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INTERNATIONAL MONETARY FUND: A NEW ROLE?[1]

Uloga MMF (i drugih institucija i zemalja) u različitim aranžmanima saniranja postavlja ozbiljna pitanja i postoji zabrinutost da će bilijuni uključenih dolara otići prvenstveno posuđivačima koji su dodijelili ogromne sume rizičnim projektima koji ih nisu mogli otplatiti. Sanacijski novac iz MMF, Svjetske banke i pojedinih zemalja usmjeren je u ciljanoj zemlji i njezinoj Središnjoj banci u velikoj mjeri u privatni bankarski sustav. U nekim slučajevima stranim se vjerovnicima njihovi zajmovi mogu izravno otplatiti. Očito mnoge zemlje koje su trenutno u problemima i potrebi za saniranjem, naišle su na probleme na svjetskom privatnom tržištu. Sve to potiće mnoge analitičare da ponovno dokazuju da saniranja, čak i kada postignu svoje momentalne ciljeve, postaju loši presedani. Cilj je učiniti posuđivače opreznijima glede propusta banaka i potreba saniranja. Prijedlog je da bi zemlje u "nastajanju" trebale usmjeriti kontrolu kapitala, diktirajući način širenja zajmova, naročito inozemnih. Postoji i prijedlog, iznosi autor, da se nametne novi način međunarodne kontrole pomoću standarda posuđivanja i nadziranja procesa.

The Bailout Problem

The role of the IMF (and other institutions and countries) in various bailout arrangements raises serious questions. Concern is expressed that the billions of dollars involved will go primarily to lenders who granted huge sums for risky projects that failed to pay off.

Typically the bailout money from the IMF, World Bank, and individual countries is channeled through the target country and its central bank in great measure to the private banking system. In some instances, foreign creditors may have their

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[1] This paper draws on George Macesich, Money, Systems, and Growth: A New Economic Order (Westport, CT: Greenwood Publishing Group, Inc., 1999) and George Macesich Political Economy of Money: Emerging Fiat Monetary Regime (Westport, CT: Greenwood Publishing Grpup, Inc., 1999).

loans paid off directly. In effect, the bailout money will repay bank depositors and the foreign lenders.

Clearly, many of the countries currently in trouble and in need of a bailout encountered their problems in the world's private marketplace. As in the past examples, like Latin America, big foreign lenders made available, indeed pushed, their money to the Koreans, Thais, Indonesians, and others who certainly were not reluctant to take it. All of this prompts many analysts to argue anew that bailouts, even when they accomplish their immediate goals, set a bad precedent. By taking the lenders "off the hook" so to speak, they merely encourage more careless lending and future crises.

Critics are recommending various proposals for change in the bailout packages. One suggests the owners of banks, in effect the shareholders, lose their investments in such situations. The goal is to make lenders more cautious about reducing bank failures and the need for bailouts. Another suggestion is that emerging countries should adopt capital controls, dictating how loans especially from abroad should be dispersed. Such a requirement, it is hoped, could force lenders to be more cautious. Still another suggestion is to impose a new layer of international supervision to set lending standards and supervise the process.

Asia's Problems

In dealing with Asia's problems it is important to underscore, as previously mentioned that an "Asian model" as such should be taken with considerable reservation. The economies in trouble in Asia do not share anything that can be sensibly described as an "Asian model."[2]Certainly Asia countries do share a region as do European countries. The Asian countries do not share a common desire to have the state directing economic programs and private investment. Like all capitalist economies, they combine various mixtures from such economies in their policies and structures.[3] They are willing to use open markets rather than state direction to generate growth. The region does share certain "fundamentals," such as high savings, emphasis on education, and social peace or at least the absence of protracted social disturbances. And the countries in the region do share close economic links as do, for instance, the European economies.

As stated previously and underscored by *The Economist*[4], Asia's troubles are exacerbated by (1) fast growth in the past, which has covered up and inded encouraged poorly run and poorly regulated banks; (2) Asian governments that have been slow to recognize and accept the fact that they have a serious banking

[2] See for instance the discussion in "Asia and the Abyss", The Economist 345, No. 8048 (December 20, 1997), pp. 15-16.

[3] Ibid., p. 15.

[4] Ibid.

crises on their hands and prefer to blame outsiders for their problems; (3) concerns in some Asian countries, such as Indonesia, China, South Korea, about political instability, which threatens to make economic uncertainties even more serious.

The Economist may well have the diagnosis right when it argues that the basic lesson is really that of America in 1930.[5] The lesson is that deflation and depression are avoidable. Financial and monetary collapse made them possible because they undermine public confidence on which economic activity depends. It is policy mistakes that make collapse possible; closing the economy, blocking capital flows, ignoring banking collapses, blaming foreigners, and shutting down the money supply. These are the policy blunders governments should avoid. The IMF, however, should take care and not have its role interpreted as simply that of "lender of last resort" to countries that get into trouble. To be sure, a national bailout is usually the only means available to deal with financial crises that a country cannot handle on its own. As we have noted, these crises are usually generated by mistaken notions on the part of borrowers and lenders that they will profit. When these profit hopes are unrealized, as in the Asian countries devaluations, bankruptcies and bank failures occur.

The bailout money can go to augment government funds. These additional funds may serve to help restore confidence in the country and so stabilize its financial and money markets. These funds may also go in part or indeed in whole to solve the country's banking crisis.

As long as a country's economy appears sound and prosperous, foreign banks are willing to roll over loans. Indeed, they are more than willing to do so since they are probably lending to the country's banks at much higher rates than they would charge domestic customers. And when the foreign banks, as in the Asian crisis, fear losing their money and want immediate repayment, foreign lending dries up.

Given an IMF bailout, the foreign banks may elect to roll over their loans expecting that, given time, they will receive their money. This is what happened in the case of Mexico when $48 billion was made available to the country, $20 billion of it from the United States. This served to reassure most foreign investors and they left their money in Mexico.

In the case of South Korea, and to discourage other countries from relying on international bailouts, the IMF the United States, and a dozen other governments involved are charging Korea an interest rate about three and a half percentage points higher than the IMF traditionally has demanded.[6] To make sure that the $10 billion package to this country does not simply flow through the Korean central bank to foreign creditors, the Bank of Korea agreed to stop making inexpensive dollar loans to Korean commercial banks. Instead, it will charge a huge premium up to fifteen percentage points.

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[5] Ibid., p. 16.

[6] See David Wessel, "Korean Bailout Raises Tough Questions," Wall Street Journal, December 26, 1997, p. 12.

And again, the latest expansion of the international bailout of Korea raises the question whether world governments and the IMF are insulating private investors and lenders from the disciplines of the market, bailing them out when their loans turn out wrong, and encouraging them to make everriskier loans that make for even costlier bailouts. The question raised again is whether the IMF is like a foolhardy fire-insurance company that repeatedly sells insurance policies to arsonists. Or are they firefighters putting out a blaze even though the property owner foolishly failed to install sprinklers.[7]

In the instance of Korea, however, the United States in particular is not willing to take the risk that the country will fail. The United States has a large economic and national security stake in the stability of Korea. Together with the other Asian countries in trouble, many in the United States including Secretary of Treasury Robert Rubin and his aides, do not believe that it is a good time to rewrite the rules of international finance as they have been widely interpreted by refusing to come to the aid of Korea.

In fact, the U.S. Treasury views the Korean debt rescheduling as the linchpin of the country's rescue measures. One challenge of the Korean crisis is that much of its debt is owed by private Korean institutions; not the government, to private institutions. The MMF really does not have much experience in restructuring such private debts, and the governments of the Group of 7 industrial nations (United States, Canada, Britain, France, Germany, Italy, and Japan) are not enthusiastic about forcing banks to make loans the banks consider unwise.

It is understood that in exchange for extending their loans, the foreign banks will get an explicit Korean government guarantee: Seoul will formalize a pledge made in August 1997 to guarantee the foreign deposits and credits of Korean banks, though not to guarantee the debt of Korean conglomerates or trade credits. In addition, Korea pledged to undertake serious reforms aimed at liberalizing the country's economy.

Even Japan and its Ministry of Finance, hoping to allay fears that Japan is again backsliding in painful financial reforms, is ready to impose more stringent accounting for banks' problem loans. According to ministry officials the plan is to put in place a bad-loan disclosure system modeled after U.S. regulations. The Ministry's 1997 estimates of the country's problem loans is $223 billion, but private analysts say the amount is at least twice as much.

The ministry's push comes at a time when political support for banking reform is slipping. Japan's political leaders used to talk boldly about letting weak banks fail. Public money would be needed only to guarantee depositors, they said, while the banks themselves would be allowed to go under. But politicians in the closing days of 1997 plan to use as much as one-third of the $77 billion in public money earmarked for the banking system to rescue banks by buying their shares.

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[7] Ibid.

It is understandable that many analysts are skeptical of promised reforms on the part of Japan, Korea, and other troubled countries in Asia. They question whether the IMF and its supporters can force reforms better than the free market, which would create a new South Korean (and other Asian countries) economy through loan defaults and bankruptcies. In their view, to oppose IMF bailouts is not to oppose free-market internationalism. On the contrary they argue. Without the IMF and the World Bank, Asia would be more open, not less.[8]

The skeptics may well be correct. After all markets had grasped what no one had yet seen: many of the Asian countries were financially sick. They had been running up huge debts, mostly in dollars, and depending on the stability of their currency to repay them. Urged on by the political leadership, banks were shoveling loans into unprofitable and crony controlled ventures.

In any case, the IMF is badly in need of a better early warning system. In the Mexican collapse of 1994-95 and in the 1997 Asian crisis, the IMF issued no warning to the nations involved.[9]

Certainly the IMF and its experts are well aware of what passes for capitalism in Asia and what they are dealing with in Asia and elsewhere. This study has underscored its essentials, which include cronyism, familism, corruption and ruled by economic combines. Governments, banks, and business elites are all part of the arrangement. Together they decide who gets loans and contracts, and how profits are divided. Indeed, one observer has noted that the daily dealings of elites in many of these would, in America, draw jailtime.[10]

In fact, most foreign investors knew exactly what they were doing. They knew that they were not investing in democratic market capitalism but in secretly run systems that perverted the techniques of the capitalist market economies until they destroyed them.[11] What mattered was the bottom line for the Western participants. Now in trouble, they and their hosts turn to the IMF to bail them out of their own folly. How successful the IMF and others can be against such a background and backlog of problems in the various bailout candidate countries remains to be seen.

Little wonder that skeptics abound in what to many is the IMF's rgission impossible. Of course, what is needed is to put into place in these countries democratic market capitalism with transparent institutions. Reforms that are cosmetic will not produce a prosperous market capitalism in and for democracy. "Asian values" are quite consistent with democracy and transparent institutions.

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[8] See, for instance, James K. Glassman, The IMF Only Gets in the Way," International Herald Tribune, December 10, 1997, p. 8.

[9] See Roger C. Altman, "No Country Is Beyond the Financial Markets' Power," International Herald Tribune, December 10, 1997, p 8.

[10] See, for instance, A. M. Rosenthal, "How the West Sped Asia On Its Road to Ruin,' International Herald Tribune, December 24-25, 1997, p. 9.

[11] Ibid.

The Fiat Money World

Milton Friedman has discussed and written on more than one occasion that the world monetary system that has emerged since World War I is without historical precedent.[12] It is a system, observes Friedman, in which every major currency in the world is, directly or indirectly, on an irredeemable paper money standard. It is direct if the exchange rate of the currency is flexible though, as he notes, possibly manipulated. It is indirect, he continues, if the currency is unified with another fiat-biased currency (e.g. the Hong Kong dollar since 1983). The ultimate consequences of such an arrangement, Friedman concludes, are shrouded in uncertainty.

Indeed today's brave new world is a far cry from the pre-1914 world where specie (gold and silver) was the international money of choice, its use facilitated by letters of credit and other paper instruments. In today's "fiat money world," credit is extended over national borders and denominated in one of several major currencies to finance capital investment and consumption. Values of individual currencies are arbitrated at lightning speed, based on the market's ever watchful view of the reliability of the issues. But who or what controls fiat money?

Friedman underscores that a key issue to be resolved is whether the conditions that produced the current unprecedented fiat monetary system have been accompanied by developments that change the likelihood that the system will go the way of all earlier paper standards.[13] He quotes Fisher approvingly that irredeemable paper money has almost invariably proven to be a curse to the country employing it.[14] The challenge, argues Friedman, is to find a substitute for the convertibility into specie that earlier constrained governments from resorting to inflation as a source of revenue. In effect, we must find a nominal anchor for the price level to replace the physical limit on a monetary commodity.[15] Failure to do so will very likely force a return to a commodity standard, such as a gold standard of one kind or another.

Lessons on the fiat money system are coming in from Asia. Several of the Asian central banks tried to control both exchange rates and interest rates in violation of what would be considered good monetary policy within a fiat monetary system. They may well be better advised to float their currencies and focus on domestic money supply targets. No one now really knows the proper level of currencies in these countries.

Fixed exchange rates can be maintained by the governments in these countries through arranged capital flows, by foreign exchange controls, or by restrictions on

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[12] See Milton Friedman, Money Mischief: Episodes in Monetary History (New York: Harcourt Brace Jovanovich, 1992), especially Chapter 10.

[13] Ibid., p. 253.

[14] Ibid., p. 252. Friedman quotes Irving Fisher in, The Purchasing Power of Money (New York: Macmillan, 1929), p. 131.

[15] Friedman, p. 254.

international trade. At best these are temporary measures that may lead to serious crises, as in the Asian distress of the 1990s. In fact, the experience under the Bretton Woods monetary system before 1971 is consistent with these observations. There were often exchange rate changes. Such a system worked only so long as the United States followed a relatively uninflationary policy and remained passive with respect to capital movements and exchange controls imposed by other countries.

Under the Bretton Woods system of fixed exchange rates, which was established after World War II and lasted more or less until the early 1970s, the international flow of capital was severely restricted. Many analysts considered capital mobility unnecessary and indeed undesirable.

By the 1960s "Euro markets," wherein banks located in one country could take deposits and make loans in the currencies of other countries, were established. The end of the fixed exchange rate regime in the early 1970s encouraged the richer industrial countries to dismantle their capital controls. By the late 1980s and early 1990s other countries followed. In theory, savers are not confined to their domestic market, but can invest around the world. In practice, however, a fully integrated global capital market does not exist at the time of this writing (1998).

In an integrated global market, countries with high investment needs might be expected to have very large current account deficits, and countries with large savings would be expected to have large surpluses. This, of course, has not occurred. According to data published in *The Economist* rich countries have averaged 2-3 percent of GDP during the 1990s.[16] Even at their peak in the late 1980s, Japan's and Germany's current account surpluses reached only 4-5 percent of GDP. Moreover, the relationship between national saving and investment confirms the above observation, since a country's current account imbalance is the difference between the amount it saves and invests. In a perfectly integrated global capital market there should be little relationship between the two variables. *The Economist* reports on 1980 studies (made by Martin Feldstein and Charles Horioka) that countries' savings and investment rates tend to be highly correlated.[17] There is evidence that more recently this relationship has weakened. Still, in the 1990s, only about 10 percent of domestic investment in emerging economies has been financed from abroad. In effect, capital markets are not fully integrated from a global perspective.

These studies confirm the continuing importance of national microeconomic policies and their basic tools of monetary policy and fiscal policy. The difference may be the impact of each. Thus, in a closed economy greater government spending and monetary expansion policies *may* increase output in the short-run, in the long-run one results in higher interest rates and the other in inflation. If the economy is open, the impact of fiscal policy and monetary policy depends on whether the exchange rate is fixed or flexible. If fixed then fiscal policy is effective and monetary policy less so.

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[16] See "Capital Goes Global" The Economist 345, no. 8040 (October 25, 1997), p. 87.

[17] Ibid.

In a world where capital mobility does exist, the governments' choices regarding exchange rates is limited. In a closed economy, governments, in the short run, could have stable exchange rates while pursuing expansion of the economy with monetary policy. When capital is mobile, if governments wish to fix their exchange rates, then monetary policy must be aimed only at that target.

When foreign investors pull out and sell the country's currency, its interest rates must be raised enough to stem the outflow or else the exchange peg will be broken. If the country's banking system is weak, an increase in interest rates may well end up in causing widespread bank failures. It should be underscored that pegging the exchange rate to a foreign currency does not by itself make for economic stability. Moreover, if domestic policies are not consistent with the rate selected, a fixed exchange rate can produce even more instability.

For small economies, without sophisticated financial markets, there can be considerable risk in opening up to foreign capital in small countries rather than in larger countries that have more sophisticated markets. Cases in point are Mexieo in 1994 and Thailand in 1997, when foreign investors lost confidence in their economic policies and capital dried up. These events can also produce difficulties in neighboring countries as foreign investors lose confidence.

The appropriate solutions for such countries, as we noted on several occasions in this study, is to follow sensible macroeconomic policies that will ensure that banks are well capitalized and supervised. Attempts to impose controls of one sort or another will very likely serve to undermine investors' confidence even more. Thailand found in 1997 that such a strategy simply did not work. Nevertheless, for countries with relatively unsophisticated financial markets and weak banks, some analysts argue that it may well be prudent to proceed slowly when opening such markets to foreign investors. To be sure such advice is controversial since attempts to minimize vulnerability through controls will not work in the long run.

In historical perspective it is interesting to note Asia's plight and of nineteenth-century Great Britain. Great Britain was also an export economy. It too had considerable faith in a fixed exchange rate provided by the gold standard. It also saved rather than consumed the proceeds of its export success. Too much financial capital allows bad lending; bad lending causes financial crises.

We know that the Asian capital and money markets tend to perform more like Japan's than Mexico's, because they are dominated by banks and property developers. This is not, however, an Asian problem nor an emerging-markets problem. In fact, this is a problem that arises from managing excess capital inflows under a fixed exchange rate regime. As the capital flows in the economy will massively overheat, a property boom is encouraged, and a massive current account deficit results. This is what happened to Great Britain in 1988. The only difference between, say, Thailand, and Great Britain is that Thailand has a considerable amount of foreign-denominated debt.

According to the views of some observers the IMF in 1997 was making the situation in Asia worse. The ability for a country's currency to bottom out is based on a tangled web of interactions between the current and capital accounts of the balance of payments. At the time the IMF was assuming that if a country could move a big current account deficit back into surplus, the problems would be over. This is not, however, always true. Apparently the IMF did not seem to take into account the fact that the composition of Asia's equity markets and its capital flows are very different from that of Latin America.

Thus, in Latin America financial stocks constitute only a small fraction of the equity markets in the region. Following the Mexican crisis, the collapse of the country's banking sector and its virtual renationalization did not dominate the overall equity market. This was not the case in Asia where financial securities dominated. Another difference is that capital inflows into Latin America, private portfolio inflows were dominated by debt inflows, not as in Asia equity.[18] As a result Latin America in 1995 was forced to raise interest rates and capital flowed into capital accounts. In Asia the capital accounts were dominated by equity inflows. In effect, Asia's capital accounts were dependent on equity inflows. The dominant component in Asian equity markets is financial and thants to IMF policies these markets experienced considerable difficulties. What worked for the IMF in Mexico may not work in Asia.

Nevertheless, Citibank a major American bank in Asia, applied its Latin American lessons to good advantage in Asia. Citibank executives note that while they have weathered Asian storms in Citibank's ninety-five years of history in the region, Latin America did have some similarities.[19] Such elements as current account deficits, fixed exchange rates, poorly supervised weak financial systems, concentration in real estate, family-owned and opaque conglomerates were signs of trouble. Citibank saw the signs for trouble in Asia as early as 1994.

To many analysts it is far from clear that IMF policies to help Asia will succeed. As noted elsewhere various alternative measures are proposed, ranging from capital contracts to converting Asia's burgeoning corporate debt into securities that could be sold in the market place, to replacing central banks with currency boards, to easing IMF measures such as high interest rates and slashing government budgets that were meant to restore investor confidence but which some analysts say have caused market panic instead. Many agree and underscore the necessity for modifying the Draconian approach of the IMF with a view to accommodating Asia's private sector and stressing its long-term strengths.

Central banks and Asian governments promoted weak and irresponsible banks. These banks managed to devour their own good assets and became insolvent like the U.S. savings and loans in the 1980s. The central banks and governments vouched for these banks, enabling them to keep borrowing dollars from foreign banks.

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[18] For a discussion of those and related issues, see K. M. Welling, "Playing Bubbles: An Interview with Albert Edwards" Barron's, December 29, 1997, pp. 20-26.

[19] See Darren McDermott, "Citibank Uses Latin American Lessons in Asia" Wall Street Journal, December 29, 1997, p A6.

The transparency necessary for a proper functioning banking system in Asia was simply not there. A global economy is not likely to work properly without financial institutions to facilitate trade and payments. Certainly, banks should be discouraged from "window dressing" and give the investing, depositing, and borrowing public more of the inside information management uses to run the bank. It is, after all, markets, not regulations, or politics that force the admission and correction of mistakes.

The ability of central banks to deal with what Friedman terms the "current unprecedented fiat monetary system" is surely an open question. Central bankers and the performance of central banks in the fiat monetary system remain to be tested.

Federal Reserve chairman Greenspan has noted that the "current monetary policy regime is far from ideal." He went on to explain that in a world in which historical regularities have been disrupted by unanticipated change, especially in technologies, he could find no clear rule that would amply guide policy decisions about the money supply. As a result, argues Greenspan, "policy making, seeing no alternative, turned more eclectic and discretionary." He went on to list and discard assorted policy rules, such as a gold standard, various fixed rules about growth of the monetary base, and rules anchored to output and prices. He concluded that price stability, though vital to maximizing economic growth, is hard to measure and getting harder.[20]

What then is the benchmark or guide or target that the Federal Reserve looks at in conductir monetary policy? Given the imprudent unprecedent fiat money system, it would help if the Federal Reserve and world central banks became more transparent in the formulation and execution monetary policy. People abhor secrecy.

The world is about to see a really remarkable "central bank" when Europe begins its experiment with a single currency euro. Its mandate is very narrow, - efending price stability, - and it will be far less accountable than the Federal Reserve in the United States. The governor of the European Central Bank will no doubt be one of the most powerful people in Europe. The European Central Bank will inherit the powers ceded by national central banks. Its decisions will not only have a large impact on Europe but on global markets as well.

Many of the serious issues that a European Central Bank raises have been played down by European politicians so as not to frighten their voters. Among the more obvious questions that need to be addressed are the following.[21] Can a monetary union work without close economic and political union? Can member countries leave the European Monetary Union if they wish? How much power is being handed

[20] See Claudia Rosett, "Greenspan's Dilemma" Wall Street Journal, December 12, 1997, p. A18.

[21] For a discussion of these and related issues, see Thomas Kamm, "With Monetar Union Around the Corner, Europe's Doubts Grow" Wall Street Journal, December 29, 1997, p. A1.

to unelected officials, such as the governor of the European Central Bank? The entire experiment needs political legitimacy.

Skeptics feel that thus far the whole process has been short of democratic debate. After all, if the EMU in the final analysis is a political venture designed to bring closer European integration, it needs political legitimacy. For instance, the Maastricht Treaty does not have a provision for countries to leave EMU once they have joined. There are clear examples of people trying to leave other currency unions that then led to civil war. Moreover, what will the European Central Bank do if inflation rises sharply? Again, the Maastricht Treaty is not explicit. As noted, the ECB is charged with targeting Europe-wide price stability, but it is not accountable to anyone. If the ECB addresses, say, rising Italian inflation by raising interest rates when France is relatively stable, EMU could break up very quickly. How successful the European experiment will be remains to be seen.

MEĐUNARODNI MONETARNI FOND: NOVA ULOGA

Sažetak

U ovom se radu razmatra uloga Međunarodnog monetarnog fonda u spašavanju onih članica MMF, koje imaju problema u platnim bilancama. Članice MMF koje imaju problema u svojim nacionalnim ekonomijama, najčešće se to izražava u bankarskim krizama i nestabilnosti financijskog sustava, koriste interventna financijska sredstva MMF. Krediti MMF koriste se preko nacionalnih središnjih banaka, koje ta financijska sredstva usmjeravaju najčešće u insolventne privatne banke. Insolventne banke u takvim zemljama isplaćuju depozite svojim štedišama i otplaćuju kredite inozemnim privatnim kreditorima. Iskustva Meksičke krize 1994.-1995. i Azijska kriza iz godine 1997. ukazuju da MMF nije pravovremeno uočio da te nacionalne ekonomije ulaze u recesiju, tj. sveobuhvatnu ekonomsku krizu, i čini se potrebitim stvaranje "sistema za rano upozoravanje" na prijeteće rizike platnobilančnih i/ili financijskih kriza u novonastajućim ekonomijama. Iskustva iz Azijske krize pokazuju da su inozemni investitori podržavali razvitak tzv. "ortačkog kapitalizma", takve vrste ekonomskog sustava koji je bio temeljen na povezanosti političkih elita, elita državne administracije s elitama u gospodarstvu, posebice u bankarskom sektoru, tako da su se bankarski krediti alocirali, na temelju političkih kriterija u neprofitabilne poduzetničke projekte, a ne na osnovici temeljnih načela zdravog bankarskog poslovanja. Kada bi takve banke došle u krizu, kreditori iz inozemstva i ulagači tražili su izlaz u intervenciji MMF, koji je imao cilj osigurati siguran povrat uloženih sredstava. U slučaju Južne Koreje, sanacija privatnih kreditora od MMF, bila je relativno složena, jer MMF nije imao iskustava s restrukturiranjem potraživanja privatnih kreditora i uvedena je praksa da se kredit MMF odobrava uz više kamatne stope, da bi se eliminirao element subvencioniranosti kredita MMF. U članku autor pojašnjava problem izbora optimalnog "nominalnog sidra" za dezinflaciju - nakon sloma sustava fiksnih pariteta i odnos kapitalnih kontrola i tečajne politike u uvjetima globalizacije međunarodnih tržišta kapitala. Predmet analize je i odnos fiskalne i monetarne politike kod otvorenih i zatvorenih ekonomija, kratke naznake odnosa između salda tekuće i salda kapitalne podbilance u bilanci plaćanja i nova uloga MMF u arhitekturi novog međunarodnog financijskog sustava.