

Bankers on New Financial System: 'Don't Go There'

by Jeffrey Steinberg

On May 15-17, hundreds of central bankers, finance ministry officials, private bankers and brokers, industrialists, and leading politicians gathered in Washington, under the sponsorship of the Economic Strategy Institute (ESI), for what one participant called "Davos on the Potomac," a reference to the annual World Economic Forum that draws similar large crowds of monetary heavy-hitters to the Swiss Alps for a week of seminars and private talks. Among those who addressed the forum were U.S. Defense Secretary William Cohen, U.S. Treasury Secretary Lawrence Summers, former Philippines President Fidel Ramos, and South Korean President Kim Dae-jung.

The gathering of some of the "best and the brightest" of the trilateral world's economists and economic policymakers, unfortunately, had the aura of "Balshazzar's Feast." Despite public warnings from several prominent Asian participants, and a stark admission by Bank for International Settlements Managing Director Andrew Crockett, that the world financial superstructure is reeling from a decade of shocks, and is ill-prepared to deal with the next, inevitable financial crash, the majority of participants refused to "read the handwriting on the wall," and seriously take up the question of a New Bretton Woods reorganization of the global financial architecture.

Clyde Prestowitz, Jr., a former senior Reagan Administration Commerce Department official, and founder of the ESI, had written in the pages of the London *Financial Times* on Nov. 2, 1999, that Malaysia had proven all the experts at the International Monetary Fund (IMF) wrong, and that "there is much to be gained from studying a strategy for recovery that rejected IMF prescriptions." Yet, when Malaysia's former Finance Minister Dato' Mustapa Mohamed delivered a strong warning about a looming new Asia crisis — this time triggered by a crash on Wall Street — and chastized the Group of Seven (G-7) governments in particular for failure to establish a new global financial architecture, a groundswell of support for

the more-than-overdue overhaul of the world financial order failed to materialize.

The Chiang Mai Initiative

Mustapa Mohamed led the Malaysian delegation to the May 6 Association of Southeast Asian Nations (ASEAN)-plus-Three meeting in Chiang Mai, Thailand, which established an Asian currency pool to beat back the anticipated next round of hedge-fund speculative attacks on Asian currencies and markets. According to sources who participated in the Chiang Mai event, efforts to take up the broader issue of the Asian Monetary Fund (AMF), including a development fund that would lend for large-scale development projects in the region — outside the framework of IMF and World Bank conditionalities — were stymied by fears on the part of both China and Japan of alienating the United States.

At the time of Chiang Mai, the forthcoming vote in the U.S. Congress on Permanent Normal Trade Relations with China, was weighing heavy on the leadership in Beijing. And, Japanese officials had come under heavy pressure from Summers at the recent G-7 meeting of central bankers and finance ministers, to maintain their policy of zero interest rates, lest the flow of money into the global financial bubble be disrupted, and a ratchet collapse of the world asset markets triggered.

Treasury Secretary Summers, who, as deputy secretary in 1997, had thrown a public fit against the initial AMF proposal by Japan's then-Deputy Finance Minister Eisuke Sakakibara, is even more adamant today, that no initiatives be taken that might interfere with his efforts to avert another financial shock before the November 2000 U.S. President elections. Summers's bully tactics on behalf of the unelectable Al Gore, however, did not stop the officials gathered at Chiang Mai from taking the first, crucial step, to distance themselves from

the insanity coming out of London and Wall Street, in particular (see Kathy Wolfe, "Financial Crisis Prompts Asian Chiang Mai Initiative," *EIR*, May 19).

Furthermore, according to participants at the ASEAN-plus-Three event, both Japan and China are still committed to the AMF plan as a whole, and have been encouraging Malaysia to "take the point" in keeping the momentum for the broader regional defense against the insanity in Washington, London, and elsewhere.

In a campaign policy statement that was widely distributed on May 17 among the ESI conference participants, Lynndon LaRouche denounced the bullying by Summers on behalf of Gore and Wall Street, as "monstrous," noting, "The efforts of Summers, Greenspan, et al. have put the U.S. at the throats of the vital interests of its trilateral partners, continental Europe and Japan." He characterized the actions at Chiang Mai and the motion toward an Asian Monetary Fund as an important step toward the realization of a New Bretton Woods system, the key points of which he spelled out in the statement (see p. 6).

Warning Signs Galore

During one session of the ESI forum on May 16, "The Coming Global Crisis," a group of well-known financial "experts" tripped over each other's feet, in an effort to juggle the acknowledged evidence of the systemic crisis with the conference theme: Globalization is a panacea, that will make us all rich, if only everyone will learn to play by the rules of the "new economy."

David Levy, of Levy Forecasting Institute, in response to a question from *EIR*'s Suzanne Rose, rejected the idea of returning to a fixed-exchange-rate system, because the floating-rate system has brought "too much success for too long."

Steven Roach, the chief economist for Morgan Stanley, described his role in a New York Council on Foreign Relations study group on the new financial architecture, but fudged on any true systemic reform. He did acknowledge that some concerted action had to be taken against the unchecked flows of "hot money," to force more long-term investment. But then he schizophrenically said, "I am not as concerned about derivatives."

Nevertheless, in a statement quoted the next day by the Xinhua Chinese news agency, Roach acknowledged that, with the "forging of a new axis of leadership between Japan and China that could have much to say about the region's economic and political prowess in the 21st century, Asia is now taking matters into its own hands in shaping a new financial architecture."

Bank for International Settlements Managing Director Crockett was brutally frank in his opposition to any such "Asia first" maneuverings. In his luncheon keynote on May 15, he warned that any new architecture must preserve two key elements of the current, admittedly dysfunctional system: hegemony of the private capital markets, and retention of the

IMF system of harsh conditionalities. In a private discussion with *EIR*, he lashed out at the idea of an Asian Monetary Fund, calling it a move by Asian states to "create their own IMF, with their own conditionalities." Crockett was equally adamant that, under no circumstances would he support a return to a Bretton Woods-modelled system of fixed exchange rates.

Crockett had preceded these ravings with a fairly accurate account of the succession of grave crises that have hit the world financial system, beginning with the crash of the European Rate Mechanism in 1992, as a result of speculative attacks. He recounted the Mexico crisis of 1994-95, and observed that the same hot-money-driven crash had also occurred in Asia in 1997-98. By the time the Russian default occurred in August 1998, Crockett admitted, a "knock-on effect" had set it, wherein crises in one part of the global financial system rapidly spread to other areas. The near-crash of Long Term Capital Management (LTCM), as the result of the Russian default, almost sank the entire global system, Crockett acknowledged. And, nothing can stop another series of devastating crises, he added. "The global financial markets . . . are not functioning well."

President Kim: New Architecture Needed

Crockett's agitation at the idea of a return to a Bretton Woods sane system had been stoked earlier in the day on May 15, when South Korea's President Kim Dae-jung delivered the keynote presentation, via satellite hookup from Seoul.

"I believe that we must firmly establish a new international financial architecture as soon as possible," Kim stated. "In the international financial markets, where more than \$1 trillion are being transacted every day, the efforts of any single nation are not enough to help maintain financial stability. This was proven by the crises in Asia, South America, and Russia."

Kim also repeated recent warnings by Japanese Finance Minister Kiichi Miyazawa, that the Wall Street bubble is a threat to the rest of the world. "Recently, moreover, we have witnessed a prominent phenomenon: World stock markets, including those in Asia, often act in concert with the New York Stock Exchange."

"I insist that a hedge fund and short-term capital monitoring channel must be set up, so that major national and international financial organizations can exchange information and maintain close, cooperative relations," Kim stated.

The clash between the podium globaloney rhetoric that characterized the majority of presentations during the forum, and the fears of a systemic crash by many in attendance, was captured in an informal discussion that *EIR* had with David Hale, chief global economist for the Zurich Group in Chicago. After Hale voiced confidence that the system would probably muddle through, this writer asked him, "What happens if the billion dollars a day in foreign capital inflows to the U.S. were to dry up?" Without blinking an eye, he responded: "The whole global system would crash."