Heated battle at IMF meeting over Brady Plan

by L. Talionis

The Interim Committee of the International Monetary Fund, comprising the major finance ministers of the world, completed its semi-annual meeting in Washington in a pro forma show of support for the debt reduction proposals of U.S. Treasury Secretary Nicholas F. Brady. The IMF was meeting at a point in time when the world is in the throes of the most severe financial crisis since World War II. The recent riots in Venezuela, in which 1,000 people were killed, were just one symptom of the chaos about to engulf Third World governments that continue along the road of austerity politics.

The developing nations were demanding solutions. Treasury Secretary Brady, a scion of the Wall Street banking crowd, was not unaware of the seriousness of the situation nor of the threat that a wave of nationalist ferment in Ibero-America might pose for the continued political hegemony of the Wall Street crowd. The riots in Venezuela broke out when President Carlos Andrés Pérez cut an agreement with the United States on the debt question and began to implement the austerity measures demanded.

The Brady Plan was put forward as a proposal which, under the rubric of debt reduction, would reorganize the unmanageable $1.3 trillion of Third World debt. Countries meeting the increased demands of austerity measures would be rewarded by a reduction of their total debt burden, or a reduction of the amount of interest payments they have to make on outstanding loans, so-called interest support. Many desperate Third World debtors view the Brady Plan as providing perhaps some sort of relief. In reality the Brady Plan is a "leveraged buy-out" of Third World debt, which could be very lucrative to the banks participating. As one delegate to the IMF meeting explained it, since the great mass of Third World debt is worth much less in market value than its nominal value, a 20% reduction of the principal of that debt, if backed by the resources of the IMF, would probably enhance the value of the debt banks are holding. Far from being a boon to the developing sector, the Brady Plan would be a bailout of the major commercial banks, as British Chancellor of the Exchequer Sir Nigel Lawson succinctly put it at his press conference in Washington.

Winners and losers

The Brady Plan has not met with overwhelming support from all the countries involved. As large chunks of Third World debt are erased from the books, there will be winners and there will be losers. On the developing sector side, the "winners" under the Brady Plan will be those countries that have best implemented their "adjustment program," i.e., have most effectively rammed through murderous austerity policies. Among the industrialized nations, the big question is, who pays for the bailout? The only real support that the Brady Plan has received is from the Japanese, who on April 3 pledged up to $4.5 billion that would be made available "over the next few years on a case-by-case basis."

It was obvious that IMF support was necessary to get the Brady program off the ground, since the IMF and the World Bank must put up the cash for the bailout. The carrot which Brady was holding out to them was a U.S. agreement on raising the quotas of the IMF countries.

The Group of 24, representing the major developing nations, issued a communiqué after their meeting on April 2. They gave their support to the new debt reduction scheme, stressing that it should be "made operational as soon as possible to reverse the massive net transfer of resources" from these countries to industrial nations. The G-24 called for the IMF and World Bank to step up lending to the Third World and "to avoid conditionality in the design of adjustment programs." The Brady Plan's usefulness as a "carrot" is precisely to make it possible to impose greater degrees of austerity on countries of the developing sector. As Barber Conable, World Bank president, explained in his remarks, the plan must "reward" the countries which have successfully implemented adjustment programs.

The G-7 countries, also meeting on April 2, issued a statement supporting the Brady Plan, but stressing that the IMF and World Bank "should examine" the establishment of limited interest support. But on April 3, Dutch Finance Minister H. Onno Ruding, the chairman of the Interim Committee, announced an impromptu press conference to dampen the "sense of euphoria," which he said had been created around the question of debt reduction among major debtor nations and commercial bankers who were "just waiting" for the new debt strategy to come into effect. He was especially concerned about the part of the proposal dealing with the reduction of debt service, saying that debt-service reduction would cost the IMF and the bank "staggering amounts of money." Ruding supported the principle of debt reduction, but added, "to expect the IMF and World Bank to find the extra money for interest rate reduction, I don't see how that works."

Blunter yet was British Chancellor of the Exchequer Sir Nigel Lawson, who, in a hastily called press conference for British journalists on April 3, said that he did "not find acceptable the idea that our taxpayers should bail out the commercial banks." Lawson noted that commercial bank lending to the 15 most indebted countries since 1982 had risen by only 17%, while governments, including multinational lenders such as the IMF and the World Bank, had increased their Third World debt exposure by 107%. "That sort of process has to be slowed down," Lawson said. "The time has come for the commercial banks to do more."

West German Finance Minister Gerhard Stoltenberg also had serious reservations concerning the Brady Plan. Stoltenberg stressed that a U.S. debt reduction plan should not be misunderstood as a general forgiveness of all developing sector debt. Canadian Finance Minister Michael Wilson was also very reticent about the workings of such a plan. "It should not be seen as a safety net," said Wilson. "Brady has received agreement in principle, but the mechanics of what we are doing require further study on the part of the Bank and the Fund. . . . It would be useful to test some of the technical questions to see if everything works together."

As was foreseen from the beginning, however, the IMF was going to give support to the Brady Plan—at least in principle. The reason being, as French Finance Minister Bérégovoy clearly pointed out, that the riots in Venezuela "made us think twice." "We have to come up with a solution as soon as possible," he said.

The IMF communiqué stressed that the IMF and World Bank together would contribute $20-25 billion to back debt reduction packages. Countries committed to strong programs of economic change would be helped in selling off their patrimony through discounted debt-for-bond exchanges or debt-equity swaps. Although the IMF agreed to set up a task force to study concrete debt reduction measures in the cases of Mexico and Venezuela, the proclamations issued at the end of the IMF meeting will probably remain largely "full of sound and fury" and yet "signifying nothing." The innumerable ""ifs," ands," and "buts" brought up by the finance ministers of the industrialized countries in the course of the meeting will largely put a damper on the plan. More seriously, as one observer put it, the Brady debt reduction scheme may be "too little, too late." The failure to deal with the real underlying problem may lead debtor countries to default because of the dashed hopes which were raised by the much-touted plan. The commercial banks, who will actually gain by the scheme, may not see it in their interest to sacrifice one iota of their nominal assets, although these assets are unpayable. More worrisome is the fact that the attempt to use the promises of debt reduction to enforce greater austerity on the debtor nations will undoubtedly lead to further blowups like that witnessed in Venezuela, and further convulsions for an extremely volatile financial structure.

Although the IMF meeting focused largely on the Brady Plan, the issue of the sorry state of the U.S. economy was continually lingering. Some evil tongues have it that Brady launched the debt reduction plan proposal in order to avoid a more thorough discussion of the shape of the U.S. economy under Brady's tutelage. The recent IMF World Economic Report, released at the beginning of the meeting, said that the U.S. current account balance could jump to $156.6 billion next year from a projected $139.3 billion in 1989. The IMF report also sharply revised upwards its projection of next year's U.S. current accounts deficit from $137.4 billion projected only a few weeks ago. The report says that the United States faces a "particularly urgent" task of raising domestic savings and called for a "decisive effort" by the U.S. authorities to improve the nation's fiscal position.

The IMF believes that the figures of the Bush administration, which envisage a decline in the U.S. budget deficit from $160 billion in this fiscal year to $37 billion in the fiscal year ending Sept. 30, 1993 are too optimistic. Fund projections show that the deficit could still total $114 billion in fiscal 1993. The report stresses that the U.S. must take urgent measures to reduce the budget deficit. "Efficiency considerations suggest that such efforts should continue to emphasize expenditure cuts," emphasizes the WEO report, although they also do not preclude the need for raising taxes. It is clear that the IMF conditionalities will not only be a cause of suffering in the developing sector. The U.S. will also feel the pain. "As thou sowest, so shall thou reap" will become an appropriate slogan for a nation gone mad.

Unless the genocidal policies of the Wall Street crowd and the IMF are thrown overboard, the bitter cup of austerity policies which the United States government has forced upon the countries of the Third World will soon be ours to drink to the full in this, the biggest debtor nation in the world.