Project Seminar
第３５回

日時　　３月２６日（火）３時～５時
場所　　社会科学研究所大会議室
テーマ アルゼンチンの債務危機とＩＭＦの対応
"The Crisis in Argentina and the Reaction of the IMF"

Ahn, Choong Yong 氏（アン　チュンヨン）（韓国中央大学教授）
Giron, Alicia 氏（ヒロン　アリシア）（メキシコ国立自治大学教授）
Ferraz, Joao Carlos 氏（フェラス、ジョアン　カルロス）
（リオデジャネイロ連邦大学経済研究所長）
Furusawa, Mitsuhiro 氏（古澤　満宏）（財務省国際局国際機構課長）
司会　中川淳司　氏

Professor Nakagawa opened the conference by highlighting the urgency of the Argentine crisis. Suffering from years-long recession, growing fiscal deficits, and significant risk of default on its public debt, Argentina has fallen into a crisis of great and possibly increasing severity. With the resignation of President de la Rua last December and the inauguration of President Dualde this January, the Argentine government has taken steps to resolve the crisis, including adoption of a floating exchange rate regime. The government is also negotiating with the IMF over the terms of IMF support and the content of needed economic and financial reforms. But with the Argentine peso having fallen 31% in the week prior to the conference, the crisis is obviously far from over.

The current crisis, Nakagawa noted, poses many questions for scholars and policymakers.　What explains the collapse of Argentina's dollarization policy? What comparisons should be drawn between the Argentine case and other major crises since the mid-90's, such as Mexico's, Asia's, Brazil's, and Russia's? Is the Argentine crisis contagious? If so, how serious are its likely effects? If not, why not? What lessons can be drawn from the Argentine and other cases for preventing the outbreak of future crises?

After thus introducing the themes of the conference, Professor Nakagawa proceeded to introduce the speakers. In introducing Mr. Furusawa, Professor Nakagawa facetiously expressed the hope that this well-placed official would share some of his "top secret information" with the conference.　Professor Nakagawa expressed similarly high expectations of the other speakers: Professor Giron, Director of the Institute of Economic Investigation of the National University of Mexico, a highly experienced specialist in international finance and the reform of Latin America's financial systems; Professor Ferraz, Director of the Institute of Economics of the Federal University of Rio de Janeiro, an expert in both the financial and real sectors of Latin American economies; and Professor Ahn, president of the Korean Institute of International Economic Policy and author of *Contemporary East Asian Economies*, winner of the 2000 Okita Award.

Furusawa:

Before presenting his thoughts on the crisis, Furusawa noted that he is not an Argentine specialist and that his dealings with Argentina take place in the context of his dealings with the IMF and other international organizations on behalf of the Ministry of Finance. He noted, further, that his presentation would reflect his own personal views, rather than the views of the IMF or the Japanese government, which, he says, should be the subject of "frank and serious discussion."

He began his presentation proper by characterizing Argentina as a well-known "repeat user" of IMF support. While Fund support has been quite useful, he argued, it has ironically contributed to Argentina's current crisis by facilitating the persistence of the condition that constitutes its "fundamental cause": the extreme fragility of Argentina's public sector finance. Noting this irony, he argued, does not amount to criticizing the IMF's policies; for it is quite likely that IMF support prevented earlier collapse in Argentina that, coupled with the crises of the 1990s, might have seriously damaged the world economy.

Furusawa supported or filled in this general perspective by offering a fairly detailed chronology of recent Argentine-IMF interactions. Since 1983, Furusawa noted, the IMF and Argentina have concluded eight separate funding arrangements. These helped to overcome hyper-inflation in the late 1980s and early 1990s and, later, to maintain a certain level of economic growth in spite of effects of major financial crises in other countries. As evidence of the Fund's utility in this sense, he cited the fact that in 1995 Argentina managed to overcome the effects of the Mexican crisis well enough to raise $6.6 billion on its capital markets.

The extended fund facility of 1998, standby arrangements of 2000 and 2001, and the "supplemental reserve facility" created in the wake of the Asian crisis and applied to Argentina in January 2001, he argues, had similar beneficial effects. Nevertheless, at many points in his narrative, Furusawa highlighted recurrent concerns over the fragility of the government's finances and the questionable sustainability of the exchange rate regime as precipitating factors leading to IMF-Argentine negotiations.

In 1998 and 2000, the IMF and Argentina agreed on "precautionary" funding arrangements. A "precautionary" funding arrangement, Furusawa explained, is one in which the target country has no intention of using IMF funds, but attempts to fortify market confidence by demonstrating an access to IMF credit. While the 2000 precautionary arrangement was of the standard short-term "standby" type, the 1998 precautionary arrangement was of the "extended fund facility" type, which offers longer-term, large-amount credit.

In Autumn 2000, Furusawa stated, market confidence in Argentina's economic policy was lost; fears of default on government debt intensified rapidly. Furusawa attributed this loss of confidence to both economic and political causes. The weak de la Rua government, a coalition government laboring under the legacy of ten years of peronist government, was beset by numerous scandals. On the economic front, slowdown was observed, which Furusawa attributed to the government's overly tight fiscal policy (a target date of 2003 for fiscal balance), deflationary pressure imposed by effects on monetary policy of the fixed-rate currency board exchange regime, and the loss of competitiveness to Brazil following Brazil's currency regime reform. All of these factors led to an expanded spread on Argentine government bonds, which in turn led the Argentine government to request precautionary fund support. The Fund's reaction, Furusawa said, was "very rapid." An existing $7 billion stand-by arrangement was increased by $4 billion dollars; and $3 billion were made available under the "supplementary facility" terms created in the wake of the Asian financial crisis for handling short-term large-amount current account difficulties.

Naturally, the IMF imposed conditionalities on this additional support, Furusawa stated: moving the government's fiscal-balance target date from 2003 to 2005; maintaining the currency board; and promoting private-sector involvement. This last condition Furusawa attributed to the need to "convince taxpayers" of IMF contributing countries, who are likely to oppose Fund support if public-sector claims-holders are repaid and private-sector claim holders are not. The details of "private sector involvement," Furusawa reported, are yet to be worked out. For the moment, the Argentine government has adopted the approach of asking private financial institutions to roll over their Argentine loans. IMF member-countries are currently divided on whether private-sector financial institution involvement should be made voluntary or compulsory.

In any case, the brief return of market confidence following this arrangement was shattered by renewed concerns over Argentina's fiscal imbalance and concern over the stability of Argentina's fixed exchange rate regime intensified by the decision of Turkey (which received IMF support at around the same time as Argentina) to adopt a floating exchange rate system. Furusawa suggested that this reaction to the news from Turkey was misguided; given that the causes of crisis in Argentina were quite different from those in the Turkish case (where a fragile domestic banking sector posed the greatest worries), Turkey's floating-rate solution should not have been seen as an inevitability for Argentina. Nevertheless, by February 2001, market confidence with respect to Argentina was again lost.

In April, Argentina's new Economic Minister, Domingo Cavallo, announced aggressive reforms, including a transition from the dollar-pegged exchange rate in effect since 1991 to a "basket" exchange system involving the dollar and the euro (to go into effect when dollar-euro parity should be achieved). The following month, Cavallo managed to exchange existing external government debt for bonds with longer maturities, thus putting off part of the debt payment scheduled for 2001 to 2005. In July, Cavallo announced a "zero deficit" program imposing limitations on monetary expansion. With these reform measures decided, the Argentine government requested additional Fund support in August.

This time, the Fund was, in Furusawa's words, "cautious or prudent" in its response, questioning the sustainability of Cavallo's reforms. Nevertheless, the Fund decided to augment its support by $8 billion, with a standby of $3 billion to facilitate debt exchange and supplemental support of $5 billion to increase Argentina's foreign reserves. Again, spreads on Argentinian bonds narrowed in reaction to the agreement; and, again, the rise in confidence proved short-lived. After September 11, default and depreciation concerns intensified. Foreign reserves were dramatically drained in November. In early December, the Argentine government decided to freeze deposits and introduce exchange controls.

This time around, the Fund and Argentina failed to agree on another stand-by arrangement. Furusawa attributed this failure largely to Argentina's overly optimistic growth projection for 2002; with the IMF forecasting negative growth and the government projecting positive growth, no consensus on the economic assumptions necessary to any funding agreement was reached.

"What happened after that," he said, "I needn't explain." In the wake of the dramatic events since December 2001, including the February 11 decision of the Argentine government to adopt a floating exchange rate, the Fund is currently preparing a new support program. Work on this program, Furusawa claimed, has been aidedd by the recent creation of a Department of Special Operations charged with handling crisis situations. The Director of this Department draws on his experience in the recent Indonesian crisis.

Many issues remain unresolved, however. On March 5, the Argentine government approved a budget that, employing an assumption of negative 4.9% GDP growth, would produce a fiscal deficit of three million pesos. The IMF regards these growth and deficit projections as "unrealistic." Current negotiations may also involve discussions on measures to bring provincial government debt under control, but this is sure to prove particularly difficult politically. Furusawa held that agreement should also be reached on the schedule or process for liberalizing exchange controls and lifting the freeze on deposits. Banking sector restructuring should also be addressed, he held; the Argentine government is currently engaged in the highly expensive operation of issuing bonds to compensate banks for the difference in peso-dollar exchange rates used for bank deposits and bank loans. The great problem of external debt restructuring also calls for further discussion. The Argentine government, Furusawa said, has not mentioned time frames or other vital details on this problem.

In short, given the inherent difficulty of the problems that need to be addressed and the lack of progress to date in addressing them in a concrete way, we should not be optimistic. Nevertheless, Furusawa claimed, the international community must do something; for while the IMF sees no immediate risk of "contagion", the future is far too uncertain to justify a complacent wait-and-see attitude.

Among the recurrent themes in Mr. Furusawa's presentation was the problem of "sustainability" of the "currency board" exchange regime. Furusawa stated repeatedly that the IMF shared the doubts of market players on this question, as on the problem of central and provincial government finances. The two problems are, of course, closely related, and illustrate the same general "irony" of IMF-Argentine negotiations. Though clearly a highly problematic policy, the IMF had agreed to maintenance of the "dollarization" program since 1991 because abandoning it would have raised the real value of Argentina's foreign debt and damaged market confidence considerably, and because social and political support for the policy were so strong that changing it would have proven extremely difficult in any case. As one measure of social support for the currency board arrangement Furusawa cited the fact that until the dramatic events of this year 60-70% of Argentine bank deposits and loans were dollar-denominated, reflecting a "de facto dollarization" of Argentina's economy with which even determined political leadership could not easily reform.

Giron

Professor Giron addressed her first remarks to Mr. Furusawa. What he presented as a "personal" view, she claimed, is difficult to distinguish from the official position of the IMF. As an academic from an underdeveloped country, she said, she sees things very differently. For one thing, such academics place less stress on the macroeconomic variables which the IMF generally treats as crucial, and more on the "impact on populations" of the ways in which IMF policies are implemented. As a result, what the IMF may see as good news often looks to her like serious policy failure.

From this perspective, she explained, Mexico looks to her very much like the next Argentina. In 2001, a "very nice minister of economics", she reported, assured her over dinner that Mexico's external debt is not a problem. This, she said, is precisely what Latin American and US finance policymakers had said consistently about Argentina, until the recent fall into crisis. But a brief review of IMF tables showing rising Mexican and Argentine external debt and debt payments over the 1990s brings out the problem in clear relief, she argued. She called it extremely irresponsible of the IMF to permit Latin American countries to take on such huge amounts of debt and to make such huge debt repayments.

In March 2000, she recalled, she attended a Dallas Fed conference on dollarization. Mexico chose not to send its central bank director to this conference; with elections near, she explained, all political attention in Mexico was focused on the debt question. For US state and international financial organizations, apparently, maintaining or expanding dollarization is a more important policy goal than addressing the debt problem which Latin American political debate is apt to treat as far more important. Among the lessons of this discrepancy, she suggested, is the need for policy debate on IMF actions to address the political determinants of macroeconomic indicators more systematically than it typically does.

She proceeded to criticize Furusawa for underestimating the impact of the Mexican and Brazilian crises on Argentina's economy. After both of these crises, she noted, Argentinian GDP growth turned negative very quickly. In Mexico, too, she noted, GDP figures are very worrying. For January-June 2001, for example, Mexico recorded zero GDP growth. For 2002, 1.7% GDP growth is forecast; even assuming that a strong US recovery will exert a powerful pull on Mexican economic growth, however, Mexico's internal market is so weak that current official optimism is difficult to justify.

Thankfully, she noted, Mexico can at least call on its petroleum-producing capacity in the event of a crisis. Expecting Argentina to make large debt payments, however, is so unrealistic that, whatever progress may be made on the issues of concern noted by Furusawa, the external debt problem should be accorded a far higher importance in current debates.

Moreover, given the extremely high number of serious recent financial crises (150 in 70 countries over the last fifteen years, as reported in a World Bank 1998 special issue on crises), she argued, the larger systemic problems associated with post-Bretton Woods financial deregulation obviously call for a serious rethinking of the future of many developing countries.

On the grounds that there are many issues about which the conference participants can "talk and talk", she expressed a preference for limiting herself to these few "reflections" and yielding the floor to the next speaker, Professor Ferraz.

She closed her presentation by noting that, as news reports indicate, the relatively low exposure of US banks in Argentina has limited the effects of the Argentine crisis on the US financial system. But, she suggested, this fact does little to demonstrate that IMF policies have worked.

Ferraz

Ferraz opened by stating that he had not initially been inclined to thank the conference organizers for inviting him, as the invitation had left him with little time to prepare a well-organized presentation. As Furusawa had taken the trouble to come and share so much of his expertise, and as the conference gave him an opportunity to air his fears and doubts about his neighbor country, however, he had concluded that he should be grateful after all.

Ferraz organized his comments around a common theme: "the crisis of a model." Both Argentina and the IMF, he suggested, have ridden a long-trusted model to crisis. If one credits Schumpeter, he noted, one should expect the current crisis to prove an episode of "creative destruction." But what may emerge from this crisis remains far from clear; the signs of "recuperation" have not yet appeared. We must, thus, attempt to understand what it is precisely that has failed, and "speculate" on the murky and troubling future.

This theme, he argued, takes on several meanings in the Argentine crisis. One of these meanings is the "crisis of that specific economic tool known as the 'currency board.'" This tool, he claimed, had been praised in the Menem years as a "policy to be exported." Support for the currency board was so deep, not only in Argentina but among the international financial organizations as well, that the complete loss of faith in it left many policymakers with little idea of what to work with in future. Thus, to respond to the crisis, Cavallo announced a zero-deficit plan, an effective deepening of the model he knew had already failed. The public, too, as Furusawa claimed, continued to support the currency board scheme. Ferraz attributed this support, however, to the lack of any perceived alternative to it. In light of these considerations, Ferraz borrowed Garcia Marquez's famous title to characterize recent events as a "chronicle of a death foretold."

Ferraz proceeded then to give his theme broader meanings. A "crisis of confidence" in Argentina itself is observable. More disturbing than the loss of market confidence described by Furusawa is Argentinians' apparent loss of confidence in themselves. A visitor to Buenos Aires is still impressed by the level of economic activity and sophistication, superior in fact to that of Sao Paulo, he claimed. To see the Argentinians, so noted for their national pride, in this state, then, "really hurts."

Finally, comparison of the Argentine case with the recent Mexican, Brazilian, and Asian crises reveals a crisis, or rather an "exhaustion" of a model more general than the currency board. Opening of hitherto relatively closed economies, especially as regards the current account, he claimed, constitutes a change of paradigm, one of the effects of which has been a long decay of the real economy.

Having briefly noted the structural similarity across all of the crisis countries, Ferraz claimed that the relevant differences are more numerous. First, the "non-contagion" phenomenon affords a striking contrast with the Asian case. During the Asian crisis, international leaders, rating agencies, and others expected contagion to Latin America. Lower levels of fear of contagion from the Argentine crisis, he suggested, may reflect a learning process on the part of market participants and international organizations. For having learned “to separate what should be separated,” he claimed, international leaders deserve some praise.

Secondly, Ferraz treated the public-finance problem centered around the extraordinary budgetary freedom of Argentine provincial governments, and the extremely large amount of Argentinian capital flight, as distinctive to the Argentine case. Ferraz claimed that in Brazil, for example, capital flight never approached the same level. This difference deserves attention, he argued, because it reveals the tremendous responsibility of Argentine elites for the disaster that has befallen their country. Had this money remained in Argentina, he argued, the current crisis would not have occurred. Thus, while complaints about IMF programs "imposed" on Latin America have merit, Argentine elites should not so easily be let off the hook. Related to this, he noted the remarkable "lack of political courage to change" revealed by the current crisis.

Lengthening one's historical view also yields an important distinction between the Argentine and other cases, he argued. Echoing Giron, Ferraz presents the post-Bretton Woods era as one of "structural crisis." In light of Argentina's early twentieth century status as one of the world's few developed countries, however, some have spoken of a "hundred-years" crisis in Argentina, he noted.

Departing from this theme, Ferraz emphasized the importance of drawing from recent crises an appreciation of "how fragile our knowledge base on these economies is." In illustration he cited a forthcoming book by an American scholar which recounts a negotiation between Brazilian officials and representatives of international financial organizations, during which, within thirty minutes of being resisted in their push for a move to a currency board regime, the international organizations demanded that Brazil adopt a floating-rate regime. Moving from one extreme position to the other in this way, he suggested, reveals a frightening lack of awareness of the considerations that should go into making a decision of this magnitude. In light of this, he said, turning to Furusawa, "I truly do not envy you."

Ferraz closed by posing two subjects for discussion. First, he noted the exceptional fact that the peso-dollar exchange rate has floated from one to three without any apparent inflationary impact. While this float offers the promise of attaining economic growth in part through increasing exports to Brazil, it may act to retard progress toward the agenda of free trade in the Americas. Secondly, he asked Furusawa for his view of the current positions of IMF member countries toward Argentina. Noting that the US and Europe opposed each other on the advisability of an early float for Brazil in 1998, he asked whether some such split is not at work in deliberations on Argentina and what position Japan might take in such a case.

Ahn

Professor Ahn echoed Professor Ferraz in noting the abundance of natural resources and economic potential that impress one more the more one studies the Argentine economy. That people should be shouting for bread in the streets in such a country he called "unbelievable." In spite of Argentina's obvious potential, however, the situation, he said, seems simply "hopeless."

Ahn devoted the rest of his presentation mostly to a blunt criticism of IMF policies. The currency board system, he said, is "very stupid," so stupid, in fact, that he is unable to understand what the IMF was thinking in supporting it for so long.

Professor Ahn expressed strong agreement with the recent criticisms of IMF policies by Sachs, Stiglitz, and others. The IMF has acted as if in ignorance of very well established economic reasoning.

With fixed exchange rates and liberalized foreign exchange and capital accounts, he explained, it is simply not possible to maintain high growth, price stability, and the balance of payments simultaneously. Furthermore, noting that overvalued exchange rates are a typical feature of Latin American policy regimes, he argued that a political economy dynamic having little to do with clear-headed economic reasoning is at work.

It was inevitable, Ahn said, that Argentina would have to sacrifice growth or the balance of payments if it were to maintain the currency board system. While the early use of the scheme, under Menem, deserves credit for bringing hyper-inflation under control, it is important not to forget, he said, that Argentina showed a steadily deteriorating balance of payments and that the current account deficit has been "chronic." Especially during the Clinton era, in which the value of the dollar rose thanks to the robust IT sector and other factors, pegging the currency to the dollar had a devastating impact on Argentine exports. Foreign investors, he argued, naturally shifted investment away from Argentina, understanding that the overvalued currency had domestic labor and other products expensive. Had Menem switched to a floating exchange rate regime in the mid-90's, Ahn argued, the current debacle might have been averted. How the IMF, even while consulting with Argentine officials every year, could have agreed to maintaining this regime is, thus, difficult to understand.

The problem, he argued further, is obviously larger than the IMF's treatment of the Argentine case. In every crisis since the 1970s, Ahn said, the IMF has offered the same set of policy prescriptions. The IMF looks at policy problems in every country "from one angle" all the time and for this deserves strong criticism.

The problem of capital flight, he argued, is also partly attributable to opening up the capital account and the foreign exchange account while maintaining an overvalued exchange rate. He noted that capital flight was nearly equivalent to total outstanding foreign debt in the period 1979-1982 and amounted to 70% of outstanding foreign debt in recent years. This, of course, echoes Ferraz's claim that the country would have had sufficient resources to avert crisis were it not for the effects of large-scale capital flight.

As did Ferraz, Ahn also interpreted capital flight as revealing a structural problem centered in the Argentine ruling class. For example, when the IMF recommended a balanced budget and the Argentine government accordingly pursued a policy of working toward a "contractionary equilibrium", the well-to-do engaged in tax evasion on a large scale. The $20 billion loss of tax receipts due to tax evasion, he noted, is roughly double the fiscal deficit. And when Menem pushed through a privatization program, the political elite enriched itslef by some $40 billion in the process. As long as such corruption continues, he held, "there is simply no solution."

Ahn also echoed earlier speakers in noting the need for political leadership. With the political system having been dominated so long by Peronism, he argued, the general public is little inclined to take responsibility for its own economic activity. Argentina needs political leadership clearly committed to recovery, even through appeals to nationalist sentiment; for checking capital flight and the flight of talent from Argentina is absolutely necessary.

Ahn closed by expressing hope that the contagion should remain limited enough not to affect the nascent Asian recovery.

Discussion

At this point, Professor Nakagawa asked Furusawa for a brief response to points raised about his presentation.

Furusawa began by addressing Giron. First, he expressed surprise over her pessimism regarding Mexico. The international consensus, he said, is that Mexico is doing well ("Yes, that's what they say. I know that," she responded.) Secondly, he clarified his position regarding the effects of the Mexican crisis on Argentina. He did not mean to suggest that the crisis had not affected Argentina, he said, only that Argentina had managed to survive the shock. While there was a big impact on deposit and other interest rates, for example, Argentina nevertheless managed to raise funds on the capital market within a year of the Mexican crisis. Thirdly, he offered qualified agreement to her criticism of dollarization. He denied the feasibility of such a program for a large country like Argentina or Mexico, though he held that it can work in smaller economies. Finally, he disputed her characterization of US bank exposure to Argentina as low. It is, in fact, larger than that of Spanish banks, he claimed. That the

US financial system has been little affected by the Argentine crisis is attributable, he said, to the fact that that crisis is not a crisis of private-bank credit, but of sovereign bonds. This makes the Argentine case a new type of crisis, he claimed.

Furusawa next addressed comments by Ferraz. First, he affirmed Ferraz's point concerning the Argentines' loss of confidence in themselves in the sense that Argentine bankers have reported to him that they are suffering from a lack of public confidence in their operations. Furusawa took care to point out that restoring this confidence is the responsibility of Argentinians, not of the Fund. Concerning Ferraz's speculation that a learning process may have acted to limit contagion, Furusawa held that it is too early to tell. He called the lack of contagion to date is simply surprising, and said that he is unwilling to predict whether it will last. On the question of Japan's position in the Fund concerning the Argentine exchange regime, Furusawa claimed that on several occasions, including IMF board meetings, Japan had insisted that Argentina change its exchange rate. It insisted on this particularly strongly, he said, after Brazil adopted a floating rate.

Thus, he expressed agreement with Ahn's argument that a mid-90s change in the exchange regime by Menem might well have helped. However, he pointed out, this was never the majority view in the international community. Concerning Ahn's criticism of Fund policy as a whole, Furusawa explained that while the Fund, as a gathering of macroeconomists, does indeed rather uniformly recommend tightening of fiscal and monetary policy, the "shareholders" of the Fund are not macroeconomists and have a responsibility to question their arguments in board meetings and other fora. Concerning the problems of capital flight and tax evasion, Furusawa expressed complete agreement, but noted the political difficulty of addressing them.

At this point, discussion became more freewheeling. Ferraz asked why the Fund, which quickly imposed an immediate float as a conditionality in dealing with Korea in 1997, did not at the same time raise this issue with Argentina, where symptoms of crisis had already appeared. Was the IMF position affected, he asked, by the consideration that the US derives strategic leverage over a country with an exchange rate pegged to the dollar? While he acknowledged that the US had sought leverage in this way in the past, Furusawa thought that it had not done so in the Argentine case. Summers, he said, "was not very protective of the currency board system." That the US should have done so with respect to Brazil is explained by its larger trade interest in Brazil. The natural opponent of a floating Argentine currency, he suggested, would be Europe. Ferraz pursued the issue, asking whether US-European differences on IMF policy in Latin America do not reflect a wish on Europe's part to increase its geopolitical strength in the region. To this question, Furusawa responded, "Yes." When Ferraz pushed this point to ask whether Japan should not exploit the US-Europe division to strengthen its own position, a member of the audience, Professor Khan, visiting professor of economics, joined the discussion, noting that the US's "Big Brother" role in the region stands in the way of any such attempt Japan might make to play the "honest broker."

Professor Khan should perhaps be considered a conference presenter in his own right. He followed up his interjection with a well-organized and fairly long critique of both the IMF and its critics from the Left, borrowing heavily from his own forthcoming book. What the IMF does, he explained, it does on the basis of a highly coherent general theory developed around 1957 and refined in stages since then. The theory is unfortunately flawed, he claims, in ways made clear by Professor Ahn's explanation of the contradictions inherent in IMF policy prescriptions. That IMF's theory is flawed, however, means not that we should blame IMF for its handling of this or that recent crisis but rather that we need to develop a new guiding theory along the lines proposed by Keynes in the 40s and not seriously debated since. In this effort, the Left needs to go beyond its criticisms of the IMF to offer a theory of its own. The subject for debate would be how to design an international financial architecture that does not punish deficit countries as the current system does. We must also attend, he argued, to a second contemporary major structural problem in the international financial system: "the failure of the developmental state" which the Cold War environment allowed to flourish. Though South Korea, Singapore, Taiwan, and Hong Kong are now recovering, the negative effects of the Asian crisis on "long-term capital accumulation" have been grave; this increases the urgency of an adequate theory for dealing with international financial flows, he argued.

Professor Ahn at this point raised the problem of the "optimal currency area." If we are committed to dollarization in Latin America, he argued, we need to deal rigorously with the problems raised in this theoretical field as well. Allowing Argentina alone to dollarize, especially under conditions of high debt and liberalized foreign exchange and capital markets, he argued, is "suicide." Khan interjected that asking Latin America to think regionally in this way, as Asia might, runs into the problem of the "big neighbor to the North." (All laughed at the quip, none louder than Furusawa.)

The import of the final minutes of this lively conference is difficult to convey in any form other than the following near-verbatim transcript:

Ferraz: Asia is not entirely immune to the big neighbor problem itself. There are some big presences in the region -- China, India..

Khan: But none of them can compare with the US economically.

Ferraz: We probably shouldn't think in such narrow geographical terms about US influence, though. The US goes around the whole globe, really.

Khan: It's a global problem, as I said.

Ferraz (addressing Furusawa): I'd like to ask your feelings as to necessary conditions for IMF or international community support of Argentina.

Furusawa: Difficult question.

Ferraz: I'm not asking when, but what are the key building blocks?

Furusawa: As I said, I don't see much hope on the central fiscal problem. But the Argentine authorities and the IMF should at least agree on a growth projection and a deficit amount.

Ferraz: The problem in such a discussion is that because the paradigm has changed, we can't extrapolate from the past to produce such projections as we used to.

Furusawa: But the new program should have the commitment of market participants.

Ferraz: So there will a negotiation to bring the two sides' numbers closer together. Is that right?

Furusawa: All relevant issues are not going to be resolved immediately, so agreeing on time frame and process is important.

Ferraz: So your impression is that this will take some time?

Furusawa: My personal impression? Yes. Frankly, though, I don't know. The political situation is very fragile.

Giron: The markets will close on Thursday (April 2), Friday, and Monday.

Ferraz: Closing the market? Again? They've been doing this for how long now? It's a new way to stop the economy -- close the market!

Khan: It's been done before. I'd like to return to another issue. I'm personally interested in this bond-credit distinction. They're both debt contracts; it's just that one is direct finance and the other indirect finance. The first question would be, how much do the banks hold in bonds? We'd have to know that to get an accurate sense of their exposure. Also, since a floating rate would add exchange rate risk to the mix of already high risks, might this not amount to an exacerbation of systemic risk?

Furusawa: I don't have information on how much banks hold in bonds. In Japan, you're dealing with a fairly small number of individual bond holders, small financial institutions, and pension funds. Big financial institutions don't have high exposure to the bonds.

Ferraz: Foreign banks have actually moved very quickly to set up lender consortia to deal with any credit problems that may arise.

Furusawa: The Spanish banks...

Ferraz: Ah, the Spanish banks! The Spanish banks are just writing off huge amounts...

With this, the conference closed, ten minutes later than scheduled.

(Jonathan Bloch)