

tered nurses. It lacks 25% of nurse positions in its operating room. When new nurses are found, it takes months to train them. As one nurse explained, you have to do their job and yours: "You're up to your elbows in hepatitis blood and AIDS blood. It's dangerous."

Indeed, both doctors and nurses report that they are increasingly witnessing medical mistakes by harried staff trying to do the work of several people. While past studies prove that having too few registered nurses has a dangerous impact on patients, a new study published in *Modern Healthcare* (April 24) reports that having a higher number of registered nurses, and having higher ratio of nurses to patients, are both strongly linked to lower mortality rates from pneumonia, sepsis (infection), shock, upper gastrointestinal bleeding, and urinary tract infections among medical and major surgery patients. The study analyzed 1997 data from more than 5 million patient discharges from 799 hospitals in 11 states.

National Political Battle

Some 15 states are weighing bills that would prohibit forced overtime for nurses as dangerous. From coast to coast, nurses were out in force throughout Nurses Week (May 6-12), in order to gain nationwide political support to reverse the crisis. On May 8, some 250 front-line nurses in the Service Employees International Union from across the United States rallied on Capitol Hill, to call upon Congress to take immediate action to tackle the problem. In visits to Congressional offices, the SEIU Nurse Alliance called on lawmakers to pass legislation that would establish safe staffing standards and ban mandatory overtime. Among the other legislators present at the rally, Senators Ted Kennedy (D-Mass.) and John Kerry (D-Mass.) announced their proposals to ban mandatory overtime.

On May 5, over 200 nurses rallied on the capitol steps in Harrisburg, Pennsylvania to demand an end to mandatory overtime requirements. Fred Hyde, CEO of Aliquippa Community Hospital (recently saved from privatization on the initiative of the Coalition to Save D.C. General Hospital in Washington), told protesters that Aliquippa was one of the first hospitals to outlaw mandatory overtime, a practice he called "involuntary servitude." State Rep. Dan Surra (D-Clearfield), who introduced a bill to ban the practice, said, "Truckers, pilots, and flight attendants have limits on the number of hours they can work, but people who work with the most vulnerable do not."

SEIU leader Eileen Connolly, representing 15,000 health-care workers in the state, said that hospital administrations routinely require nurses to work overtime, and noted that forced overtime does not solve the real problem—the severe nursing shortage. Rather, she said, this requirement is worsening the manpower problem in a self-feeding manner, by contributing to nurses' decision to "leave the profession. The cycle must stop."

Interview: Jan Kregel

The World Economy Is Staring into a Precipice

Dr. Kregel is an economist with the United Nations Conference on Trade and Development (UNCTAD), headquartered in New York and headed by senior Brazilian diplomat Rubens Ricupero; and is one of the authors of the UNCTAD report, "International Trade and Development, 2001," issued in late April.

The report's covering press release states that "the international economy is staring into a dangerous precipice," and recommends urgent changes in the international monetary and financial system to provide for international bankruptcy protection of unpayable debts.

The interview which is excerpted below, was conducted by Paul Gallagher on May 9.

EIR: In the report, you talked about the use of international bankruptcy procedures in order to protect debtor countries which have this unpayable debt. This is something which has been called for by Lyndon LaRouche and by *EIR* for years—for the advanced sector as well. Can you elaborate more, what the requirement for bankruptcy procedures is, as UNCTAD sees it now.

Kregel: Basically, this is linked to our attempt to introduce some sort of acceptable regulation for "debt standstills." If you look at the financial crises which have occurred, say, over the last 20 years, in particular the Asian financial crisis: Korea provides a very good example of this process at work. Korea had a position in which its outstanding short-term obligations, were in excess of its ability to pay out of its reserve position. Now, the question was—since these were short-term debts—did it mean that Korea was insolvent, in the sense that it could never pay?

Well, if we look back [over 1998 and 1999—ed.], we discover that Korea, in the space of something less than 18 months to June of 1999, managed to generate \$60.4 billion in net export earnings. The short-term exposure that they had was in the range—if memory serves me right—of around \$26-27 billion. So quite clearly, Korea was not insolvent. This was debt that Korea *could* pay. The problem was, it couldn't pay in terms of the [debt] maturity structure that existed.

Now, this is simply a problem of inter-temporal allocation of payment flows. Efficient markets are supposed to bring about an equilibrium in terms of these payments flows. The

problem is, that the way capital markets are currently set up, they don't. So, what happens? The creditors come in and say, "We want to be paid, now." If they can't be paid now, then you have default. When you have default—default of the banking system—the exchange rate collapses, and as a result, you end up with tremendous losses.

Korea suffered something like a 50% decline in the equity wealth of its productive sector. Now, this is extremely wasteful, because it was quite clear that Korea could pay the money back. The only problem was, it couldn't pay the money back within the space of the six- to nine-month maturities that were on the outstanding short-term debt. So, eventually, international debtors and creditors got together. The crisis broke out in November [1998]. By the end of March, they had reached an agreement for rolling over the debt. And by the end of the next year, Korea had paid it all off.

Now, the question was, was it sensible to allow the market to act in such a way as to bring about the destruction of 50% of the outstanding equity of Korean firms? And the answer is, No. It was obviously nonsensical.

So, how can we "help the market along" with this? Well, one of the ways you do this, is by introducing a "standstill." Had the IMF gone in, instantly in November [1998], called all the creditors together, and said, "Look. This is Korea. We know Korea is an engine to produce exports. We know that if they introduce the appropriate policies, they're going to be able to produce more than enough net foreign exchange earnings to repay. They obviously cannot repay you now. They'll be able to pay you in a year. On what terms are you willing to roll over for one year?" Now those terms are going to be a lot less than the losses that actually occurred.

So, what you want is some sort of organized procedure, institutionalized within the international financial architecture, which says that it should be normal for countries in this sort of position, to do this.

Now, one of the ways of doing that, is introducing some sort of formal bankruptcy procedure; because a bankruptcy procedure does not say that you are, in fact, bankrupt; it just says, "for the moment, I need to restructure my debts in order to be able to reorganize my assets, in such a way that I can meet my obligations."

And this is the sense in which we are supporting *any sort* of international bankruptcy court, or standstill procedure: something which allows debtors and creditors [nations] to come together, and to assess the situation, in much the same way that you have trading suspensions on the stock markets. This is basically the reason that you have a trading suspension. It says, "Okay, let's all now sit down, and recognize that if we all continue to try to sell, we're going to absolutely destroy our entire wealth. If, on the other hand, we take a reasoned assessment of the ability of our debtors to repay, we can assess what the likely repayment possibility is going to be, and act in a more coherent manner."

So, the standstill is exactly that same sort of idea. The equivalent for firms is the bankruptcy procedure. So that's the reason we are pushing this—to try and avoid what, in common parlance, are called "the asset grabs," that creditors may be encouraged to undertake.

EIR: Now, if we could come from what you just said about Korea, to the proposal that LaRouche has made for a New Bretton Woods international monetary reorganization, which—I think you know something about that?

Kregel: Yes.

EIR: Let us move from Korea to Japan. Is it not the case that in Japan, *internally*, as well as in its external investments, you have a problem of non-payable debts considerably bigger than the one that Korea faced and is facing?

Kregel: Considerably bigger.

EIR: And that, therefore, Japan represents the need of the advanced industrial countries to export *their* way—by exporting capital goods to the underdeveloped countries—out from under a tremendous volume of unpayable debt.

Kregel: Yes, in Japan you have two problems. If you go back far enough, the problem that Japan currently is facing, is the problem that the U.S. was facing in the late 1970s and early '80s. This was the problem of the appropriate way to treat the adjustment of exchange rates within the Bretton Woods system.

Effectively, the breakdown in the system meant that there was no recognized adjustment procedure. This is one of our basic criticisms, currently, of the International Monetary Fund (IMF), is that after the 1976 Jamaica Agreements, there was supposed to have been a substitution for the former Bretton Woods fixed-exchange-rate regime, in which all countries took some sort of responsibility for contributing to stability in international exchange rates. Well, in fact, no one has done this. And the major currencies—the yen, the euro, and the dollar—simply fluctuate without anybody worrying much about them, except when they get extreme cases, and then you get random interventions. But there is no sense that the fluctuations in a country's currency are responsible for anything else in the rest of the world.

In particular, if you look at the dollar-yen exchange rate, there is one school of thought which says that sharp movements in the dollar-yen exchange rate, in May 1997, was the trigger which, in fact, set off the sharp capital flows out of Thailand, and initiated the crisis in East Asia.

So, this is the first point. We have the problem of how the international financial system is going to produce the kind of exchange-rate stability which is required, in order to allow countries to participate in increasing their integration into the international trading system.

Now, that being said, what happened was, that after the

experience of the dollar in the early 1980s, the Japanese were, in a sense, pushed and convinced into what, for them, was an extremely expansionary monetary policy—real interest rates were driven down below zero for a substantial period of time—simply because this was necessary to support expansion in the U.S., and without any sort of major adjustment in the way exchange rates were determined.

So, the Japanese went through a period in which they built up massive excess productive capacity, in a world which at that time, was still working on what we would call international trade expansion through economies of scale. If you look at Japan, the trading sector in Japan is a relatively small proportion of its GDP—smaller than it is in the U.S., and much smaller than it is in Europe—so that, in effect, Japan really doesn't depend substantially on its trading. However, what Japan does depend on, is the international market, to push it sufficiently down a downward-sloping cost curve, to make Japanese production competitive, as the yen exchange rate has continued to appreciate over time.

So, it's not so much that Japan needs the foreign markets to export in order to survive in terms of its GDP; what it does need, however, is the foreign market in order to get its levels of production and sales up to a sufficiently high volume, so that they can take advantage of these very substantial economies of scale, to reduce their costs and allow them to continue to compete.

EIR: You have the calls which have been made on Japan, several times, by Prime Minister Dr. Mahathir bin Mohamad of Malaysia, that in Japan's proposed participation in an Asian Monetary Fund, Japan has to export, to Southeast Asia, machine tools and other capital goods for development—

Kregel: Right.

EIR: —rather than exporting its financial capital there; that it should be exporting its capital goods means of development in order to make those countries grow. This would also give Japan the basis to finally write off the tremendous volumes of unpayable, real-estate-based debt in their banking system, because they would be issuing credits in another direction, and those credits would be coming directly back as orders for their own capital goods production.

Kregel: Yes, this is quite clear. But this is a constellation of flows that we saw already in the late 1980s and the early '90s. If you look at Japanese firms' foreign direct investment in Asia, it goes up dramatically. This is what used to be called the "hollowing out" of Japanese industry. It was basically the shifting of productive capacity from Japan into Asia. The reason for this was . . . that Japan got into a position in which it could no longer offset the appreciation of the yen through the reduction in costs by increasing sales. So, what it did, was to shift production into lower-cost areas, which was, effectively, Southeast Asia.

Now, here we are, back to the currency problem again. This meant that Southeast Asia was importing capital goods and creating indebtedness, denominated in yen. But it was serving as an export platform, basically, to U.S. dollar-denominated markets. . . . So that you had Asia caught between Scylla and Charybdis: On the one hand, their debts were denominated in yen. On the other hand, their earnings were denominated in dollars, and they were selling, primarily, exports into the U.S. market. Now the reason for this, as I've already mentioned, is that Japan has a relatively small share of its GDP in trade. So that the market in which the economies of scale exist, is the U.S. market.

So, again, you had this problem. As long as exchange rates remained stable between the dollar and the yen, this was fine. But as soon as you got these very sharp fluctuations—the yen went from, in mid-1995, from a peak of 87-88 [yen to the dollar], to four years later, a potential 150. . . .

So what is necessary, is getting some sort of stability in the yen exchange rate, relative to the dollar. Because the simple fact is, that Japan is not a sufficiently large market to substitute for the U.S., in the production that Asia is going to create, as a result of the investments in real capital goods that Mahathir is calling on the Japanese to make.

EIR: Should this be done by countries imitating what Malaysia has done, and reinstating capital controls and exchange controls?

Kregel: Well, if you look at the [UNCTAD] report for 2000, you will find there a box, in which we argue very strongly in favor, again, of making part of the institutional infrastructure, the right of countries to do precisely what Malaysia did.

In fact, in our analysis, Malaysia did not do anything that was wrong. They continued to abide by all of their international obligations. The only thing that they did do, was to ensure that there was no ringgit [Malaysia's currency] trading outside of Malaysia. Every country has the right to do that—the sovereign issue of their own currency.

And Malaysia has consistently been a country that has tried to balance the impact of foreign direct investment inflows, with the assurance that they do generate a sufficient amount of exports to provide the servicing for those inflows. So this is a model which we support extremely strongly.

In fact, what we have recommended—Malaysia did have much more stringent conditions on foreign investors in the period before 1994, in which foreign direct investors that came in, effectively had to guarantee that they were going to generate a sufficient amount of net exports, to be able to meet the potential servicing of profit repatriation, and eventual principal repatriation, of foreign direct investments into the country.

This was one of the reasons that Malaysia was able to resist the strong calls for taking on an IMF adjustment pack-

age, in response to the crisis. If you look at the relative performance of Malaysia, compared to those countries that did take IMF adjustment packages, Malaysia managed to recover with a much lower loss of wealth and output, than those other countries.

EIR: If the UNCTAD recommendations about bankruptcy protection for debtor nations are to be implemented, should the IMF have any role in this, or is this rather something to be done by the nations themselves?

Kregel: Well, we have, in a sense, an ambivalent position on this. There is a reading of Article Six [of the Articles of Agreement of the IMF] which basically gives countries the right to introduce capital controls. There is also a way of interpreting those articles, which says that a country, unilaterally, might be able to impose a standstill [sovereign debt moratorium—ed.].

On the other hand, it would probably be much more convenient for the IMF to operate such a procedure. The only difficulty is, that the Fund is very different from what it was in the 1950s or 1960s: that is, a group of countries that were dominated by Europe and the U.S., in which all countries had more or less similar foreign exchange exposures and external account exposures. So, if you were the U.K., you could expect to have to borrow from the Fund one year; France might have to borrow the next year; so there was a good probability that you'd find yourself on the creditors' side or the debtors' side from one year to another.

This is no longer the case. The developed countries have not borrowed from the Fund, if memory serves me, since the mid-1970s. So, effectively, the Fund has become a group of creditor countries, and a group of debtor countries. Now, there's some "moral hazard," or explicit interest, which says that if you're a debtor, you probably don't want to go to a facility which is operated by your creditors. This is, in fact, why we have independent bankruptcy courts that handle these things, and the presumption is that the bankruptcy court is supposed to interpret the law in an even-handed manner, relative to the interests of debtors and creditors.

Will the IMF be able to do that, given that it has a predominance of creditors in a position to command a majority in the institution?

So, this is why we're ambivalent about having the IMF do it. It would be perfectly plausible to have something similar to the International Court of Arbitration, which arbitrates contracts among firms, which is independent and outside the judicial system of any particular country. There doesn't seem to be any reason why you could not do this in the same way. All sorts of business firms write, in their international contracts, that they will be subject to the International Court of Arbitration, rather than any local court. So, presumably, financial contracts could also be written in a way which says that they would be subject to some independent international arbitration or bankruptcy court.

EIR: On the Asian Monetary Fund, where the debate is going on among those countries, whether the AMF should be part of the IMF or not: Does UNCTAD have a view on that?

Kregel: Well, we were a bit disappointed—we've been involved in providing technical support to ASEAN [Association of Southeast Asian Nations] in the creation of these swap and surveillance arrangements.

The official position on this, is that this [IMF involvement] is what was required to get international acceptance; but we feel that it would have been much more effective, had it not accepted IMF conditionality as part of the arrangements.

EIR: In LaRouche's proposal for a New Bretton Woods, the heart of it is that the creditor countries, in international terms, not only put under bankruptcy protection the debt of the developing countries, but that they organize monetary arrangements whose purpose is to allow them to invest large volumes of credits in infrastructure development in the underdeveloped countries—in what are, in these terms, protected debtor countries. What is your view of that?

Kregel: This again goes back to the question of the change in the mandates of the Bretton Woods institutions. We used to have an institution that was supposed to do that. It was called the International Bank for Reconstruction and Development. Unfortunately, it has turned itself into a "poverty reduction organization," or a local social officer, rather than somebody that looks after the efficiency of the production platform of the country. The original idea was that project financing was supposed to provide precisely that sort of infrastructure that a country did not have the independent resources to pay for, and could not support, because it did not yet have sufficient international earnings. It [the Bank] was absolutely crucial in providing the infrastructure which was required to produce *a level of per-capita income growth* which would allow them to repay.

Now, it's simply not in that business anymore. And there is nobody else in that business. And it is quite clear that the problem still remains: That is, that the countries, on their own, do not have the wherewithal to provide the sort of infrastructure investments that are required. And somebody has to do it. So, this would be a very useful way of carrying out that mandate.

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