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20th Anniversary, Asian Financial Crisis: Clinton, The IMF And Wall Street Journal Toppled Suharto

Steve Hanke

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On August 14, 1997, shortly after the Thai baht collapsed on July 2nd, Indonesia floated the rupiah. This prompted Stanley Fischer, then the Deputy Managing Director of the International Monetary Fund and presently Vice Chairman of the U.S. Federal Reserve, to proclaim that "the management of the IMF welcomes the timely decision of the Indonesian authorities. The floating of the rupiah, in combination with Indonesia's strong fundamentals, supported by prudent fiscal and monetary policies, will allow its economy to continue its impressive economic performance of the last several years."

Contrary to the IMF's expectations, the rupiah did not float on a sea of tranquility. It plunged from a value of 2,700 rupiahs per U.S. dollar to lows of nearly 16,000 rupiahs per U.S. dollar in 1998. Indonesia was caught up in the maelstrom of the Asian Financial Crisis.

By late January 1998, President Suharto realized that the IMF medicine was not working and sought a second opinion. In February, I was invited to offer that opinion and was appointed as Suharto's Special Counselor. Although I did not have any opinions on the Suharto government, I did have definite ones on the matter at hand. After nightly discussions at the President's private residence, I proposed an antidote: an orthodox currency board in which the rupiah would be fully convertible into and backed by the U.S. dollar at a fixed exchange rate. On the day that news hit the street, the rupiah soared by 28% against the U.S. dollar on both the spot and one year forward markets. These developments infuriated the U.S. government and the IMF.

Ruthless attacks on the currency board idea and the Special Counselor ensued. Suharto was told in no uncertain terms - by both the President of the United States, Bill Clinton, and the Managing Director of the IMF, Michel Camdessus - that he would have to drop the currency board idea or forego $43 billion in foreign assistance.

Economists jumped on the bandwagon, trotting out every imaginable half-truth and non-truth against the currency board idea. In my opinion, those oft-repeated canards were outweighed by the full support for an Indonesian currency board by four Nobel Laureates in Economics: Gary Becker, Milton Friedman, Merton Miller, and Robert Mundell. Also, Sir Alan Walters, Prime Minister Thatcher's economic guru, a key figure behind the establishment of Hong Kong's currency board in 1983, and my colleague and close collaborator, endorsed the idea of a currency board for Indonesia.

Why all the fuss over a currency board for Indonesia? Merton Miller understood the great game immediately. As he said when Mrs. Hanke and I were in residence at the Shangri-La Hotel in Jakarta, the Clinton administration's objection to the currency board was "not that it wouldn't work, but that it would, and if it worked, they would be stuck with Suharto." Much the same argument was articulated by Australia's former Prime Minister Paul Keating: "The United States Treasury quite deliberately used the economic collapse as a means of bringing about the ouster of Suharto." Former U.S. Secretary of State Lawrence Eagleburger weighed in with a similar diagnosis: "We were fairly clever in that we supported the IMF as it overthrew (Suharto). Whether that was a wise way to proceed is another question. I'm not saying Mr. Suharto should have stayed, but I kind of wish he had left on terms other than because the IMF pushed him out." Even Michel Camdessus could not find fault with these assessments. On the occasion of his retirement, he proudly proclaimed: "We created the conditions that obliged President Suharto to leave his job."

Why did Suharto have to go? President Clinton had his own personal reasons for leading the charge for a regime change. This presented a golden opportunity for the neoconservative regime changers led by Paul Wolfowitz, a former U.S. Ambassador to Indonesia (and subsequently a key figure in the Pentagon—Deputy Secretary of Defense— who pushed for the invasion of Iraq and the overthrow of Saddam Hussein). Their agenda was for the U.S. to control the Greater Middle East, a swath stretching from Indonesia to Morocco.

To depose Suharto, two deceptions were necessary. The first involved forging an IMF public position of open hostility to currency boards. This deception was required to convince Suharto that he was acting heretically, and that, if he continued, it would be costly. The IMF's hostility required a quick about-face: Less than a year before the Indonesian uproar, Bulgaria (where I was President Stoyanov's advisor) had installed a currency board on July 1, 1997 with the enthusiastic endorsement of the IMF. Shortly thereafter, on August 11, 1997, Bosnia and Herzegovina (where I advised the government on the implementation of its currency board) followed suit under a mandate contained in the Dayton Peace Agreement, and with the IMF's full support.

Shortly after Suharto departed, the IMF's currency board deception became transparent. On August 28, 1998, Michel Camdessus announced that the IMF would give Russia the green light if it chose to adopt a currency board. This was followed on January 16, 1999 with a little-known meeting in Camdessus' office at the IMF headquarters in Washington, D.C. The assembled group included the IMF's top brass, Brazil's Finance Minister Pedro Malan, and the central bank's Director of Monetary Policy Francisco Lopes. It was at that meeting that Camdessus suggested that Brazil adopt a currency board.

The other deception involved the widely-circulated story that I had proposed to set the rupiah's exchange rate at an overvalued level so that Suharto and his cronies could loot the central bank's reserves at a favorable exchange rate. It was intended to "confirm" Suharto's devious intentions and rally international political support against the currency board idea and for Suharto's ouster. This story was a linchpin in the Clinton administration's campaign to dump Suharto.

The overvaluation story was enshrined by the Wall Street Journal on February 10, 1998. The Journal reported that Peter Gontha had summoned me to Jakarta, and that I had prepared a working paper for the government in which I recommend setting the rupiah-U.S. dollar exchange rate at 5,500. This was news to me. I did not know of Peter Gontha nor the rest of this fictive story.

I immediately attempted to have this fabrication—which had been concocted by Jay Solomon, a Dow Jones/Wall Street Journal reporter—corrected. It was a difficult and ultimately unsatisfactory process. Although the Wall Street Journal reluctantly published a correction on February 14, the damage had been done.

Interestingly, Sir Alan Walters warned me that the Wall Street Journal was planning to publish a hatchet job on the idea of an Indonesian currency board and the Special Counselor. As Sir Alan wrote to me:

I have heard from our Singapore office that the WSJ (Asia) are likely to publish an attack on you either tomorrow or the day after. From what I hear it is quite scandalous and obviously it is the product of some envious advisors or politicians. I find it astonishing that they have not consulted me at all."

Even more interesting is that, as we reflect on the twentieth anniversary of the Asian Financial Crisis, Jay Solomon, the source of the Wall Street Journal's great Indonesian fabrication and the Journal's chief foreign affairs correspondent, reappears. Indeed, almost 20 years to the day after the Thai baht collapsed, Solomon was shown the door (read: fired). Concerning Solomon's dismissal, theJournal's spokesman Steve Severinghaus said, "While our own investigation continues, we have concluded that Mr. Solomon violated his ethical obligations as a reporter, as well as our standards."

One of the few journalists who bothered to interview me in an unedited, no-spin, question-and-answer interview was Stephens Broening of the International Herald Tribune. In his interview, "Q&A/Steve Hanke, Voice of Suharto's Guru" that published on March 20, 1998, I refuted the phony rupiah overvaluation story that had gone viral since Jay Solomon's Journal reportage. But, by then, it was too late.

The Journal's original fabrication, or some variant of it, was repeated in virtually every major magazine and newspaper around the world, and it even continues to reverberate to this day, even in so-called "scholarly" books and journals. For example, in his 2000 memoir, From Third World to First, The Singapore Story: 1965-2000, Lee Kuan Yew asserts that "in early February 1998, Bambang, the president's son, brought Steve Hanke, an American economics professor from Johns Hopkins University, to meet Suharto to advise him that the simple answer to the low exchange value of the rupiah was to install a currency board." This bit of misinformation was a surprise, since I have never had any contact with Bambang Suharto. But it is not just politicians who fail to "fact check" their assertions. Theodore Friend's 2003 tome, Indonesian Destinies, misspells my name, and then proceeds to say that I "counseled the [Suharto] family to peg the exchange rate at 5000."

Setting the record straight has been complicated by the official spinners at the IMF. Indeed, they have been busy little bees rewriting monetary history to cover up the IMF's mistakes, and Indonesia represents one of its biggest blunders. To this end, in 2001, the IMF issued a 139-page working paper "Indonesia: Anatomy of a Banking Crisis: Two Years of Living Dangerously 1997-99." The authors include a "politically correct" version of the currency board episode, asserting that, among other things, I counseled President Suharto to set the rupiah-dollar exchange rate at 5000. This pseudoscholarly account, which includes 115 footnotes, fails to document their assertion because it simply cannot be done. This official IMF version of events also noticeably avoids referencing any of my published works or interviews based on my Indonesian experience.

After twenty years, what have we learned? Regime change never works as intended. In Asia, China has filled the vacuum created by the discredited efforts of the U.S. Government and the IMF. And what about the neoconservatives who embrace the regime change doctrine and the dream of a U.S. controlled Greater Middle East? After multiple failures, they continue to embrace their doctrine evermore tightly.

Hanke is Professor of Applied Economics at The Johns Hopkins University, and a Senior Fellow at the CATO Institute.