date Lyndon LaRouche has revealed that the greatest fear among International Monetary Fund (IMF) members at their annual meeting in September last year was that Malaysia's radical anti-IMF controls might succeed.

He said attendees to the meeting in Washington last year privately expressed their fear that this would undermine the role of the Fund as the world's debt policeman, a job which has increasingly come under criticism for making things worse for financially troubled countries.

"A country in crisis has little choice but to turn to the painful IMF cure but failure to sign with the IMF threatens all but the most courageous governments with being blacklisted from international credit markets for years," he said.

IMF policies worsen the country's economy at severe social and economic cost, he said in an article entitled "It's Time To Sue the IMF" contained in the *Executive Intelligence Review,* which is based in Washington.

It was issued by the National Economic Action Council here today.

Unlike Thailand, South Korea, and Indonesia which went to the IMF for billions of dollars in financial assistance, Malaysia staged its economic recovery by moving away from the Fund and adhering to expansionist policies while adopting unorthodox selective capital controls.

The move, chastised by many including the IMF, restored stability to the financial system by weeding out volatile speculative funds, leading to Malaysia being able to post a positive growth of 4.1% in the second quarter of this year.

In contrast, when it adopted in late 1997 tight monetary policies prescribed by the IMF in other affected economies, Malaysia slipped into a crippling recession, causing the economy to contract by 7.5% last year.

LaRouche said that few private lenders or governments would lend to a country which has not been "certified" as behaving according to IMF conditionalities after undergoing a crisis, he said.

LaRouche emerged over the course of the 1970s and 1980s to rank among the most controversial international political figures, calling for a "just new world economic order" and the urgency of affording what has sometimes been termed "Third World nations and their full rights to perfect national sovereignty."

He said the Fund's policies aggravated what was originally a serious short-term crisis in Asia since July 1997.

The policies "have resulted in worsening the economic prospects of hundreds of millions of people around the world," he said.

He said that the scale of IMF damage to global real economic growth now is such that it threatens far more than the individual countries involved.

"It is time to end the role of the IMF in this criminal activity before it ruins us all," he said.

In his blunt manner, LaRouche also said that the IMF was running a swindle on behalf of private banking interests.

Referring to the latest developments between the IMF and Ukraine, he said: "The Ukraine government should sue the IMF and World Bank for damages resulting from following the IMF's advice."

This should be a class-action suit with other nations which have been caught in the same IMF swindle. All these countries are entitled to recover costs and damages from the IMF and World Bank, he said.

LaRouche said despite the appropriate and unprecedented criticism of IMF policy, "nothing has changed for the better."

Since 1977 and the Italian IMF agreement, no Group of Seven (G-7) country has applied for IMF medicine.

"The IMF, has instead, become in effect a weapon against the economies least able to take such medicine—emerging or once developing countries," he said.

East Europe: 'Marshall plan,' or disintegration

by Lothar Komp

At the end of the decade which began with the crumbling of the Iron Curtain, the economic performance of Russia, measured in U.S. dollars, is 50% of what it was in 1989. In Ukraine, there is a residue of a bare one-third of the economic activity that existed in 1989. Over the course of the "shock therapy" experiments carried out by the International Monetary Fund (IMF) and by economists from Harvard University, investments in the modernization of infrastructure and industry in Russia were depressed to below the miserable levels which had prevailed under the communists, and expenditures for health, education, and research have been almost entirely eliminated. At the same time, hundreds of billions of dollars in capital value were extracted from the economy, and these found their way ultimately into the stock-market bubbles of New York, London, and Frankfurt.

Now, both Russia and the Ukraine are in a state of unofficial, sovereign bankruptcy. According to new estimates of the Socio-Economic Institute of the Academy of Sciences, 60 million Russians already live below the poverty level, while overall life expectancy has been lowered within this decade by some five years.

Economic developments in the so-called "reform countries" of eastern Europe have taken a somewhat different course. Some countries, such as Poland, the Czech Republic, and Hungary, managed to attract significant foreign direct investments, with which a few oases of modern industrial production emerged. But, since there was no broad investment in transportation, energy production, and other infrastructure, there has been no take-off in the direction of a real reconstruction of these economies. In addition, all of these economies are experiencing extreme fragility, because they are dependent on short-term foreign capital flows. Any new tremor in the world financial system, whether it comes from South Korea, Russia, or Brazil, immediately leads to panic reactions among the ranks of foreign investors, and the currencies, stock-markets, and banking systems then go on the skids.

Since the Kosovo war, a dramatic deterioration of the economic situation has set in throughout eastern Europe, leading to a near-standstill in economic activity in some southeastern European countries. Indeed, Europe is at a cross-roads: On the one hand, a Marshall Plan-style program for southeastern Europe could represent the bridge connecting these countries to the immense economic development in Asia, which will determine the dynamic of the world economy in the 21st century.

But, such a Marshall Plan cannot be limited to short-term aid to defray the costs of the war. In order to meet the immense needs for investments in infrastructure and industry, it is necessary to create institutions which channel long-term credit into the most urgent investments, on the model of the German Kreditanstalt für Wiederaufbau (German Reconstruction Bank) in the years immediately following World War II. If this second chance for the reconstruction of the European east is missed, the southeast of Europe will be transformed into a nest of crises, war, waves of refugees, and epidemics, which will sever western Europe from the regions of growth in Asia.

TABLE 1
Foreign debt, year end 1998
(billions $)

Poland	42.7
Hungary	26.7
Czech Republic	24.0
Slovakia	11.8
Slovenia	4.9
Croatia	8.5
Romania	9.1
Bulgaria	10.1
Russia	145.0
Ukraine	11.5

The results of 'market reform'

Economic storm-flags are also flying in the "model countries" of market-economic reform. In the first five months of this year, Poland's exports fell 7.3%. Russia, which was still the second-largest export market for Polish agriculture and industry a year ago, has dropped to 12th position as a consequence of the financial crisis and the collapse of the ruble. Agricultural exports to Russia dropped to one-quarter the level of the previous year. Exports to the European Union also dropped significantly. The Polish current account deficit increased in the first seven months of this year to $6 billion, more than double the deficit of the same period last year. In June, official unemployment in Poland exploded to 11.6%, compared to 9.6% the previous year. The large drop in the mining and steel sectors still lies ahead: Approximately half of the coal mines in the country are scheduled to be closed, and that will require laying off 125,000 of Poland's 190,000 miners. In addition, some 40,000 jobs are slated to be cut as part of the restructuring of the steel industry.

The Czech economy has been in recession already since the introduction of drastic austerity measures in the spring of 1997, and the situations has deteriorated recently, due to the crisis in Russia, the Kosovo war, and the drop in demand from western Europe. In the first quarter of the year, Czech industrial production dropped 9.1%. Expectations are that official unemployment will rise over the course of the year, from 7.5% to 10%.

No other country in eastern Europe carried out as radical a privatization as in Hungary. Today, 60% of the Hungarian banking system is foreign-owned. Of the total industrial export of Hungary, 80% comes from firms owned by non-Hungarians. And although the volume of foreign direct invesment per capita is several times larger than in the other east European neighbors, the total of these investments has created a mere 60,000 new jobs. The sell-out to foreign investors includes infrastructure. Telecommunication, energy production, and water supplies were sold off to foreigners to an extent which would be inconceivable—still—in nearly all western European countries. New transportation construction was also financed with private, foreign capital, but with meager success: In mid-August, the government had to de facto nationalize the company which had managed the M1 and M15 highways to Austria and Slovakia. Since Hungarian car drivers shied away from paying the excesive tolls, the firm was unable to pay off its creditors.

The effects of the war

In Croatia, the war destroyed tourism, the most important source of foreign exchange, while export income has sufficed to pay for only half of the imports for a number of years now. Croatia has been in a lasting recession over this time in any case. Since the fourth quarter of 1998, economic performance has been negative. Official unemployment reached 19% in June 1999, compared to 16% the previous year. Following the banking crisis of 1996-97, another bank crisis broke out in the spring of 1998, which is still swallowing up considerable volumes of state funds, and is also smothering economic activitiy. More than a dozen banks were either placed under state management or went bankrupt.

The effects of the Kosovo war on Romania and Bulgaria have been disastrous. On account of the economic collapse of Russia and Ukraine, both of these countries oriented themselves increasingly to the West in recent years. But, since the bombing of the Serbian bridges over the Danube and the blockage of the other transit routes through Yugoslavia, the most important transportation routes to the West have been severed, so that trade with the West is now collapsing, just as trade with the East did before. Yugoslavia itself was, in addition, an important trade partner for both countries. Bulgarian exports dropped in the first half-year by 21% with respect to the previous year. Industrial production fell 8.2%, following the drop last year of 12.7%. The government fears that the current account deficit this year could be triple that of last year. Given the deterioration of the Bulgarian economic and financial situation, the flow of foreign capital has slowed to a trickle. Given the mechanisms of the "currency board," introduced following the hyperinflation of 1996-97, this is driving interest rates sky high, and domestic banks are cutting the domestic credit lines to Bulgarian firms.

In the first seven months of this year, Romania had to pay some $2 billion to its foreign creditors, chiefly the IMF and the World Bank. The country's exchange reserves, which were at $3.8 billion at the beginning of 1998, and were still $2 billion a year later, have now been depleted to the grand sum of $800 million. Sovereign bankruptcy lurks just around the corner. At the beginning of August, Romania concluded a new agreement with the IMF on a short-term standby credit, of which a piddling $73 billion have been paid out. On Aug. 25, Prime Minister Radu Vasile publicly accused the IMF of exacerbating the economic recession in the country with its conditionalities, which could lead to unrest and demonstrations in the fall. In fact, the economic integrity of the country is disintegrating. It is not unusual for firms to pay interest of over 400% for long-term credit. In a counter-move, state and private enterprises have gone on "strike," i.e., they refuse to pay taxes and social security fees. According to Finance Minister Decebal Traian, tax revenue "has practically reached a standstill."

The years 1997 and 1998 were already economic catastrophes for Romania: Industrial production dwindled by 5.9% and 17.3%, gross capital investments dropped by 15.9% and 18.1%, and gross national product fell by 6.6% and 7.3%, respectively. In the first quarter of 1999, industrial production has again racheted downward by 10.5% with respect to the previous year. Official unemployment has risen above 11%, and will increase by year's end to 16%. The national currency has been devalued by another 60%, with the corresponding effect on the purchasing power of families' domestic income.

Following the rapid and unbridled collapse, since 1989, of the standard of living, epidemics and undernourishment have spread. At the beginning of August, the Health Minister reported the outbreak of a meningitis epidemic in the north of Romania, which followed the cut-off in May of water supplies to the region, because it had not paid its water bills. In the city of Baia Mare, on the border with Ukraine, many cases of hepatitis have turned up, caused by the polluted water. Other diseases, such as typhus and cholera, long thought to be monsters of the past, have suddenly returned.

The only adequate way to characterize the economic situation in Yugoslavia, Bosnia, Macedonia, and Albania, is to say that it is worse than anywhere else. These economies have collapsed. According to an estimate of the London Economist Intelligence Unit, the war damages in Yugoslavia run at 110 billion deutschemarks (roughly $70 billion). In addition to transportation routes, energy supply, and industrial plant, a large segment of agricultural production was destroyed by the bombing, so that massive flows of refugees into neighboring countries are expected for the winter, when hunger and the cold drive people out of Yugoslavia. The Belgrade Institute for Economy held a press conference on Aug. 28, and said that the Serbian economy is in complete collapse. Industrial production for the first half of the year is 30% lower than last year, which was already 60% below the performance of eight years earlier. Per-capita income is now lower than in Albania, previously taken to be the poorest country in Europe.

Meanwhile, Albania is undergoing a singular experience. Despite its having participated in the Kosovo war and having provided for 450,000 refugees, it is being left in the lurch by NATO members. The most urgent measures necessary to alleviate the economic emergency in Albania are in the area of basic infrastrcuture. At the end of June, the Albanian government presented a national infrastructure plan at the Balkan Stability Summit, in Sarajevo, which provides for a network of highways and rail lines to be constructed to link Albania with the rest of Europe, with transportation routes to Macedonia, Bulgaria, and Greece. Other parts of the plan foresee natural gas and oil pipelines, the construction of a water management plant, as well as links to the electricity grids of neighboring countries. The investments required would cost an estimated $3 billion. But the European Union, primarily, is deaf to such plans. In Sarajevo, the Albanians were fed conciliatory phrases, but the European Investment Bank said at the end of August, that it had paid out not one cent of the 40 billion deutschemarks promised in February 1998 for the construction of a road from the port of Durres to the capital, Tirana. This road is part of the priority corridor no. 8, which runs from the Mediterranean through Albania and Macedonia to Istanbul. Then money had not been paid out, the bank claimed—despite the presence of NATO—because no one could be sure where the money would really go.