IMF in Denial of Italy Vote, New Bretton Woods

by Michael Billington

International Monetary Fund First Deputy Managing Director Anne Krueger is the author of a plan which claims to deal, through IMF-controlled "national bankruptcy" proceedings, with the growing number of nations with unpayable debt burdens. Speaking in Washington on Oct. 7, Krueger exposed the IMF's rage against the only real solution to that global problem—the rapidly expanding international movement in support of the New Bretton Woods proposal of U.S. Presidential pre-candidate Lyndon LaRouche. At the free-trade fundamentalist American Enterprise Institute (AEI) forum on Krueger's plan—known as the Sovereign Debt Restructuring Mechanism (SDRM)—she blew up at mention of the Italian Parliament's vote on Sept. 25 to support LaRouche's idea.

Dr. Krueger was asked from the floor by *EIR:* "The Italian Parliament on Sept. 25 passed without opposition, a resolution inspired by Lyndon LaRouche's proposal [Krueger grimaced at the name] for a New Bretton Woods. The resolution recognizes that steps must be taken in regard to individual nations in debt trouble, including especially Argentina, but locates the crisis within the crash of the global, U.S. dollar-based system. . . . The Italian resolution calls for a new, global financial system with fixed exchange rates, bankruptcy proceedings for the banking system itself, and long-term low-interest credits for large infrastructure development as the basis for the new financial system. How do you respond?"

"Been there, done that," was the IMF official's hostile comeback. Krueger said that economists have different views on this problem, but claimed they all agree that you cannot have both fixed exchange rates, and sustained lending for development. The Asia crisis, after all, she insisted, was the result of the Asians' fixed exchange rates. The lesson of the post-war era is that "no one is willing to subordinate their economies to a global fixed-exchange regime *in which we retain capital mobility.*"

Of course, LaRouche's New Bretton Woods proposal most emphatically does away with Dr. Krueger's unfettered "capital mobility," a bankers' term for the unregulated flow of hot money in the speculative jungle which now dominates the falling world markets. In fact, the only reason that fixed exchange rates caused a problem in the Asian economies was the lack of controls over capital flows—as proven by the acknowledged success of Malaysia's defense against the speculators and the IMF; its government imposed both a fixed exchange rate, and partial capital controls.

But Krueger went further, revealing her, and the IMF's, state of denial in regard to the now self-evident and accelerating crash of the global financial system—particularly, an almost hysterical denial of the collapse hitting the world's hyper-debtor. "But I also object to the idea that there is a global financial crisis," she said. "Certainly in the United States, there is no debt problem. The economy is large enough to sustain its current debt levels without difficulty. The premises of your question are of dubious value, but, in any case, the solution you propose is a medicine worse than the disease." Whether she intended the irony or not, this was precisely the phrase used throughout the world in regard to the IMF's own policies, after the 1997-98 breakdown in Asia!

After the meeting, Krueger was handed the Oct. 4, 2002 *EIR,* containing the Italian Parliament resolution, and told that the entire Italian Chamber of Deputies had backed it. She responded—truthfully, it appears: "They [Italy] are living in a world I don't know."

It's the IMF That Is Bankrupt

The SDRM is the current name for the bankruptcy plan first put forward by Krueger on Nov. 26, 2001, in the midst of the collapse of the Argentine economy, when it became apparent that the continued bailout of insolvent nations, one-by-one, would bankrupt the IMF-based system itself. Krueger's plan called for the IMF, essentially, to take over the economy of the bankrupt nation, imposing bone-crushing austerity, the forced sell-off of state sector corporations, and an open door to foreign takeover of banks and industries—i.e., typical IMF conditionalities—all in exchange for a stretching out of foreign debt obligations. Some reduction in the total debt would be considered—equally shared by the creditors—with assurances that so-called "rogue lenders" would be prevented from going to court to demand full and immediate payment ahead of the others.

In an attempt to cover up the blatant colonial nature of this plan, Krueger subsequently made modifications to allow for the appointment of a "Dispute Resolution Forum," separate from the IMF Executive Board, to run the bankruptcy process. She admitted, however, that the Forum "would have no authority to challenge decisions by the Executive Board of the Fund; for example, regarding the adequacy of the member [nation]'s policies or the sustainability of the member's debt."

This plan, posed as a helping hand to the poor nations of the world, not only ignores the biggest bankruptcy on Earth, centered upon the American banking system and the insolvency of the U.S. government itself, but offers absolutely nothing to deal with the collapsing economies of the developing sector nations. As is now clear in the case of Brazil (see *Feature,* this issue), whether the IMF does or does not bail out the debt, the IMF itself is bankrupt.

The Krueger plan did not appear out of nowhere, but was prepared over a number of years by the leading Anglo-American banking circles, to counter LaRouche's February 1996 call for an international conference of sovereign nations to create a New Bretton Woods monetary system. Former Federal Reserve chief Paul Volcker and Institute for International Economics founder C. Fred Bergsten, formed an "Emerging Markets Eminent Persons Group" (EMEPG) in November 2000, to find some means of preventing the global financial crisis from leading nations to support LaRouche's proposal for a new system altogether. Most worrisome to these spokesmen for the banking oligarchy was the response in Asia to the 1997-98 "Asian crisis," when the nations of East and Southeast Asia took measures to unite behind a new Asian monetary system, providing the potential to break out from under the control of the bankrupt IMF structure.

On Nov. 5, 2001, just weeks before Krueger announced her own bankruptcy plan, the EMEPG released a study called "Rebuilding the International Financial Architecture"; it called for stabilizing exchange rates, regulation of hot money and hedge funds, capital controls—but only if allowed and run, case by case, by the IMF. It advocated "the establishment of an international legal mechanism for restructuring sovereign debt contracts, similar to the Chapter XI proceedings under the U.S. bankruptcy law." This was the essence of what then became the Krueger plan.

The purpose of these proposals was not to rebuild the underlying productive structure of these nations (as America's Chapter XI statutes intend), but to assure the continued capacity of the creditor nations and creditor banks to collect their debts from destitute and collapsing economies—if with a moderate "haircut"—while preventing any cooperation between the subject nations towards creating a new monetary system.

This had been clear since the failure of the effort to create a "new world financial architecture" in the wake of the "Asian crisis." President Clinton and his Treasury Secretary Robert Rubin created a "Group of 22," comprising both advanced and developing sector nations, which met at the Willard Hotel in Washington in April 1998, with the explicit intent of revamping the world financial system along the lines of Franklin Roosevelt's original Bretton Woods concept. The hopes born of that initiative were buried in the witch-hunt impeachment of President Clinton, and the IMF "medicine" that brought ruin to nations across the globe.

Alternative to Colonialism or Chaos

The current "debate" among the stable of professional economists concerning the debt crisis is a disgraceful case of rearranging the deck chairs on the *Titanic.* The "alternative" to Dr. Krueger's Sovereign Debt Restructuring Mechanism, vigorously defended by its proponents, is Collective Action Clauses (CACs) between sovereign debtors and their creditors—basically letting the debtors and creditors fight it out on their own. This brilliant scheme is aimed at discouraging countries from "overborrowing," and creditors from "overlending." The fact that the majority of developing sector debt comes not from borrowing, but from the speculative devaluation of their currencies, deterioration of terms of trade, and related policies totally outside of their control, is not a subject of these debates. Nor is the fact that the debt can not and will not be paid, even if the populations of each nation were entirely deprived of the means of existence—as is now being implemented in the once rapidly developing nation of Argentina.

Others, such as several of the fundamentalists at AEI, simply call for cutting off the insolvent nations from all international credit, letting "the magic of the marketplace" kill off the less fit.

There is no longer any alternative to the creation of a new world monetary system, and the Italian Parliament has demonstrated that even a G-7 nation is capable of acting on that fact. If the IMF's Krueger still doesn't know the world in which that resolution was adopted, then perhaps the record-setting electoral victory of LaRouche's allies in the recent Brazilian elections will enlighten her.

"Been there, done that. It won't work," was IMF Deputy Director Anne Krueger's heated denial of the Italian Parliament's proposal for a new monetary system along Lyndon LaRouche's lines. Krueger was in heated denial at an Oct. 7 Washington forum.