Inspecting the IMF's new 'human face'

by Alice Roth

Despite a recent stream of rhetoric about a shift in IMF/World Bank policy toward "more flexible conditions" and "a new emphasis on enhancing economic growth," the International Monetary Fund and World Bank have not retreated one iota from their earlier policy of discouraging capital-intensive industrial growth in the developing sector.

The above assessment is based on a series of wide-ranging interviews with top officials, including an advisor to the U.S. Treasury as well as sources close to the IMF Executive Board. Although a significant retooling of IMF/World Bank lending policy is indeed taking place, the changes are largely cosmetic, designed to make the two institutions more palatable to developing-sector governments as well as to Western European industrialized nations anxious to broaden export markets for their capital goods.

According to *EIR*'s sources, the following policy shifts are receiving top consideration at IMF and World Bank headquarters:

1) The IMF may borrow directly from OPEC nations and some advanced-sector governments by issuing its own notes, the first time that the institution has ever raised funds in this fashion.

2) The IMF will greatly step up its lending to the so-called LDCs (less-developed countries) for balance-of-payments purposes, drawing on the $10 billion Witteveen facility. The average size of the loans will be larger than in the past, since the normal quotas do not apply under the Witteveen Facility, and they will be much longer-term. When the Witteveen Facility is depleted (according to one source, this could occur as early as the end of 1980) its funds will be replaced through OPEC financing. The World Bank will, meanwhile, supplement the IMF's efforts by extending more "general purpose" loans; that is, balance of payments financing rather than the project lending to which the World Bank is normally restricted.

3) The practice of attaching conditions to IMF and World Bank lending will not be abandoned, but a "new type of conditionality" will become the norm based on a need for "long-term structural changes" rather than mere "short-term demand restraint." The new conditions may include an "energy criterion," stipulating that the borrowing country either develop its domestic energy resources or practice more conservation. The Fund will also demand the elimination of trade deficits through "import substitution" and "export promotion," with a heavy emphasis on export of raw materials and primary products.

Turkish model

In a recent speech in Geneva, IMF managing director Jacques de LaRosière stated that in the future IMF "adjustment policies" would be designed "with a view to enhancing the supply side of our members' economies and their long-term potential for growth." The obvious question, however, is *what kind* of growth is the IMF promoting?

According to a source in the office of IMF Executive Director Jacques de Grott, a Belgian, "Turkey is a good example of how the new policy will work." In late June, the IMF approved a $1.6 billion standby credit for Turkey, the largest credit ever granted by the IMF. But Turkey is paying a high price for this new influx of funds; the country is being forced to reorganize its entire economy around exports of agricultural products, such as cotton, while stripping down its manufacturing industry.

Under the terms of the loan agreement, Turkey is slashing subsidies for "inefficient" public sector industries, representing 50 percent of the country's current national output. In addition, the Turks must cut public spending, lift ceilings on interest rates, impose limits on foreign borrowing, and devalue the Turkish lira by another 22 percent. The IMF has also insisted that Turkey curtail its trade with the Comecon bloc by doing away with incentives to Turkish businessmen to facilitate that trade.

Moreover, one of the IMF's less publicized conditions is designed to give a major boost to Turkey's flourishing "underground economy," based on illegal narcotics and arms trafficking. Black marketeers who thrive on these types of activities will now be permitted to deposit the profits legally into Turkish banks without being questioned.

Europe's fatal compromise

In short, the IMF's "new" policy is a fraud, designed to appease Western European government, banking, and industrial leaders who are desperately concerned about the possibility of a Third World debt collapse and its destabilizing effects on international credit markets and world trade. At the June 22 Venice summit, West German Chancellor Helmut Schmidt took the United States and Britain to task for failing to address the question of how the petrodollar surplus is to be recycled. Both West German and French officials have studied plans to channel the petrodollars through the European Monetary Fund, and use the funds to promote high-technology industrial projects in the Third World rather than the pick-and-shovel agricultural programs favored by the IMF and World Bank.

More recently, however, the leading West German banks have consoled themselves with the belief that they can work within the context of a "reformed IMF." According to one report, the German banks' strategy for the coming decade calls for stepped-up capital-goods exports to the so-called "newly industrialized countries," such as Korea, which already have developed a certain amount of industrial infrastructure. The Germans are leaving it up to the IMF to take care of the financial requirements of the more backward countries, the vast majority of Third World nations.

Although this "two-tier" policy is certainly an improvement over that of the leading New York commercial banks, it suffers from a devastating flaw: Those countries which receive the "Turkey treatment" will become political cauldrons and ultimately triggerpoints for East-West confrontations the world may not survive.

De Larosière on lending strategy

In a recent speech before a United Nations-sponsored conference in Geneva, IMF managing director Jacques de Larosière said the following:

In this complex situation, the Fund stands ready to assume an increasing role in recycling and to make flexible and sensible use of its resources for that purpose. The recent meeting of the Interim Committee confirmed the line of action which I proposed in this area: The Fund will be able to lend in larger amounts than in the past, when appropriate under special circumstances, and to go beyond previously established ceilings in relation to quotas. Where problems of a structural nature require it, adjustment programs will be able to extend over longer periods than have been typical in the past . . . with a view to enhancing the supply side of our members' economies and their long-term potential for growth. . . .

Given the availability of funds under the Suplementary Financing Facility [Witteveen Facility—ed.] and the expected increase in resources under the Seventh General Review of Quotas, the Fund is at present in a relatively liquid position, well situated to meet substantial new demands. Moreover, the Interim Committee has endorsed my proposal to initiate discussions with potential lenders regarding the terms and conditions under which the Fund might borrow to increase its resources, if and when a need to do so arises. In short, I believe that resources will prove to be available for the Fund to play a much larger direct role in the recycling process.

Of course, we do expect that countries to which the Fund lends in relatively large amounts or for unusually long periods will be prepared to meet certain conditions. This is essential both for preservation of the Fund's revolving resources and for promotion of optimal adjustment. Sound adjustment means, above all, implementation of fiscal and monetary policies designed to avoid overconsumption in relation to available resources and to prevent waste or mismanagement of those resources. In this connection, there is one simple truth which must be recognized: When demand is stimulated by measures which are rapidly dissipated in higher prices, this stimulus is fruitless, or counterproductive, from the standpoint of development and growth, and the standpoint of inflation and balance of payments stability. . . .