

## IMF Admits Bankruptcy; Wall Street Alternatives A Fraud

by Kathy Wolfe

Admitting that the debts of its post-1971 floating rate financial casino cannot be paid, the International Monetary Fund (IMF) has called for new laws allowing countries with unpayable debts, to seek bankruptcy protection under the IMF to avoid “chaotic default.” “There remains a gaping hole” in the financial system, IMF First Deputy Managing Director Anne Krueger told the National Economists Club in Washington on Nov. 26: “We lack incentives to help countries with unsustainable debts resolve them promptly and in an orderly way.” There are “too many countries with insurmountable debt problems.” With the 1990s mushrooming of the bond market, each debt now has too many creditors to coordinate, allowing uncooperative “vulture” creditors to create panic. Agreed rules for international bankruptcy, Krueger said, could prevent “unnecessarily heavy costs” for “the international community.”

This is a “dramatic admission that the IMF system has failed,” *EIR* Editor Lyndon LaRouche said on Nov. 28. The same day, the nation of Argentina, with \$120 billion in foreign debt, was declared bankrupt by creditors, and Japan’s banks, the world’s largest with almost \$3 trillion in assets, were declared “crippled” by Moody’s and Standard & Poor’s debt raters.

The IMF plan, in fact, is a confession, not a plan. It is one of many Anglo-American schemes now popping up, with one, panicky aim: to convince angry leaders in Asia, Ibero-America, Russia, and elsewhere, to “stay on the IMF ship *Titanic*.” Promising “IMF reform,” Wall Street spokesmen such as former Federal Reserve Chairman Paul Volcker and Lazard Frères banker Felix Rohatyn — and Wall Street’s “critics” like former World Bank chief economist Joseph Stiglitz and Harvard’s Jeffrey Sachs — have recently hosted a profusion of conferences, committees, and new institutes to “fix

the system.” A group of well-meaning Third World scholars convened by Volcker and former U.S. Treasury official C. Fred Bergsten, for example, released a 48-page report on IMF reform on Nov. 5, “Rebuilding the International Financial Architecture.” A new Center for Global Development “dedicated to reducing global poverty and inequality,” featuring Stiglitz and Sachs, was founded in Washington on Nov. 27.

Rohatyn, Volcker, et al. will try anything to forestall demands for the real solution: *the IMF system itself must be shut down, and replaced by something completely new.*

### LaRouche’s Alternative

The only workable alternative is the policy of LaRouche to shut down the supranational IMF, and have sovereign nation-states take back their economies. In speeches around the world, from the Russian and Italian parliaments to global press interviews, LaRouche has said that today’s entire dollar-based monetary system is completely bankrupt. The IMF’s coy “we’re partly bankrupt” admission should break the dam and free national leaders to follow LaRouche’s lead. Why should they accept IMF diktats, when far more equitable proposals exist? Since 1991, LaRouche has repeatedly called for an “orderly bankruptcy reorganization” of all global debt, similar to Franklin Roosevelt’s 1933 U.S. bank holiday — but under the control of sovereign nation-states, not the IMF’s “world government.”

In February 1996, LaRouche proposed a “New Bretton Woods” international monetary conference on the model envisioned by Roosevelt before his death in 1945, to eliminate colonial empires. This would create a new, fixed-exchange-rate monetary system, which is only feasible after the debt is reorganized. Based on gold, foreign exchange, and long-term, low-interest trade credits, it would industrialize the Third



*The IMF acknowledged on Nov. 26 that “some” sovereign national debts are unpayable. The specter of “bankruptcy reorganization for nations” proves that Lyndon LaRouche was right in his Aug. 31 challenge to Wall Street fixer Felix Rohatyn, that a “New Bretton Woods” means abolishing the IMF and the bankrupt system it controls.*

World. Perhaps most important, LaRouche’s 1991 Eurasian Land-Bridge plan, the “New Silk Road,” proposes to use large-scale, high-speed rail and associated “development corridor” projects as a “science driver.” Only something of this magnitude can stimulate the leap in exports for the United States and other industrial nations needed to get the world out of the current depression.

To counter the international discussion of LaRouche’s policy, the London *Financial Times* of Aug. 20 floated Felix Rohatyn’s essay “Back to Bretton Woods,” which proposes minor reforms in the IMF dictatorship (see *EIR*, Aug. 31, 2001, “Rohatyn Must Not Duck The Issue,” by Lyndon LaRouche, Jr.).

### **IMF Dead-Ends**

Krueger’s Nov. 26 speech, in midst of the devastating news from Argentina, Japan, and Enron Corp., was the latest IMF/Wall Street attempt to parody parts of LaRouche’s proposals (while blacking out LaRouche’s name altogether) to save the very system which is destroying the world economy. LaRouche’s “competition” has also conveniently buried its own miserable track record. As Fed Chairman, Volcker shut down 20% of America’s industrial base and created the savings and loan disaster. As czar of the 1975 New York City bankruptcy, Rohatyn destroyed the city’s infrastructure. As the IMF’s enforcer in 1990s Russia, Sachs’ “shock therapy” and “shareholder reforms” viciously looted the Russian economy; he is widely accused in Moscow of “genocide.”

Since September 1997, in discussion of LaRouche’s program to break the IMF stranglehold on national credit and economies, *EIR* has repeatedly been told of “counter-proposals” from the Volcker-Stiglitz crowd. In October 1997, after

Malaysian Prime Minister Dr. Mahathir bin Mohamad established exchange controls to guard his country from the run on Asian currencies, the *Asian Wall Street Journal* warned that he would be labelled a pariah for “implementing the ideas of extremist Lyndon LaRouche.” After Washington crushed the Japanese-Malaysian idea for an Asian Monetary Fund (AMF) in 1998, *EIR* was told by one Tokyo source: “LaRouche has good ideas on a New Bretton Woods, but I’ve been asked by Dr. Stiglitz to help him reform the World Bank first.” Asked to address an *EIR* conference on the New Bretton Woods in March 2001, a Korean author of the AMF plan said, “LaRouche is right, but I’ve just been invited to speak on monetary reform at a Harvard forum organized by Jeffrey Sachs on the same weekend as your conference.”

### **‘Brand X’ Schemes**

These schemes have the common, insane assumption that only developing nations are bankrupt, and thus require “IMF oversight” on loans, case by case — while the Group of Seven industrial countries are never subject to the same rules of reality. Under this double standard, the net bank and bond credit inflows of \$50-150 billion a year into East Asia during the second half of the 1990s, is used to justify claims that Asia “over-borrowed” and got the crisis it deserved in 1997. Yet during this same period, U.S. corporate debt rose by \$800 billion or more *per year*, and total U.S. private household debt rose by \$400 billion or more *per year*. Meanwhile, the growth of speculative derivatives casino betting by major U.S. and European banking centers nearly doubled, to \$140 trillion, between 1995 and June 2001. This doesn’t even mention the trillions which went into the Dow, Nasdaq, and London stock bubbles, now burst.

In fact, Asia and other developing areas have been making *net repayments* of \$20-100 billion a year to New York and London markets since 1997, a form of welfare for Wall Street (*EIR*, Nov. 16, 2001).

In February 1996, when LaRouche proposed his New Bretton Woods, he predicted the “Asian Tigers” would descend into crisis due to withdrawal of speculative hot money, and he endorsed the Asian Monetary Fund. In June 2000 came “Brand X,” as Asian officials reported that Volcker’s “Bretton Woods Commission” was founding a committee of Third World economists to promote “the same thing which Mr. LaRouche is advocating.” In July 2000, Japanese officials reported that NATO’s Atlantic Council was organizing a “New Bretton Woods” conference to try to stop formation of an Asian Monetary Fund.

While organizing a highly successful conference for May 5, 2001 on LaRouche’s New Bretton Woods in Berlin, *EIR* learned of no less than three counter-events organized by IMF and critics from the IMF’s “loyal opposition,” all proposing discussion of unspecified “new international financial architectures.”

Then came Sept. 11. As *EIR* organized a second conference in Berlin for Nov. 5, featuring LaRouche’s New Bretton Woods, it was learned that the Volcker-Bergsten “Emerging Markets Eminent Persons Group” (EMEPG), originally scheduled for Sept. 17, would be rescheduled for—Nov. 5. On that day, the Volcker EMEPG presented its report, “Rebuilding the International Financial Architecture” at Washington’s National Press Club. The EMEPG report discussed at length a proposal for “establishment of an international legal mechanism for restructuring sovereign debt contracts similar to the Chapter 11 proceedings under the U.S. bankruptcy law,” already under discussion at the UN Conference on Trade and Development (UNCTAD). That proposal accepts the IMF system, but asks for fairer treatment of individual loans, case by case—nothing like LaRouche’s policy that the bankrupt monetary system itself be put through Chapter 11. And the EMEPG admitted: “Consensus within the international community on the creation of an agreed and binding insolvency framework for sovereign debtors is not expected in the foreseeable future.”

Not surprisingly, the EMEPG report was funded by a \$500,000 grant from the Ford Foundation, and the document written at Britain’s Oxford University by Prof. Valpy FitzGerald, the group’s rapporteur. In addition to Paul Volcker and C. Fred Bergsten, its Advisory Board also includes Joseph Stiglitz and Ernest Stern, former Managing Director of the World Bank, now a top gun at J.P. Morgan.

## Wall Street Still Against Any Bankruptcy

Krueger’s proposal to place such a bankruptcy plan into the hands of the IMF is a similar attempt to control the agenda. Although the media characterized Krueger’s approach as a “Chapter 11” or “bankruptcy” approach, she herself did not

call it this, but rather a “sovereign debt restructuring mechanism.” This plan has *absolutely nothing* to do with American-style Chapter 11 bankruptcy, because it puts nations under IMF diktat.

The IMF claims it does not want to allow large write-offs of foreign debt, but rather to allow “troubled” countries to apply for a short break in paying debt service, not more than a few months, while negotiating a deal with creditors. During the negotiations, temporary capital controls could be imposed. The IMF would play the key role as a supranational arbiter in such bankruptcy procedures, to “ensure the debtor behaved appropriately.”

Said Krueger, “It will not be enough to pass laws in a few leading countries. In practice, the mechanism must have the force of law universally.” She said the IMF wants to stop “rogue creditors,” who “prefer a disorderly process allowing them to buy distressed debt more cheaply,” or who go to court to demand full payment rather than participate in a restructuring. She pointed to the role of U.S. marshals in private bankruptcies, who make sure that creditors abide by the rules, and tried a joke: “To my knowledge the IMF is not yet proposing its own military wing.”

Such a plan could not be implemented for years. It requires new laws to pass over 100 IMF member-country legislatures, which could take decades to implement. It would not apply to today’s debt, but only to new contracts negotiated afterwards. “None of what I have to say tonight has implications” for any existing loans, said Krueger, “to Argentina and Turkey, for example.”

Washington and London bank lobbyists would likely kill the plan in the shell. Goldman Sachs, J.P. Morgan, and other Wall Street top guns denounced it. “This is the Chicken Little approach,” a Goldman spokesman said. “It’s like shouting ‘The sky is falling!’ And it will only choke off capital flows to nations from Turkey to Nicaragua.”

All this announces the fraud involved in the inauguration on Nov. 27, of the Center for Global Development (CGD), “dedicated to reducing global poverty and inequality.” This latest countergang to LaRouche was set up at C. Fred Bergsten’s Institute for International Economics. Its board features, again, Dr. Stiglitz, Bergsten, Jeffrey Sachs, and many other longtime colleagues of Krueger in the “Third World handler” mini-industry. “Events of the past two months make clear that promoting growth, reducing poverty, and preventing states from failing are national security objectives as well as moral imperatives,” said Nancy Birdsall, Executive Vice-President of the Inter-American Development Bank (1993-1998), who is president of the new Center. World Bank President James Wolfensohn made opening remarks. Stiglitz proposed a “world bankruptcy workout institution.”

The CGD’s program is simple: “We’ll discuss anything, if Third World countries agree to stay in the IMF system.” Now is the time to leave it.