another. Bob Livingston (R-La.), chairman of the House Appropriations Committee, favors full funding at \$18.5 billion, while House Majority Leader Dick Armey (R-Tex.), after some flip-flops on the issue, has hunkered down to lead a floor fight against it.

As reported in the July 23 *Washington Times*, these Re-



Stanley Fischer, First Deputy Managing Director of the International Monetary Fund, laments that the IMF has only \$3-8 billion left to deal with a huge array of crises worldwide.

publican committee chairmen did all agree on one thing: to pull the IMF money bill in order to avoid more public embarrassment for the GOP leadership, which is badly split on the issue.

Some in the leadership are “going along for the ride” with the IMF, in the absence of any competent alternative. Livingston told reporters in early July, “I tend to sympathize with the argument that the IMF is not up to snuff.” Then, a few days later, he rationalized, “but I also agree with the argument that we’ve got an Asian crisis, we’ve got a Russian crisis, and that deferring IMF funding again this year would send a psychological message to the world that America is retreating within its borders and becoming more isolationist.”

The IMF’s Fischer acknowledged this line of criticism in the *Washington Post* interview, saying that the dismal performance of the IMF in South Korea and Thailand has fuelled American opposition to additional funding for the IMF. Fischer also admitted that the Indonesian situation is nowhere near stable, and that the specter of a deeper Japanese crisis makes all of Asia vulnerable. “When the crisis started, the most recent numbers we had from Japan showed very strong growth in the first quarter. We knew it would become slower, but we didn’t realize it would drop off a cliff,” he said.

In the “catalogue of bad tidings” for the IMF, the *Wash-*

ington Post presented an unusually blunt picture, noting that as Fischer “scans the world economy’s trouble spots, he sees plenty of reason to worry that the crisis may take more nasty turns.” Japan’s Nikkei stock market and the yen could drop “swiftly.” Ukraine, South Africa, and Malaysia are all on the verge of needing an IMF rescue package. And, the Russian stock market has fallen 24% since the IMF deal was announced in early July.

IMF is ‘an amputating god’

Other criticism of the IMF, especially from Asia, is not so polite. Singapore’s leading daily hauled out the heavy artillery against the Fund. In its July 26 issue, the *Straits Times* ran a “Crisis Special” in which the editors invited four famous-name economists to assess the IMF’s performance in handling the “Asian contagion.” The editors’ introduction reports that, on Jan. 11, they themselves had asked, “if the International Monetary Fund was the amputating god or angel of mercy?” Six and a half months later, their answer is: “Now, after the IMF has administered its bitter medicine to South Korea, Thailand, and Indonesia, it looks more and more like the answer is the former,” i.e., “the amputating god.”

The editors continue, “The free fall of the currencies may have been arrested, but certainly not the deterioration of the economies. The three countries have been plunged into deep recessions, with widespread bankruptcies, massive layoffs, and sharp rises in poverty. And the Asian crisis looks set to deepen further.

“So what went wrong? The continued downward spiral cannot be attributed to implementation failures by their governments surely, especially when Thailand and South Korea have taken the IMF medicine obediently. Even Indonesia started taking its proper dosage since April.”

The *Straits Times* then runs a joint article by Prof. Jeffrey Sachs and Dr. Steven Radelet, the latter at the Harvard Institute for International Development, followed by an article by Prof. James Tobin (Yale University), titled, “Tighten Belt? No, Spend Cash.” And, an additional criticism of the IMF came from World Bank senior economist Joseph Stiglitz, which first appeared in edited form in *AsiaWeek*.

Group of 22 meets in Tokyo

The best thing that could happen to the IMF, is for the Group of 22, the newly formed grouping of nations supposed to be working on changing the world monetary system, to form an old-fashioned burial society for the IMF. On July 29, a subcommittee of this group began meeting in Tokyo, to take up the task of recommending “early warning” mechanisms for national financial distress. U.S. Treasury Deputy Secretary Lawrence Summers was expected to attend. The G-22 arose out of a meeting of finance ministers in April, hosted by U.S. Treasury Secretary Robert Rubin in Washington, D.C., who spoke of creating a “new financial architecture” for the world monetary system. A crypt for the IMF is urgent.