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International Credit by William Engdahl

IMF 'structural adjustment'=disaster

An UNCTAD report reveals why "seven years of sacrifice have been in vain," to put it mildly.

A 212-page report I have in hand contains some revealing truths about the nature of the chronic Third World debt crisis. While I'm normally not very impressed by United Nations official documents, this one bears careful reading by anyone seeking a better grasp of the lunacy of current government policies on the debt.

In its "Trade and Development Report, 1989," issued from Geneva on Sept. 6, the U.N. Conference on Trade and Development (UNCTAD) issues a stinging critique of seven years of Western creditor country policy on the developing sector. UNCTAD generally reflects views of developing countries, but this year, Secretary General Kenneth Dadzie is remarkably blunt. Dadzie attacks the "high degree of disorder" which is now endemic to most developing countries. The report criticizes the International Monetary Fund (IMF) and World Bank policies since the outbreak of the 1982 debt crisis. According to "conventional analysis" of the banks and IMF, it is Third World state budget deficits, excessive money creation, and overvalued exchange rates which have created current problems of hyperinflation in debtor countries.

The real situation is quite different. External "shocks" created the debt crisis, when Paul Volcker and the Federal Reserve allowed interest rates to soar above 20% after October 1979 in order to protect the bond markets and banks of New York. Since Third World debt had been cleverly tied by the banks to "floating market interest rates," the cost of servicing debt exploded. Further, the means of repaying with dollars for debtor countries was often linked to ability to export commodities such as oil, copper, coffee to industrial nations for dollars. Depression in the industrial countries triggered by the Volcker interest rate shock collapsed this ability. This set off what Dadzie calls the "vicious circle" of the debtor countries.

For most Third World debtor countries, the rising interest rates drastically increased interest payments by the respective governments to continue to honor foreign bank payments. The fall in export earnings cut government income revenues. In every case, creditor banks, led by Citibank and Chase Manhattan of New York, demanded that debtors sign in blood with the IMF to impose internal "balance of payments" discipline in order even to be considered for future credit. In every case, the IMF demands a "structural adjustment program."

Debtor governments must slash state spending, cut imports, and dramatically expand exports to pay the creditor banks. Since 1982, according to a recent study by a Washington, D.C. think tank, Intrados, a staggering $240 billion in vital capital has left the 10 largest Ibero-American debtor countries, more than 60% of their total debt in nominal terms. Most of this has gone to the large New York, London, and Tokyo creditor banks.

But how have the debtor economies fallen into hyperinflation similar to Weimar Germany of the early 1920s? UNCTAD is one of the few sources aside from *EIR* to reveal this brutal story. The IMF "structural adjustment" process has created domestic economic depression by cutting the most active part of the country's economy, the state sector. This cuts tax revenue. The cuts in imports demanded by the IMF and banks have cut import tax receipts further. Then the demand for sharp (often repeated) currency devaluation, means that the *domestic cost* of repaying debt in dollars for Brazil, or any other debtor, is sharply increased. The currency devaluations result in soaring domestic inflation, which forces the government to raise domestic interest rates in order to sell state bonds to repay the foreign banks. This results in enormously rising state interest rate costs.

In many countries, such as Venezuela or Uruguay, creditor banks reportedly "held a pistol" to the heads of key government officials, forcing the government to take over debts of private companies. This has meant additional huge losses for the national bank involved. "When the resource shrinkage reaches dramatic proportions, as it has for developing countries in the 1980s, and when many of the individuals are living in extreme poverty, the task can become almost impossible," UNCTAD's Dadzie stresses.

So domestic money supply explodes, inflation is countered by wage increases, and the "vicious cycle" is set off. Real "structural adjustment" is impossible. Entire nations are plunged into "financial disorder" and "economic stagnation" or worse. Dadzie concludes, "The seven-year-long crisis has inflicted enormous damage on both the productive base and the financial systems of developing countries." Commenting on the results of seven years of IMF medicine, Roger Lawrence, an UNCTAD official in Geneva, said, "I guess you could say the sacrifice has been in vain." That's putting it mildly.

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