

## Group of 22 debates 'new financial architecture'

by William Jones

The Finance Ministers and central bank governors of 21 nations plus Hong Kong met in Washington on April 16 at the invitation of U.S. Treasury Secretary Robert Rubin, to discuss the shape of the "new architecture," as Rubin likes to characterize his idea of revamping the international financial system. The idea itself came out of the Asia-Pacific Economic Cooperation (APEC) meeting in Vancouver last year, where Asian leaders called on President Clinton to convene such a meeting, where the countries in Asia could meet with the developed nations and nations of Ibero-America, which had also been hit hard by financial dislocations. The meeting occurs at a point when all eyes are focussed on the crisis in the Japanese banking system, the symptom of a broader international, systemic financial crisis.

In a speech at the Brookings Institution on April 14, setting the theme of the week's flurry of meetings—the G-7 Finance Ministers, the Special Group of 22, and the IMF Interim Committee meeting—Rubin indicated something of the shape such a new architecture should take. "A half-century ago, when the world was emerging from a very different period of history, Franklin D. Roosevelt urged Americans to support him in working with other nations to create international institutions that would spell the difference between a world caught again in the maelstrom of panic and economic warfare . . . and a world in which the members strive for a better life through mutual trust, cooperation and assistance. The result was the Bretton Woods institutions—the International Monetary Fund and the World Bank—followed later by a range of other collaborative arrangements, such as the World Trade Organization, central bank networks, and the regional development banks."

"Throughout their history, the international financial institutions have had to adapt to a changing global economic

landscape, and they have, by and large, done so successfully," Rubin continued. "But over recent years, the pace of change in the global economy has accelerated. The Asian crisis has demonstrated how badly flawed financial sectors in a few developing countries, and inadequate risk assessment by international creditors and investors, can have significant impact in countries around the globe."

### The New Bretton Woods

Rubin's reference to Roosevelt's founding of the Bretton Woods system was significant. Over one year ago, Lyndon LaRouche issued a call to President Clinton to convene a New Bretton Woods conference to create a new, stable, global monetary system to replace the bankrupt IMF-World Bank system. This call quickly rallied support from numerous political quarters from around the world. Leading financial figures such as Japan's Deputy Minister Eisuke Sakakibara also began speaking of the need for a "New Bretton Woods."

When Rubin was asked by a LaRouche associate, attending his Brookings speech, about LaRouche's call for a New Bretton Woods, Rubin responded, "I don't know what a New Bretton Woods is. I don't know quite what that means. I think it was enormously important to the success of the global economy for the past 50 years." Referring to his vision of the "new architecture," Rubin said, "Probably when all is said and done, the changes would not, in their totality, be as far-reaching as the original Bretton Woods. And secondly, the original Bretton Woods, as I recollect it at least, was the creation of a set of institutions at a moment in time. I think what this will be is a period of change, some of which change has already taken place, and much of which lies ahead, rather than a single moment in time."

At the meeting itself on April 16, the issue of a New



*Members of the Japanese delegation arrive at the G-22 meeting at Washington's Madison Hotel on April 16. Third from the right is Shozaburo Nakamura, the State Secretary for Finance.*

Bretton Woods provided the backdrop, if not the substance, of the meeting. Members of the Schiller Institute were standing right in front of the Madison Hotel as Group of 22 delegates arrived, with a banner reading "LaRouche—New Bretton Woods System Now" (shown on the cover of this magazine). Groups of LaRouche supporters were chanting, "Hey, hey, ho, ho, the IMF has got to go." Another chant was "Robert Rubin we say thanks, not a nickel to the banks," referencing Rubin's famous comment about the financial crisis.

While providing the background, the idea of a New Bretton Woods was not presented at the meeting. A member of the Korean delegation, who spoke to *EIR* following the meeting, said that they would have liked to have raised the issue of a New Bretton Woods at the meeting, but, given the meeting's format and orientation, decided not to. There was, however, a very intense discussion of some of the issues that would have to be a part of such a system. Rubin made clear from the beginning that the delegates were not there to complete the "new architecture." "The purpose here tonight is to exchange views, to learn from each other, and to move the process forward," Rubin said. "We do not expect to reach definitive conclusions tonight."

### **Hot money, capital controls**

One of the key items of discussion during the evening was short-term capital flows, the "hot money" which had been at the root of much of the "Asian crisis." Speaking at a press conference arranged by the Japanese delegation after the Madison meeting, Shozaburo Nakamura, the State Secretary for Finance at the Japanese Finance Ministry, said that he had, at the meeting, underlined the importance of dealing with the

huge amounts of short-term capital flows, the hot money, to which he attributed the crisis in the Japanese banking system. "The Asian crisis resulted from a massive movement of private funds," Nakamura said. "The monitoring of these private funds is very important." Nakamura said he was calling for an investigation of how these movements actually influenced the "Asian" crisis. Nakamura had put the issue on the table both at the IMF meeting and the meeting of the G-22.

Nakamura remarked that the Malaysians had also expressed concern over the hot money. "Malaysia also mentioned that short-term funds were a threat to their country," Nakamura said. Malaysian Prime Minister Mahathir bin Mohamad had, earlier last year, attacked the speculators as the cause of the collapse of the Malaysian currency. Nakamura said that his own call for monitoring the hot money had received support from Secretary Rubin at the Madison meeting. "Rubin said my points were very important," Nakamura said.

Actual capital controls, which would not only monitor but actually regulate such hot money, were also an item of discussion. When *EIR* asked Rubin about this after the meeting, he said, "Capital controls were brought up at the meeting. Some people felt they are an appropriate component of the architecture of the future. Others have doubts and reservations. But I have no doubt that a lot of thought will be given to that suggestion." He continued, "My instinct is that those countries considering them will not decide to employ capital controls. But it is clear, that is one of the ideas on the table."

The other question under heated discussion concerned the role of the IMF in this new architecture. Rubin himself had underlined on numerous occasions that the "IMF would be in

the center” of any new architecture. But there were definitely strong opinions regarding what role — if any — the IMF should play. In characteristically diplomatic manner, Nakamura had also brought up the IMF. “I had stressed the need for transparency of the IMF itself,” he said. “Other countries share the same viewpoint.” No one attending the meeting, however, would go as far publicly in their critique of the IMF as Italian Foreign Minister Lamberto Dini had done in an interview with *La Repubblica* on April 14. “The IMF is an institution born after the war which so far has undergone few changes in structure and operational methods. We need a deep reform and a rethinking of the whole logic through which it operates,” Dini said. It’s clear that numerous delegates at the Madison were thinking as much, even if they didn’t dare to express it openly.

Rubin indicated, in comments to reporters at the Madison, that arriving at the “new architecture” would take time. “We made a lot of progress in our thinking,” he said, “but there is an enormous amount of work left to do. These are very complex issues, issues of how the risks of the 21st-century global financial markets are going to be dealt with. There is no question that there was universal agreement, that we must have mechanisms both on the preventive side and on the side of dealing with risks that we don’t have today. You’ll see not a single moment, but an evolution taking place, possibly over years.”

### Three working groups

The decision was made to form three working groups which would concentrate on the three major areas around which the meeting had been organized: 1) increased transparency and disclosure; 2) strengthening financial systems and market structures; and 3) appropriate burden-sharing between the official and private sectors in times of crisis. The working groups will begin their work in the spring and present their considerations some time in the fall.

The “steady” pace of deliberation may be rapidly outstripped by the accelerating pace of the financial collapse itself. As Rubin himself readily admitted in his introductory remarks to the Madison gathering, “In a world in which trillions of dollars flow through international markets every day, there simply will be not enough official financing to respond to the scale of crisis that could potentially occur.”

Monitoring the hot money flows alone will not prevent an explosion, if the flows themselves cannot be effectively regulated. And, without the stability of the fixed exchange rates that a New Bretton Woods would provide, it is well-nigh impossible to carry on the trade and long-term investment required for the world’s glaring infrastructure needs. It is all well and good for Secretary Rubin to attempt to “bring our thoughts together and bring about an international consensus” on the new architecture, but that great mother of invention, Necessity, may force a fundamental change in financial institutions, long before all the parties find themselves fully in agreement with the required solutions.

# Behind the scenes, bankers fear the worst

by Marcia Merry Baker

During the week of April 13-17 in Washington, D.C., contingents of financial officials from around the world gathered for dozens of events connected to the International Monetary Fund mid-year conference and related institutional confabs. While the proceedings of all these institutions were pre-scheduled for business-as-usual deliberations, the statements and exchanges in and around the sessions were anything but. They show the impetus building for a New Bretton Woods process, away from the failing institutions and practices of the IMF era.

An intense debate process is under way, especially on the questions of hot-money flows, and the need for capital and currency exchange controls. This issue, upon which Malaysian Prime Minister Dr. Mahathir bin Mohamad launched a fight at the annual IMF meeting in September 1997, directly addresses the central issue of the speculators versus the sovereign nation-state. On Sept. 21, 1997, in Hong Kong, the weekend Dr. Mahathir spoke out on this, the *Wall Street Journal/Asia* carried front-page coverage attributing Mahathir’s action to Lyndon LaRouche’s influence. According to that view, you would now have to think LaRouche has managed to be everywhere at once, to account for the denunciations of financial speculation coming forth from all sides.

For example, an official from the Bank of Japan told *EIR*, following the April 15 meeting of the Group of Seven in Washington, “Mr. LaRouche is right that the excesses of the floating exchange rate system are intolerable. We cannot have a situation where an Asian company is worth \$2 billion one day, and the hedge funds come in and speculate down the currency, and then the company is worth only \$500 million the next day, so the foreigners can buy it up. . . .

“The problem is that we cannot even get close to dealing with this exchange rate issue, until we deal with how to monitor the hot money, and with the world banking crisis. The hot-money flows, the hedge funds, the foreign private sector bad bank loans to countries such as Indonesia, are a huge factor which is dwarfing the IMF and the governments. The private sector money flows and debt are far, far too big for the IMF to control.

“The major focus of the G-7 meeting today was actually this issue: How to get the private sector banks and others involved in the process of reform of the world financial architecture; how can we get the private sector to cooperate? That is why we are insisting on studies on this matter. How can the governments get some idea on how to control this?”