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THE IMF AND DEVELOPING COUNTRIES

In July 1944, as Allied forces were moving across France, representatives of forty-four Western nations convened at Bretton Woods, New Hampshire to create a new international monetary order. Uppermost in their minds was the collapse of the international monetary system in the 1930's (the Great Depression). Their goal was therefore to create an international economic system which would prevent another economic and political collapse and thereby avoid another global military conflict like World War II. That order would be designed to prevent non-European economic nationalism from endangering Western-controlled "free trade" and international commercial intercourse.

–It was also to be a system of unlimited management by international organizations. Two international organizations—the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank)—were established " . . . to perform central bank functions for the international system." The IMF was designated as the gate-keeper of the rules and the prime instrument of international management. Under a system of weighted voting, the U.S. has exerted preponderant influence in this body. The U.S. now has roughly 20 percent of the IMF's voting power.

The primary purpose of the IMF, as stipulated by its Articles of Agreement, is " . . . to provide member countries with temporary balance of payments support." However, as the present structure stands, developing countries are merely unquestioning takers of policy "advice." This is a reflection of the fact that the Managing Director of the IMF must *always be European while the President of the World Bank* must *always be American. It need occasion no great surprise then that the IMF represents a key economic weapon in the armory of the U.S. and its Western allies either to manipulate, destabilize, or even overthrow governments with whose politics they disagree. And even though Article One bars it from using political consideration in its decisions, there is ample evidence that the IMF has done precisely that: On one hand, IMF policies have been implicated in the destabilization of 'leftist' governments such as Chile under Allende, Grenada under Bishop, Jamaica under Manley, and Nicaragua under the Sandinistas. On the other hand, it has offered assistance to Chile under Pinochet, to Jamaica under Seaga, and advanced a $1.1 billion loan package to apartheid South Africa.*

–This ISSUE BRIEF, which begins with an interview with international economist Robert S. Browne, former Executive Director of the African Development Fund—the soft loan window of the African Deveolpment Bank—examines the role of the IMF in undermining governments with whose domestic and foreign policies it disagrees and in imposing severe hardships on the masses of people in Africa and the Caribbean. □

"Most of the balance of payments problems of Third World countries, at least in recent years, [have been] long-term, structural . . . . The IMF was not created for those kinds of problems and has certainly not been very effective in solving them."

Robert Browne

The ostensible purpose of the IMF is to assist countries with short-term balance of payments problems. Do you think the IMF has performed this function with regard to the developing countries?

BROWNE: To the extent that the IMF has attempted to assist countries with *short-term* balance of payments problems, I think that it has been fairly effective. However, most of the balance of payments problems of Third World countries at least in recent years, have not been short-term problems, but *long-term* problems: structural and other types of long-term problems. The IMF was not created for those kind of problems; it is certainly not designed to deal with things that require very long periods to correct. To the extent that the IMF has tried to deal with Third World balance of payments problems, I think that it is possibly dealing with something it was not designed to deal with and it has certainly not been very effective in solving those problems.

What input do developing countries have in IMF decisions?

BROWNE: None. The U.S. basically controls the IMF. On very crucial matters, there is no question that the U.S. exercises veto power in this organization; the U.S. can block any decision of the IMF. With this amount of power, there is no question that the U.S. has the ability to manipulate the domestic and foreign policies of Third World governments. Indeed the conditionality measures imposed by the IMF are largely designed to protect U.S. lenders. I do agree with those writers who have suggested that the IMF is the most powerful supranational government today. This is true because it has the backing of a super power—the U.S.

In a recent issue, *South* magazine had a leading article about "the IMF debt nightmare" in Africa; based on your experience in Africa, is this a vailid caption?

BROWNE: It is quite true that the IMF in a way can be considered a nightmare in Africa; but it may be a little unfair to put all the blame on the IMF. That would be an understandable, but simplified and shorthand way of describing a very alarming situation. I should note that the IMF advances certain arguments in its defense. One is

that it is called in when the economy in question is in very serious trouble and very drastic measures appear warranted. Another is that failure to adjust—to adopt the conditionality measures—would make things even worse. Now, I do not agree with these arguments; I consider them debatable. For instance, more often than not, the IMF's own goal of helping end the external indebtedness of a nation is not met; the economy in question goes deeper into debt even after faithfully implementing the conditionality measures, e.g. the Sudan. Beyond this, the draconian conditionality measures the IMF imposes are very harmful on the poor majority people in Africa and the Carribean. I completely agree that the IMF causes massive social unrest.

However, it is the whole debt and external trade situation that is Africa's nightmare. [Tanzanian President Julius] Nyerere has recently indicated that the debt Africa is facing is squeezing Africa beyond the point of tolerance.I don't think that re-scheduling of debt really solves the problem for many Third World countries. Re-scheduling would have to be done over such a long period as to make it meaningless. I think there should be a moratorium. I don't think the U.S. would agree to debt cancellation. However, for this to succeed, there must be a unified Third World position; it would be difficult to achieve this on a one-to-one basis with the industrial countries. The creation of a Third World Bank and a Third World currency is possible only with Third World unity. It should be realized that the U.S. can use its economic weapon, the IMF, to divide and rule Third World countries by varying the IMF conditionally measures thereby bringing about disunity among the Third World countries. However, this does not prevent these countries from uniting, rejecting and refusing to deal with the IMF and its harsh measures. The IMF's measures impact disproportionately on the poor majority but protect U.S. interests in general, and those of trans-national banks in particular.

Is it fair to say that the IMF has been used to destabilize and/or overthrow governments? Do political considerations enter into the IMF's decision-making?

BROWNE:I certainly think so, yes. The cases of Jamaica under Michael Manley, Chile under Salvador Allende, and Grenada under Maurice Bishop are all examples where IMF activities have resulted in the destabilization-overthrow of governments the West did not approve of. In most situations, yes, political considerations do enter or dominate IMF loan decisions when it comes to countries with whose domestic or foreign policy the U.S. disagrees. In a more modest sense, the IMF is used to change governmental policy and so forth.

To the proposition that as a result, Third World countries should leave the IMF, I don't think it would be a very effective policy at this moment. In a geo-political sense, yes, but in a practical sense, I really don't see that kind of unity being articulated let alone being practiced within the Third World. Even important Third World regions—the Arab countries which have financial mean—are divided; the African world which has put forward the Lagos Plan of Action—a unifying set of Pan African approaches to development—has done very little to implement it. Economic sub-regional groupings in Africa like **ECOWAS** and **SADCC** are excellent ideas in de-linking oneself from the West but they move at glacial pace so that cooperation among Third World countries does not seem to be here yet. I think it is an idea whose time has not yet come. Third World countries must seek first to build unity within their ranks before they think about de-linking or withdrawing from the IMF system.

What kinds of reform would you propose for a new international monetary system?

BROWNE: We need to have a neutral, international currency. When the IMF was being set-up John Maynard Keynes objected to the dollar being the international unit of account. He suggested that there be an independent unit because there likely would be tension between the country whose currency is being used and the rest of the world. We are seeing that today where the domestic policy of the U.S. dominates international financial matters. The rest of the world cannot do anything about it because the United States is the country that issues the world's basic currency. Keynes forsaw these difficulties decades ago but he could not do anything about it because the United States was in the driver's seat at that time and said, "No, we don't want a new global currency, we are going to use the dollar for this purpose." This has given the United States a privileged position which it does not want to relinquish.

–The IMF also needs to modify its conditionality measures so that developing countries could be in a better position to gain substantial revenue from their exports so that they can at least pay off the service charges on their foreign debt. This is particularly the case for African countries whose terms of trade has been deteriorating drastically within the past few years. □

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THE IMF'S "STABILIZATION PROGRAMMES": SIX CASE STUDIES

The "stabilization" programs the IMF imposes on countries with balance of payments problems very often generate debate on their political repercussions and on the economic strategy that underlie them. IMF officials often engage in tactics designed to weaken the domestic opposition to such a program and to strengthen the local private sector in favor of it.

By brandishing its big stick of conditionality measures the IMF has been able to impose imperialist financial discipline upon many Third World countries. This is done under the guise of a supposed technical competence in economics and neutrality in politics. However, with its ability to intervene in the internal affairs of debtor nations, the Fund's political power and authority are indeed awesome. Failure to adhere to the Fund's draconian measures is usually lethal when it comes to a country obtaining external loans since all the international financial institutions including the transnational banks, tend to shun countries that have run afoul of the Fund.

Supposed "rescue acts" by the Fund fixate upon economic stabilization; principal among their concerns is the aim of ensuring that governments pay off their foreign debts. Debtor countries are urged to accumulate trade surpluses so that they can use the earnings to pay off the interest on their foriegn debts. Countries usually generate these surpluses by sharply reducing imports. The rest of the money they need to service their debt comes from additional commercial bank and IMF loans. However, the commercial banks always insist that countries have the IMF's "good house-keeping seal of approval" before they begin to negotiate.

When a government agrees to the IMF's "stabilization programme," it agrees to:

(i) abolish or liberalize foreign exchange and import controls;

(ii) devalue its currency;

(iii) implement anti-inflationary programs, including (a) control of bank credit, higher interest rates and higher reserve requirements, (b) control of government deficit, curbs in spending, increase in taxes and in the prices charged by public enterprises, and abolition of consumer subsidies, (c) control of wage increases, and (d) dismantling of price controls; and

(iv) provide greater hospitality to foreign investment.

Emphasis is placed on enhancing the profit capability of the private sector (domestic capitalists) and foreign investors (western capitalists). Where the majority of the citizens are concerned, however, a cap is placed on the consumption of the essentials of life—food, shelter, health, education, and transportation—so as to free or divert more funds to the capitalist sector. The IMF has argued that ". . . only if large corporations invest and begin exporting from a country, will the country get out of the debt." Such conditionality measures in the IMF "rescue kit" are punitive on the broad masses of the people but indeed coincide with the interests of the Western banks whose financial assets are tied up in these countries. □

Case studies of the role of the IMF in Zambia, Tanzania and the Sudan in Africa and the Dominican Republic, Grenada, and Jamaica in the Caribbean bear ample witness to the hardships that IMF "rescues"impose on the people. They indicate, too, that even by its own objective of solving external indebtedness, IMF measures have failed since all these countries wound up with debt problems worse than the ones that necessitated calling in the IMF. Furthermore the rescue missions often lead to the destabilization or overthrow of the governments that attempt to implement the IMF policies.

ZAMBIA

President Kenneth Kaunda of Zambia is one leader who has complained that the IMF "seems indifferent to or ignorant of local conditions." Zambia owes the IMF more than US $700 million and payments on this debt accounted for 25 percent of Zambia's export earnings in 1984; it could reach 40 percent in 1985. Since 1978 the Fund's programs in Zambia have been far from successful with the country frequently unable to meet IMF performance criteria. The IMF is now requesting a 70 percent devaluation of the Kwacha—following a 40 percent devaluation imposition in 1983—in order for the country to receive an SDR 205m standby loan. Needless to say, devaluation hits the poor people the hardest but benefits the business sector. Zambian officials argue that devaluation cripples the productive sector by pushing up import costs. It is this public productive sector that employs the majority of the people and is the single target of the IMF harsh measures. Economic planners contend that the only way out of this vicious cycle is to replace the IMF measures—devaluation, freezing of prices, public sector wage freeze—imposed in 1982, with a massive public sector spending program to rehabilitate the productive sector, put people back to gainful employment, and thus ameliorate their quality of life.

TANZANIA

Julius Nyerere of Tanzania has also indicated that the IMF conditionality measures "are foolish ideas [which] would require intolerable sacrifice of the peasantry and the rest of the country's 17 million people." In 1980, for example, Tanzania asked for US $180 million emergency aid to pay interest on its loans. The IMF offered to provide funds but only if Tanzania would cut government expenditures and subsidies, pursue a policy of de-nationalization and increase farm prices. Tanzania argued that to cut government expenditures would be to cut essential social services. The IMF demanded a devaluation of the Tanzanian shilling. That was not workable since Tanzania already had stringent import controls. The IMF also wanted removal of price controls to allow the "market demand" to determine prices and stimulate production. At that time, Tanzania had price controls with the purpose of subsidizing the peasants at the expense of the petty bourgeoisie. The government of Tanzania did not acquiesce. It was the *first* country to make the financiers back down on their harsh demands before severe political and social unrest toppled the government. As Nyerere warned, the IMF remains "a device by which powerful economic forces in some rich countries increase their power over the poor nations of the world."

SUDAN

In March 1985, violence erupted in the Sudan in protest of food price increases imposed by then President Jaafar Nimeri as part of a "belt-tightening agreement" demanded by the IMF before the government could receive $180 million in aid. This is one clear example which proves that the IMF is an economic weapon used to manipulate the domestic policy of a government so as to protect/secure U.S. economic interests and by extension, that of the transnational banks. As a result of the IMF "stabilization programme," the price of bread increased by 30 percent, gasoline rose by 66 percent, and all state subsidies on food and textiles were terminated. The result: angry students set fire to buildings, smashed hotels, shops and windows, burned tires, and chanted anti-American and anti-Nimeri slogans in protest over the harsh austerity measures. It was this spontaneous social unrest resulting from the severe oppression felt by the poor majority of Sudanese people that toppled the neo-colonialist Nimeri government. The new Sudanese leader has vowed that Sudan's relation with the IMF would be "closely scrutinized."

THE DOMINICAN REPUBLIC

For the past two years, the Dominican Republic has been weltering in turmoil attributable to the imposition of IMF conditionality measures. In mid-1984, for example, violent riots broke out to protest government-ordered price increases on all imported goods and many basic foodstuffs. These included a 50 percent increase in the price of gasoline, a 35-45 percent increase in the cost of bread and wheat flour, a 100 percent jump in the price of cooking oil, and increases of up to 300 percent in the prices of imported food, medicine and other consumer goods. These increases made it difficult for the country's poor to buy food and this fueled discontent. These increases and actions were imposed as part of an IMF package for a $459 million loan. The measures were designed to discourage imports and to improve the balance of payments. But, government officials also argued that the IMF wanted them "to increase tax revenue by 200 milion pesos to pay back our (foreign) debts." This, as we have pointed out earlier, is the *only* objective of the IMF austerity measures—to penalize the poor as a means of securing the economic interests of the U.S. and the transnational banks. In addition, the Blanco government wanted to persuade the Reagan administration to release more than $100 miilion in stalled U.S. aid. This is a perfect carbon copy of the Sudanese neo-colonialist case. In the 1984 riots, about 100 persons were killed, more than 500 were wounded and 4,000 arrested.

GRENADA

In the case of Maurice Bishop's Grenada, the Reagan administration was convinced that the country was engulfed by a ". . . tightening grip of the totalitarian left" intent on spreading the communist virus among its neighbors. As a result of this viewpoint, in 1981 and 1983, the U.S. Deputy Executive Director at the IMF strenuously opposed Grenada's application for two loans for capital improvement. The technical argument by the departments of State and Treasury criticized Grenada's plan to build an international airport. The administration asserted publicly that the airport would have been used for military purposes by Cuba and the Soviet Union and not for tourism and balance of payments improvement as the Grenadian government argued. According to State Department sources, then Secretary of State Alexander Haig pounded the table in his office and ordered his top policy-makers for Latin America to ensure that there would be "not one penny for Grenada" coming from the IMF.

In addition, the administration perpared a financial "hit list" of countries that were *never* to receive any financial assistance from the IMF. Besides Grenada, the list included Vietnam, Cuba, Afghanastan and Nicaragua. Like Julius Nyerere of Tanzania, Maurice Bishop adamantly refused to turn Grenada into a neo-colonial appendage of the U.S. via the IMF. When their economic weapon failed, the U.S. resorted to military intervention and invaded Grenada on 25 October 1983.

JAMAICA

For several years, Jamaica's relationship with the IMF was held up for close scrutiny because the Manley government was socialist. The attitude of the government toward the IMF was one of initial defiance between 1974-76 to "an uneasy truce in 1977 to accommodation between 1978-79 and a return to defiance in 1980." In fact, the stark reality is that the role of the U.S.-dominated IMF was one of the primary determinants in the destabilization and toppling of the Manley government in 1980.

In July 1977, the IMF and Jamaica reached agreement on a two-year Stand-by Agreement which provided US$75 million. This agreement required a tight fiscal program to be instituted by the government. By December 1977, Jamaica failed one of the fiscal performance tests by a slim margin of only 2.6 percent. The IMF immediately suspended the program. It insisted that Jamaica negotiate "an agreement under the Extended Fund Facility (that) would involve major and drastic economic adjustment." In order to accept this agreement, major devaluations of the Jamaican dollar occurred in January and May 1978 in addition to small monthly devaluations through May 1979. By that time the Jamaican currency had been devalued by 49 percent. The 1978 agreement also called for $180.3M in new taxes. Price controls were lifted and wage increases were limited to only 15 percent.

At the local political level, the trepidations of the left were being borne out, viz, "Jamaica had become so dependent on IMF assistance that it had lost independent control over the economy." In the tradition of Payer analysis, Jamaica "was caught in the debt trap."

At the level of the IMF, the purpose of the 1978 agreement was ". . . a major effort to reduce consumption as a proportion of gross domestic product, thus making available resources to stimulate production and investment in the private sector and direct the productive efforts to exports and import substitution by price incentives."

In other words, this agreement meant that "money had to become much more concentrated in the hands of those with the ability to invest—the rich." It was further argued that the rich capitalist class ". . . should concentrate on producing exports and high-priced consumer goods which only the well-to-do could afford."

As far as the average, poor Jamaican was concerned, the effect of this agreement was "quite dramatic": In 1978, real wages fell by 35 percent; average real per capita consumption declined by 13 percent; the price of gasoline increased from J$2.25 to J$3.00 per gallon; and so on. The negative and detrimental effects continued into 1979. During that year, living standards continued to decline; real wages fell by 10 percent; and the condition of public services in areas of education and health showed "serious defects."

This draconian program of real wage reduction and demand compression of the IMF did not generate economic success in the Jamaican economy. Balance of payments deficit increased by U.S. $40M in 1978 and by U.S. $78M in 1979. These were due mainly to "increase in outflows for interest and repayment on private and official debts." Exports increased very modestly while real gross domestic product declined at an annual rate of 2 percent in 1978 and 1979. By December 1979, Jamaica had failed the IMF's "performance test" by a substantial margin as it related to the net international reserves of the Bank of Jamaica. The Extended Facility program was therefore suspended.

The reasons for the failure involved factors over which Jamaica exercised no control: flood damage, oil price increases and an international inflation rate of 14.5 percent. The Manley government also ". . . failed by a wide margin the test concerning the net banking system credit to the public sector, owing mainly to lower-than-projected inflows of foreign and local loans." As far as the IMF was concerned, this failure was due to "fiscal mismanagement" and nothing else. The Fund then "demanded" J$300 million in budget cuts "as the condition for a waiver of the performance tests and the approval of a modified agreement."

There was a break down in the negotiations in January 1980. The IMF insisted on the cutting of the recurrent budget by an extra $50 million. This would have meant the lay-off of some 11,000 workers, cutting several social programs and other measures which would have put terrible hardship primarily on the poor. This was unacceptable to the Manley government.

New negotiations began but by 22 March 1980, it became clear that the targets being set by the IMF were so difficult that no matter what efforts were made, Jamaica would end up failing to meet the requirements of the Net Foreign Assests Test, the same test that the country failed in December 1979. It became quite evident that continuing the negotiations with the IMF was no longer feasible. On Monday, 24 March 1980, the cabinet of Jamaica decided to break off negotiations with the IMF.

Following this, representatives from major Western banks rejected Jamaica's "impassioned request" for emergency financial assistance. The bankers reportedly told Jamaica that ". . . they were unwilling to help at that time, mainly because of the possibility that Prime Minister Manley's government *may* by unseated in up coming elections." Moreover, there was general speculation that if the Manley government did not survive the election and a new pro-United States government came into power, then IMF would certainly be prepared to be more flexible.

By rejecting the IMF austerity measures, (like Julius K. Nyerere and Maurice Bishop,) Michael Manley refused to turn Jamaica into a U.S. neo-colonialist state via the IMF.

With the electoral toppling of the Manley government, new prime minister Edward Seaga announced that his administration would pursue conservative economic policies (Reaganomics), that he would be staunchly anti-communist, and that his ". . . first priority would be to re-establish confidence in Jamaica as a stable pro-Western nation."

Not co-incidentally, the U.S. and the IMF rushed in to pour millions of dollars into Jamaica. However, this assistance has not solved the economic problems of Jamaica. In late 1984-early 1985, the Seaga government implemented an austerity program to conform with the dictates of the IMF. This program called for, *inter alia*, the streamlining of the public sector and the retrenchment of the work force. The harsh economic results of this program were that the price of gasoline and other fuels increased by 20 percent; 17,000 public jobs, including 6,000 in the civil service were eliminated; a 30 percent sales tax on most consumer goods was imposed. All these economic hardships came on top an already existing situation where unemployment stood at 27 percent; inflation was 30 percent; over 200,000 were on food stamps; and the minimum weekly wage was JA$52 (U.S. $9.36).

The results of the IMF measures were met with violence and social unrest. In early 1985, Kingston was in virtual civil war: roadblocks and demonstrations appeared; bridges were burnt; looting was wide-spread; a general strike by government employees shutdown the government and most economic activity in the country; teachers joined in the strike; and workers in the key bauxite industry staged a symbolic strike of one hour per day; and, eventually, about 50 people were killed.

In the final analysis, the economic policies of the Seaga government have failed to generate that much heralded economic bouyancy to satisfy the basic needs of the majority of the Jamaican people. The failure is due to the fact that economic policies have not been crystalized nor formulated domestically. They were conceived in an external laboratory and artificially inseminated into the Jamaican economy which eventually rejected it. □

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