IMF meeting raises survival questions

If the Fund wins expansion of its lending powers, writes Michael Hudson, the Third World loses.

The following report from the Sept. 28-Oct. 3 International Monetary Fund/World Bank conference in Washington, D.C. continues the coverage by EIR*'s special correspondent at the meeting. Dr. Hudson is an economist formerly with Arthur Anderson, the Hudson Institute, and Chase Manhattan.*

There had been a general anticipation on the eve of the International Monetary Fund meeting that world financial resources would somehow prove sufficient to bail out the Third World's "problem countries," whose scheduled debt service far surpassed their net export earnings after meeting their essential food and oil imports. About $50 billion had been expected to come from new multilateral sources. U.S. officials had agreed to join other IMF members in raising quotas by $26 billion (a 50 percent gain, from $52 to $78 billion). OPEC governments were expected to create a $20 billion IMF fund to "recycle" their oil earnings to enable Third World countries to balance their international payments. The IMF's new head, Jacques de Larosière of France, hoped to turn the Fund into a "bank" capable of borrowing $5 to $10 billion worth of Eurodollars annually by issuing bonds backed by its $70 billion in gold reserves. The monetarists who had taken over international banking hoped that world poverty would somehow stabilize the balance of payments of oil- and grain-importing countries. In short, the mood was a dreamy speculation that "if we had some ham, we could have some ham and eggs, if we had some eggs."

None of these hopes were materializing. None of the delegates or observers from the world's commercial banks were able to say where Third World countries could raise the funds needed to pay their nearly $100 billion in debt service scheduled for the coming year, over and above their trade deficits stemming from inadequate food and energy investment. Commercial banks for their part were "loaned up." Indeed, their exposure in Third World countries was being curtailed wherever they could call in their loans without triggering an economic collapse. The paradigm was the IMF's $1.6 billion loan to Turkey last spring, of which $500 million was used to reduce bank loans and much of the balance to pay back interest and principal. This bailed out the international banks, and if they had their way they would sell all their questionable loans to the IMF, OPEC or anyone else who would take them.

An increasingly isolationist Congress was stalling in approving the $5 billion U.S. quota increase. European governments for their part were willing to endorse a modest $5 billion level of IMF borrowing in world bond markets, but only with the proviso that local governments give their approval, subject to appropriate market conditions. In the face of today's unprecedented interest-rate heights and payments deficits, such conditions hardly exist anywhere in the world. In effect, IMF members seemed ready to approve Fund borrowing in any country but their own. Most seriously, the recent round of oil-price increases had thrown the European Community's balance of payments back into deficit, preventing it from implementing the European Monetary Fund until 1982 (assuming Giscard d'Estaing is re-elected in France).

Most highly publicized was the refusal by Arab OPEC countries to finance any IMF oil facility unless they could gain a number of political concessions, in addition to higher interest rates than were being offered on "normal" quota subscriptions. Unless the P.L.O. were invited to the meetings as an official observer, OPEC would not contribute further funding. The problem was that if the IMF gave in and admitted the P.L.O., the U.S. Congress was certain to refuse to participate in any quota increase. This would block not only its own $5 billion commitment to the IMF, but also the $21 billion waiting to be paid by other governments belonging to the Fund.

To be sure, the amount of money IMF members could borrow was tripled, from a maximum twice their quotas to six times their quota levels. But Jamaica and other countries already had refused to go along with the IMF "conditionalities" imposed on member borrowing, and had broken off negotiations with the IMF. As Liberia's minister of planning and economic affairs, Togba-Nah Tipoteh, put matters, "In cases where [international payments] imbalances are due to external factors, the adoption of deflationary demand management policies is not an entirely appropriate way of correcting such imbalances." Instead of seeking in vain to stabilize international trade and payments by intensifying economic austerity and poverty, it was necessary to adopt "economic policies aimed at promoting domestic production and supply." The meeting's chairman, Tanzanian Finance Minister Amir Jamal, asked: "How does an IMF program, with its rigid emphasis on demand reduction and an incredibly short" repayment period for its loans, answer to the needs of Third World countries which "inherited structures which were functions of trade and communications developed to cater for the needs of metropolitan powers. Unless and until these were adjusted structurally, they remained economic dependencies despite their political independence. . . . Right from the very first day of achieving political independence, the burden of adjustment to the world structure has fallen on the poor developing countries." They were obliged to adjust to their immediate condition of backwardness, not to their long-term growth potential. "The IMF has historically been geared to dealing with short-term deficits which are basically cyclical. . . . The whole concept is rooted in the operation of economic structures of industrial societies which developed while others remained feudal or were colonized. . . . An adversary position is almost instinctively assumed, and a cut in demand is an automatic first concern." IMF "conditionality"—that is, the conditions on which debtor countries could borrow from the IMF—was "either a procrustean bed or a carte blanche for further Fund policy prescriptions." The Interim Committee of the Board of Governors had wholly missed the point that "the only outcome of starving these economies of necessary inputs is the accentuation of internal inflation."

For the past decade, Third World governments submitting voluntarily to IMF austerity plans have found themselves quickly voted out of office—unless elections have been canceled by monetarist military dictatorships friendly to the IMF, such as Milton Friedman's Chile. Democratic industrial nation governments had almost entirely stopped borrowing from the IMF, leaving Third World sham democracies as the only customers willing to accept the IMF's "conditionalities" for extending credit. The question was, how long could even these countries be expected to continue sacrificing their living standards and investment functions to pay foreign creditors? Indeed, what lenders would increase their exposure to borrowers who had no visible means of earning the money to repay the loan? And once these countries could not borrow more, what was the point of keeping up appearances by servicing their debts, if their credit ratings already were shot?

All the world's creditors were seeking some vehicle in which to place their money to preserve its value. But the world's debtors had no unpledged collateral left, and it had not occurred to bankers to lend for productive purposes. Thus, there was no way to turn. McNamara's World Bank was blocking any attempt to create national development programs, on the ground that this would absorb Third World raw materials and thus leave less for the industrial nations, or at the very least push up prices for the Third World's raw materials.

Even with continued austerity there seemed no way that many Third World countries could remain solvent during the coming year. One thing was clear in any event: all financial problems had become political, in a bizarre environment in which monetarism was deadly wrong, but had conquered all rival doctrines among the bankers and finance ministers in attendance. (When Britain's delegate was asked at a press conference whether its sharply higher inflation rates signaled the failure of monetarism, he replied that the question was inappropriate because the financial debate had ended: all countries had been taken over by the monetarists.)

De Larosière's opening press conference attempted to depict the IMF's political failures as somehow being planned this way all along and going right on schedule. Perhaps OPEC would lend its petrodollars to Europe, where the IMF could borrow them and lend to Third World payments-deficit countries to repay commercial banks in North America and Europe, providing the dollars for these regions to pay for their higher-priced oil. This would be merely a roundabout way of using OPEC funds to bail out Third World debtors, and would have the ultimate effect of painting the Arabs as Shylocks, not the large international banks and creditor-nation governments.

American representatives reminded delegates that when they had spoken of Arab OPEC money coming through the projected Oil Facility, a single country—Saudi Arabia—was to have put up half the funds ($10 billion). They depicted it as being politically unstable, a potential Iran which might shortly take a militant Arab position, withdraw its loans and create financial havoc. There seemed to be every intention of discouraging participation by Arab countries unless they would continue taking the servants' entrance to the IMF via special funds which had no voting power attached to them. To be sure, these funds yielded about a third more interest than voting quota contributions. But in exchange for just a few points in interest the Arabs were asked to give up all political leverage. The Anglo-Americans accused them of being like bond investors in a company demanding equity voting power. The Arabs replied, "Yes, exactly! Those are our terms: we want one vote per dollar just as you have, and we want a fair price for our money inasmuch as today's world is no longer that of 1945 when your Bretton Woods institutions were formed." Perhaps the awareness of the resulting stalemate is best relayed by one of the jokes going around the meeting. A Venezuelan was in Riyadh for an OPEC conference, and everywhere he went he heard the Arab word *bakkar*. He asked what it meant, and was told that it signified "perhaps," "later," or "maybe." "Oh, like our Spanish word *mañana*," he answered. "Yes, but not so urgent," replied the Saudi Arabian.

In all these discussions there were some wonderful malapropisms for cullers of semantic doublethink. All delegates spoke of "recycling" Arab petrodollars back to the United States and Europe. Most people think of recycling as turning garbage into something useful, like melting down used tin cans and making fresh ones, or burning garbage to make energy in special incinerators. But monetary recycling is something else. It is turning valuable money (the dollars earned by OPEC for oil exports) into government pledges, though nobody can say how they can be repaid.

No attempt to heal the IMF-Third World rift was made by de Larosière at his Sunday press conference, where he released a statement by the Interim Committee of the IMF's Board of Governors calling for even tighter austerity and insisting that "the fight against inflation must not be relaxed" (e.g., that inflation be further aggravated by reducing investment and living standards all the more). The statement cautioned "against any premature shift to expansionary monetary and fiscal policies," e.g., precisely those necessary to modernize food-deficit countries seeking to steer capital into agriculture and industry. Paul Volcker's austerity policies in the United States, and those of Margaret Thatcher in Britain, had greatly aggravated inflationary pressures. But their failure was blamed on the alleged fact that not *enough* austerity had been achieved.

Liberia's minister of planning and economic affairs, Togba-Nah Tipoteh, emphasized the dangerous financial consequences implicit in the Third World's growing reliance on short-term commercial bank lending. He pointed out that "almost 50 percent of the total [African] debt at the end of 1977 is expected to be reimbursed during the period 1978-82. The African [IMF] Governors are of the opinion that in the absence of a substantial increase in official development assistance it will be difficult for many low-income countries to honor their debt obligations." He pointed out that no lending whatsoever had been made for productive purposes enabling borrowers to earn the interest or capital to pay off these loans: "The overriding principle so far adopted by creditor countries has been to confine debt relief efforts to the minimum needed to permit the resumption of debt-service payments." He urged that lending become based on development programs, not debt service—otherwise, it would merely serve to bail out the creditor nations' own banking systems, inasmuch as Third World loan recipients would pass on their loan proceeds directly to their creditors.

The IMF spokesmen, however, simply denounced energy prices—along with the fact that Third World populations existed in the first place to consume so much food and other raw materials. Neither the monetarist policies' role in causing the world depression or the debt and food dependency burdening the Third World's balance of payments was addressed. Countries were ordered to "live within their means."

De Larosière insisted that both Third World and advanced-sector countries impose incomes policies—that is, reduce incomes—on the false premise that domestic output not consumed by workers can somehow be freed directly for export. A smaller domestic market is supposed to shift labor and capital into export industries, despite the fact that the world depression in the industrial nations brought on by monetarist policies has curtailed world demand for Third World products. Greater labor "mobility" was used as a euphemism for breaking up labor unions with "right to work" laws and reducing wage levels accordingly. Warning against "a premature shift to an expansionary stance," de Larosière admitted that "I see no course of policy that could make the economic situation truly satisfactory over the next several years." And that was that!

The World Bank

World Bank chairman Robert McNamara, as a parting gesture, announced the World Bank's intention to double its loan-to-capital ratio, increasing its lending authority to $170 billion (compared to $40 billion in loans presently outstanding). However, he made it clear that these loans would be largely to displace energy imports, not food imports. If these countries increase their agricultural production, it must be for export rather than for domestic food consumption. If they invest, it must be to displace OPEC energy imports and thus put downward price pressure on world oil, not to create their own domestic industry.

What was most ironic was that the industrial nations unanimously warned the Third World that the next World Bank chief could not be expected to be as concessionary toward them as Mr. McNamara, that the time had come to get a tough-minded man trusted by U.S. and European investors—someone like Peter Petersen, former head of the Nixon administration's Committee on International Economic Policy (CIEP), who had drawn World Bank and IMF operations firmly within the self-interest of U.S. foreign policy before leaving to become head of Lehman Brothers.

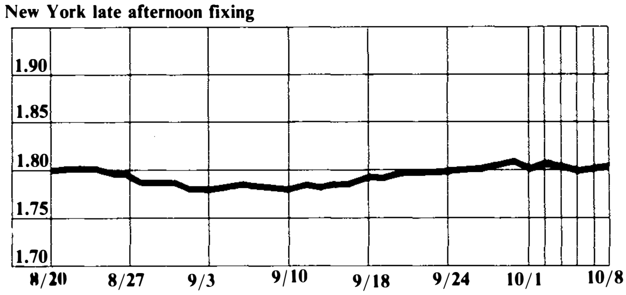
Commercial bankers were closing ranks behind a new wave of austerity. On the one hand, banks wanted the IMF to lend to Third World countries to enable them to carry their foreign debts without defaulting. But on the other hand, they didn't want the Fund to do this at their own expense. They seemed to want to get richer from the world monetary crisis they had brought about, as offered in recent crank paperbacks of the "How You Can Make Money Off the End of the World" ilk. From the U.S. vantage point, Third World countries should borrow in Europe to pay American creditors and buy American food and arms exports. Europe wanted to wait two years until its balance of payments recovered sufficiently to implement the EMF, leaving the IMF standing in its tracks. Third World finance ministers wanted anyone at all to finance continued backwardness and the social inequity that has made their life so pleasant these last few decades. Japan sought not to offend anyone, and so did China (whose 22 delegates in grey business suits were duly noted by most reporters). All sought to become partners in backwardness, not in progress, bidding farewell to a year which most populations outside the meetings felt to be one of unparalleled depression, but which is merely a foretaste of the economic battle to come.

The 1980 meetings, by contrast, were the first at which Third World problems had emerged paramount. The industrial nations had virtually stopped borrowing from the IMF, and long since had ceased to be World Bank customers. Meanwhile, there was little concern about financing Third World imports of American or European products. A world depression and massive unemployment were now viewed as healthy purgatives. The link between finance and exports seemed to have been severed entirely: finance had emerged as a thing-in-itself, even at the expense of world trade and production. The Third World needed money first and foremost to service its debts, not to increase its imports or invest in raising its productive powers. Debt service was crowding out all production and trade functions. And it was now the commercial banks who were concerned to be bailed out. The only labor it hires is that of a few finance ministers who hardly need jobs anyway (although a productive day's work would no doubt do them a world of good).

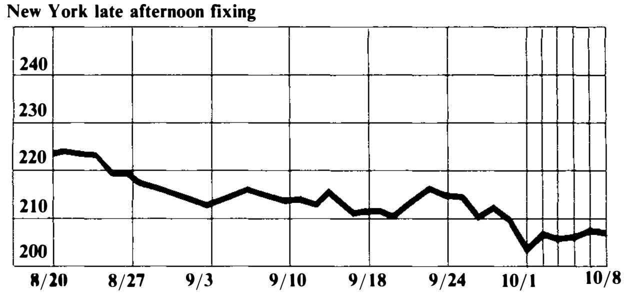
Politically oriented delegates to the meetings expressed concern that the IMF was joining the World Bank in becoming a servicing institution almost exclusively for Third World countries. This certainly was what the U.S. and European press picked up. But it is not the real point at all. The problem is not that the Fund and Bank are focusing on the Third World, for that can be highly productive and sound in itself, given its massive opportunities for development. The problem is that the new focus is utterly devoid of any attempt to increase Third World productivity.

Currency Rates

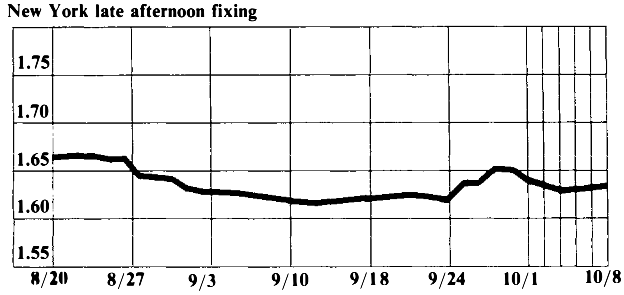
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing