THE IMF, THE TRUTH, AND RUSSIA

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Professor Steve H. Hanke of The Johns Hopkins University published an important article on the editorial page of *The Wall Street Journal* on May 1, 2000. The International Monetary Fund is trying to set up a venture that would warn of impending financial crises in developing countries, which would give both itself and other international lenders time to deal with problems in their early stages. The difficulty with any such venture, as Professor Hanke points out, is that the IMF has been and remains unable to enforce fiscal and financial disclosures that would provide advance information of impending crises. Hanke points out that many Central Banks do not have web sites, and many of those with sites do not post prompt, comprehensive financial information.

But Hanke's observations points to an even deeper problem: The IMF has no incentives to enforce the truth, even for its own policy objectives.

The widely-accepted cliche dubs the IMF the international lender of last resort. It is obviously not that. It lends other people's money. Western governments and central banks are the collective international lender of last resort. The IMF is a financial intermediary, just like a bank. Like banks, it engages in rollovers and cover-ups to protect its borrowers. Like banks, it subjects its depositors (Western governments) to risky exposures. But unlike banks, it is effectively unregulated. And worse yet, it is like a state-owned bank. Private banks put to risk their own capital; state banks risk the capital of the very governments which are expected to bail them out, thus making the bailout a near certainty. In the IMF case, all that without regulation. The result? More failures, more business, circularly.

This puts in perspective Mr. Hanke's striking examples how, from country to country, obvious balance sheet abuses were overlooked or disregarded. To add more examples, the IMF let Russia's Central Bank, via off-shore operations in the mid-1990s, substitute ruble-denominated government debt for foreign exchange reserves and still list it as reserves, collateralizing more IMF lending until the default of August 1998; and then the IMF complained that it was a victim of fraud. This story became public, but, once more, Russia's foreign exchange reserves are exaggerated by 30 percent, on the IMF watch, which a simple private examination of the balance sheet of Russia's Central Bank, available on the web, demonstrates (see http://www.russiaeconomy.org/comments/091100.html). Any apprentice accountant could tell that Russia's budget is a fake, because it counts tax offsets as revenues remitted in cash (see http://www.russiaeconomy.org/predation/pdf/chapter1.pdf). Past budget deficits were understated by as much as 10 percent of GDP; current budget surpluses are fictitious, and Russia's ability to service its external debt is much less than meets the eye. Private auditors rubber-stamp Russian balance sheets, and the IMF cites private auditors as evidence.

Come next default, the IMF will revive the victim status and request more Western funds to manage global crises. This intermediate position of the IMF between Western governments and borrower countries multiplies global moral hazard. The situation is not sustainable. It is not a question of whether to end the

IMF intermediation but whether to do it orderly sooner or disorderly later.

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