British Debt Cancellation Offer Lures Third World Into IMF Trap

In an apparently sharp reversal from its age-old, hard line on debt payment, Great Britain is now drafting a program that would grant selected debt write-offs of up to £1 billion for some of the poorest Third World nations. The proposal, announced in a front page article and an editorial on Feb. 27 and 28 in the *Financial Times*, is called the "retrospective Harmonisation Program" and would cancel certain government concession loans to eight Commonwealth nations, including India and Pakistan.

British investment bankers are touting the plan as the advanced sector's "humanitarian response" to the developing nations' militant demands for debt relief. Whitehall is organizing international support for its move in preparation for a possible presentation at the March 6 meeting of the Unitd Nations Conference on Trade and Development (UNCTAD).

The British announcements were echoed by strikingly similar proposals in the United States which reveal, however, the actual intent of Britain's program. At hearings of the Senate Foreign Relations Committee Feb. 28, Undersecretary of State Richard Cooper testified that "a developing country might get a debt write-off (on certain categories of government loans — Ed.) as part of a general development package arranged by an international consortium headed by the World Bank. The country would have to agree to taking prescribed economic steps to help itself."

As a possible alternative to complete write-offs, Cooper proposed that these countries might be able to repay loans in local soft currencies, which would then be plowed back into "approved development projects." He added his hope that such efforts to deal with the debt question would revive the moribund "common fund" proposal, in which commodity prices are supported and regulated through specially organized international institutions — and through which supranational institutions like the World Bank are given top-down control of raw materials flows.

Cooper's remarks were applauded by Senator Jacob Javits (R-N.Y.), who added that he would advocate a more generalized program of debt forgiveness to encompass a range of poorer countries rather than a strictly country-by-country approach.

Apart from the sudden magnanimity emanating from such "humanitarians" as Javits, Cooper, Whitehall, and British investment bankers, the fact that the World Bank, IMF, and other British-controlled organizations will dictate "prescribed economic steps" gives away the real gameplan.

Two years ago, the less developed countries (LDCs) were on the verge of declaring worldwide debt moratoria and establishing, with European cooperation, a version of the U.S. Labor Party's International Development Bank proposal as the key to a new monetary system and "new international economic order." Largely through counterinsurgency and terrorist operations run by British intelligence with the connivance of Henry Kissinger and others in this country, the more politically advanced LDCs hesitated and were subsequently fragmented into an every-man-for-himself posture. Today, LDC demands for sweeping, collective debt moratoria have vanished; what is left is the hollow rhetoric of each country impotently demanding "debt relief."

In this context of demoralized militancy, with the LDCs reeling from the collapse of world trade and capital investment, the British and their American agents-of-influence are now taking a more insidious approach. The proposed debt relief amounts to a mere few billion dollars, compared with an overall LDC debt of over $300 billion. In exchange, the British are allowed a foot-in-the-door to total economic supervision.

There can be no doubt about how "humanitarian" this supervision wil! be. Drexel-Burnham's *Washington Forum* has just completed an analysis demonstrating the impact on the LDCs of the expected combination of stagnant growth in world trade, rising dollar interest rates, and far heavier schedule of debt payments due in late-1978 and 1979. Barring the establishment of a new gold-based monetary system and reversal of the collapse, LDC exports — and their ability to garner sufficient foreign exchange for debt repayment — are headed for disaster.

The *Washington Forum* indicates that this will bring intense pressure on LDCs to slash their imports, which have stagnated in real terms over the last two years as a result of similar "pressures" to improve their current account deficits. Any further stagnation — or actual cuts, as World Bank supervisors would undoubtedly demand — would plunge the LDCs into negative growth and engender even more repressive dictatorships.

For Javits and Cooper, "development" is simply Schachtian economics. Javits's recently announced international "development" program of $150-200 billion is nothing more than a revival of the old Humphrey foreign aid scheme, which called for U.S. aid to be based on the British model of overseas development, with heavy investment in labor-intensive raw materials production rather than industrial infrastructure. The fruits of the IMF-World Bank's supervision can be seen most immediately in Turkey, which finally succumbed to their demands by devaluing the lira 30 percent against the dollar and 39 percent against the deutschemark.

The British hope to rope in the necessary support for their plan by capitalizing on the hysteria presently enveloping pro-growth industrialists and financiers. This is epitomized by the *Wall Street Journal*'s reversal of its previously strong opposition to the Witteveen facility, the $10 billion debt bailout fund recently passed by Congress. Panicked by the spectre of economic collapse, the *Journal,* and much of its industrialist base, is simply knee-jerking when it cries for austerity and IMF supervision of LDCs, as in its March 1 editorial entitled "Gutting the IMF."

The *Journal* and others in the U.S. fail to see an even more dangerous aspect to the British move. The coincidence of rising dollar interest rates, increasing international liquidity, and narrowing lending spreads are threatening to drive U.S. bank earnings into the red. Despite the expected heavy LDC demand for loan rollovers, rising dollar interest rates could force a sizeable switch to non-U.S. banks, diversification into non-dollar currencies, and even further narrowing of spreads below breakeven, thus severely damaging the dollar and U.S. banks. If the British plan is implemented, the LDC "supervisors" might demand much less borrowing and even early repayment, with similar consequences. In either case, Britain would increasingly position itself to gather the shards of the world economy.

Wall Street Journal, March 1, "Gutting the IMF":

The House of Representatives, in a passing abuse of concern over human rights, has just voted to put the International Monetary Fund out of business. The fund's offices won't close their doors, of course, and the employees will not only still be paid but will get a raise. But the fund will be out of the only business it has, which is acting as a force for financial discipline on wayward governments.

To understand the IMF's business, imagine the nation of Destitutia, run by an ex-sergeant whose finance minister qualified for the open admissions program at the London School of Economics. Naturally, they want progress in Destitutia, so they start to build a lot of superhighways. And they want to take care of the Destitutian poor, so they put a ceiling on the price of guava root. When the production of guava root dries up, the poor have nothing to eat, so the government starts to import guava root, allocating it by queuing.

The superhighways and the guava root imports are paid for with loans from the First Manhattan National Bank. Pretty soon the interest cost is so high Destitutia can no longer cover it with earnings from the export of water buffalo tails. Manhattabank gets worried and won't extend any more credit. The Destitutian glasbead falls to 11,180 to the dollar from 2,430. Applying what he has learned at the LSE, the finance minister dials 911 for the IMF.

Now the IMF is a kindly institution, which has a lot of money coughed up by kindly developed nation governments, which don't really want to see the Destitutian economy go under, and really really don't want to see Manhattabank go under. Indeed, with Manhattabank's reserves already drained by writing off the Megalopian WANs (Windfall Anticipation Notes), default on the Destitutian loan might wreck the whole world economy.

So the IMF says to the Destitutians, yes, we will loan you more money so you can stabilize the glasbead, continue to import guava root, and by the way, pay Manhattabank just enough so its auditors will let them keep your loan on their books. But as a condition, you must get your accounts in order. You have to spend less abroad, and cut your government deficit. If the Destitutians are unlucky in the IMF experts they draw, which is too often, they will have to raise taxes. If they are lucky, they will have to stop building superhighways and free the price of guava root, in which case Destitutia, Manhattabank and the world economy recover.

Now comes Rep. Thomas R. Harkin, Democrat of Iowa, with an amendment to U.S. approval of the Witteveen Facility, the latest coughing up of money for the IMF. Rep. Harkin's amendment, which the House adopted last week, directs the U.S. representative to the IMF to vote against any loan that would "contribute to" any "violation of basic human rights." This is bad enough, since members of the IMF are reasonably civilized compared to the Cambodians or North Koreans, though some might run afoul of Rep. Harkin over issues like "prolonged detention without charge." Pressure for them to reform is a good thing, but the collapse of Manhattabank might be a stiff price to pay.

Worse, while the topic of human rights was on the table, Rep. Harkin also slipped by a requirement to vote against loans that conribute to "deprivation of basic human needs," to wit, (1) an adequate supply of food with sufficient value to avoid the debilitating effects of malnutrition; (2) shelter and clothing; (3) public services, including health care, education, clean water, energy resources and transportation; (4) productive employment that provides a reasonable and adequate wage...

The IMF is already too soft in bailing out the Destitutias and Manhattabanks of the world; a good case could be made that it would do a better job if it had less money to lend, and we have never been entirely enthusiastic about the Witteveen Facility to begin with. But if the Senate can't remove Mr. Harkin's amendment the bill will destroy whatever effectiveness the IMF can hope for, to the long run sorrow of the world economy in general and its poor in particular.