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October 30, 1998

Stanley Fischer, the I.M.F.'s Bearer of Bad Tidings

By DAVID E. SANGER

WASHINGTON -- Brazil is the bailout of the month, and Stanley Fischer, the closest thing the world economy has to a battlefield medic, is a blur of cell-phone calls and urgent e-mails.

From the hushed executive floor of the International Monetary Fund, where he reigns as the No. 2 official, from his car and from the airplanes he is always rushing to catch, Fischer has been engaged in a constant negotiation with Brazilian Finance Minister Pedro Malan. They have tangled over just how to cut the Brazilian budget, raise taxes and deal with an overvalued currency even as they are united in their determination that Brazil's unpredictable and sometimes recalcitrant Congress buy the deal the government made public this week.

All the while, Fischer has been involved in an equally complex byplay with U.S. Deputy Treasury Secretary Lawrence Summers, who is trying to persuade the IMF to contribute more to Brazil's cause -- to have a better shot at stabilizing the country and to assure that the United States will have to put up less money of its own. The IMF will contribute at least \$15 billion and the United States is expected to throw in between \$3 and \$5 billion.

As Fischer, a 55-year-old former professor of economics from MIT, performs this political and economic highwire act, he is, typically, keeping his own counsel.

But hovering over his every calculation is the knowledge that the IMF cannot afford another failure. Another Russia or another Indonesia would be a disaster, not just for the IMF but for the world economy, too. If what he delicately calls the "Brazil stabilization plan" fails to stabilize Brazil, once again the institution that was designed to bring order to the world economy will be accused of fueling the disorder.

"Look, I know we've become everyone's favorite whipping boy," Fischer, whose formal title is first deputy managing director of the IMF, mused one summer afternoon, when Moscow's troubles dominated the day and Brazil's were still

germinating. "But remember that in most cases governments call us in only after they discover they are in a mess, usually because they didn't do things they needed to do long ago. If the problems were easy to solve, they'd do it themselves. And it's our job to convince people to do things that we believe, and they probably know, are good for them. Even if those things are politically unpopular -- and they usually are."

But while Fischer coaxes along crisis-wracked politicians from Brasilia to Moscow to Seoul, he is also fighting a rearguard action against the traditions of the IMF, and against the institution's legions of critics.

He is trying to reinvigorate a tradition-bound, often narrow-minded bureaucracy that has never quite adjusted to a world of 24-hour markets and has proven astoundingly ill-prepared for the challenge of designing economic plans that will fit the political realities of the countries where the IMF is sent in as the lender of last resort.

But while he tries to change the fund from the inside he is also defending it against outsiders -- other economists, members of Congress, even ostensible colleagues across the street at the IMF's sister institution, the World Bank. Few of the critics agree with each other about what the fund should have done differently. But each is certain that it has been wrongheaded, insensitive, beholden to big bankers and prone to make its patients sicker.

Fischer is lucky: Most of the public heat for the IMF's prescriptions are directed at his boss, managing director Michel Camdessus, who spends much of his time dealing with presidents and prime ministers.

But when it comes to the hard bargaining, negotiating the programs countries promise to carry out in return for the IMF's help, it is Fischer who signs off on the details. He cuts the deals over how much countries must rein in their spending, how they will arrange to collect extra taxes, what kind of pet projects they must kill, and how they should attack crony capitalism and corruption. Just how much power he holds is a matter of debate.

Finance ministers around the world claim that Fischer is the first button on their speed-dialers. This summer, as the IMF team was working out the final details of what turned out to be a doomed-from-the-start deal with Russia, Fischer conducted the final talks from a cell phone as he stood atop a sand dune on Martha's Vineyard, Mass., where he was on vacation.

"It looked like a bad scene out of 'Lawrence of Arabia,'" he said.

The IMF's critics insist that Fischer's power is overstated. To them, he seems to mostly do the bidding of the United States. He was put in his job four years ago, chiefly because of U.S. influence, suggested for the job by Summers, who clearly sought a like-minded economist for the post.

But as the United States, the largest power in the fund, intercedes in the biggest

bailouts, there is also some tension in the relationship. "It's fair to say," one senior U.S. official noted this summer, as tempers rose over how to deal with the financial collapse of Russia, "that Stan is getting a little tired of us."

Others say that Fischer struggles to work within the confines of Camdessus' IMF. "A complete French bureaucracy," one official at the neighboring World Bank calls it. Fischer has tried to invigorate that bureaucracy, pushing its staff, long accustomed to leisurely reviews of the state of national economies, to stay more on top of developments. They drew the line, though, at wearing beepers.

He has tried to convince the IMF to monitor markets and political developments around the clock -- much as the U.S. Treasury does -- rather than simply lock all the doors of its headquarters at nights and on weekends. According to IMF lore, at least one desperate Asian finance minister, in the midst of a currency crisis, found himself explaining his problems to a security guard, who was the only person at the IMF to answer the phone at night.

Fischer has also directly taken on the IMF's critics, most recently in an unusual essay in *The Economist*, explaining the rationale behind the fund's more controversial bailouts. In speeches he has even admitted to occasional self-doubts about whether the fund's approach was always right, sentiments rarely heard from Camdessus.

"The only way I know how to do this job is to read the criticisms, many of them by my former colleagues, and then ask the question 'Are these guys right?'" Fischer said recently. "If the answer is yes, you adjust."

The adjustments have been particularly visible in Indonesia, where, stung by the criticism that it was punishing 100 million desperately poor people to pay for the sins of a handful of extraordinarily rich bankers, the fund is now relaxing the austerity measures to allow the government to spend more on food subsidies and dropping its demands that the food distribution monopoly be broken up.

Even some of the harshest critics of the IMF's approach give credit to Fischer for changing course -- at least a few degrees -- once he recognized that the fund's traditional remedies were failing.

"He can't escape blame for some of the fund's blunders," says a longtime friend, Allen Sinai, the chief economist of Primark Decision Economics. "But he is more flexible, more balanced, more able to walk a delicate line between the IMF's principles and what will actually work politically than anyone I've ever seen over there."

Fischer is the first to defend the IMF's orthodoxy over the last 16 months of turmoil. The best way to get a country back on its feet, he says, is to put a stop to wild government overspending and to pump up interest rates to prevent currency devaluations.

Fischer says that the passage of time is proving that his formulas can work.

"When we were called into Korea they were essentially out of resources," he said. "Now, in Korea and Thailand, stabilization of the currencies has clearly succeeded. We expected that if the currencies stabilized, interest rates would come back down. And that's exactly what has happened.

"Why did we focus so much on stabilizing the currencies?" he asked rhetorically. "Because if you do not, you get a takeoff of inflation."

Within the IMF pantheon, Thailand and South Korea are emerging as success stories. Even there, however, Fischer cannot escape the critics who argue that those same high interest rates choked off growth and fostered unnecessarily severe recessions.

This week, Jeffrey Sachs, the Harvard professor and a strong critic of the IMF, contended that the fund was about to make the same mistake again in Brazil. "The budget cuts and those high interest rates are going to send Brazil into a very deep recession," he said. Sachs advocates letting the Brazilian currency float, a path Fischer has rejected as too likely to encourage a price spiral.

Fischer's closest friend in economics, Rudiger Dornbusch, who wrote a textbook with him, has offered an alternative. Brazil should adopt a currency board, which would require the country to keep huge foreign reserves on hand to fix the real, the Brazilian currency, against the dollar.

It is no surprise that Fischer is attuned first and foremost to the dangers of hyperinflation. He made his name in academia, and his debut as a global economic player, fighting it. But it was a circuitous path that began in Northern Rhodesia -- now Zambia -- where his father, a merchant, was an immigrant from Latvia and his mother an immigrant from Lithuania.

A British education in Rhodesia led him to the London School of Economics, then the Massachusetts Institute of Technology, where he earned his Ph.D., before going on to the University of Chicago at the end of Milton Friedman's era. "At MIT you did the mathematical work," he said, "and at Chicago you asked the question of how this applies to the real world."

Summers dates his first encounters with Fischer as a student of his at MIT. "I think I was auditing, so he didn't have to grade me," Summers said, recalling that "he was a first-rate macroeconomic theorist who stayed first rate as his interests became more applied and policy-oriented."

Fischer was pushed into that transition by George Schultz, the secretary of state during most of the Reagan administration. In the mid-1980s, Schultz was trying to figure out how to halt hyperinflation in Israel. With the analytical help of Fischer and Herbert Stein, a former chairman of the President's Council of Economic Advisers, Schultz did to Israel what the IMF does to many countries today: He presented a painful plan for straightening out the economy, with the promise that aid could follow. "Stan did a remarkable job with it," Schultz remembered a few months ago.

That dip into public policy hooked Fischer forever. He went to the World Bank as chief economist and, after returning to MIT for several years, moved to the IMF

But today even Schultz has parted ways with Fischer by leading a drive to abolish the IMF. (He stopped short of repeating that call a few weeks ago, however, when he was on a panel with Fischer.)

Meanwhile, the current occupant of Fischer's old job at the World Bank, Joseph Stiglitz, has been among the IMF's fiercest critics. Stiglitz complains that the fund has ignored the social impact of its austerity programs and has pushed countries to open their markets too quickly. Far more gently -- at least in public -- World Bank president James Wolfensohn has joined in the carping.

"It's unfortunate that this conflict has surfaced, and at times it has made things difficult," Fischer said. "But the fact is that we have adjusted as the situation has changed, and as the crisis got worse than we expected."

The justification for the coming Brazil package -- more than \$30 billion in all -- is finally to get a step ahead of the crisis, to inject money and reforms before the country's reserves are depleted and its last investors have fled. Fischer, though, is seared by the experience in Russia, and wants to gauge how sincere the Brazilians are about carrying through on their belt-tightening before he sends money.

"What Stan learned in Russia," one of his colleagues said, "is that you can look pretty foolish if you mail the check and then the legislature rejects the reforms."

But Fischer seems to hint in his speeches these days that the IMF may have little choice: If it can't stop the global economic contagion soon, it is unclear where or when it will stop.

"We now have to deal with a crisis in Latin America," he said a week ago, "and most of all, in Brazil. It is a difficult time, but not impossible by any means."



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