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 prescheduled 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?"

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The final communiqué of the Group of Seven, issued on April 15, contains a clause (Paragraph 8) on the "undesirable" results of volatile exchange rates, which "exacerbate" large national imbalances (see *Documentation*).

The IMF and hot-money flows

Japan's Vice Finance Minister Eisuke Sakakibara, along with Bank of Japan Governor Masaru Hayami, stressed at their April 15 press conference after the Group of Seven sessions, that a study should be undertaken of the IMF and hot-money flows. Hayami, in a prepared statement, announced that Japan had made a formal request to the G-7 that the IMF be required, first, "to implement its own transparency and disclose more fully all documents, letters of intent, policy framework papers, conditionalities, and so on" being demanded of nations; and second, that the IMF "make a study of excessive short-term currency and capital flows, and ways in which to monitor them."

At his press conference following the G-7 discussions, Sakakibara pointed a finger at the United States, on the menace of speculative volatility: "In fact, there was also extreme concern about the volatile situation in the U.S. financial markets," he said.

Others, especially in Germany, are also sounding the alarm. According to the German economic daily *Handelsblatt* on April 16, Bundesbank President Hans Tietmeyer stated at a press conferences in Washington, D.C., that stormy developments on international stock markets have to be carefully watched, and that money supply expansion is dangerous. Though wanting to avoid giving any market signals, Tietmeyer warned, "However, there is no way around raising some questions: What is behind this development? What are the driving forces? Where are the financial resources coming from?" It would be a great error to review the situation of the world economy without looking at the monetary issues, he said. Perhaps, monetary expansion in Europe has been relatively moderate. But in Japan, monetary aggregates are showing remarkable expansion. Once there is a backlash on stock markets, we could end up with severe problems, Tietmeyer warned.

On the same day, the German weekly *Die Zeit* warned that the stock market mania is pushing stock prices "ever farther away from the real economy." The profits which stock market investors are realizing now, have to be produced in the future by real companies. This will prove to be an "illusion," the weekly said. Therefore, "the stock market boom is posing a risk for the national economies." The "speculative bubble" will expand, until it suddenly bursts, as the crash of 1929 and the Japanese bubble of the 1980s have shown.

Around the globe, there are similar bubble-bursting warnings. On April 15, the *Business Times* of Singapore ran the headline, "Dow Will Come Down to Earth." The article, by Chua Soon Hock, chief strategist at Sanwa Bank in Singapore, reported the facts of the last three years' galloping asset inflation in the United States, and, psychologically, the "many similarities between the current scene and that of 1929 . . . people behaving like a herd of cattle."

The Japan crisis

Expansion of monetary aggregates is proceeding at hyperinflationary speeds in Japan, the United States, and elsewhere. The volume of Japanese bank liquidity in the system increased by 50% from March 1997 to March 1998. As of mid-April, central bank interventions on behalf of the yen had become the order of the day. On April 13-14, the Bank of Japan sold $12 billion worth of U.S. Treasury bills and bought yen, in attempts to stop the collapse of that currency. This was in addition to $10 billion worth of Treasury bills sold the previous week for that purpose.

Japan was the daily focus of attention at the Washington meetings, though not always on the public agenda. The Bundesbank's Tietmeyer said on German radio Deutschlandfunk on April 15, "Japan is perhaps the country which causes us the greatest concern at present."

Then, after the April 15 Group of Seven meeting, which nominally addressed assistance for Japan, on April 16, the yen dropped 2.3% in Tokyo, from 128 yen to the dollar to 131 yen to the dollar, after "the markets" decided that the G-7 Finance Ministers' April 15 communiqué did not give enough of a pledge of joint Japan-U.S. intervention. Based on the rate of the yen's fall, the Tokyo Nikkei stock average fell below the key 16,000 level, down 2.5% to 15,883. As the week closed, the market rumor was that if the yen falls any more, foreign investors will begin dumping Japanese stocks, to avoid taking big losses on the stocks' dollar value.

This drop in Japan, is a "thar-she-blows" signal of unprecedented chain reactions of financial crashes ahead. At the same time, other events in mid-April spotlight how vast bubbles of all kinds of obligations are unmanageable, and only bankruptcy-style reorganization among nations, will save the people—the finanical system is unsalvageable. Anything else will be chaos. In New York City, on April 15, the debtor-creditor meetings began on dealing with some $74 billion of foreign debts of the nation of Indonesia, which has been in a de facto debt moratorium since January. Indonesia, the fourth most populous nation in the world (202 million people) is under destructive orders from the IMF, and under fierce hardship for lack of alternative international support. The UN Food and Agriculture Organization issued a food report on April 14, that said that emergency supplies of food must come in, to relieve what are already massive shortages.

One way to sum up the state of affairs, is to use the "S" word, for *systemic* crisis. The German daily *Frankfurter Allgemeine Zeitung* said, in an April 16 article, headlined "Worry Over Japan," that the "S-word" was circulating everywhere behind the scenes in Washington. The real worry of G-7 Finance Ministers and central bankers is Japan, it said. It's no secret, that Americans and Europeans fear that Japan is plunging "into deep recession, which could trigger a deflationary downward spiral with devastating consequences for Asia and