The facts: what the IMF robbed

by Dennis Small

The earthquake which struck El Salvador on Oct. 10 left the nation's capital devastated, with the damage done to the Salvadoran economy estimated at over $1.5 billion—more than one-third of the country's GNP.

But no one has yet commented that the level of devastation produced by the Salvadoran earthquake, although horrifying, is less than *one half* of that wreaked on the war-torn economies and social fabric of Central America *every year*, by the International Monetary Fund (IMF) and the region's international creditor banks. Concretely, new calculations made by a Schiller Institute research team show that between 1978 and 1985, out of a total average regional yearly Gross Domestic Product of about $28 billion, almost *$4 billion* per year—or 13%—was looted from the Central American economies.

This IMF "earthquake," this man-made disaster, is also profoundly destabilizing the region and creating the conditions for the spread of Soviet-inspired insurgencies. The IMF is, without doubt, the Soviet Union's best strategic ally in the whole region. As Fidel Castro recently confided to an Ibero-American diplomat: "No, we have no need to export revolution any longer; the IMF does it for us."

Why then, one rightly asks, does the Reagan administration fully back IMF policy in Central America, in all of Ibero-America, and in the whole developing sector?

This was the question most insistently asked of Schiller Institute representatives who traveled to the Central American nations of Guatemala and Honduras in October to present these findings, and to publicize the recently issued Schiller Institute Spanish-language book, *Ibero-American Integration: 100 Million New Jobs by the Year 2000!* at meetings with local businessmen, government officials, military leaders, and others.

Perhaps the most shocking finding of the *Ibero-American Integration* book is the fact that the region's *legitimate* debt was calculated to be only $20.5 billion—about 5% of the total *official* foreign debt of $370 billion. The remainder was

FIGURE 1
Honduras: legitimate and illegitimate foreign debt 1978-85
(billions of dollars)

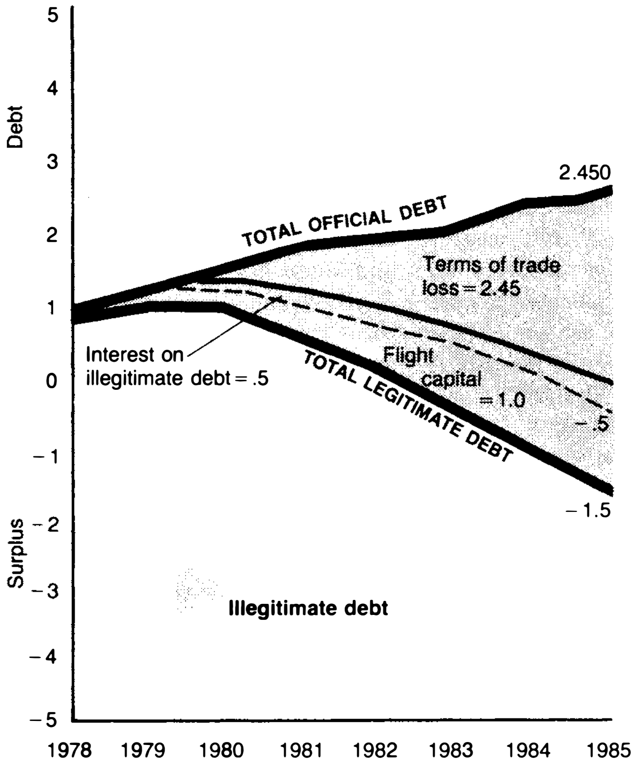
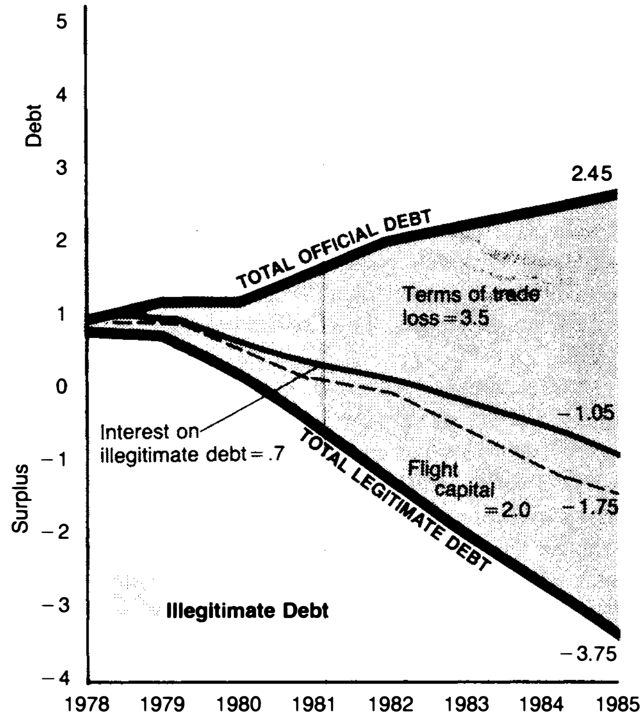


FIGURE 2
Guatemala: legitimate and illegitimate foreign debt 1978-85
(billions of dollars)



determined to be the product of four factors, which piled up billions of dollars of illegitimate debt on the Ibero-American nations:

1) *Deteriorating terms of trade:* From 1978 to 1985, the nations of Ibero-America lost billions of dollars because they had to pay more for the same physical volume of imports, and received less for their exports;

2) *Usurious interest rates:* International interest rates skyrocketed after 1977, which cost the debtors further billions in these interest overcharges;

3) *Flight capital*: Taking advantage of the lack of exchange controls, countless billions fled Ibero-America between 1978 and 1985; and

4) *Interest on the illegitimate debt:* Compound interest payments on the above three categories also accounted for a sizeable growth of the overall indebtedness.

Applied to Ibero-America as a whole, these four categories accounted for almost 95% of the official debt—leaving only $20.5 billion as the legitimate remainder. Yet for most of the nations of Central America, the results are even more dramatic: The "legitimate debt" figure turns out to be

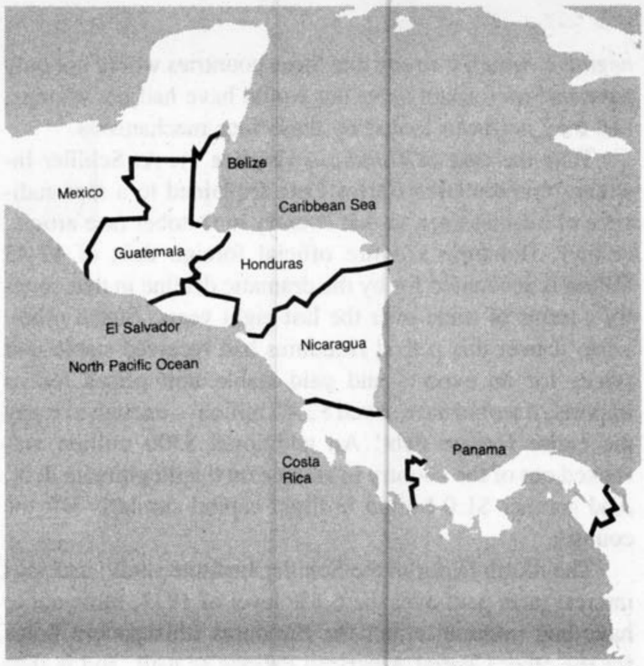


FIGURE 3
Nicaragua: legitimate and illegitimate foreign debt 1978-85
(billions of dollars)

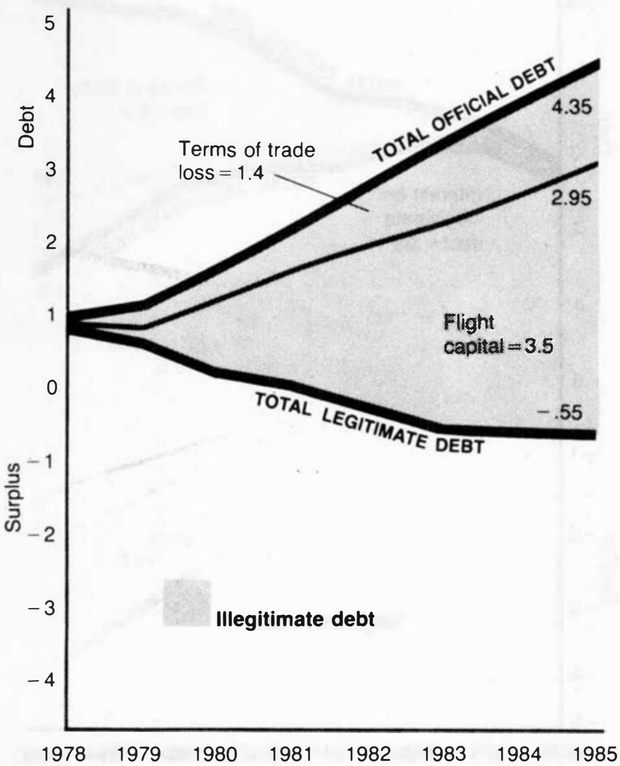
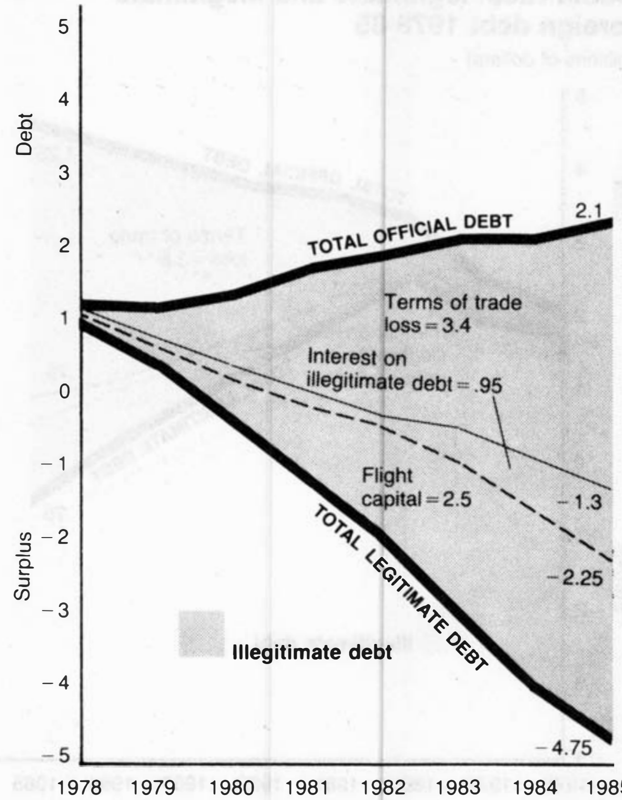


FIGURE 4
El Salvador: legitimate and illegitimate foreign debt 1978-85
(billions of dollars)



negative, which is to say that those countries would not only have had no foreign debt, but would have had net savings, had they not been looted by these four mechanisms.

Take the case of *Honduras* (**Figure 1**). As Schiller Institute representative Carlos Cota explained to a rapt audience of businessmen in that country in October (see article, below), Honduras's entire official foreign debt of $2.45 billion is accounted for by the dramatic decline in that country's terms of trade over the last eight years. Stated otherwise, if over this period Honduras had received stable unit prices for its exports and paid stable unit prices for its imports, it would have saved $2.45 billion—enough to repay the entire foreign debt! An additional $500 million was sucked out of the country in service on the illegitimate debt. And another $1.0 billion in flight capital similarly left the country.

The fourth factor in the Schiller Institute study, usurious interest rates paid over the 6.8% level of 1977, turns out to **have had**

for the other Central American nations as well, and is thus excluded from all the graphs). All in all, had it not been for these factors in generating an illegitimate debt, Honduras today wouldn't have a foreign debt of $2.45 billion, but would have savings in the bank of $1.5 billion.

Stated otherwise, Honduras had $4 billion looted out of its economy between 1978 and 1985 through these mechanisms, out of a total cumulative GNP of $24 billion—that is to say, 17% of what the country produced was simply stolen by the IMF and the international creditor banks.

The situation was not much better in neighboring *Guatemala* (see **Figure 2**). The most populous of the Central American nations, and by far the largest economy, Guatemala's total official debt in 1985 was $2.45 billion. It too suffered a dramatic deterioration in its terms of trade, leading to net loss over the eight-year period under consideration of $3.5 billion. And about $2 billion left the country through capital flight in this period, according to conservative estimates by local bankers and businessmen. These factors, along with compound interest on the illegitimate debt, means that—under an equitable international economic order—Guatemala would today have $3.75 billion saved.

The situation in *Nicaragua* and *El Salvador* is even worse (see **Figures 3** and **4**). Besides suffering a terms of trade

FIGURE 5
Costa Rica: legitimate and illegitimate foreign debt 1978-85
(billions of dollars)

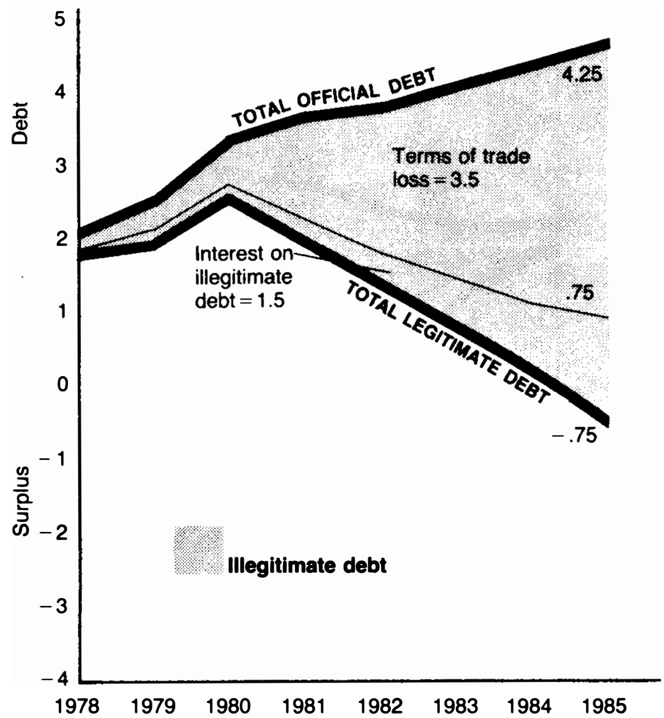
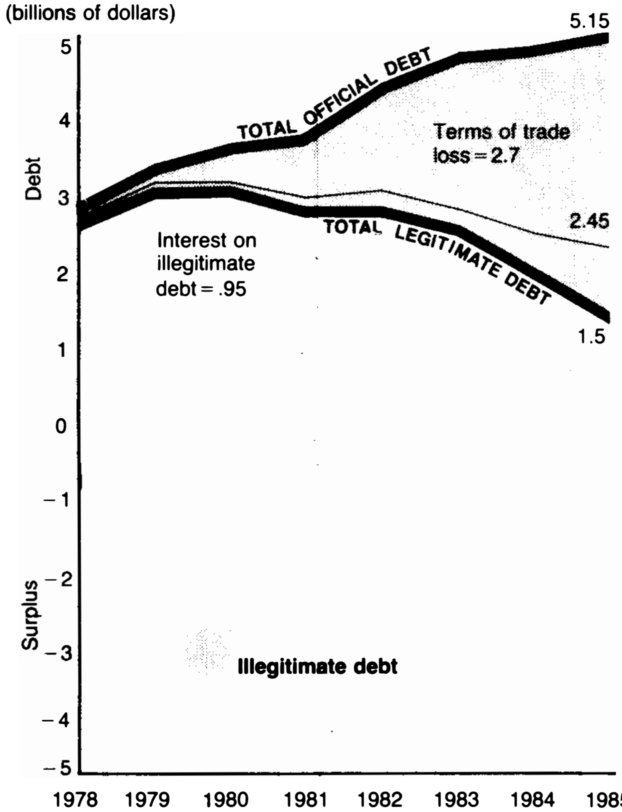


FIGURE 6
Panama: legitimate and illegitimate foreign debt 1978-85
(billions of dollars)



drain like their neighbors, these two countries have had relatively enormous amounts of capital flight, since they are the countries most directly affected by civil war. Thus, Nicaragua's foreign debt has grown by $3.35 billion under the Sandinistas, while a similar amount of capital fled the country during this same period. And in El Salvador a total of $6.8 billion of illegitimate debt was generated—the largest amount of any country in the whole area. This corresponded to a drain of nearly a quarter of each country's GNP over the 1978-85 period.

The picture in *Costa Rica* and *Panama* (see **Figures 5** and **6**) is skewed by the fact that both countries are important centers of international financial activity, much of it reportedly related to the South American drug trade, and they therefore show capital inflows at least equivalent to outflows during the period under review. Thus, in our graphs we have depicted no net flight capital for these two countries. The terms of trade decline, however, hurt them both badly.

If one adds up the figures for the six countries of the Central American isthmus (see **Figure 7**), there was a total official foreign debt in 1985 of $20.75 billion. A total of $16.95 billion was lost due to the terms of trade effect; $4.61 billion was interest on the illegitimate debt; and $9 billion left the impoverished region as flight capital—adding up to a total illegitimate debt of $30.5 billion. Had Central America not been looted in this fashion, to the tune of 13% of its total GNP, it would today have almost $10 billion in deposits, rather than a large and growing foreign debt.

This $30.5 billion is an enormous bite out of the regional GNP, as **Table 1** shows. In fact, fully 13% of total Central American production over this eight-year period was looted out of this already impoverished and war-torn region—almost twice the average for all of Ibero-America.

FIGURE 7
Central America: legitimate and illegitimate foreign debt 1978-85
(billions of dollars)

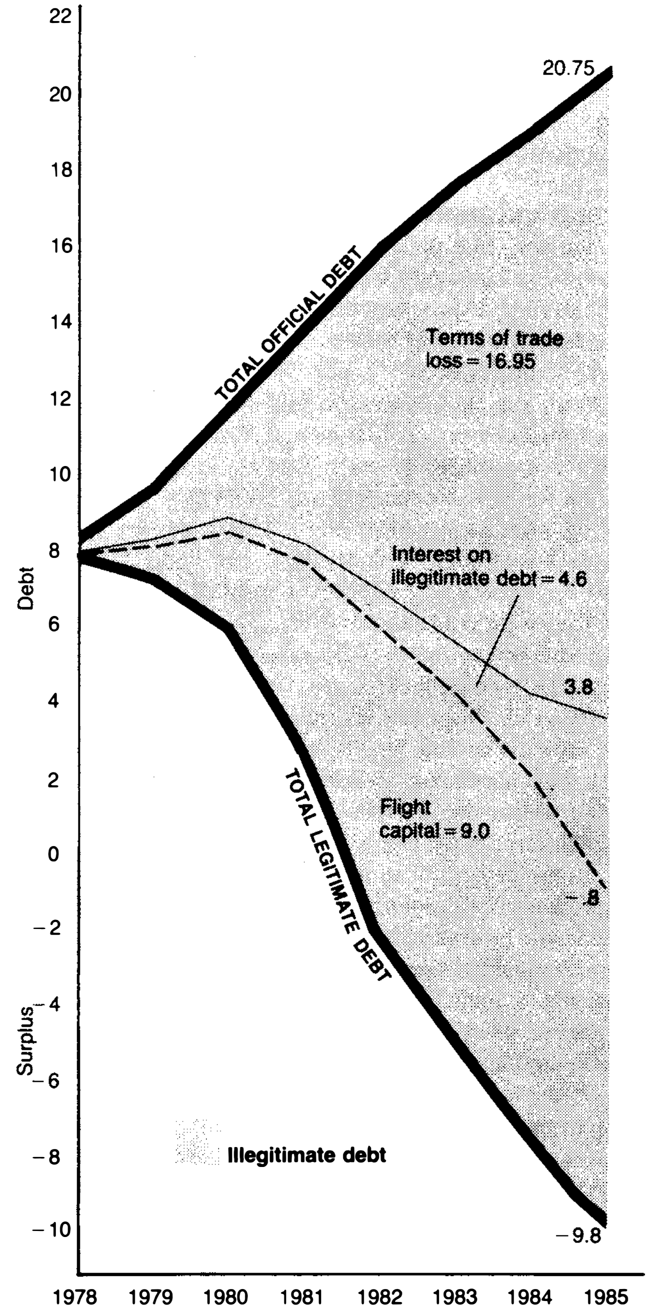


TABLE 1
Illegitimate debt and GNP 1978-1985
(billions of dollars)

Country	Total illegitimate debt	Total GNP	% GNP looted
Costa Rica	5.0	32.8	15%
El Salvador	6.8	32.8	21%
Guatemala	6.2	79.7	8%
Honduras	4.0	24.0	17%
Nicaragua	4.9	22.4	22%
Panama	3.6	35.2	10%
Total Central America	30.5	226.9	13%
Total Ibero-America	349.5	5,238.0	7%