QUESTION 11

How did the price of commodities evolve during the last quarter of the twentieth century?

From the end of the 1970s to the beginning of the year 2000, the countries of the South were confronted with a major change: exports of raw materials and agricultural goods, which had been continually on the rise, started to abate.

The majority of loans were based on strong currencies like the U.S. dollar. Moreover, and this is an essential point, repayments needed to be made in the same currency as the loan, because lenders who, for example, lent dollars expect dollars in return—they are not at all interested in Congolese francs from the DRC or currency from any other developing country. Throughout the 1970s, with their debt spiraling out of control, indebted countries had to obtain more and more strong currencies to repay their lenders. In order to do this they had no choice but to sell to whomever possessed this hard money. Developing countries thus had to resort to structuring their economic policies around the expectations of foreign economic actors, most notably in industrialized countries.

Produce what we need and consume what we produce, instead of importing.

Conditioned to make the payments at all costs, developing countries had to export more of their "tropical" products or mining resources. They strengthened their specialization in certain commodities, on which they had become dependent, like copper for Zambia and Chile, or bauxite for Guinea and Jamaica. At the same time, these countries injected an increased quantity of raw materials into the market, while the demand in the North, which was dealing with its own crisis, didn't rise in proportion to this new supply. Developing countries thus competed among themselves and saw the price of all raw materials, including oil, the price of which had been increasing since 1973, crumble. The fundamental turning point took place in 1981, when the price of oil fell sharply, provoking the debt crisis in Mexico, a major oil exporter. The price of certain raw materials had already dropped years earlier, as was the case with copper, which collapsed in 1976, provoking a payment crisis for Mobutu's Zaire.[53]

From a global point of view, it was an irregular drop, with periods of collapse followed by short-lived peaks. However, the overall movement between 1977 and 2001 was a net drop in all raw materials, falling about 2.8 percent annually.[54] This fall also affected minerals and metals, dropping 1.9 percent yearly, with most notably silver, tin, and tungsten falling more than 5 percent. Between 1997, the year when Southeast Asia experienced a large-scale collapse, and 2001, prices were sliced in half; "53 percent in real terms. . . . That is, commodities lost more than half their purchasing power in terms of manufactured goods."[55] In addition, a study of the structure of exports worldwide demonstrates that, in terms of value, rich countries export more than two-thirds of all manufactured goods, and developing countries export more than half of the commodities. Despite everything, developing countries continue to be areas of harvest and extraction, providing the indispensable raw materials to an industrialized economy, yet receiving only a small portion of the benefits in return.

With the reversal of price trends in the early 1980s, the financial situation of indebted countries has become much more difficult. Not only is increasing production no longer sufficient; it aggravates the already present phenomenon of an overabundance of supply on the world market. The structural adjustment policies that followed (see Q17 and

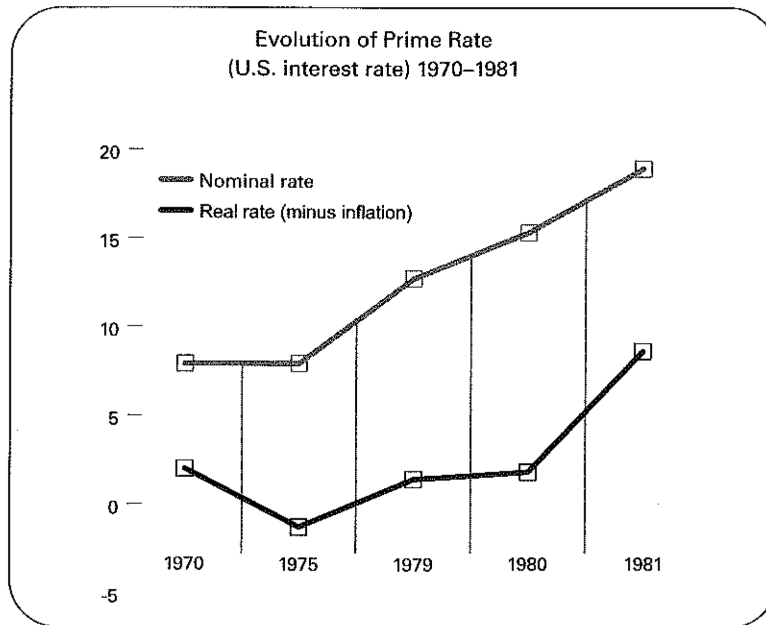
Q18) have since deprived these countries of any form of protection they previously had.

> The free play of market forces via price liberalization and deregulation was held up as promising the most efficient allocation of resources and welfare gains. The concept of international commodity price stabilization thus suffered a major setback.
>
> —UNCTAD, 2003[56]

QUESTION 12
What role did the evolution of interest rates play in the 1982 debt crisis?

At the end of 1979, to get out of the financial crisis that hit the United States (as well as most other industrialized countries) and reassert their world leadership after a string of humiliating failures in Vietnam in 1975, in Iran (the Shah's overthrow in February 1979), and Nicaragua (the removal of the dictator Anastasio Somoza in July 1979), the government began a sharp turn away from liberal Keynesianism, greatly accentuated when Ronald Reagan took over the presidency in January 1981. For several months, the United Kingdom, ruled with a rod of iron by Margaret Thatcher's government, had already initiated a harshly neoliberal change of direction. Paul Volcker, the chairman of the Board of Governors of the U.S. Federal Reserve System, decided on a steep rise in U.S. interest rates. For someone holding capital, this meant that it suddenly became very worthwhile to invest in the United States, as it would bring in higher profits. That was indeed one of Volcker's objectives: to attract investment and revive the U.S. economy (in particular, by launching a huge military-industrial program). Investors rushed in from all over the planet. One after another, European governments followed by raising interest rates in order to keep the capital from going abroad.

In the U.S. the Prime Rate is the interest rate which banks charge each other for overnight loans made to fulfil reserve requirements. The Prime Rate is usually some 3 percentage points higher than the Federal Funds Rate, that is, the interest rate set by the Federal Reserve.



Evolution of Prime Rate
(U.S. interest rate) 1970–1981

It is clear that during the 1970s, real interest rates were very low, and even negative at one point. It was thus a perfect opportunity to borrow: when the real rate is negative, inflation is higher than the nominal interest rate, and thus the cost of borrowing is extremely low, or nothing at all in some cases.

During this period, the expense represented by debt repayment by the developing country was sustainable, especially if export revenues were high—and rising.

At the beginning of the 1980s, the situation changed drastically. Bank loan interest rates accorded to countries of the South were clearly very

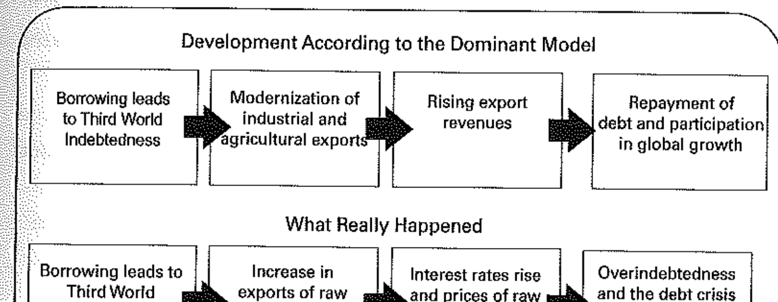
Evolution of the U.S. Prime Rate, 1970–1981

YEAR	NOMINAL RATE	REAL RATE (minus inflation)
1970	7.9%	2.0%
1975	7.9%	–1.3%
1979	12.7%	1.4%

low during the previous two decades, but variable and linked to the Anglo-Saxon rates (the prime rate and the LIBOR, determined in New York and London respectively, are basically the lowest lending rates, those charged by the largest banks to their largest customers). From around 4 to 5 percent in the 1970s, the interest rates climbed to 16–18 percent and higher at the peak of the crisis, as the risk premium had become enormous. Thus practically overnight, countries of the South saw a threefold increase in interest, while export revenue was falling (see Q11). Lending countries had thus unilaterally modified the rules. On the one hand, it was the central banks of most of the industrialized countries, starting with the Federal Reserve, that unilaterally decided to raise interest rates. Moreover, these same countries also forced the price of raw materials to fall, in particular by weakening OPEC thanks to their ally, Saudi Arabia, and by putting an end to the coffee cartel. The "trap" was set for the indebted countries. The effect of this was clear: indebted Third World countries found themselves under the heel of lenders.

The consequences were terrible. The South had to repay more with less income. In the vise-like grip of the debt, it was impossible to meet payments as they fell due. Countries had to get even deeper into debt in order to pay, but this time at high rates. The situation rapidly deteriorated.

In August 1982, Mexico was the first country to announce that it was no longer able to repay. Other heavily indebted countries, such as Argentina and Brazil, followed. This was the debt crisis that rocked all the countries of the South, one after the other. Even countries of Eastern Europe were hit, especially Poland, and a little later Yugoslavia and Romania.



The debt crisis resounded like a great clap of thunder. The international institutions, whose job it is to regulate the system and prevent crises, didn't sound the alarm and acted as if everything was fine.

> It will be more difficult for developing countries to manage their debts, however, [current tendencies] do not indicate a general problem.
>
> —WORLD BANK, *Global Development Report,* 1981

Although the World Bank and the IMF knew that clouds were gathering and a typhoon was forming, they didn't want to advertise the real economic forecast. They wanted to give the major banks some time to pull out without harm.[57] This was done with good reason, as the World Bank's new president was none other than a former top man at one of the most important U.S. private banks, Bank of America, which had lent an arm and a leg to Mexico and Latin America.

In short, the debt crisis had been caused by two phenomena, which occurred in quick succession:

- an enormous increase in the amounts to be repaid, due to the sudden rise in interest rates decided in Washington;
- an enormous price drop for products exported on the world market by the indebted countries, the proceeds of which were to repay their loans, and a halt in bank loans.[58]

All the indebted countries in Africa and Latin America and several Asian countries (such as South Korea), regardless of the type of government, the degree of corruption or of democracy, were confronted with the debt crisis.

The basic responsibilities are largely on the side of the industrialized countries, their central banks, their private banks, and their stock exchange (Chicago, London) that fix the prices of the raw materials. Corruption, megalomania, and the lack of democracy in the South (see Q10) certainly made matters *worse* but were not responsible for *triggering* the crisis.

> The Latin American debt crisis in the 1980s was brought about by a huge increase in interest rates, a result of the Federal Reserve chairman Paul Volcker's tight money policy in the United States.
>
> —JOSEPH STIGLITZ, *Globalization and Its Discontents,* 2002

QUESTION 13
Are the World Bank, the IMF, and private banks somehow responsible for the debt crisis?

Yes, definitely. In 1960, the World Bank was cognizant that a possible debt crisis could transpire with the principal indebted countries' incapacity to keep up with increasing repayments. The warning signs that multiplied throughout the 1960s were eventually topped off with the energy crisis of 1973. Many leaders of the World Bank, private banks, and the General Accounting Office (GAO) published reports highlighting the risks of the crisis. However, the tone changed radically when the price of oil increased in 1973, and, at the same time, major banks in industrialized countries performed a massive recycling of petrodollars. The World Bank stopped talking about the crisis. Yet the debt was quickly flying out of control. It became a competition between the World Bank and private banks to see which could allocate the most loans in the shortest time. Up until the explosion of the crisis in 1982, the World Bank maintained a double discourse: one, official, reassuring the public and indebted countries that there was no cause for alarm and that any potential problems would only be temporary; the other, much more unsettling, restricted to private discussions behind closed doors.

Let's consider some examples demonstrating that the debt crisis didn't just appear out of the blue.

In 1969, Nelson Rockefeller, brother of the president of Chase Manhattan Bank, explained in a report to the U.S. president the problems Latin America had to face: "Heavy borrowing by some Western Hemisphere countries to support development has reached the point where annual repayments of interest and amortization absorb a large share of foreign exchange earnings. . . . Many of the countries are, in effect,

having to make new loans to get the foreign exchange to pay interest and amortization on old loans, and at higher interest rates."[59]

> Many poor nations have already incurred debts past the possibility of repayment.
>
> —GENERAL ACCOUNTING OFFICE, 1969[60]

Some time later, in 1970, in a report to the U.S. president, Rudolph Peterson, president of Bank of America, sounded the alarm: "The debt burden of many developing countries is now an urgent problem. It was foreseen, but not faced, a decade ago. It stems from a combination of causes [but] whatever the causes, future export earnings of some countries are so heavily mortgaged as to endanger continuing imports, investment, and development."[61]

In short, from the late 1960s, diverse influential and interrelated sources in the United States considered that a debt crisis could break out in the ensuing years.

For his part, Robert McNamara also considered the rate at which Third World indebtedness was growing as a problem. He declared: "At the end of 1972, the debt represented 75 billion dollars and the annual service of the debt exceeded 7 billion dollars. The amount paid in debt servicing had increased by 18 percent in 1970 and 20 percent in 1971. The average rate of increase of the debt since the decade of the 1960s represented almost double the growth rate of the export revenues with which the indebted countries had to service the debt. This situation could not go on indefinitely."[62]

Yet the World Bank under McNamara's direction kept up the pressure on the countries of the periphery to get them even more into debt.

The rise in prices of petroleum products and other raw materials in 1973 led countries to rush blindly into even greater debt. Pessimistic forecasts appeared to be thinning out.

> The investment of the surpluses of oil-exporting countries in national and international financial markets together with the expansion of international financing (through both bilateral arrangements and multilateral facilities) has resulted in a satisfactory channeling of funds into the current account deficits of the oil-importing countries.
>
> —IMF, *Annual Report*, 1975

Robert McNamara made a great show of confidence in the 1970s. In 1977 he declared in his annual address that "the major lending banks and major borrowing countries are operating on assumptions which are broadly consistent with one another" and he concluded, "We are even more confident today than we were a year ago that the debt problem is indeed manageable."[63]

In October 1978, one of the vice presidents of the World Bank, Peter Cargill, in charge of finance, addressed a memorandum to the president, Robert McNamara, titled "Riskiness in IBRD's Loans Portfolio." In it, Cargill urged McNamara and the whole of the World Bank to pay a lot more attention to the solvency of indebted countries.[64] Cargill claimed that the number of indebted countries in arrears regarding payments to the World Bank or were seeking to renegotiate their multilateral debt had risen from three to eighteen between 1974 and 1978! McNamara himself vented his concern, albeit internally, on several occasions, particularly in a memorandum dated September 1979. One internal memorandum reads that if banks see risks rising, they will cut down on loans and "we may see a larger number of countries in extremely difficult situations."[65]

The *World Development Report* published by the World Bank in 1980 gives an optimistic view of the future, predicting that interest rates would stabilize at the very low level of 1 percent. This was completely unrealistic, as was proved by events. It is edifying to learn through World Bank historians that in the first, unpublished version of the report, there was a second hypothesis based on a real interest rate of 3 percent. That projection showed that the situation would eventually be unsustainable for the indebted countries. Robert McNamara managed to get that gloomy scenario out of the final version![66]

The World Bank's *World Development Report* of 1981 mentions that it seemed very likely that borrowers and lenders would adapt to the changing conditions without starting a general crisis of confidence.[67]

On March 19, 1982, six months before the crisis, the new president of the World Bank, Alden W. Clausen, who replaced McNamara, sent the

following letter to the Mexican president, José López Portillo:[68] "Our meeting in Mexico City with your top aides reinforced my confidence in the economic leaders of your country. You, Mr. President, can be rightfully proud of the achievements of the last five years. Few countries can claim to have achieved such high growth rates, or have created so many jobs. . . . I wish to congratulate you on the many successes already achieved. As I stated during our meeting, *the recent setback for the Mexican economy is bound to be transient*, and we will be happy to be of assistance during the consolidation process" (authors' emphasis).[69]Less than a year earlier, Alden W. Clausen still chaired the Bank of America, which was busy providing loan upon loan to Mexico.

On August 20, 1982, Mexico, which had paid back considerable amounts over the first seven months of the year, stated it could not pay any more. The crisis spread like wildfire.

In conclusion, the lenders knew perfectly well that the debt crisis was lurking, but they feigned ignorance. Once the crisis was under way, they profited by having the upper hand over those countries that had expressed a desire to be independent, increasing their degree of exploitation over all developing countries and their inhabitants.

QUESTION 14

How did creditors respond to the debt crisis?

When the debt crisis broke out in Mexico in 1982, then in the other Latin American countries, creditors realized they were at an impasse and the world's financial system wobbled. The banks of the North were in danger because of the numerous loans they had made. For example, in 1982 the money owed by Brazil, Argentina, Venezuela, and Chile represented 141 percent of Morgan Guaranty Bank's own capital, 154 percent of Chase Manhattan Bank, 158 percent of Bank of America, 170 percent of Chemical Bank, 175 percent of Citibank, and 263 percent of Manufacturers Hanover. The bankers were in a critical situation.

As soon as a country found itself incapable of repayment (which was the case in the 1980s for the majority of Latin American and African countries, and for emerging Asian countries at the end of the 1990s), the

first on the scene was always the IMF, coming to the rescue like a financial fireman—but a peculiar fireman, exacerbating the pyromaniac's evildoing, extinguishing lenders' fires often caused by hazardous investments, and at the same time igniting others.

Following the exigencies of the governments of the richest companies, the IMF permitted countries in crisis to borrow in order to avoid default on their repayments. Caught in the debt's downward spiral, developing countries soon had no other recourse than to take on new debt in order to repay the old debt. Before providing them with new loans, at higher interest rates, future lenders asked the IMF to intervene with the guarantee of ulterior reimbursement, asking for a signed agreement with the said countries. The IMF thus agreed to restart the flow of the "finance pump" on condition that the concerned countries first use this money to reimburse banks and other private lenders, while restructuring their economy at the IMF's discretion: these were the famous conditionalities, detailed in the Structural Adjustment Programs (SAP: see Q17 and Q18). The IMF and its ultra-liberal experts took control of the borrowing countries' economic policies. A new form of colonization was thus instituted. It was not even necessary to establish an administrative or military presence; the debt alone maintained this new form of submission.

> In August 1982 the Mexican government announced that it could not service its external debts. The IMF organized and supervised the administration of a plan to reschedule the private commercial debts that the Mexican government had incurred over the previous decade. IMF lending did not channel net new funding to Mexico. Rather it lent the money to enable Mexico to service the debt. Mexico's debt increased, but it avoided default. The IMF made its loans conditional on the implementation of a package of long-term economic reforms. Many of the conditions required sacrifices by the local population, loss of jobs and deep reductions in living standards. Other developing countries, particularly in Latin America, found that net private capital inflows declined or became negative.
>
> —IFI ADVISORY COMMISSION, also known as the Meltzer Commission, 2000[70]

What was the rich countries' desired goal in placing the IMF in such an important position? It was simply to impose a strict financial discipline on the indebted countries. Reestablishing financial equilibrium was of the utmost importance for the international financial institutions. The goal established in the countries in the South was clear: export more and spend less. The IMF and World Bank's Structural Adjustment Programs have also been known since 1990 as the "Washington Consensus." Privileging the statistical over the human aspect, they had terrible effects on the populations and economies in the countries of the South. For decades, the people made huge sacrifices in order to pay off a debt that brought them no profit. At the same time, the macroeconomic criteria favored by the IMF and the World Bank led to a great deterioration of the living conditions of hundreds of millions of people worldwide. From a human development standpoint, it was a complete failure for both institutions, as both saw their position considerably weaken over time.

> Modern high-tech warfare is designed to remove physical contact: dropping bombs from 50,000 feet ensures that one does not "feel" what one does. Modern economic management is similar: from one's luxury hotel, one can callously impose policies about which one would think twice if one knew the people whose lives one was destroying.
>
> —JOSEPH STIGLITZ, *Globalization and Its Discontents*, 2002

When an acute crisis arose (such as those of Mexico in 1982 and 1994, Southeast Asia in 1997, Russia in 1998, Brazil in 1999, Ecuador in 1999–2000, Turkey in 2000, Argentina in 2001–2, Brazil again in 2002), the IMF then made available considerable amounts of money. Not in order to help the population of a country that could not make ends meet at the end of the month but to keep the rich creditors, often responsible for speculative investments that triggered or worsened the crisis, out of bankruptcy. For example, the IMF and the G7 lent $105 billion to the Asian and Southeast Asian countries in 1997 (where the crisis, aggravated by the measures imposed by the IMF, led to twenty million people losing their jobs); the IMF lent $31 billion to Turkey between the end of 1999 and 2002 (Turkey, a geo-strategic ally of the United States, is near

the oil and gas of Central Asia, and next to Iraq and Iran); over $21 billion lent to Argentina in 2001 before it sank in the crisis and defaulted on its private creditors; and $30 billion promised to Brazil for 2002–3 (to avoid contamination by the Argentine crisis and to tie down President Lula, elected in October 2002). However, these injected billions are never used to provide subsidies for basic necessities to help the poorest populations, nor to create jobs and protect local producers. The IMF insists that creditors must be repaid as a matter of urgency. Moreover, these creditors are often the same private lenders that made speculative investments in the countries concerned and then suddenly withdrew them, causing an aggravation of the crisis. Worse still, when private bodies suspend payments, the IMF and the World Bank often oblige the state to take on the debt, which amounts to getting the taxpayer to pay it off.

Thus, the amounts lent increase the debt of the borrower country, only to leave it immediately in the form of repayments to the creditors in the North. Since the IMF is in the habit of playing this role, creditors are prepared to take even greater risks in their financial operations, knowing that in case of default by the borrower country, the IMF is there to bail them out, as a last-resort lender. This will be set off against a considerable increase in the external debt of the developing country concerned. The IMF works against the interests of numerous member countries it is supposed to help. This betrayal of its principles appears not to raise the slightest doubt: when the crisis comes, it never questions its prescriptions, never wonders whether its choices are perhaps misguided, but always accuses the indebted states of not having applied its excellent recommendations rigorously enough.

> All obstacles to free trade will be removed, leaving companies free to produce and export their products as they wish and as the market decides.
>
> —Michel Camdessus, managing director of the IMF, 1987–2000, *L'Autre mondialisation* (*The Other Globalization*), on Arte, March 7, 2000

The IMF was clever enough to hold the governments of the South responsible for these decisions. Regularly, each state has to sign a letter of

intent, actually dictated by the IMF, where an economic plan is addressed that considers future economic actions. Loans and rescheduled payments are only granted when these discussions, personally verified by experts of the World Bank and the IMF, advance "in the right direction." If a problem arises, it is henceforth the indebted countries' governments that are at fault since they proposed these policies, whereas the IMF simply agreed to accompany them along the way.[71]

> We were created after the events of 1929 with the intent of rebuilding confidence by installing reformatory policies and by engendering cooperation among the international community. We must do whatever we can to avoid the irresponsible behavior of governments and/or lenders. The International Monetary Fund's programs are negotiated with sovereign countries that execute them and thus have the final word. The adopted measures have the fewest costs from a humanitarian perspective, and represent the shortest path to resolve what has become a catastrophic situation, of which the poor are the first victims.
>
> —MICHEL CAMDESSUS, IMF managing director, 1987–2000

The IMF's failure in terms of human development is not the result of misfortune or of incomprehension but the deliberate result of the measures it imposed. But why were such measures recommended so vigorously? It would be absurd to believe that the goal of the IMF and major economic powers is to fight against poverty and provide the populations of the South with the necessary means to construct their own destiny. Quite the contrary: the IMF favored above all else international finance in order to assure lenders that all repayments would be carried out as expected.

> Simplistic free market ideology provided the curtain behind which the real business of the "new" mandate could be transacted. The change in mandate and objectives, while it may have been quiet, was hardly subtle: from serving global economic interests to serving the interests of global finance. Capital market liberalization may not have contributed to global economic stability, but it did open up vast new markets for Wall Street. . . . Looking at the IMF as if it were pursuing the interests of the financial community provides a way of making sense of what might otherwise seem to be contradictory and intellectually incoherent behavior.
>
> —JOSEPH STIGLITZ, *Globalization and Its Discontents*, 2002

The rich countries, led by the United States, took a series of initiatives to prevent the indebted countries from forming a united front, which is the last thing the rich countries wanted. Before any discussions could begin, they insisted that negotiations with indebted countries take place on a case-by-case basis, thus isolating each debtor country from the rest and keeping the upper hand.

As for the creditors, nothing could come between them.

- At the World Bank and the IMF, the quota system gives the rich countries a comfortable majority to impose their views.
- Furthermore, the creditor states all belong to the Paris Club through which they reschedule the bilateral part of the external debt of the states with repayment problems.
- The banks of the most industrialized countries belong to the London Club, which serves the same purpose regarding sovereign debt of the indebted states.

Thus a disproportionate balance of power was set up from the beginning of the debt crisis. For the last twenty years, the IMF, the World Bank, the Paris Club, and the London Club have seen to it that the same policies would be maintained in favor of the rich countries.

> Give me control of a nation's money and I do not care who makes the laws.
>
> —AMSCHEL ROTHSCHILD, German banker, 1743–1812

But since the year 2000, their power has met with increased resistance. Numerous countries that were at one point subjected to contracts with the IMF have since taken measures to rid themselves of this cumbersome guardianship. Several among them have expedited their payments in order to sever all ties with the IMF: Brazil, Argentina, Uruguay, Indonesia, the

Philippines, and Turkey being the most recent. The IMF (whose pocketbook was pretty much cleared out in recent years, falling from $107 billion in 2003 to $16 billion in 2007) was incapable of attracting new customers and quietly awaited another large crisis to shake the developing countries in order to take control of the wheel and become the major actor once again. The financial and economic crisis affecting the world has dramatically changed the picture and, alas, given the IMF a new start.

QUESTION 15
Are there any similarities with the 2007 subprime crisis?

Since August 2007, U.S. and European banks have constantly made headline news concerning the deep crisis they are going through and its negative effect on the neoliberal economic system as a whole. According to the IMF's estimates, the total write-downs borne by banks and other financial institutions for 2007–10, "including about $1 trillion already taken, could be nearly $4.1 trillion on . . . assets originated in the United States, Europe, and Japan."[72]

How did the banks manage to build such an irrational lending system? Eager for profit, mortgage companies made loans to a sector of the population that was already heavily indebted. The conditions attached to these mortgages—highly profitable for the lender—amounted to daylight robbery for the borrower: the interest rate was fixed and reasonable for the first two years but thereafter rose sharply. Lenders assured borrowers that the property they were buying and that served as collateral for the loan would quickly appreciate thanks to the boom in the real estate sector. The problem was that this was a speculator's argument, whereas the people that were buying in these conditions intended to live on their property. The real estate bubble burst in 2007, and house prices started to go steadily down. The number of defaults on payment soared, and mortgage brokers had trouble repaying their own loans. To protect themselves, the big banks either refused extra credit to the mortgage lenders or agreed to new loans at far higher interest rates. But the spiral did not stop there, since the big banks had bought up a large number of the original loans as off-balance-sheet operations by creating specific companies

called Structured Investment Vehicles (SIV), which finance the purchase of high-yield mortgages converted into bonds (CDOs, or Collateralized Debt Obligations).

As of August 2007, investors stopped buying the unguaranteed commercial papers issued by SIVs, which no longer looked like a safe or credible option. Consequently, the SIVs lacked the liquidity needed to buy up mortgages and the crisis worsened. The big banks that had created the SIVs therefore had to bail them out to stop them going bankrupt. Up to then, SIV operations had not appeared in the banks' accounts (thus allowing them to conceal the risks involved), but now the SIV debts had to come out of the closet and onto the books.

The result was general panic. Several segments of the debt market collapsed, taking down with them the powerful banks, hedge funds, and the investment funds that had created them. Private financial groups were rescued only through massive public intervention. Privatization of benefits, socialization of losses was once again the order of the day.

Which brings us to a key question: How is it that banks can readily waive bad debts to the tune of tens of billions of dollars yet constantly refuse to cancel the debts of developing countries? The proof exists that the latter option is perfectly feasible and extremely necessary. In 2007, the long-term debt owed by the authorities of developing countries to international banks reached $201.4 billion.[73] Since August 2007, the banks have already erased a much higher amount.

It is clear that the big private banks have failed in three ways:

1. They have built up catastrophic private lending structures that have led to the present disaster.
2. They have made loans to despotic regimes and forced the democratic governments that replaced them to repay this odious debt down to the last cent.
3. They refuse to cancel the debts of developing countries, for whom repayment means ever-worsening living conditions for their people.

Instead of admitting their mistakes and accepting the consequences, large banks solicited help from the one organization whose actions they had denigrated since the beginning of time: the state. They didn't hesitate

to beg for strong public action from the state, previously considered to be too interventionist. For the banks, public administrations must submit to the laws of the markets, the only laws that allow for the efficient allocation of resources and fix prices at the correct levels.

Like faithful dogs, U.S. and European public administrations obeyed: nothing can be refused to the leaders of major banks who support the leading presidential candidates and who are raised in the same elite spheres. Governments thus hastened to the aid of the private sphere. The solution: nationalization of struggling banks, purchasing depreciated titles at face value (accounting for more than $200 billion in the United States), cash injections, bailout plans, lowering of interest rates, and more.

In the United States, eighty-four mortgage companies either went bankrupt or partially stopped doing business between January 1 and August 17, 2007, as opposed to only seventeen similar cases for the whole of 2006. In Germany, the IKB BANK and SachsenLB were saved by the skin of their teeth. Recently, in England, the bankrupt Northern Rock has had to be nationalized. On March 13, 2008, the Carlyle Capital Corporation (CCC) fund, known to be close to the Bush clan, collapsed with debts thirty-two times its capital. The following day, the prestigious U.S. bank Bear Stearns (fifth-largest U.S. investment bank) called on the U.S. Federal Reserve to provide an emergency credit line. Bear Stearns was snapped up by JPMorgan Chase for a mere pittance.

Subjecting the management of the global economy to the logic of maximum profit results in enormous costs to society. Banks played with the savings and cash deposits of hundreds of millions of individuals. Their financial missteps led to enormous losses and human tragedy.

> The market is always right.
>
> —MICHEL CAMDESSUS, IMF managing director, 1987–2000

The similarities between the North and the South are striking. In the South, the debt crisis at the beginning of the 1980s was provoked by the United States' decision to unilaterally increase interest rates. As a result, Third World countries, which the banks had convinced to borrow at variable rates, were flooded with calls for repayment (see Q12). At the same time, the collapse of the price of raw materials made these countries incapable of facing the demands for repayment, thus viciously throwing them into the crisis. The IMF, controlled by the United States and other powerful countries, then imposed drastic reforms on the developing countries: reduction of social budgets, immediate and total liberalization of the economy, an end to control of capital movements, full opening up of markets, and massive privatizations (see Q17 and Q18). Contrary to what happened in the North in 2008, the states of the South were not allowed to lower interest rates or provide banks with cash, which provoked a torrent of bankruptcies and detrimental recessions. Finally, just like the North in 2008, developing countries were forced to bail out struggling banks before privatizing them, much to the benefit of large North American or European banks. In Mexico, the cost of rescuing banks in the second half of the 1990s represented 15 percent of GDP. In Ecuador, an identical operation in 2000 cost 25 percent of GDP. In every case, internal public debt rose significantly because it was the state that handled the cost of the bailouts (see Q29).

The international crisis resulting from the subprime crisis will have an enormous cost. In a report published April 2008, the IMF estimated this cost at $945 billion for the international financial system, $565 billion of which affects the subprime mortgage lending sector. Financial ministers of the North quickly reacted, as if it were dangerous to display the extent of the damages.[74] In April 2009, the IMF reevaluated the cost at $4.1 trillion. However, in the countries of the North, be they conservative or social democrat, the governments introduced neoliberal policies that are extremely rough on the majority of their fellow citizens. Unable to come to the rescue of their populations in need, these same governments didn't hesitate when private companies called for help.

Economic deregulation over the past few decades has proven to be a total flop. The only feasible solution is a complete reversal of the current priorities: strict constraints on private companies, massive public investments in those sectors that will assure fundamental rights and protect the environment, and reinstallation of public authorities at the reins in order to promote the general interest. We must begin to move in the right direction, so that finance can reestablish its disregarded role as a tool at the service of human beings—of all human beings.

QUESTION 16

How does the IMF function?

The IMF, like its twin institution, the World Bank, was founded in 1944 at Bretton Woods. Its aim was to stabilize the international finance system by regulating the flow of capital. In 2010, it had 186 member countries (the same as for the World Bank). The organization is similar to the World Bank: each country appoints a governor to represent it, usually the Minister of Finance or the governor of its central bank. The Board of Governors, the sovereign body of the IMF, meets once a year in October. It deliberates over important decisions such as the admission of new countries or the preparation of the budget.

For the daily administration of IMF missions, the Board of Governors delegates its powers to the Executive Board, composed of twenty-four members. Each of the following eight countries enjoys the privilege of appointing a director: United States, Japan, Germany, France, United Kingdom, Saudi Arabia, China, and Russia. The remaining sixteen are appointed by groups of countries that can differ slightly from the ones in the World Bank, and they can decide to elect a representative of a different nationality. It is noteworthy that France and the United Kingdom have succeeded in realizing the amazing feat of nominating the same representative on the Executive Board of both the IMF and the World Bank, which shows the proximity and complementarity of these institutions.

The third governing body is the International Monetary and Financial Committee (IMFC) which is composed of the twenty-four governors of

the countries on the Board of Governors. It meets twice a year (in spring and autumn), and in its consultative role, advises the IMF on the running of the international monetary system.

The Board of Governors elects a Managing Director for five years. The same tacit rule that exists in the World Bank reserves this post for a European. The French Michel Camdessus occupied the post from 1987 to 2000, and resigned following the Asian crisis. The role of the IMF, in helping creditors who had engaged in risky investments and in imposing economic measures that lead to the unemployment of more than twenty million people, had caused massive popular protests and destabilized several governments. The German Horst Köhler replaced Camdessus at the head of the organization, until his resignation in March 2004 to become president of the German Republic. He was succeeded by Rodrigo Rato, who was the Spanish finance minister in the conservative government of José Maria Aznar, until his electoral defeat in March 2005. Rato surprisingly resigned in June 2007, and has since worked for several giants of international banking. In November 2007, he was succeeded by the French liberal socialist Dominique Strauss-Kahn, former finance minister who received the backing of the conservative French president Nicolas Sarkozy.

In July 2008, the Managing Director managed a team of 2,596 higher officials from 146 countries, though mainly based in Washington. The "Number Two" of the IMF is always a representative of the United States, whose influence is significant. During the Asian crisis of 1997–98, Stanley Fischer, who held the post at the time, upstaged Michel Camdessus on several occasions, and this was one of the reasons for Camdessus's resignation. In the Argentinean crisis of 2001–2002, Anne Krueger, a George W. Bush appointee, played a more active role than Horst Köhler. Since September 2006, this post has been held by John Lipsky, ex-chief economist of JPMorgan, one of the main U.S. commercial banks.

Since 1969, the IMF has its own accounting unit, which regulates its financial activities with its member states, called Special Drawing Rights (SDR). It was created at a time when the Bretton Woods system, based on fixed exchange rates, was wavering, so as to safeguard the credit reserve, namely gold and the dollar. But this did not prevent the Bretton Woods system from collapsing, following President Nixon's decision to stop the

direct convertibility of the dollar to gold in 1971. With a floating rate, the SDR has effectively become another credit reserve. According to the IMF: "The SDR is neither a currency, nor a claim on the IMF. Rather, it is a possible claim on the freely usable currencies of IMF members." Originally equal to $1, it is now reevaluated on a daily basis from a selection of strong currencies (dollar, yen, euro, and the pound sterling). On 12 April 2010, 1 SDR was worth about $1.53.

Unlike democratic institutions, the IMF has been endowed with a mode of operation similar to that of a corporation. Any country that joins the IMF has to pay an entry fee which is a *pro rata* share. Thus the country becomes a shareholder in the IMF, since it contributes to its capital. This share is not freely chosen by the country but calculated according to its economic and geopolitical importance. Theoretically, 25 percent must be paid in SDR or one of the component strong currencies (or in gold, until 1978), and the remaining 75 percent in the country's local currency. This has given the IMF a large stock of gold (the third largest gold holder in March 2008 after the United States and Germany), as countries paid their IMF subscription in the precious metal. Furthermore, in 1970–71 South Africa, considered perfectly respectable by the IMF despite its continual violations of human rights under the Apartheid regime, sold it huge quantities of gold. At the end of March 2008, the IMF's gold reserves amounted to 103 million ounces (3,217 tons), with a market value of $103 billion. Surprisingly, this amount appears on IMF accounts based on its 1970s valuation, that is, it is estimated at less than $9 billion. This has allowed the IMF to play down its gold holdings, at least until this booty raised an internal debate, resolved in April 2008, as we will see later, to reduce a worrying deficit. Although these reserves do not enter into the IMF's loans, they confer upon the institution a stability and stature that are essential in the eyes of the players of international finance.

In February 2008, the IMF's total resources represented the equivalent of $362 billion, of which $95 billon were not to be used for loans (gold, weak currencies) and $267 billion which were usable (mainly currencies of the Triad countries).[75] However, the outstanding credit of the IMF to the member states considerably decreased in the last few years and the IMF was desperately waiting for new borrowers to knock on its

IMF Outstanding Credit (in $billion)

YEAR	AMOUNT
31 December 1998	94.0
31 December 1999	78.9
31 December 2000	64.2
31 December 2001	75.3
31 December 2002	95.8
31 December 2003	106.9
31 December 2004	96.5
31 December 2005	49.6
31 December 2006	20.5
31 December 2007	15.5
31 December 2008	33.1
31 December 2009	66.3
31 December 2010	70.2

Source: IMF. http://www.imf.org/external/np/fin/tad/extcred1.aspx (conversions from SDR to US$ were made using the exchange rate prevailing at the end of each period).

doors. The economic and financial crisis that erupted in 2008 brought the IMF to the forefront again. Its lending capacity increased considerably and loans began a strong upward swing starting in 2008.

After the 2010 spring meeting of the IMF and the World Bank, the lending capacity of the IMF was tripled to $750 billion. The main contributors were: Japan ($100 billion); EU ($178 billion); United States ($100 billion); Brazil ($10 billion); Russia ($10 billion); China ($50 billion); India ($10 billion).[76] Its outstanding credit (see table below) amounted to $33.1 billion at the end of 2008, $66.3 billion at the end of 2009, and $70.2 billion on 31 March 2010.

Unlike the World Bank, which borrows on the financial markets, it is member states' contributions that enable the IMF to build loan reserves, to countries with a temporary deficit. Such loans are conditional upon the signing of an agreement stipulating the measures the country must take in order to get the money. These are the notorious Structural Adjustment Programs. The money is released in instalments, after verification that the stipulated measures have indeed been implemented.

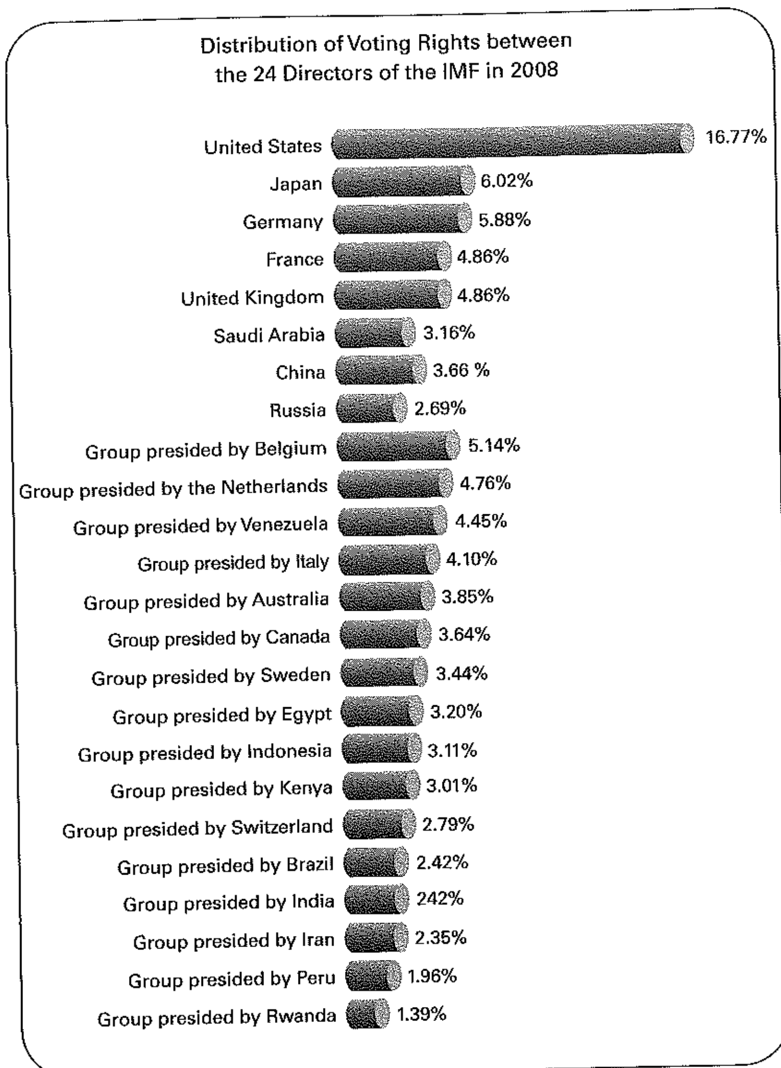
As a rule of thumb, a country in difficulty may undertake yearly borrowings of up to 100 percent of its share value from the IMF and up to a maximum of 300 percent in total, except in the case of emergencies. These are short-term loans that the country is expected to repay as soon as its financial situation improves. The greater the share value, the greater the amount that can be borrowed.

The interest rates on funding granted by the IMF to member states can be calculated from the SDR's interest rate (valued at 0.26 percent on 12 April 2010). At the time, the interest rate at which stranded countries could borrow from the IMF was 1.27 percent. At the same time, the IMF was remunerating rich countries for the sums they loaned it at a rate of 0.25 percent.[77] The difference allows the IMF to finance its day-to-day running costs.

As in the World Bank, a country's share determines its number of votes in the IMF, which corresponds to 250 votes plus one vote per 100,000 SDRs portion of the share. That's how IMF's Executive Board allocates a prominent place to the United States (over 16 percent of voting rights), followed by Japan, Germany, the group led by Belgium, then France and the United Kingdom. By way of comparison, the group led by Rwanda, including twenty-four Sub-Saharan African countries (French- and Portuguese-speaking) and representing 225 million people, has only 1.39 percent of voting rights.

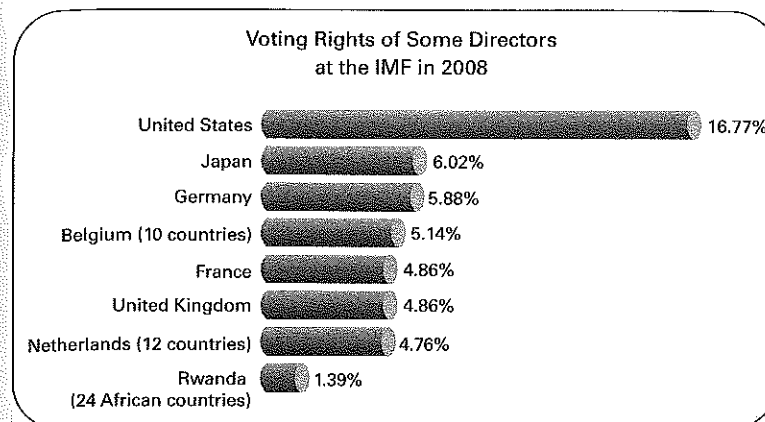
Such blatant inequalities have been the cause of much anger among developing countries, which are demanding a review of voting rights. In 2006, the increasingly precarious position of the IMF led the managing director to propose a reform. Instead of a thorough reform of a shaky organization, it was decided that a revamp in multiple stages and over several years would take place. The first phase concerned only four developing countries, close to the United States and big buyers of U.S. Treasury bonds: China, South Korea, Mexico, and Turkey. The chosen ones have had to make do with a few tenths of percentages more on their respective allocations, not adequate to loosen the stranglehold of the big powers, but just enough to massage the ego of the leaders of these countries, which the United States and Wall Street consider strategically important. Dominique Strauss Kahn has made democratization of the IMF his main warhorse. The next phase of this project is moving at pedestrian speed, but one thing remains certain: the division of powers at the IMF is a subterfuge, and it will remain so.

With such a system, it is clear that the Triad countries easily manage to get the majority of voting rights and are thus in the driving seat at the IMF. Their power is utterly disproportionate if compared to that of the developing countries, whose voting rights are ridiculously small in relation to the size of the populations they represent.



Source: IMF

As in the World Bank, the 85 percent threshold allows the United States to rule the IMF. Indeed, this majority of 85 percent is required for all important decisions over the future of the IMF, such as the allocation and the annulment of SDR, the increase or decrease in the number of elected directors, decisions affecting certain operations or transactions



Source: IMF

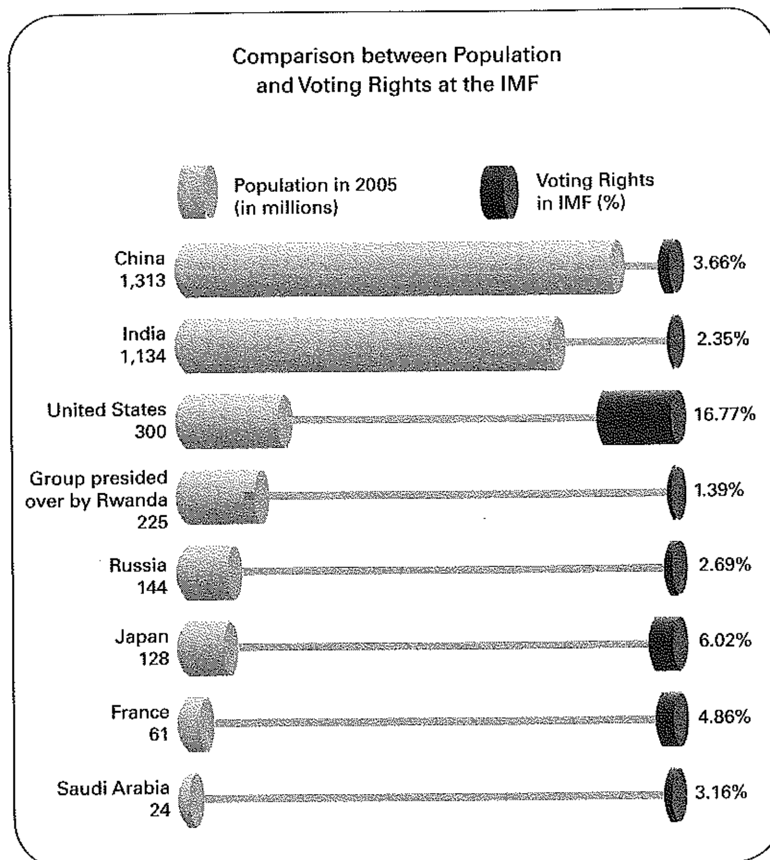
concerning gold, evaluation of SDR, the modification of shares, the temporary suspension of certain measures or various operations and transactions with SDR, and others. As in the World Bank, the United States is the only country with more than 15 percent of voting rights, which automatically gives it a blocking minority for any far-reaching change in the IMF. Initially, this threshold was 80 percent, but with the increase in independent countries, the United States saw the erosion of its voting rights. The United States only agreed to hold less than 20 percent of the votes if the threshold was raised to 85 percent.

The missions of the IMF are carefully defined in its statutes:

(i) To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.[78]

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.



Source: World Bank; UNDP, *Global Human Development Report, 2007*

(iv) To assist in the establishment of a multilateral system of payments with respect to current transactions between members and in the elimination of foreign exchange restrictions that hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

Voting Rights in the IMF, 1945–2000 (in percent)

COUNTRY	1945	1981	2000
Industrialized Countries :	67.5	60.0	63.7
United States	32.0	20.0	17.7
Japan	–	4.0	6.3
Germany	–	5.1	6.2
France	5.9	4.6	5.1
United Kingdom	15.3	7.0	5.1
Oil Producing Countries:	1.4	9.3	7.0
Saudi Arabia	–	3.5	3.3
DC:	31.1	30.7	29.3
Russia	–	–	2.8
China	7.2	3.0	2.2
India	5.0	2.8	2.0
Brazil	2.0	1.6	1.4

Source: Yves Tavernier, *French National Assembly Finance Commission Report on the Activities and Control of the IMF and the World Bank, 2000*

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

In reality, the IMF's policies contradict its statutes. Contrary to the second point, the IMF does not give priority to full employment, whether in the highly industrialized countries or in the developing countries. The IMF, under the influence of the U.S. Treasury and with the support of the other highly industrialized countries of the North, has taken the initiative to become a major actor that has greatly influenced the political and economic orientations of its member states. To achieve this, it was not unwilling to act beyond its rights.

The IMF has thus favored the complete liberalization of capital flows. This freedom of capital is one of the major causes of the financial crises that have violently hit the developing countries. The removal of all restrictions on capital flows promotes speculation and contradicts what is stipulated in Section 3 of Article 6 of the statutes of the IMF, titled "Control of Capital Transfers," which states: "Members may exercise such controls as are necessary to regulate international capital movements." Blinded by its neoliberal will, the IMF management tried in April 1997 to change this part of the statutes to give a legal framework to its deregulatory activities. This project failed due to bad timing: the meeting held in Hong Kong and the South Asian crisis was just starting. The opposition of the governments of some developing countries buried the project. Consequently, the continued abolition of all controls on capital flows enacted by the IMF constituted a clear violation of the spirit of the institution's statutes.

> The IMF sees the end of the Asian recession as proof that its policies are right. That is stupid. All recessions come to an end. All the IMF managed to do was to make the Asian recession deeper, longer and more painful.
>
> —JOSEPH STIGLITZ, in *The New Republic*, April 2000

Surveillance, financial aid, and technical assistance are the IMF's three areas of intervention. Yet clearly, when one takes stock of the situation, it verges on total failure. The annual consultations with member countries and the recommendations of its experts did not enable the IMF to foresee nor avoid any of the major crises after 1994. Some critics maintain that its policies even worsened the crises.

> The G7 governments, particularly the United States, use the IMF as a vehicle to achieve their political ends. Numerous studies of the effects of IMF lending have failed to find any significant link between IMF involvement and increases in wealth or income. IMF-assisted bailouts of creditors in recent crises have had especially harmful and harsh effects on developing countries. People who have worked hard to struggle out of poverty have seen their achievements destroyed, their wealth and savings lost, and their small businesses bankrupted.

> Workers lost their jobs, often without any safety net to cushion the loss. Domestic and foreign owners of real assets suffered large losses, while foreign creditor banks were protected. These banks received compensation for bearing risk, in the form of high interest rates, but did not have to bear the full (and at times any) losses associated with high-risk lending. The assistance that helped foreign bankers also protected politically influential domestic debtors, encouraged large borrowing and extraordinary ratios of debt to equity.
>
> —INTERNATIONAL FINANCIAL INSTITUTION ADVISORY COMMISSION (US Congress), known as the Meltzer Commission, 2000

At the beginning of the twenty-first century, the IMF was in bad shape. Its managing directors had resigned before the end of their term, as soon as a less risky job had become available. The challenges to its authority kept growing, both from global justice movements and many governments of developing countries. All its major borrowers had paid their debts or stopped asking for its help. This was not without consequence on the finances of the IMF, as an early reimbursement implies a major shortfall. That is why in April 2008 the Executive Board approved the sale of 403 tons of gold, for a value of $11 billion. The investment of this transfer allowed the IMF to refill its coffers.

During the 1970s, following Nixon's decision to effectively end the Bretton Woods agreements by suspending the convertibility of the dollar into gold, the IMF was profoundly destabilized and only recovered thanks to the debt crisis that hit the countries of the South in the 1980s. In a different context, the international crisis of 2007 has again given the IMF a prominent role.

QUESTION 17
What are the short-term or shock measures imposed by structural adjustment, and what are their consequences?

• *The end of subsidies on products and services of primary necessity: bread, milk, rice, sugar, fuel, electricity*

In the developing countries, to compensate for the absence of a guaranteed minimum income, governments traditionally intervene to allow the poorest sector to get basic foods and other vital goods and to have access to fundamental services such as electricity. The IMF and the World Bank demand that such subsidies be ended. The effects are felt immediately. The cost of basic foodstuffs rises suddenly, and fuel, used among other things to prepare food, goes through the roof. People then have enormous difficulty in cooking food on the one hand and in boiling water to make it safe to drink on the other, which can lead, among other consequences, to outbreaks of cholera and dysentery. Furthermore, public transport costs shoot up with immediate repercussions for market-gardening activity. Small farmers who have to bring their produce to markets shift the increase to their sales prices. In several cases they don't even go to the market anymore, because they lack money to pay for transport. Fewer available daily calories, inflation of prices, and anemic local economies are the major consequences.

The populations often react violently to these cutbacks, as their very survival is threatened. Numerous examples of rioting have followed these measures, often referred to as "hunger riots" or "anti-IMF riots." Two examples: in 1989 in Venezuela, after the SAP implementation, three days of rioting (*el Caracazo*) caused hundreds of deaths (officially 300 deaths, but unofficial sources give over 4,000); in 1991 in Peru, the price of petrol increased by a factor of thirty-one and bread by twelve overnight, and the minimum wage fell by over 90 percent in fifteen years.

In 2008, various hunger riots hit the four corners of the planet: Haiti, Côte d'Ivoire, Cameroon, Egypt, Bangladesh, Morocco, the Philippines (see Q19). The rioters demanded a reduction in the price of foodstuffs by the governments. Faced with massive popular protests, several govern-

ments renounced the IMF dogma and adopted interventionist policies, and even banned the export of foodstuffs that the population needed. However, in many countries, the governments chose the option of reducing import tariffs, which will have disastrous consequences on future national budgets (salaries of civil servants, health and education budgets) and local producers.

• *A drastic reduction in social expenditure*

To balance the budget, nations respond to IMF and World Bank conditions by imposing drastic cuts in public expenditures, namely in the so-called non-productive budget (education, health, housing, infrastructure). Furthermore, they demand the freezing of civil servant salaries and redundancies in the public sector. All these measures severely impact the people and account for the worrying social indicators of the developing countries.

> The Fund has repeatedly opposed the adoption of a minimum wage and has made itself the lawyer of market flexibility, ignoring international conventions on basic social norms or, at least, the application of national norms.
>
> —FELISA MICELI, Finance Minister, Argentina, April 13, 2007

• *Devaluation of the local currency*

The main purpose of devaluation is to make local export products cheaper and thus more competitive on the global market. Theoretically, they are then easier to sell. To earn the same amount of foreign currency, much larger quantities need to be sold. Reciprocally, in the domestic currency, products imported from abroad become more expensive. The cost of living rises, since in many countries, a major part of what is consumed is imported.

For example, in January 1994, the IMF and France made the African governments of the CFA franc zone (the CFA franc is used in France's former West African colonies) devalue that currency by 50 percent against the French franc. This measure was designed to benefit exports: for foreign buyers outside the CFA zone, a CFA zone product, in general a raw

material yet to be transformed, cost FCFA 100, that is, FF 2. However, within a short time, its value in French francs (or any strong currency) was reduced by half, to FF 1.

However, in these countries, the effects were disastrous: overnight, a manufactured product imported from France that had cost FCFA 100 before the devaluation saw its cost jumping to FCFA 200. To earn 100 French francs, you needed to sell twice the merchandise. The purchasing power of the populations of the CFA franc zone fell dramatically, all the more so since salaries had been frozen. At the same time, the debts of these countries, in foreign currencies, doubled. Effectively, twice as much (in local money) was required to buy the foreign currency needed for debt repayments.

The effect of devaluation was not the same for all citizens of the affected countries. Poor people saw their purchasing power halved overnight, and the rich ones who had placed money abroad in the form of hard currencies were able, after the devaluation, to repatriate their money and obtain double the amount in CFA francs for the same amount of foreign currency. The local ruling classes knew that devaluation lay ahead and had taken the precaution of changing their CFA francs into foreign currency beforehand.

• *High interest rates*

This is the policy initiated by the United States in 1979; high interest rates attract foreign capital. The trouble is that when the country is in crisis, either the foreign capital does not come in or it comes in as short-term speculation. This is of no use to the local economy and can even be very harmful, because it can destabilize the currency in case of hasty departure or it can lead to an increase in the prices of land and housing.

Moreover, small producers borrow on the local market to buy seed, pesticides, and tools, and the rise in interest rates radically diminishes their capacity to borrow. Consequently, they sow less and production drops. Firms already in debt have to find extra money for the heavier repayments just when the market is depressed.

Lastly, the rise in interest rates increases the burden of internal public debt for the state, leading to a higher public budget, when the proclaimed

objective was precisely to reduce it. The state then feels obliged to ax social spending even more brutally.

These drastic measures cause many bankruptcies of small and medium-size firms, as well as local banks. The state finds itself obliged to nationalize them and take over their debts. It reacts by freezing the meager savings of small savers. A private debt thus becomes a public one, and it is passed on to the taxpayer. The popular and middle classes are hit the hardest.

QUESTION 18
What are the long-term or structural measures imposed by structural adjustment, and what are their consequences?

• *The development of exports*

To procure the foreign currency needed to repay the debt, the developing countries need to increase their exports. This leads them to reduce food crops for the local population (such as manioc or millet, for example).

Very often, the countries specialize in one or several export crops, one or several raw materials to be mined, or primary activities such as fishing. They then become highly dependent on this resource or monoculture, as the below table shows.

The economies are all the more unstable because prices on the global market can suddenly vary. The great majority of raw materials are exported as such and transformed in the rich countries, which then get most of the added value. To simplify, cocoa is produced in Côte d'Ivoire but chocolate is made in France, Belgium, and Switzerland.

> On a global scale, there are already 1.3 billion people living on fragile land—arid zones, marshy land and forest—from which they cannot get their subsistence.
>
> —JAMES WOLFENSOHN, president, World Bank, "Une chance pour le développement durable" (A chance for sustainable development), *Le Monde*, August 23, 2002

Structural Adjustments to Exports

COUNTRY	PRINCIPAL EXPORT PRODUCT	SHARE OF PRINCIPAL PRODUCT IN EXPORT REVENUES, 2000 (%)
Benin	cotton	84%
Mali	cotton	47%
Burkina Faso	cotton	39%
Chad	cotton	38%
Uganda	coffee	56%
Rwanda	coffee	43%
Ethiopia	coffee	40%
Nicaragua	coffee	25%
Honduras	coffee	22%
Tanzania	coffee	20%
Sao Tomé & Principe	cacoa	78%
Guyana	sugar	25%
Malawi	tobacco	61%
Mauritania	fishing	54%
Senegal	fishing	25%
Guinea	bauxite	37%
Zambia	copper	48%
Niger	uranium	51%
Bolivia	natural gas	18%
Cameroon	oil	27%

Source: IMF, *The Enhanced HIPC Initiative and the Achievement of Long-term External Debt Sustainability*, April 15, 2002

- *The complete opening up of markets through the elimination of customs barriers*

The official reason for opening up markets is to allow consumers to enjoy lower prices on local markets. However, above all, it allows foreign multinationals to conquer considerable market shares in numerous economic sectors, to bring down local firms or producers, and, once they have the monopoly, to raise prices on imported products. Locally, inflation and ris-

ing unemployment devastate the mass of the population. What use is it to consumers to see the price of chicken or tomatoes fall if, having lost their jobs, they have no money?

Opening up the markets often leads to subsidized foreign products coming into the local market unhindered and competing freely with local producers, thus completely destabilizing the local economy. The competition is unequal. Local producers are often less highly trained, less well equipped, and unable to make even modest investments. On the other hand, the multinationals have significant financial and technological might, and the states of the North generously subsidize their production, especially agricultural. The total amount of subsidies paid by the countries of the North to their agricultural industry is estimated at $1 billion a day (or around $350 billion a year).[79] Furthermore, the countries of the South are no longer allowed to tax imported goods to protect their own products. This is why, in spite of higher production costs and considerable transport costs, products from the North are often cheaper than the same items produced locally. This is also why, in Jamaica, powdered milk imported from the United States is cheaper than the fresh milk produced on Jamaican farms.[80] This is a common occurrence with numerous products in all the developing countries.

> I am determined to pursue an aggressive strategy of opening up the markets in all the regions of the world.
>
> —BILL CLINTON, U.S. president, address to the WTO, May 18, 1998

Is it any surprise, with such unfair competition, that the peasant farmers of the Third World cannot manage to feed their families properly and move to the slums around the big cities in hope of finding some means of subsistence to replace the living they used to get from their land? How can a local cooperative or small producer struggling to survive be placed in the same conditions as a multinational from the North? Even the most violent combat sports do not put a featherweight in the ring with a heavyweight! In the corporate-driven economy, it is "no holds barred."

Let us remember that the developed countries took great care, when it was their turn to open up their markets, to do so slowly and methodi-

cally, so that it would be carried out in the best conditions. The United States and the other Triad countries protect their industries not only with subsidies but also with protectionist measures. For example, in 2000, George W. Bush's administration decided to protect their iron and steel industry by applying taxes to steel imported from Europe and Asia. This is strictly forbidden for the developing countries.

> Most of the advanced industrial countries, including the United States and Japan, had built up their economies by wisely and selectively protecting some of their industries until they were strong enough to compete with foreign companies. . . . Forcing a developing country to open itself up to imported products that would compete with those produced by certain of its industries, industries that were dangerously vulnerable to competition from much stronger counterpart industries in other countries, can have disastrous consequences—socially and economically. Jobs have systematically been destroyed—poor farmers in developing countries simply could not compete with the highly subsidized goods from Europe and America—before the countries' agricultural and industrial sectors were able to grow strong and create new jobs. Even worse, the IMF's insistence on developing countries maintaining tight monetary policies has led to interest rates that would make job creation impossible even in the best of circumstances. And because trade liberalization occurred before safety nets were put into place, those who lost their jobs were forced into poverty. Liberalization has thus, too often, not been followed by the promised growth, but by increased misery.
>
> —JOSEPH STIGLITZ,
> *Globalization and Its Discontents*, 2002

The most flagrant example is that of cotton, where the agricultural subventions of the United States and the European Union have instigated a race to the bottom. According to UNCTAD, "The United States is the largest exporter of cotton because of the impact of the significant subsidies paid, which amounted to $3.9 billion in 2001–2002, an amount twice that of 1992 and which was larger than the whole cotton production of the United States by $1 billion." Yet, according to the International Advisory

Committee on cotton, "The cost of production of one pound of cotton is $0.21 in Burkina Faso against $0.73 in the United States."

Furthermore, the customs tariffs applied by rich countries are nearly nil for raw materials, which has discouraged Third World countries from diversifying their economy and has kept them dependent on a few basic products, and sometimes even one. On the other hand, when countries of the South want to export manufactured products to the most industrialized countries, they are faced with high tariffs. Effectively, the governments of the North practice a customs policy that aims to convince the developing countries to abandon their food sovereignty (see Q19) and to preferably export non-transformed products.

> The idea that developing countries should feed themselves is an anachronism from a bygone era. They could better ensure their food security by relying on the U.S. agricultural products, which are available in most cases at lower cost.
>
> —JOHN BLOCK, U.S. Secretary of Agriculture, 1986

The opening of borders to alimentary products has caused the bankruptcy of numerous local producers. Once the logic of destruction is set on course and the countries become dependent on foreign products to feed themselves, they are trapped. And yet, the development of biofuels, speculation, and the reduction of acreage since 2006 by the major cereal corporations have reduced the available quantities and caused prices to climb, up until the crisis that began in 2008.[81]

> The logic that dictates that access to markets means development is at a deadlock. Liberalization is not the key. The proof: we have greatly opened our markets, and the situation has worsened.
>
> —SHREE BABOO CHEKITAN SERVANSING, Ambassador and Permanent Representative of Mauritius to the UN, in Geneva[82]

- *The liberalization of the economy, especially the abolition of capital movement control and exchange control*

The idea is to totally open up the developing countries' economies to the investments, products, and services of the multinationals of the most industrialized countries to satisfy the multinationals: produce what they like, where they like, in conditions they lay down, at salaries they fix.

Liberalization also aims to eliminate all obstacles preventing the Northern multinationals implanted in the developing countries from repatriating their profits. As a basis for comparison, in 2006 the profits repatriated by multinationals implanted in the developing countries amounted to $238 billion, which is more than double the total amount of ODA paid by countries of the North (sometimes in the form of loans, which further increase the debt stock).[83] In other words, the North gives sparingly with one hand what it extravagantly takes back with the other. Since we are comparing various financial transfers, note that the ODA is also largely inferior to the money saved month by month by migrant workers and sent to their countries of origin, which is essential for survival there: they are estimated at $251 billion toward developing countries in 2007.[84] In fact, this figure is most probably underestimated since the amount of informal transfers, outside of specialized agencies such as Western Union, which deducts an excessive commission, is difficult to fully quantify.

Finally, the lifting of all control on capital movements enables the rich of the developing countries to delocalize "their" capital toward the countries of the North instead of investing it in the local economy. The liberalization of capital account transactions thus causes a hemorrhage of capital (see Q52).

> The UNCTAD notes that far-reaching reforms undertaken by most developing countries in the 1980s and '90s, often at the behest of international financial organizations and lenders, did not deliver as promised. The reforms emphasized greater macroeconomic stability, greater reliance on market forces, and a rapid opening up to international competition. But in many cases private investment did not rise as predicted; many economies stagnated or even retracted; and many developing nations already struggling with high levels of poverty found that these steps toward liberalized economies increased rather than decreased inequality.
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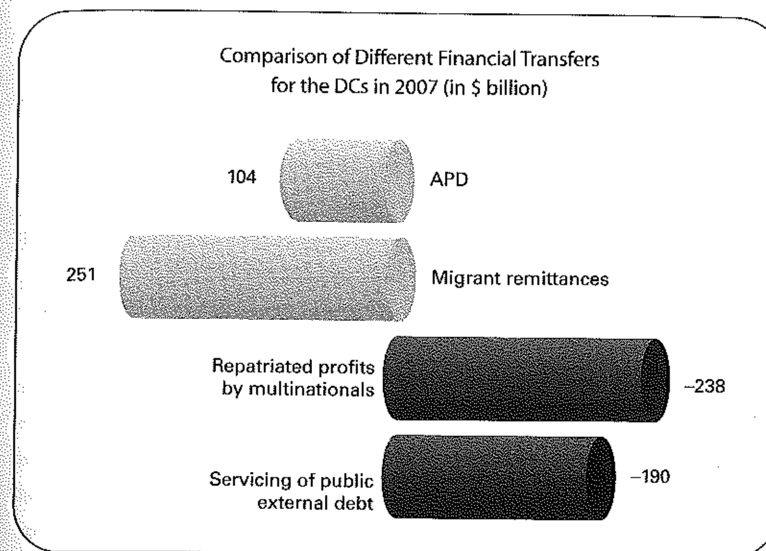
> —UNCTAD,
> *Trade and Development Report*, 2006



Source: OECD; World Bank

In the emerging developing countries, there is another negative consequence. The capital they attract is often very volatile. As soon as there is any sign of economic difficulty, or as soon as another market offers better perspectives, the investments are withdrawn, destabilizing the country from which they flee. The arrival of such capital caused the speculative bubbles on the stock exchange and in real estate in Southeast Asia in the 1990s. In 1997–98, this volatile capital was brutally withdrawn again, causing a very severe crisis.

> [T]he influx of hot money into and out of the country that so often follows after capital market liberalization leaves havoc in its wake. Small developing countries are like small boats. Rapid capital market liberalization, in the manner pushed by the IMF, amounted to setting them off on a voyage on a rough sea, before the holes in their

hulls had been repaired, before the captain had received training, before life vests had been put on board. Even in the best of circumstances, there was a high likelihood that they would be overturned when they were hit broadside by a big wave.

—JOSEPH STIGLITZ, *Globalization and Its Discontents*, 2002

- *A system of taxation that further aggravates inequalities, with the principle of value-added tax (VAT) and the protection of capital revenues*

The elimination of customs barriers reduces the tax revenues of the state in question, leading to the adoption of a wider taxation system that penalizes first and foremost the poor. The principle of progressive taxation of income is abandoned in favor of the VAT. And yet, VAT is the most unjust form of taxation, since it disproportionately affects the poorest. For example, in francophone West Africa, the VAT is 18 percent. It is applied equally to anyone buying a kilo of rice, rich or poor. If the poor devote their entire income to buying staple products to survive, with VAT 18 percent, it is as though they were paying 18 percent extra tax on their entire income. On the other hand, people with high incomes, who use, say, 10 percent for basic products and services, pay only 1.8 percent of their total income in VAT. This is why increases in VAT or the institution of fixed-rate deductibles are regularly promoted by those who want a reduction of income tax.

- *Massive privatization of public companies and subsequent retreat of the state from competitive sectors of production*

The enforced privatization of state-owned companies often involves selling them off for a song, from which private multinationals from the North (in most cases) or from the South (sometimes) and a few well-placed individuals can profit. Money raised through privatization goes straight to debt repayment. According to the IMF, the state must disengage from competitive production sectors, even if the state has strategic importance on the national level (water, telecommunications, transport, health, education, and the like). It has to limit its action to repression (police, justice) and defense.

For example, the Dakar-Bamako-Niger railroad, which has given rise to a significant informal economy in the regions that it crosses, was privatized in 2003 at the request of the World Bank.[85] Some critics have suggested that the railways were deliberately neglected to make the privatization inevitable. The twenty-five-year concession has been awarded to a group formed by the Canadian firm Canac (since bought by American Savage) and the French company Getma (now under the control of the group Jean Lefebvre, which has also absorbed the multinational Vinci). The group Transrail has thus been created to manage the railroad. However, the promised investments have not materialized, and since the privatization, twenty-four of the thirty-six stations have been closed: the whole informal economy around these stations, which mainly employed women, has been wiped out. More than a thousand railroad workers have been dismissed, including the most radical union officials. The redundancies have been financed thanks to a loan from the World Bank. The degradation of the rails and the matèriel has reached such proportions that it takes three days to make the 1,200 kilometers between Dakar and Bamako. The maximum speed is 30 km/h. Derailments often occur. The passenger service has been sacrificed, and raw materials have to be transported to the world market by a daily freight service. The Senegalese or Malians riders now have only the weekly express, which often arrives several days late, while the price of the ticket for a battered coach is exorbitant.

Under such conditions, the population is faced with a reduction in services to which they have had access, and unemployment increases. In Nicaragua, since it veered toward neoliberalism in 1990, the demands of the IMF have been carried out to the letter, causing 260,000 workers to be laid off in 1994 (out of a total population of less than four million inhabitants).

As a consequence of all this, the state loses control of strategic elements for development, and essential services are entrusted to the private sector. For example, in the education sector there has been a blossoming of private educational institutions, often of very mediocre quality, since the requirements in terms of teachers' training and salaries are reduced accordingly.

Transformation of the IMF into a source of long-term conditional loans has made poorer nations increasingly dependent on the IMF

and has given the IMF a degree of influence over member countries' policymaking that is unprecedented for a multilateral institution. Some agreements between the IMF and its members specify scores of required policies as conditions for continued funding. These programs have not ensured economic progress. They have undermined national sovereignty and often hindered the development of responsible, democratic institutions that correct their own mistakes and respond to changes in external conditions.

—INTERNATIONAL FINANCIAL INSTITUTION ADVISORY COMMISSION (US Congress), known as the Meltzer Commission, 2000

The agreements signed with the IMF to obtain loans are usually valid for three years. The indebted country commits to undertake very specific economic reforms, and the promised sums are handed over in installments as these are completed. Thus, in Madagascar, the privatization of the state-owned petroleum company (Solima) fell behind the timetable planned by the IMF. Planned for 1999, it was not completed until June 2000. In July 2000, the first instalment of a new loan was paid, as a reward for a good pupil that could go to the next reform. Result: a company sold off at cut-rate price passed into private ownership and an increase in the country's indebtedness. For the population: nothing.

On any objective assessment of two and a half decades of standardized packages of "stabilization, liberalization and privatization," the right kind of growth has simply failed to materialize across most of the continent. . . . Doing so goes a long way to recognizing that the Washington institutions do not have a monopoly on technical competence.

—UNCTAD, *Economic Development in Africa*, 2006

All in all, structural adjustment programs (SAPs) fiercely defend the interests of the financial institutions and the multinationals of the North. But for the populations who have to bear their consequences, they are synonymous with poverty and hardship.

As economics is not an exact science, the number of counterexamples is irrelevant. If I put forward a hypothesis in physics which is proved wrong by an experiment, I must question the theory. And the theory progresses through such invalidation. In economics, you can undermine the existence of millions of people, but none of that human evidence will affect the ideology of structural adjustment.

—SUSAN GEORGE, vice president of ATTAC France, December 6, 2000

QUESTION 19

What is the impact of the IMF/World Bank logic on the world food crisis of 2007?

Article 25 of Universal Declaration of Human Rights declares: "Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing and medical care and necessary social services." The steep rise in the price of staple food, especially in the first half of 2008, has directly threatened the survival of hundreds of millions of people. The right to food, already seriously undermined by several decades of neoliberal policies, is under even greater threat.

After a significant fall in prices during more than twenty years (see Q11), the reversal of the trend took place in the second half of 2001. First, it hit the energy and metal sectors, and later that of food. The rising trend has been violent. In one year, the prices of rice and wheat doubled, and that of maize rose by more than a third.

This explosion of prices is the direct consequence of the market liberalization imposed by international financial institutions since the 1980s. The abolition of customs barriers is responsible for the increase in the fluctuation of world prices of agricultural raw materials. Thus the FAO notes the steady increase of price instability during the last two decades, a previously absent instability, that now seems a permanent characteristic of markets.[86] According to the FAO, "The agricultural policies of developing countries have been liberalized and farmer support struc-

tures (extension, inputs, storage, marketing, price stabilization) have been gradually eliminated (better management of those structures would have protected their smallholders from the forces of an unequal international market). Was it the FAO that pressured developing countries to adopt these policies?"[87]

The rise in prices is thus mainly the consequence of speculation. In only one trading session, on March 27, 2008, the price of rice, the staple food for half of the world's population, climbed by 31 percent. The consequences for the economically most vulnerable countries are extremely worrying. Effectively, the policies imposed by the IMF and the World Bank for the majority of poor countries have created a structural dependence on food imports, since the dominant ideology imposes the development of exports over domestic food production. According to the FAO: "The total expenditure of LDCs (Least Developed Countries) and LIFDC (Low-Income Food-Deficit Countries) [will] increase by 37 to 40 percent compared to 2007, after it already increased by 30 and 37 percent last year." Hence, the bill of the LIFDC will reach $169 billion in 2008.

Oil prices reached $145 in July 2008, an ounce of gold $1,000 in March 2008, a bushel of maize $7.5 in June 2008, all record prices, which gives an indication of the rising price curve for nearly all raw materials. Cereal stocks are at their lowest levels in a quarter of a century. Some producing countries have even diminished or stopped their exports, such as Russia for cereals and Thailand for rice, so that the products will stay on the national market. The cost of a meal has greatly increased. In more than thirty countries, from the Philippines to Egypt, Burkina Faso, Haiti, Yemen, and Senegal, the population took to the streets to protest, and general strikes have multiplied.

> According to some estimates, investment funds now control 50–60 percent of the wheat traded on the world's biggest commodity markets. One firm calculates that the amount of speculative money in commodities futures—markets where investors do not buy or sell a physical commodity, like rice or wheat, but merely bet on price movements—has ballooned from $5 billion in 2000 to $175 billion in 2007."
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> —GRAIN, "Making a Killing from Hunger," April 2008[88]

After the subprime crisis in the United States in the summer of 2007, institutional investors[89] slowly disengaged themselves from the debt market, which had been built on speculation in the U.S. real estate sector, and identified agricultural products and hydrocarbons as potential areas of high profitability. They achieve this end by buying future harvests on the stock exchanges of Chicago and Kansas City, the main exchanges for cereal speculation. Equally, they speculate on hydrocarbon raw materials on other stock exchanges. The same people who, for want of higher profits, caused the subprime crisis in the United States by exploiting the naïveté of barely solvent North American families hoping to own a property, were deeply involved in the steep increase in the prices of hydrocarbons and agricultural products. Hence the need to question the power of financial markets.

Yet the arguments are presented as facts: climate change caused a reduction in cereal production in Australia and Ukraine, a rise in petrol prices led to higher transport costs and products or the increasing demand of China and India (which explains why products in lesser demand—such as cocoa—by these two countries have not witnessed price rises). Many commentators have refused to examine the economic framework in which these phenomena were occurring. Thus, Louis Michel, the European Commissioner for Aid and Development, has above all feared "an economic and humanitarian tsunami" in Africa. The statement is ambiguous since the image of a tsunami evokes a natural catastrophe, which is beyond us and thus relieves us of responsibilities. Other explanations are equally superfluous.

Firstly, with cereal prices at a historical low until 2005, the major agribusiness corporations obtained subsidies for biofuels from the governments of the United States and the European Union. These multinationals wanted to win on two fronts: sell their cereals at a dearer price and make biofuel production profitable. They succeeded.

How did they proceed? They marketed the following hypothesis: in the coming decades oil will have to be replaced (due to declining reserves) and thus soy, beet (transformed into biodiesel), cereals, or sugar cane (as ethanol) should act as substitutes. Thus they asked public authorities to subsidize the substantial costs of biofuel to make it profitable. Washington, the European Commission in Brussels, and other