already rich countries. Debt, as managed by Western governments, banks and their helpers such as the IMF, has further weakened the South (including the OPEC countries), left it far worse off than before the borrowing binge and laid it open to virtual recolonization.

Be that as it may, the banks had a pile of money on their hands in the mid- to late 1970s. Bankers argue today that their huge loans to Third World countries were encouraged by states; they claim there was a tacit agreement with Western governments to foster orderly placement of petro-dollars as a matter of public interest. A representative of the American Bankers Association testified before the US House Banking Committee in the spring of 1983: 'There was no government directive that banks act to recycle the funds, but clearly it was expected.'[31]

Such statements also show, of course, that banks want to implicate governments and to make sure they will get them off any future hooks. It is doubtful that the vital interests of these same governments were uppermost in bankers' minds during the palmy days of expanding loans and rising profits. As a professor of international economic affairs remarks:

> *Are we really to believe that these proud institutions were so meekly submissive to the will of public officials? Would they really have gotten in so deep had they not thought that there was also something in it for them? . . . If they were so ready to recycle petro-dollars, it must have been because they believed that there was money – perhaps lots of money – to be made from it . . . Profit, not public interest, was their driving force.*[32]

And profit it remains. The debt crisis is a true windfall. A country like Brazil, for example, paid back $69 billion in interest between 1979 and 1985, and its only reward at the end of this period was to be deeper than ever in debt, owing even greater interest payments. The creditors have pulled themselves together. Thanks to the practice acquired through the Mexican exercise and subsequent rescues, and the new spirit of co-operation (forced or genuine) between banks, governments and the IMF, stretching out Third World debt has been made as trouble-free as possible. The banks, at least the largest ones, are sure of saving their skins. The Consortium is adamant that the debt must continue to be handled on a case-by-case basis. We will now look at one of the principal instruments it uses to keep the debtors in line.

3. THE INTERNATIONAL MONETARY FUND: LET THEM EAT SPECIAL DRAWING RIGHTS

When I started doing research on the debt crisis I was prepared to assign the role of global ogre to the IMF. Today, better versed in the doings of the Fund, I believe such name-calling would be mistaken or at least misleading. The role of the Fund is important, even peripherally ogrish, but it cannot be understood without reference to the crisis as a whole and to the other actors.

The Fund is highly visible because it is the architect of the 'adjustment' programmes that create serious hardships for low-income groups. But it cannot be held responsible for the circumstances that brought heavily indebted countries to its doorstep in the first place. Nor can the IMF even be credited with an inordinate amount of power in the world financial system – it simply does not have that kind of money at its disposal, and ultimately it takes its orders from outside. One might more accurately describe the Fund's role as that of messenger, watchdog, international alibi and *gendarme* for those who do hold financial power. As we saw in the preceding chapter, the bedrock of the world monetary system is the private banks, with states (including their central banks and treasuries) acting as guarantors. The Fund works on their behalf.

As watchdog and messenger, the IMF helps to ensure that over-exposed banks will be repaid, that even major borrowers like Mexico will be prevented from destabilizing the system as a whole. As alibi, it

allows the major industrialized countries and their banks to off-load the consequences of their own shortsighted policies and financial recklessness on to the Fund's shoulders. The IMF helps them to consolidate their power over poor nations. At the same time, and in exchange for co-operation, it generally allows the elites of these same nations to maintain their affluence and perks at the expense of the majority of their fellow citizens. The IMF is a sort of Godfather figure – it makes countries offers they can't refuse.

Although the Fund has been an important factor in some nations for a decade or more – the Philippines, Jamaica, Kenya and Zaïre among them – its rise to stardom on the international scene is a recent phenomenon. The 1970s, as we've seen, were the heady days of bank euphoria, with borrower governments succumbing to the charms of apparently endless easy money. In those days nobody wanted the IMF around – the lenders because they were self-congratulatory about their efficient recycling of petro-dollars, the borrowers because they had no desire to submit to the Fund's stringent conditions. Thus little was heard about the IMF in the Third World until the early 1980s, since the banks were playing the lending game to everyone's satisfaction.

Between 1974 and 1979 the IMF supplied less than 5 per cent of the financing needs of the developing countries. Consequently it had little leverage over them. For example, in 1978 non-oil-producing LDCs actually repaid $900 million more to the Fund than they borrowed. In 1979 IMF advances to such countries ($1.8 billion) exceeded repayments by only $200 million.[1] The second oil-price shock helped to double LDC trade deficits from $45 billion in 1979 to $90 billion in 1981. The IMF did try to step in at this point but was stymied by the Reagan administration's refusal to grant it more lending resources. As a result, the private banks once more increased their loans to the most heavily indebted countries. By the early 1980s 55–60 per cent of all LDC debt was owed to banks.

BANKS AND THE IMF: A MARRIAGE OF CONVENIENCE

Suddenly, in the wake of global recession, the heedless nature of the banks' lending policies became evident to all. The borrowers woke up to the nasty reality that a lot of their debt was short-term and at 'variable' (market-determined) interest rates that were climbing dangerously. Each increase in interest automatically added billions to their debt-service bill. Borrowers also found interest payments devouring a larger

and more unpredictable share of their export earnings just as these earnings were doing a nosedive.

Although their Third World loans remained enormously profitable, the bankers also began to shed their former insouciance and to recognize that even if countries did not 'fail to exist', they could still very well have serious repayment problems. The banks were already over-exposed; yet knew they would have to loan even more just to make sure that they got their interest back, that loans continued to 'perform'. The neo-conservatives' hope for bank 'self-regulation' turned out to be a fantasy.

As the Third World's capacity to pay diminished, jittery bankers realized that, alone or even together, they were unable singlehandedly to force the debtors to make loan servicing their highest priority. Faced with the grim prospect of cascading defaults, they had to have a nominally neutral institution with both the clout to force repayment and the capacity to mobilize enough financial resources to make repayment possible.

The banks, naturally, did not want to contribute all, or even most, of these resources themselves. An international agency like the IMF could use its own money (states' quotas and other contributions). It could also make its member governments see reason and urge them to put funds into the common pot. The Mexican rescue fund was typical: the IMF's share was $1.3 billion; governments paid in $2 billion; the banks put up $5 billion in 'involuntary loans'.

Note, however, that in the Mexican case public money (yours and mine) made up 40 per cent of the total package, compared with the banks' contribution of 60 per cent. Between 75 and 80 per cent of Mexico's debt is, however, owed to banks, which collect a proportionate amount of the interest. The IMF thus works as a *channel for funnelling public money to private banks* – it matters little that these funds transit through the national accounts of Mexico. In this sense the Fund enforces taxation without representation on the citizens of the industrialized countries.

The banks get another bonus by working with the Fund – an IMF adjustment programme is the best available guarantee that countries will continue to have the means to pay. Adjustment puts export earnings above every other goal, and export earnings head straight for the banks. The Mexican rescue story again shows that none of the banks would have budged without the centrepiece of an IMF plan for Mexico. The banks hate involuntary lending, and it may have been a rocky courtship, but the Fund and the banks were made for each other.

THEORY AND PRACTICE: FROM COMPARATIVE ADVANTAGE TO AUSTERITY

Here we will detail neither the origins and structure of the Fund as it was devised at Bretton Woods by Lord Keynes and Harry Dexter White in July 1944 (at the same time as the World Bank) nor its subsequent evolution. We will simply note that the US, the world's strongest economy at the end of the Second World War, was badly in need of an institution that would help to re-establish and promote trade.[2] This is indeed the Fund's *raison d'être*.

The IMF is commonly regarded as a purely financial institution, a kind of super-bank, lender of last resort or bailer-out (of countries or of banks), according to one's viewpoint. All this is so. But to understand the philosophy and practice of the Fund, one must first ask *why* it lends, *to what end* it provides 'balance-of-payments support' to heavily indebted countries.

The answer lies in the IMF's charter, whose first Article prescribes six objectives. Among these are 'To facilitate balanced *growth of international trade* and, through this, contribute to high levels of employment and real income and the development of productive capacity . . . [To] seek the elimination of exchange restrictions that hinder the *growth of world trade*' (my emphasis).

Even those objectives described in the first Article that may appear strictly financial are, in fact, geared to a single, overriding objective: the growth and development of world trade. Countries that consistently import more than they export need financial help so as not to withdraw from trade. No loans, no purchases. IMF intervention not only maintains them as participants in world markets but also, through adjustment programmes, forces them to *increase* that participation, even if this is demonstrably against the best interests of the people concerned.

The IMF has repeatedly stated that it is not, and was never intended to be, a *development* institution. Development is the concern of its sister agency, the World Bank. The Fund exists to impose its own orthodoxy on the world economy, and the foundations of that orthodoxy are the doctrines of free trade and comparative (or natural) advantage. To see the Fund's doctrine in a nutshell, one need not alter a line in economist David Ricardo's original nineteenth-century formulation:

> *It is quite important to the happiness of mankind that our own enjoyment should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate and its natural or artificial advantages it is adapted, and by their exchanging them for the commodities of other countries . . .*[3]

These principles are religiously observed and dictate IMF behaviour. The principle of free trade means that membership of the Fund carries with it a tacit pledge to abolish trade restrictions – and particularly to dismantle controls over foreign-currency exchange. Restricted *money* can be a far more effective barrier to trade than tariffs. Other obstacles to trade, such as quotas, barriers to foreign investment, etc., are also heartily discouraged by the Fund.

What are the IMF's opportunities to put its doctrines into practice? These occur when a country comes to be seen by the international banking community as a poor credit risk, when its debts have reached alarming levels in relation to its ability to export and to earn foreign exchange. It is then that a country comes to the Fund to borrow amounts theoretically determined by the 'quota' it paid in when it became a member. Loans are granted in successive *tranches* (French for 'slices'). Each *tranche* obtained carries with it stricter and stricter conditions.

The number and severity of the obligations the Fund requires even for comparatively small loans causes complaints – but borrowing countries know that they will obtain no further loans from *other* sources without the IMF seal of approval. This seal helps to provide a guarantee that the country will henceforward behave itself in accordance with 'healthy' economic doctrine. It is supposed to be in everyone's interest that Fund clients swallow whatever bitter economic medicine is prescribed. As a long-time official of the IMF has written, 'If the Fund's standards of conditionality were lowered, the change would become known and probably the Fund would have less influence on other potential lenders.'[4]

Nowadays most countries that are obliged to go to the Fund rapidly exceed the allotted *tranches* based on their own quotas. They then appeal to a variety of special 'facilities' that the IMF has added to its members' quota funds over the years. The Fund usually makes loans in its own composite currency, called Special Drawing Rights. Because of much larger recent demands on Fund resources, quotas for many countries have become a polite fiction and have, in fact, been replaced by the 'enlarged access policy' – a way of allowing some members to break all previous rules, provided they undertake 'strong policy measures aimed at redressing payments imbalances'.[5]

The IMF's statutes require that the Fund 'shall adopt policies . . . that will assist members to solve their balance of payments problems . . . . and that will establish adequate safeguards for the temporary use of its resources'. These clauses confer on the IMF a blanket authorization to organize its borrowers' economies according to its own lights. Taken together, the 'strong policy measures' it insists on add up to an

'adjustment programme'. The Fund deplores that so many of its members wait until they are in really hot financial water before coming to it for help. These delays, it says, are the main reason for draconian 'austerity', as 'adjustment' is more popularly and more accurately known (except inside the IMF).

The basic goal of adjustment, and indeed that of many families, is simple enough: increase revenues, reduce expenditures. Third World countries in debt often do not have enough foreign currency to finance even their most basic necessities, and soon suppliers refuse further credit. To remedy this foreign-exchange shortage, the debtor must, in practice, reduce domestic consumption and increase exports.[6]

The most frequently imposed elements of an adjustment programme include devaluation of the currency (to discourage imports and encourage exports); drastic reduction of government expenditure, particularly social spending and elimination of food and other consumption subsidies; privatization of government enterprises and/or increases in prices charged by them (electricity, water, transportation, etc.) and the abolition of price controls; 'demand management' (meaning reduction of consumption) through caps on wages, along with restriction of credit, and higher taxes and interest rates in an effort to reduce inflation.[7]

All this may sound eminently reasonable. Countries cannot live for ever beyond their means, any more than families can. The question remains, however: who is living beyond whose means? As we already know, it was LDC elites, often the military, who were responsible for incurring the heavy debts to begin with. Their development schemes benefited themselves; the majority of their people were left out. We shall shortly see how the indiscriminate application of Fund doctrine intensifies the sufferings of ordinary people.

The IMF knows that it is being singled out as chief culprit for all kinds of social horrors in the Third World. Its defence is to affirm its 'non-political character', indeed its political impotence.[8] The Fund's former managing director, Jacques de Larosière, thus exonerates his institution from any responsibility for social injustice:

It is often said that Fund programs attack the most disadvantaged segments of the population, but people forget that how the required effort is distributed among the various social groups and among the various public expenditure categories (arms spending or social outlays, productive investment or current operations, direct or indirect taxes) is a question decided by governments. Generally, people refrain from drawing attention to the choices made in this respect, and instead allow the Fund to

come under attack and describe its activities as inimical to the least favored segments of the population.

A question that may be raised in this connection is whether the Fund should exert pressure in the determination of government priorities and even make the granting of its assistance contingent on measures that would better protect the most disadvantaged population groups. An international institution such as the Fund cannot take upon itself the role of dictating social and political objectives to sovereign governments . . . *[my emphasis].*[9]

This, politely put, is rubbish. As I have argued elsewhere with regard to the World Bank, which makes exactly the same sort of claim,[10] the IMF *could* have an enormous influence on the economic (which is to say, political) choices of its heavily indebted clients if it chose to do so, for the simple reason that money talks. If the Fund believed, which it patently does not, that economic growth can also result from greater social equality, access to education, health care and other basic services, fairer income distribution, etc., it could perfectly well make such objectives part of its programmes. On the contrary, exactly those countries that have most insisted on maintaining social objectives (for example, Tanzania and Jamaica under the People's National Party) have had the greatest difficulties in coming to terms with the IMF.

While it's quite true that the Fund is not the only guilty party in this respect – there are too many truly awful, undemocratic governments around for that – it is also true that it has *chosen*, as a matter of policy, to disregard social equality as a criterion for its programmes, much less as an objective that could be imposed upon governments. Such governments thus may get away with non-metaphorical murder and then place the blame on the IMF, which is a convenient, but also willing, scapegoat.

Another former managing director of the Fund, Johannes Witteveen, stated quite baldly in 1978, 'The Fund avoids taking a view on the appropriate distribution of the burden of adjustment as between various sectors of society.'[11] Larosière, cited above, follows in his timorous footsteps. One study of IMF loan conditions counted 196 objectives of Fund programmes between 1964 and 1979, among which the aim to 'protect poor against possible adverse effects of programme' occurs exactly once.[12]

This hypocritical, hands-off attitude is attracting flak, even from moderate critics like Tony Killick, author of the just mentioned study. In another context Killick inquires, in tones of sweet reason:

Is it not unwise for the Fund management to refuse as a matter of policy to consider such repercussions [on income distribution] when designing and calculating their programmes? . . . No doubt this is primarily a matter for governments but that is true of all aspects of national policy. Fund missions provide policy advice on the balance-of-payments price stabilization, and growth aspects of its programmes; on what principle can it decline to do so for the distribution results?[13]

There are signs that the Fund may at last have recognized that it cannot entirely skirt such questions – but then again, perhaps it can. A paper prepared for the internal use of the IMF's Executive Board and department heads notes, 'The official Fund view that distributional policies are entirely a sovereign issue . . . has the practical advantage of circumventing a potentially contentious issue.'[14] The (anonymous) author, however, suggests an alternative:

If the Fund were to attempt to specify the specific functional expenditures with a view to improving internal income distributions, the following might be considered:

a. *Focusing educational outlays on basic skills and vocational training;*
b. *Focusing health outlays on the provision of basic health services and away from the doctor–hospital environment;*
c. *Limiting defense expenditure;*
d. *Limiting grandiose public works and 'prestige' projects;*
e. *Advocating much stricter budgetary controls by the Ministry of Finance over spending ministries.*[15]

This would be a great programme for starters. The key word, of course, is at the beginning: 'If'. There are no outward signs that the Fund *wants* to 'improve internal income distributions', or that it has attempted any practical measures in such a direction. An internal memo is not a policy.

THE POLITICS OF THE IMF – INTERNATIONAL MINISTRY OF FINANCE

Those who believe that the Fund is, or ought to be, 'non-political' should also scrutinize its curious and unfailing identity of views with those of its most powerful members, particularly the United States. Some of the countries whose governments contracted the highest debts were/are also the most repressive: Brazil and Argentina under military rule, the Philippines under Marcos, Indonesia, Chile, etc. They are also countries

in which the United States takes a keen strategic interest. Was the Fund acting frivolously when it made a sizeable loan to the Somoza regime only weeks before the Sandinista victory in 1979? Or was it gently but firmly encouraged to do so? As the then Treasury Secretary Donald Regan put it, 'The IMF is essentially a non-political institution . . . But this does not mean that United States' political and security interests are not served by the IMF.'[16]

On the principle of paying pipers and calling tunes, it is legitimate to assume that an international institution like the IMF will tend to serve the interests of its richer members first. Voting power in the Fund is proportional to country quotas (the amount each country is assessed when it becomes a member, which is relative to its wealth), but at the Fund a special rule (the '85 per cent rule') grants the US *de facto* veto power on all the most important policy issues.[17]

As a highly experienced Central American economist, formerly with the Inter-American Development Bank, remarks, 'It is hypocritical to assert that the IMF devises austerity programmes *by itself*, even though it is the executing agent. In fact, it is governed by the Group of Ten, the top OECD countries whose central bank governors and/or finance ministers meet regularly in Basle at the Bank for International Settlements. It's the G-10's thinking that determines policy at the IMF.'[18]

The G-10 is careful that the IMF remain an instrument helping it to manage the world system. Although the Fund did at one time come to the aid of both the UK and Italy, in recent history it has been concerned exclusively with debtors in the Third World. These debtors are not, by a long shot, the only possible sources of financial destabilization. Potentially the US debt, including corporate and private (household) debt of \$2.6 and \$1.8 trillion respectively, is far more alarming.

If the IMF were consistent, it would listen to people like Felix Rohatyn, the highly respected financier who saved New York City from bankruptcy. He notes:

The continuing deficit requires the [US] government to borrow between \$180 and \$240 billion each year . . . The situation of the US too closely resembles that of . . . Argentina, Brazil and Mexico between 1975–82.

Rohatyn also warns:

The [US] government's borrowing requirements, a major factor in maintaining interest rates at very high levels, increase the risk to our banking system of large-scale failure by Third World countries to pay

their debts. We are purchasing short-term prosperity by starving the rest of the world of badly needed capital and destabilizing the international monetary system. Since we live in a world market whether we like it or not, we cannot continue much longer.[19]

Although the IMF is unlikely ever to say so, it is clear that the *United States*, not the LDCs, is the greatest present threat to international financial stability. The net amount that Latin America remitted to its Northern creditors between 1982 and 1986 ($130 billion) exceeded all the net financing these countries received during the preceding eight years.[20] The Fund does not seem to appreciate that this kind of financing of the rich by the poor also poses a grave threat to the system of which it pretends to be a pillar.

Nor does the Fund appear to recognize that poor countries (and even more the poor people who end up paying the debts) have no power whatever over several important factors affecting their balance of payments. Among these factors are *international inflation*, which boosts the prices of imported manufactures, services, oil and food, *high interest rates* and *weak export prices*. When one asks, as I did at Fund headquarters in Washington, how it is possible to encourage *all* countries at once to pursue policies favouring exports, the reply is that the Fund was created 'to increase world trade', so 'the more goods on the market the better'.[21]

But who will pay for these goods? The Fund seems mindless in its pushing of the *same* policies on everyone but finds justification in its claim that countries are 'free' to change the composition of their exports. IMF officials cited to me the so-called NICs (newly industrializing countries of Southeast Asia) as good examples of countries 'adapting'. This is wishful thinking on a par with the song in *My Fair Lady*, 'Why can't a woman be more like a man?' IMF economists seem to believe that Latin America and Africa could be more like Taiwan and South Korea if they would just put their minds to it. But where are Latin America and Africa to find enough capital to diversify, especially now that they have to pay back such a huge proportion of their earnings in debt service? And even if they could scrape together the capital, to whom would they then export?

The Fund lives in a never-never-land of perfect competition and perfect trading opportunities, where dwell no monopolies, no transnational corporations with captive markets, no protectionism, no powerful nations getting their own first. (I was even told by Fund officials that there is 'no evidence of a secular decline in commodities' prices' – a statement belied by the IMF's own statistics.) Even the second Brandt Report, although it advocates an expanded role for the IMF, asks that the Fund 'avoid advocating policies for a number of countries which, when carried out by all of them together, will reduce world income and employment at a time when expansion is needed'.[22]

One must recognize that, *on its own terms*, the IMF is, temporarily, 'successful'. The trade deficit of non-oil-exporting countries was, for example, reduced from $110 billion in 1981 to $56 million in 1984. But the patient has gone into a deep coma as a result of the cure. Economies are everywhere contracting, employment opportunities shrinking; investment is next to nil, growth a dim hope.

The rich are also feeling the backlash of massive deflation in the poor countries. US exports to Latin America fell by 42 per cent between 1982 and 1984. Hundreds of thousands of US workers have lost their jobs because an indebted South America has curbed imports.[23] Faced, however, with a choice between banks and workers, we know that the Reagan administration will take the banks any day. The Northern establishment has proven itself immune to moral suasion and human suffering; it will act to change present Fund policy only if it feels its own interests are at stake.

The ultimate threat to those interests may be the political one as discontent rises and people feel they have nothing left to lose. In the South too many governments are using IMF programmes as a convenient excuse for more severe repression, for breaking the backs of trade unions, driving down wages and bringing their own people under greater control.

Because the pivotal role of the Fund in managing the debt crisis is part of the global power struggle, real change will come about only through altering the present balance of forces. If the IMF is to reflect the needs of *all* its members for an equitable world financial system as well as a concern for the basic needs of *all* citizens, including the poorest, it will be because of political action. Until this happens, IMF will also stand for 'International Ministry of Finance'.