

# Danish Parliament hearings tackle world financial crisis, IMF blunders

by Poul Rasmussen

On Feb. 3, 1999, the Political and Economic Committee of the Danish Parliament took the unusual initiative of convening a hearing on the international financial crisis. The committee had invited experts from home and abroad to brief the members of the Parliament on various aspects of the crisis, and possible solutions to the global financial instability which is shattering national economies around the world.

The primary audience of this all-day event, consisted of representatives from all of the ten parties in the Danish Parliament, but in addition, there were officials from the Finance and Economics ministries, the National Bank, and representatives from all of the Danish banks and major industrial corporations. The chairman of the Schiller Institute in Denmark was also invited to attend the hearing. This invitation came as a response to the Schiller Institute's international appeal to U.S. President Clinton to convene a New Bretton Woods conference, which was initiated in February 1997. The appeal and the renewed call for a New Bretton Woods by Schiller Institute founder Helga Zepp-LaRouche in March 1998, was sent to all the members of the Danish Parliament. Then, during the first week of August 1998, just prior to the explosion of the Russian financial crisis, every member of the Parliament received a copy of a Danish Schiller Institute pamphlet on the financial crisis. This prompted one of the members of the Political and Economic Committee to request more information on the financial crisis from the institute. The input from this inquiry was indirectly reflected in the proceedings of the Feb. 3 event.

## IMF on the hot seat

In his opening remarks, the chairman of the committee, Steen Gade from the Socialist People's Party, set the tone of the hearing by noting that the International Monetary Fund (IMF) has come under severe criticism for the way in which it had handled the financial crisis, and he continued, "I hope that we, in this hearing, among other things, can have a fruitful discussion on the role and the policies of the IMF. And I stress—with the focus on the future. Therefore, when we discuss this item on the agenda, then we focus on new strategies to prevent future crises in relation to the IMF."

He added, "The other key issue is the discussion about

new paths for the world economy. Do we need a new international conference, a New Bretton Woods? Or is the discussion on the table in relation to the ongoing debate within the IMF sufficient?"

The first presentation came from Jørgen Elmeskov, deputy director of the Policy Studies Branch of the OECD's Economics Department, who took upon himself the task of explaining the factors behind the instability of capital flows to the emerging markets, which came as a result of the eruption of the financial crisis in Asia. He discussed the "herd mentality" of international investors and the contagion of the international crisis. In a neutral fashion, Elmeskov presented three options for dealing with instabilities in the international flows of capital: 1) maintenance of the free flow of capital; 2) introduction of currency boards; and, 3) reintroduction of a fixed exchange rate mechanism. Anticipating a discussion of the introduction of capital controls, Elmeskov emphasized that any such move would have to be evaluated from a cost-benefit standpoint, and a thorough analysis of the anticipated effectiveness.

Charles Yeo, research manager of the Market Intelligence Department, NatWest Group, London, gave a short history of the financial crisis, tracing its roots back to the two oil crises of the 1970s and the Mexican debt crisis in 1982. He presented a very bleak view of the future. "This is neither the first nor the last financial crisis," he said. "There will be further 'accidents' down the road." Besides a deterioration of the crises in Japan, Russia, and Brazil, Yeo warned about an escalation of the international financial crisis stemming from a possible collapse of the banking system in China, and a subsequent devaluation of the Chinese currency. He also warned about serious debt problems arising in Turkey and South Africa.

Joakim Stymne, chief economist at the brokerage house Alfred Berg Scandinavia, presented the impact of the Asian financial crisis on the Scandinavian economies. Although none of the Nordic countries exhibit any direct fall in their GNP yet, a closer analysis of their foreign trade figures reveals a dramatic collapse of exports to Japan and the rest of Asia. Worst hit is Sweden, with a total drop in its Asian exports of a whopping 46.6% in 1998. Finland is faced with

a decline in its exports to Asia of 32.7% in 1998, and Denmark has seen a drop of 24.5% in its 1998 exports to Asia. Norway has only lost 4.2% of its Asian exports in 1998, but, being a major oil exporter, the country is very hard hit on another front, the global collapse of oil prices.

The first major criticism of the IMF came from Christian Friis Bach, chairman of the Danish Association for International Cooperation (DAIC), a non-governmental organization (NGO). Presenting the latest figures from the International Labor Organization (ILO) on the dramatic rise in unemployment and poverty in Thailand, Indonesia, and South Korea, he blamed the IMF for its destructive economic dictates to these countries. According to Friis Bach, it is indisputable that the IMF contributed significantly to the Asian crisis, by imposing unnecessary austerity measures and uncalled-for liberalization of the financial sectors in the affected countries. He then presented the official DAIC proposal for a complete reorganization of the world financial system. This includes a total reorganization of the IMF, the reintroduction of capital controls on short-term investments, a "Tobin tax" on speculative currency transactions, and last, but not least, a New Bretton Woods conference.

The Schiller Institute representative asked Friis Bach to comment on the concrete measures taken by Malaysia to stop the speculative attacks on its economy. The rest of the panel was also asked to comment on the prospect of whether other countries, such as Brazil, might introduce a "Malaysian model." He replied that the DAIC, in principle, favors capital controls, but only as a global instrument, not as a protective measure implemented by single countries, such as in the case of Malaysia. Yeo of NatWest Group conceded that the Malaysian capital controls had been successful, but warned that the country would "pay dearly" if the measures were kept in place too long.

Unfortunately, Jack Boorman, head of the IMF Policy Development and Review Department in Washington, did not arrive at the hearing until after Friis Bach had delivered his stinging attacks on the IMF, and since Friis Bach had to leave before the afternoon session, where Boorman spoke in defense of the IMF, no direct confrontation occurred. Instead, the committee had invited Peter Skott, an economist at the University of Aarhus, to present a critical review of the IMF policies, to which Boorman was supposed to answer. But unfortunately, Skott's presentation was incoherent and utterly incompetent, leaving Boorman the opportunity to freely present the IMF view of the world. Not surprisingly, Boorman said that the financial crisis did not come from any misbehavior on the part of the IMF, but was solely the result of the inadequate financial policies of its victim countries. "We need more transparency in the national financial policies of the individual member countries," he intoned.

When Boorman identified the origin of the Asian financial crisis as being a sharp and irresponsible rise in short-

term borrowing by the Asian countries, in the wake of the Mexican crisis in 1995, the Schiller Institute representative intervened and confronted him with the fact that this was done on the direct recommendation of the IMF and the Bank for International Settlements. These countries were told to do this in the name of globalization, instead of relying on national credit generation. Boorman tried to evade the question by mumbling about "too many young IMF employees turning out too many reports." One Danish banker approached the Schiller Institute representative afterwards and said, "You were absolutely right. That was exactly what they [the IMF] did."

Professor Stephany Griffith-Jones of Sussex University in England presented a number of reasons why "the architecture" of the international financial system needs to be revised. She pointed out that the IMF today has taken upon itself a role which it was not designed to have at the original 1944 Bretton Woods conference. The IMF was just supposed to extend credits to countries with temporary liquidity problems. Today, it is supposed to handle the fiscal policies of the afflicted country, while keeping both the international creditors and the international financial markets happy. That is an increasingly impossible task, Griffith-Jones said. Therefore, she is in favor of the creation of a new world central bank, and the implementation of a global Tobin tax.

The final presentation of the day was made by Danish Finance Minister Mogens Lykketoft, who happily reported from his recent trip to the World Economic Forum in Davos, Switzerland, that most experts agree that the world will eventually pull out of the crisis. He attributed the "remarkable strength" of the U.S. economy to its lead in information technology. He foresaw a number of minor changes in the international financial institutions, such as the IMF, but he did not expect any major formal set of agreements, along the lines of a "New Bretton Woods."

The Schiller Institute representative challenged the Finance Minister on his analysis of the U.S. economy, dismissing the U.S. information technology lead as nothing but a bubble based on Internet stocks, and the famous "U.S. economic boom," as nothing but a bubble based on consumers borrowing money. Playing on the well-known image of Lykketoft as Denmark's Mr. Austerity, the Schiller representative joked that if anything like the so-called U.S. economic boom would ever happen in Denmark, a certain Mr. Lykketoft would quickly enter the scene, and impose draconian measures to cut consumer consumption. Both the audience and the Finance Minister laughed, recognizing the truth of the remark.

In reply, Lykketoft acknowledged that there was a heavy component of consumer spending in the U.S. economic boom, but claimed that the low inflation figures means that it is a positive sign. As for the "information technology" issue, he acknowledged that there was indeed a danger that a crash would bring the Wall Street bubble to an end.