the role of the international economic community in forcing political change in a country, that would allow that international community to achieve its objectives. Basically that is what it boils down to, that has happened. It *may be* that that is what is happening in Mexico now, that the international institutions and the major shareholders have a hand in it, because they perceive the labor movement has become very strong, that it could be a strong element of resistance to what I call "political conditioning policies" of the multilateral institutions, at this time.

And in fact, there has been talk about the institutions negotiating with Mexico in terms of structured adjustment programs, stand-by programs. And given the elements of resistance internally, the Fund, to be quite frank, was trying to change the balance of power in the Senate, in the Congress, to reduce the power of the opposition in Mexico. So this ties in with what you have just said. Now, I don't think the Fund would do that in a very explicit way, but it's true, it has tremendous leverage in the country.

In the Trinidad case, it was the Industrial Court, it was the Public Utilities Commission. I would not at all be surprised if in some countries, the structure of Parliament, the strength of the opposition—this would certainly make things much easier for the multilateral institutions in Mexico.

EIR: As you know, Peru has announced that it is returning to the IMF, after several years of restricting its debt payments. What are the perspectives for countries such as Peru?

Budhoo: Well, the mere fact of challenge, in the case of Peru, to be quite frank, it does not produce the type of atmosphere as far as the Fund is concerned, to get Peru back in without bringing the country absolutely down to its knees in a very humiliating way. That's the way the Fund operates. Peru will have an extremely difficult time with the Fund now.

EIR: So, Peru is just not going to be welcomed back like the Prodigal Son?

Budhoo: No, no. I could give you another example, of a country like Peru, which had been declared ineligible for use of Fund resources: Guyana.

I've commented on this, in terms of what it does to the pride of the people, very proud people in Guyana, and the experiment that they had in the Seventies and early Eighties has been turned around entirely. And now, they're coming back virtually on their knees before the Fund. And the President is saying, "Anything you want, you can have it, we are in such desperation. Anything you want! You can have it!" The Fund hasn't bothered very much with them—they've been trying now for three years to have a Fund program. They've not succeeded. And not because they won't do what the Fund wants them to do. They just cannot get the resources to make it possible to do it. The Fund insists it cannot put together a financing package that would make it viable for Guyana to come back to Fund.

The case of Trinidad a study in IMF lying

Below are excerpts from Part II of the Open Letter of Resignation from the Staff of the International Monetary Fund by Davison L. Budhoo. EIR*'s editorial omissions are indicated by (. . .); all other ellipses are the author's punctuation.*

This part of my Open Letter deals with the array of statistical irregularities that we did perpetrate in Trinidad and Tobago, in very recent times, and are still practicing today. Obviously, the provision of proof for indictments that I am making calls for extensive reference to, and quotations from documents and reports previously circulated internally, and/or to member countries and other international agencies. Even so, evidence provided here is selective, not comprehensive, and I shall be pleased to expand on the chosen themes to properly constituted investigative authority.

1. The Index of Relative Unit Labor Cost (the RULC) Index and how we used it in Trinidad and Tobago

As you are fully aware, an Index of Relative Unit Labor Cost (RULC) that measures unit labor costs in manufacturing in the developing country concerned in relation to such costs in its major trading partners (industrialized countries) is a Key Economic Indicator that is used extensively in the Fund, subject to the availability of statistics. Once the series becomes available in a developing country, chances are it will feature prominently in our periodic consultation reports to the Executive Board—i.e., the Report on Recent Economic Developments (RED) and the Staff Report. The prominence given to RULC reflects the perception that such an index mirrors international competitiveness of the economy concerned and indicates, therefore, the country's ability to continue to produce for export markets. In an economy such as Trinidad and Tobago, where one sector which had previously accounted for the bulk of export earnings (the oil sector) enters a phase of uncertainty and rapid price decline, the index is particularly important as a general determinant of the potential of the country to diversify successfully its export base and service its foreign debt. At a meeting in mid-June

and Tobago: and trickery

to prepare for the 1987 consultation mission, a Senior Staff member reviewed the recent, dismal performance of the country's RULC as revealed in our 1986 RED and Staff Report and commented that "this statistic is the most important one that we will ever collect in Trinidad and Tobago." In his own way he was right; no one steeped in Fund methodology would doubt these words. Certainly, we did not carry the RULC series in both the text and in the Statistical Appendix of the RED, and in highly visible graphs in both the RED and the Staff Reports of 1985 and 1986, for the mere fun of doing so. We knew fully well that the international financial community would peruse our conclusions on the RULC carefully and religiously, and that international money markets would make a decision to reschedule loans or grant new credit almost exclusively on the basis of what we were saying. In this respect, it must be remembered that the external debt profile of Trinidad and Tobago is relatively new, and that the country has not as yet had time to develop a track record of debt servicing that international banks and other financial institutions could use substantively as a guide for operations there.

Apart from providing a cue to commercial banks and other lenders, the RULC index serves a critical role in the establishment of Fund conditionality for developing countries. In fact, it is the most lethal weapon that we have in our entire bag of tricks—quite definitely, it is the one that we use most often, and most effectively, to cut short the arguments of protesting governments and peoples against the need for currency devaluation and/or other measures to cut the real wage rate, initiate mass layoff of workers in the public sector, and resort to crippling measures of "demand management." Thus, when we find a sagging index in a developing country we know, instantaneously, that the time has come to get another blighter to swallow our deadliest medicine.

And so it was for Trinidad and Tobago over the period 1985-86. In each year we drilled home the point that the RULC was way out of line and that massive devaluation was needed; without such devaluation the country would slither progressively into mounting economic chaos. In 1985, for instance, and within the context of intense Fund pressure for devaluation, our RED (Report No. SM/85/105 of April 15, 1985) states as follows:

"The substantial rise in wages, coupled with a fixed exchange rate and very small gains in productivity in most industries, have resulted in erosion of international competitiveness. Thus, unit labor costs in manufacturing compared with costs in major trading partners, rose by 150% from 1979 to 1984."

In similar vein, the 1986 RED (Report No. SM 86/172 of July 15, 1986) comments as follows:

"Unit labor costs in manufacturing increased by 160% over the period 1981-85 due to the rapid increase in wages at a time when hours worked were declining . . . unit labor costs in manufacturing compared to costs in Trinidad and Tobago's major trading partners, rose by 170% during 1980-85 . . . resulting in a substantial erosion of international competitiveness."

As I said before, in 1985 and 1986 the RULC index for Trinidad and Tobago was highlighted in text tables of the RED and in the Statistical Appendix, and was plotted in graphs in both the RED and in Staff Reports to the Executive Board. These graphs demonstrated starkly an alleged position of a runaway and still rising RULC, and on the basis of such "evidence" we chastised the government severely for not taking appropriate, or sufficient corrective action to put its house in order. Even after a withering round of devluation in late 1985 we continued to call, shrilly and insistently, for more devaluation, and more public sector unemployment and real wage cuts, and more "demand management" policies, and more price deregulation of essential goods used by the poor, and more regression in the tax system, et al.

This explicit and confrontational Fund posture is illustrated in the following excerpt from the Briefing Paper for the 1987 consultation mission, as cleared and approved by you in late June 1987. (You may recall that the Paper became the essential reference point, and the formal basis for our discussions with the government of Trinidad and Tobago, during the course of the mission and subsequently.)

The paper reads as follows:

"Over the . . . period [1982-85], real GDP contracted sharply, and real wages continued to rise under heavy union pressure; unit labor costs in manufacturing relative to Trinidad and Tobago's main trading partners increased at a average rate of 20% [per year]. . . .

"A further devaluation of the Trinidad and Tobago dollar is needed. . . . The mission will propose a significant initial devaluation (e.g., from TT $3.6 to TT $5.0 per U. S. dollar) perhaps to be followed by further small step adjustments. . . .

"The degree to which exchange rate adjustment is successful will depend to a great extent on the incomes and demand management policies pursued by the authorities. The recent fall in export income makes a significant decline in real wages unavoidable. . . . To give full effect to the exchange rate adjustment being sought, the mission will stress the need to have exchange rate changes pass through fully to domestic prices of tradeable goods. This consideration may require a revision of the Government's price control policy which limited the increase in domestic prices of essential imported goods following the reunification of the exchange system in January 1987."

I resort to the above quotations to establish the fact that we placed extraordinary importance on the RULC; our entire case for massive and continuing devaluation, and equally massive and continuing real wage cuts, depended on what we said was happening to that index. And this is not surprising, for there can be very few instances in Fund history where such a drastic increase in domestic labor costs over such a short period as we claimed for Trinidad and Tobago, was not followed by traumatic adjustment of exchange rates and real wages alike. As responsible international financial/economic inspectors, we were well within our right to carry a particularly poignant message to the Trinidad and Tobago authorities, and to warn them, in no uncertain terms, that we and the international community that follows us so blindly and so unexceptionally, would have no option but to turn away from the country and label it "a leprosy case" in the event that they could not see fit to drink our deadliest medicine.

But there is a catch in all this—viz.: The RULC Index for Trinidad and Tobago was never close to what we were proclaiming it to be so loudly and so insistently and so definitively. What we had done over these years was to "manufacture" statistical indices—the RULC and several others—that would allow us to prove our point, and push a particular policy line, irrespective of economic realities and circumstances of the country.

Obviously, more details on just how we managed to misrepresent the RULC are needed—details of sources and statistical material and facts and figures and calculations and recalculations and Fund technical notes and Fund working sheets. And on this matter, I wish to state immediately that while I did participate in the work of all three Fund missions that visited Trinidad and Tobago between 1985-87, I did not become aware of the RULC scandal until last year, when I worked on the national income, prices, and employment sectors of the economy. Not surprisingly, it has not been very easy to decipher any exact methodology underlying the 1985-86 calculations; most of the records for these years appear to have been destroyed prematurely. Even so, I have managed to put together some key elements of the jigsaw puzzle; this gives a fairly clear picture (from the technical standpoint) of what we did in 1985-86. As for 1987, I have kept records of the various facets of our work on the RULC during the mission and subsequently.

On the basis of calculations made by our divisional statistician last year after the Fund mission returned from the field, the Relative Unit Labor Cost in Trinidad and Tobago increased by 69% only, instead of the 145.8% as stated in our 1985 reports, and the 142.9% as claimed in the 1986 Fund documents. Between 1980-85 the RULC actually rose by a mere 66.1% instead of our assertion of 164.7% made in the 1986 reports. Over 1983-85 relative unit labor costs moved up by only 14.9%, not by the 36.9% that was mooted to the world community in 1986. In 1985, instead of rising by the 9% that we had stated in the RED and Staff Report, the RULC Index fell by 1.7%. And in 1986, relative unit labor costs slid downward spectacularly by 46.5% although there is no record of this in the 1987 report or anywhere else in official Fund documentation.

2. Refusing to "own-up" to the Trinidad and Tobago authorities or to the international community after our "mistakes" were exposed

Let me come back now to what happened in 1987 after there was "internal acknowledgment" that "mistakes" were made in 1985-86. And let me say immediately that nothing happened—nothing at all. When, in the course of the mission last July, past misdeeds were pointed out, and a pledge won that we would "come good" once and for all, it was my understanding that we would make full amends during the consultation discussions with the Government, and that the mission's subsequent reports prepared for our Executive Board and for the international community would substitute revised figures for those of 1982-86. But our previous "mistakes" were never mentioned to the authorities. Privately, it was conceded that in light of the corrected RULC figures, the instruction in our Briefing Paper to try to force the government to undertake more massive devaluation now and "step" increases thereafter was really beside the point. However, in statements to the authorities, and in the Aide Memoire presented to them, issues relating to the RULC in 1985, and the latter's performance in 1986 were side-stepped, and we went on glibly to ask for more devaluation, greater public sector layoffs, further major real wage cuts, and the whole gamut of demand management measures, as if the Briefing Paper's evaluation of the RULC was still absolutely valid, and eminently relevant for July 1987.

Back in Washington, the revised RULC Index was prepared for publication in the RED and Staff Report. But it was not to be; all reference to RULC was deleted from all text, and from all tables, and from all charts. The reason for this action was obvious enough: public acknowledgment and publication of the corrected series, and demonstration of the dramatic downturn of the index in 1986, would have devastated the case for further devaluation now, and for the comprehensive and blistering demand management and wage/employment contraction measures that were being pushed down the throat of the Government, and for which we were seeking, ex post, formal endorsement from our Executive Board and, beyond our Board, from the entire international community. So, suddenly, what just a few weeks before had been branded "the most important statistic" that we would encounter in Trinidad and Tobago, became transformed into a nauseating irritant to be dropped as a hot potato, because it could no longer fit into the economic scenario that the Fund, with increasing insistence over several years, had tried to have enacted in the country.

3. Getting your prior authorization for Draconian policies by feeding you false information in mission Briefing Paper

Let me go on to the third indictment against Fund staff in their dealings with Trinidad and Tobago in 1987—i.e., the blatantly unfair portrayal of unmitigated confusion, and of governmental policies gone hopelessly astray, and becoming absolutely irrelevant, as painted in the Mission Briefing Paper dated June 29, 1987. Such a picture of accelerating macro-economic mismanagement and policy paralysis was deemed necessary so as to force you into giving approval to the mission for a mandate that would allow use of our iron fist.

a) Stating the facts

The Briefing Paper from the Western Hemisphere Department that was approved by you in late June makes the following observations:

". . . Notwithstanding a downward revision of the Government's expenditure program, the overall public sector deficit rose to 20% of GDP in 1986 and was financed entirely from domestic resources, including a build-up of unpaid bills by the Government equivalent to 9% of GDP. Because of the sharp drop in oil exports, the external current account shifted from near balance in 1985 to a deficit of US$0.7 billion (13% of GDP) in 1986. . . .

"The newly elected Government that took office in December 1986 has been attempting to design a strategy to deal with Trinidad and Tobago's economic and financial crisis. . . . Notwithstanding [the measures they took] the approved budget for 1987 implies an overall government deficit equivalent to about 20% of GDP. . . .

"To stem the losses of net international reserves by the end of 1987 and to begin to replenish the Central Bank's gross reserve position thereafter, it is estimated that Trinidad and Tobago would need to reduce its current balance of payments deficit to the equivalent of around 6% of GDP in 1987 and 2% in 1988. The achievement of this target would require a decline in the overall fiscal deficit to around 9% of GDP in 1987 and to 3% of GDP next year. . . .

"Consistent with these targets, Trinidad and Tobago is projected to need foreign official inflows (mainly from foreign banks) on the order of US$250 million a year for the next few years. . . . It is not clear, however, that Trinidad and Tobago could secure new borrowing in the scale just mentioned, especially in view of the government's decision not to request a stand-by arrangement from the Fund.

"The mission will encourage the authorities to implement fully the changes in wage policy introduced in the 1987 budget . . . although these revisions have been challenged on legal grounds by the public sector unions. In addition, cutbacks in all categories of government expenditure will need to be made if the large unfinanced gap in prospect for this year is to be eliminated. In this connection, the staff will discuss the means by which the large domestic arrears incurred by the Central administration last year can be paid in an orderly fashion.

"The fiscal program also must deal with the gross inefficiencies of the public enterprise sector which received sizable transfers and subsidies from the Central Administration (which transfers amount to 14% of GDP in the 1987 budget). Broad-based adjustments in public utility charges and enterprise prices, as well as wide-ranging rationalization measures and layoffs are likely to be required. The privatization or closing of certain enterprises also may be warranted."

It is on the basis of the above "facts" that the Briefing Paper went on to seek (and receive) your approval for our 1987 stance towards the country as outlined earlier. But now I must pose the question: Just how true were those "facts"?

We get an inkling of where the truth lies in the Mission's Debrief to you of July 29, 1987. Grudgingly, the following confession is made:

". . . the deterioration in the fiscal accounts was less pronounced than previously estimated on the basis of unconfirmed reports of a large accumulation of unpaid government bills at the end of 1986 amounting to TT$1.1 billion (around 6½% of GDP) over and above the recorded cash deficit of the public sector of around 9% of GDP. . . .

"Contrary to expectations, the mission found evidence that real wages declined last year for the first time since the beginning of the decade, signaling the beginning of an adjustment process and the adverse of the severe contraction in demand and output that has occurred since international oil prices began to decline in 1981-82. . . .

"The Government reduced sharply the payment of transfers and subsidies to the state enterprises sector which had amounted to the equivalent of around 10% of GDP in previous years. . . .

"Government expenditure has been held around 12% below last year and near equilibrium was achieved in central government operations in the first half of the year. . . ."

A further insight into the truth is given in the Aide Memoire of July 21. It states as follows:

"Because of tight controls on government payments, the overall fiscal deficit has been scaled back from an estimated 8.8% of GDP in 1986 . . . to a projected 5.8% in 1987 while the current account balance of payments deficit is projected to fall from 10% of GDP in 1986 to around 3.5% in 1987."

The foregoing excerpts from various documents tell two different stories. They tell, first, that the staff, for purposes already stated, was not being truthful to you in the Briefing Paper of June 29. But they also tell something of the staff's methodology of approach in a captive country. They illustrate the way we wheel and deal and change the justification for, and the premise of our action at every twist and turn.

That methodology of approach defines yet another layer of professional dishonesty and malpractice to be investigated. It is one thing to be untruthful so as to get your permission to use the Fund's heaviest steamroller for a joyride in a Third World country when the Moon is Full; it is quite another to knock down all signposts and shelve all pretensions at road etiquette when the ride gets under way. You know, once we get in the vehicle that you give us (let us call it Steamroller, Heaviest), the moonlight takes over and does something to us; it transforms us into werewolves. And as werewolves we become something much more dangerous than slap-happy brats of Power and Influence riding slip-shod across the country.

b) How we went about fooling you so as to get permission to use Steamroller (Heaviest) in tropical Moonlight: Falsification and cover-up before (Briefing Paper), during (Aide Memoire) and after (Debrief and Staff Report)

The following [see chart] is a summary of statements illustrating the Lies That We Tell and How We Cover Them Up Afterwards:

Except for (1) [in the chart] I have deliberately chosen to highlight figures where the true result was already known by the Fund, or could have been made easily available to us, when the Briefing Paper was written. In the case of the current account of the balance of payments, we had in our possession a detailed balance of payments statement for 1986 as well as summaries of that statement from various documents released by the Central Bank and the Central Statistical Office. And we had full access to the 1987 detailed budget documents well before the Briefing Paper was prepared. Also, we could have ascertained for most series latest updates from the authorities. I repeat and reiterate, therefore, that we chose deliberately to misrepresent the statistical series identified in (2) through (7) so as to get your permission to impose our highly clouded and subjective judgment and punishment on the country.

On Item (1)—the fiscal outturn for 1986—I admit readily that we did not know all the facts at the time of the Briefing Paper. In this respect, the detailed figures on revenue and expenditure needed to be checked and verified by us in the field. However, we did have a fairly good idea of the size of the deficit through the budget documents, and through reports of the Central Bank and the Central Statistical Office; all these showed the deficit, on our format, to be considerably less than 20%. Yet the Briefing Paper chose to ignore all available evidence and make a very definitive statement about the overall deficit being equivalent to 20% of GDP, and the arrears of unpaid bills to 9% of GDP. Given these categorical and unconditional "truths," you must have found the subsequent matter-of-fact statement that information on arrears had been based on "unconfirmed reports" somewhat surprising. And why did the Briefing Paper speak triumphantly of a build-up of arrears equivalent to 9% of GDP when "unconfirmed reports" then, as referred to in the Debrief, had mentioned just 6.5% of GDP? I'm dying to know.

Although the list of items on Table 2 [not included here—ed.] is far from exhaustive, it serves to bring into focus the depth of our deception in "fixing" the Briefing Paper. Translating the GDP figures of Table 2 into money terms, the following Brefing Paper misrepresentations emerge:

- We jacked up the fiscal deficit for 1986 by TT$1.9 billion over its actual level;
- We invented, literally out of the blue, TT$1.5 billion of "unpaid bills," by the Government (built up of domestic

What We Said in the Briefing Paper of June 29, 1987	What We Said to the Government in the Aide-Memoire of July 21, 1987	What we said to you in the Debrief of July 29, 1987
1. "The overall public sector fiscal deficit to 20% of GDP in 1986."	The fiscal deficit of the public sector was only "an estimated 8.8% of GDP in 1986."	The fiscal deficit of the public sector in 1986 was "around 9% of GDP."
2. The fiscal deficit was financed in part by "a build-up of unpaid bills by the government equivalent to 9% of GDP."	No mention.	The statement of Briefing Paper relating to unpaid bills by the Government, was based on "unconfirmed reports." Such "unconfirmed reports" in our hand at the time the Briefing Paper was written indicated that the unpaid bills "amounted to TT$1.1 billion (around 6½% of GDP)." Actually, they were virtually zero.

3. "Notwithstanding [the measures that the Government took] the approved budget for 1987 implies an overall government deficit equivalent to about 20% of GDP."	Table 2 [not shown here—ed.] shows the government deficit arising from the approved budget for 1987 as equivalent to 15.3% of GDP.	"On the basis of . . . measures [that the government took] government expenditure has been held around 12% below last year and near equilibrium was achieved in central government operations in the first half of the year."
4. "Achievement of the balance of payments target [of the Fund] would require a decline in the overall fiscal deficit to 9% of GDP in 1987 and to 3% of GDP next year, which is a level that could be financed largely with external resources without worsening Trinidad and Tobago's external debt position."	"The overall fiscal deficit has been scaled back to a projected 5.8% [of GDP] in 1987."	"Government spending has been reduced well below last year's level. . . . This will result in an overall deficit of around 6% of GDP this year."
5. "Over the . . . time period [1984-85] real wages continued to rise under heavy union pressure, unit labor costs in manufacturing relative to Trinidad and Tobago's main trading partners [i.e., the RULC Index] increased at an annual average rate of 20% during the period 1982-85."	No mention of the RULC Index.	No mention of the RULC Index.
6. "A further contraction in economic activity, combined with the increase in the Government's unpaid bills, resulted in a decline in private sector claims on the financial system of 7% in 1986."	"Private financial savings [in 1986] actually declined by 4%" (Staff Report).	
7. "The external current account deficit moved from near-balance in 1985 to US$0.7 billion (13% of GDP) in 1986."	"The current account balance of payments deficit is projected to fall from 10% of GDP in 1986 to around 3.5% in 1987."	No mention is made of the balance of payments outcome in 1986.
8. Government transfers to the public enterprise sector "amount to 14% of GDP in the 1987 budget."	No mention.	"The Government reduced sharply [in 1987] the payment of transfers and subsidies to the state enterprise sector which had amounted to the equivalent of around 10% of GDP in previous years." The 1987 budget allocations and transfers to State enterprises was equivalent to 8% of GDP" (Table—1987 RED).

arrears that never were);

- We augmented the approved 1987 budget deficit by around TT$850 million over its actual level;
- We overstated the decline in private sector deposits in banks in 1986 by some TT$250 million;
- We showed the deficit on the current account of the balance of payments as being TT$500 million above the actual level;
- We inflated government transfers to the public enterprise sector in 1986 by some TT$1 billion over the actual level.

These are not minor deviations due to technical factors, or sloppy calculations on our part. Nor can we plead ignorance of what was happening, or lack of available information.

4. How the moonlight took over and transformed us into werewolves: Fund financial programming in Trinidad and Tobago in 1987

So far I've been dealing with what we do to get your permission to use our spankingly exciting Steamroller (Heaviest) when the Moon is Full. But as I said before, there is another matter to be looked into, viz.: how the Moonlight transforms us into Werewolves, and how we go about Baying for the Blood of Innocent Victims all along the way. With your permission, I will turn now to this aspect of your staff's activities in Trinidad and Tobago by describing firstly, the joys and pathos of Werewolf's particular brand of financial programming.

You know, construction of a financial program—and it is our self-imposed duty to construct financial programs for all the countries that we visit—has been the excuse that we use to cover up almost every act of shame and ignominy that we commit on missions to the developing world. As you are aware, construction of a program necessarily involves an estimation of the gap between resource availability and resource use, and specification of ways and means to fill that gap. So at some critical stage in formulating the program we must decide on two things: (a) the financial resources presently available to the country, and how these resources may be augmented; and (b) the "outrageous" spending that the government wants to indulge in, and how we could roll back that spending so as to make (a) equal to (b). Sometimes we define the gap as a fiscal imbalance (or deficit), and sometimes we speak of a "balance of payments shortfall" (loss in international reserves). Really, for an open economy such as Trinidad and Tobago, it doesn't matter how we define the gap, because there is a fairly determinate relationship between the fiscal accounts and the balance of payments; adjustment in one implies compensatory adjustment in the other.

In recent times in Trinidad and Tobago we have defined the gap in terms of its fiscal manifestation and that's a big deal, that's a very big deal. Indeed, action on our part in making such a choice represents the totality of objective technocracy that as professional economists we bring to bear on the Trinidad and Tobago economic scene. The follow-up work that we do in specifying a gap, and in proposing adjustment measures to fill it up, can best be forgotten—mercifully so. And as I say that, don't lift your hand in protest. Don't lift it because I'm not saying that the established methodology that should be used in defining a gap—the one that we teach government officials who visit the IMF Institute at headquarters on short, technical courses—is worthless. No, no, if we practice what we preach everything could come out smelling like roses. But we never do that. Certainly, in Trinidad and Tobago, as in many other developing countries, we usually do not use the correct methodology—in fact, we usually use no methodology at all except the analytical requirements to maintain the "integrity" of our brief.

(a) Details of what we did in Tropical Moonlight

The following quotations deal with issues of financial programming in Trinidad and Tobago in 1987, and our definition of a fiscal gap.

From the 1987 Briefing Paper:

"It is estimated that Trinidad and Tobago would need to reduce its current account balance of payments deficit to the equivalent of around 6% of GDP in 1987 and 2% in 1988. . . .

"The achievement of the above defined current account balance of payments deficit target would require a decline in the overall fiscal deficit to around 9% of GDP in 1987 and to 3% of GDP next year . . . which is a level that could be financed largely with external resources without worsening Trinidad and Tobago's external debt position. . . .

"Given the size of the current fiscal imbalance (around 20% of GDP) a broad range of adjustment measures will be required to achieve the proposed public sector target."

From Aide Memoire of July 21, 1987:

". . . It is projected that Trinidad and Tobago will confront large external and domestic gaps on the order of 3% of GDP per annum during the period 1988-92. . . . It is unlikely that refinancing or new borrowing can eliminate all of the financing gap projected over the medium term, if Trinidad and Tobago's external debt position is not to deteriorate from its present level. Therefore further adjustment measures, over and above the policy action contemplated in the government reconstruction program, should be introduced involving changes in external sector, fiscal and monetary policies."

From 1987 Staff Report:

"The mission has prepared a medium-term scenario for the balance of payments and central administration operations on the basis of economic policies now in place [i.e., excluding the impact of intended policies as detailed in (1) of (2) above]. . . . The exercise incorporates targets for the replenishment of the Central Bank's gross international reserves to a level equivalent to 5 months of imports over the next 2-3 years."

Review of the above statements tells us in no uncertain terms that the 9% of GDP total public sector deficit for 1987 that the Briefing Paper was aiming to achieve through use of our Steamroller (Heaviest) was in fact scaled back to under 6% of GDP by the Government through non-devaluation adjustment measures that had been put into place well before the mission arrived. Of course we were shocked and dismayed to discover that the Government could have found it possible to adjust the economy thus without our intervention.

b) Stiffening the targets

What exactly did we do when we found that the Trinidad and Tobago authorities had already achieved the adjustment in the fiscal accounts that we were going to get them to achieve in our own peculiar way?

Well, we stiffened the targets that you had approved in the Briefing Paper, and that we were supposed to ask the authorities to achieve on the basis of the somewhat fictitious figures that we had presented to you.

In stiffening the targets we went to them and said something like this: "Our detailed research tells us now that the 3% of GDP deficit that we had mentioned before for 1988-92 is no longer acceptable; you must reduce it further. And have no fancy idea of reducing it further on your own. No, no, you have to let us dictate to you what to do; you have to leave room for us to use the Steamroller (Heaviest)."

Now before coming to the question of how we would make them to reduce the 3% deficit further, let's look at the authenticity of our initial claim that a 3% deficit would be unsustainable in the years immediately ahead.

We justified the latter claim with the following arguments: (i) such a deficit (of 3%) would entail a deterioration in the foreign debt situation; and (ii) it would not allow achievement of a reserve target of 5 months of imports (6 months in the Staff Report).

(i) Deterioration in foreign debt situation. We never did define to the authorities what we meant by this statement. What really were we after? Was it stabilization in the debt service ratio, or stabilization of annual amortization payments, or stabilization of debt outstanding in relation to GDP? Was it a halt to the worsening of average terms, or a lengthening of average maturities? Why say? Nobody asked us to define anything; we had no explanation to give to anyone. What was evident, however, was that on the basis of outstanding debt and debt structure at the end of 1986, there remains considerable scope over the next three to four years, and taking into account the possibility of rescheduling, for net inflows equal to, and indeed exceeding 3% of GDP without deterioration in any of the debt indices identified above.

(ii) Accumulating international reserves equivalent to five months of imports (Aide Memoire of July 21, 1987) or six months of imports (Staff Report of Sept. 25, 1987). I want to ask a question. It is this: What developing country on earth going through the economic trauma of Trinidad and Tobago, and starting from a stock of almost zero reserves, would want to subject its people to more and more unemployment and hardship and deprivation for the sake of holding surplus and redundant funds on deposit in U.S. and European banks and in doing its bit (in Fund parlance) to finance the U.S. deficit? What other country on earth, placed in Trinidad and Tobago's hapless and worsening economic plight, would choose to sow dragon's teeth of social unrest and civil disturbances and political chaos so as to be able to accumulate U. S. and European and Japanese Government bonds, not in pursuit of a policy of efficient management of a needed reserve portfolio, but merely to satisfy your staff's pique? What other impoverished country that had just seen a 20% cut in real wages would invite another 20% cut for the pleasure of helping to restore what you may choose to call "global balance" or "international financial orderliness" in a grossly inequitable and highly biased and disorderly world economic system? I will not address these broader issues now, but I want to point out that your staff's delimitation of a gross and net reserve target (gross and net reserves are virtually the same in Trinidad and Tobago since there are no significant reserve liabilities) at a time when the country is living from hand to mouth, and finding greatest difficulty to make ends meet on a day-to-day basis, savour of being a sick joke.

Let's make some comparisons with other CARICOM countries. In Jamaica where we have pumped over US$500 million of our own money during the last eight years, net reserves are still highly negative, and in Barbados—which partly through our endeavors, continues to have reasonable recourse to international money market—liquid net reserves is about US$60 million (or 1.5 months of imports)—somewhat less than what that country borrowed from international commercial banks last year.

Or perhaps it is fairer to make a comparison with other oil exporting countries? Let's look at Nigeria (which had a stand-by program with the Fund and which is far richer in oil than Trinidad and Tobago). Net reserves there remain about two months of imports. In another oil exporting country, Ecuador, where we have a high visibility stand-by, net reserves in relation to imports are even less than in Nigeria. For all developing countries as a whole—excluding the Middle Eastern countries, Venezuela, and Mexico, China, India, and Indonesia and a few other traditionally large reserve holders such as South Korea and Taiwan—net reserves in 1986 represented little more than about one month of imports. But for Trinidad and Tobago in its present economic predicament we are asking for six.

5. Dismissing the government's own program: It conflicts with a more irresistible cause

The less-than-three-percent fiscal deficit requested in the Aide Memoire (we are now squeezing more blood from them than you authorized us to squeeze in the Briefing Paper) became weighted down with a new caveat, viz.: It must exclude any deficit reduction that the Government itself may achieve over 1988-90 through measures initiated on its own. In other words, "further adjustment measures over and above the policy action contemplated in the government's reconstruction program" must necessarily be put into place (i.e., Steamroller Heaviest must be activated); nothing the government can conceivably do can stop that.

Let's look at the "policy of action contemplated" that under no set of circumstances could save the country from the fate of Steamroller Heaviest. In this respect, the Aide Memoire stated as follows:

"The mission understands that the new government is committed to a medium-term program of adjustment and recovery in response to the economic crisis facing the country. Although many details of this program are yet to be defined, it appears that the government's medium-term economic strategy involves the following key elements:

"1. A reduction and rationalization of public sector operations in the economy through a reduction in levels of employment and wages, the redeployment of some existing personnel, and a reorganization of the state enterprise sector involving recapitalization, divestment, and possibly liquidation; and

"2. The promotion and reactivation of petroleum production, agriculture and tourism through an increase in private, public, and foreign investment and fiscal incentives involving changes in the petroleum tax regime and reforms in the domestic tax structure and its administration."

Well, wouldn't this policy package, even if implemented somewhat sporadically over the next three years, serve to reduce the deficit, perhaps even significantly? After all, they define a set of fairly comprehensive fiscal measures (when you add to them the work being done on tax reform as part of the Government's "intended program"). Necessarily, any analysis with pretensions to objectivity would have started by quantifying with the authorities the likely fiscal impact of the Government's own program over the relevant programming period, in relation to "gap" targets on which some sort of basic concensus regarding magnitudes had been arrived at between the authorities and the Fund.

But we never even dreamt of following this procedure in Trinidad and Tobago. To do so would have been tantamount to putting the final nail in our coffin, in so far as Steamroller (Heaviest) was concerned. For if on top of the RULC's highly improved performance, we were to discover that the authorities had the beginnings of a viable program to keep the fiscal deficit in line with available financing, we would have had to return to Washington with our tails between our legs. Such a course was absolutely unthinkable; the Fund never works that way. So we steadfastly ignored the authorities' protestations that they had started on a track of major adjustment and reconstruction and that, in their view, there was a realistic alternative to our Deadly Medicine.

Of course we knew how to tell them to keep their program to themselves in a nice and polite way; in the Aide Memoire we insisted that "The Fund mission generally supports the thrust of the Government's economic strategy and policy initiatives . . . but believes that those policies do not go far enough in addressing the country's economic problems and in laying the basis for sound economic recovery."

And having thus made room for himself, Werewolf jumps on his Steamroller (Heaviest) and starts running amok. Most of the policy sections of the Aide Memoire and the Staff Report outline details of the Fund's Deadly Medicine as the only way out for Trinidad and Tobago, inclusive of massive devaluation, total freeing of the trade and payments system, escalating interest rates and domestic prices, rapidly falling real income of the poorest of the poor, massive job retrenchment in the public service.

In Part IV of this Letter the generic "whole works" scenario of the Fund, and the interlocking elements of Steamroller (Heaviest) that we were setting up for Trinidad and Tobago are reviewed at some length. Here it is enough to reiterate that we made it very clear to the authorities that nothing else but Our Deadly medicine would do, irrespective of the rationality and relevance of any and all alternatives that would dar e to take into account social factors (including the need to distribute the burden of adjustment in some equitable fashion among differing sectors of the population), and political susceptibilities. If there is anything that we can learn about ourselves from our activities in Trinidad and Tobago, it is that we will never tolerate even the slightest deviation from our purpose.

6. Statistical monkey-business once again: Real Effective Exchange Rate and the Terms of Trade

I must quote now from the 1987 Staff Report to show exactly how we managed to "sew up" the case for devaluation by asking Trinidad and Tobago once more to stand absolutely still for our convenience as we did sleight of hand on other statistical series—this time, the Indices of Real Effective Exchange Rate and the Terms of Trade.

I quote as follows:

"While recognizing that a significant real depreciation of the currency had occurred since late 1985, the staff noted that the external value of the Trinidad and Tobago dollar was still around 10% higher in real effective terms than in 1980, while the external Terms of Trade had declined by about 50% since that time."

I have a question. It is this: Why choose 1980 as the base year from which to chart the most recent movements in the effective exchange rate and the terms of trade? What is the rationale for this procedure?

Well, we can get a fairly definitive answer by looking at the chart on page 22A. That chart shows that from the last quarter of 1981 through November 1985 the effective exchange rate rose precipitously by 45%. However, the devaluation of December 1985 sent it tumbling down by over 30%. And reflecting the fact of continuing depreciation of the U.S.

dollar, to which it is pegged, the TT dollar continued to depreciate further, with the real effective exchange rate falling by an additional 8.6% between January 1986 and July 1987.

With this little bit of history in mind let's return to the question: Why choose 1980 as the base year to chart rises or falls in the effective exchange rate?

The answer is simple—we had to; we just had to. We had to because any base period after 1980 would have shown a decline in the real effective exchange rate of the TT dollar as of today, or as of mid-1987, or whatever. And of course we could never afford to show a decline in the Index; that was absolute anathema.

It was anathema because to do so would have demolished entirely whatever remaining case we thought we had for more government-induced devaluation. In the circumstances, come hell or high water, we had to "prove" that the effective exchange rate had risen—from the last century, if need be. Luckily, 1980 intervened and saved our skin.

Really, in a comparison of this nature, probably the most relevant base period would be the year when oil prices began the secular fall that was to culminate in the dramatic denouement of 1986. That beginning year, of course, was 1982. Alternatively, a case can be made out for using the year immediately preceding the start of the oil bust (i.e., 1981) on the reasoning that this was the last full year of undiminished prosperity, with all systems still on "go" and with both real expenditure and real GDP still rising. Use of 1981 as the base year would show that the TT dollar's real effective exchange rate as of June 1987 had declined by 5%. If 1982 is used instead, the decline escalates to over 16%. Hardly a case for further, government-induced devaluation on the basis of a secular appreciation of the real effective exchange rate!

The same reasoning is applicable for the terms of trade, which can be defined as just a fancy way of saying what everybody knows—i.e., that the price of oil, which accounts for 80% of the country's merchandise exports, fell progressively after 1981, while the price of imports rose somewhat, or remained relatively stable. During 1982-85 (before devaluation occurred) the terms of trade went down by less than 10%, but in 1986 it fell by around 40%, reflecting a drop in the unit price of oil of a similar magnitude. Over the last two years or so, the terms of trade have improved modestly from the trough of 1986.

Large and somewhat discordant movements in the terms of trade, as experienced by Trinidad and Tobago in recent years, cannot constitute a case for further devaluation. On the other hand, they signal a special need for international financial assistance, and we do have within the Fund—theoretically at any rate—a somewhat non-conditional facility (the Compensatory Financing Facility) to help countries in such a predicament. Will we allow Trinidad and Tobago to draw on this facility? We have continued to say no. We have continued to say, "devalue first, and enter into a commitment to have a stand-by with us. Let Werewolf draw blood before anything good internationally can begin to happen to you." But I have a feeling that the Fund may want now to review its stance on this matter, in spite of the instructions in the Draft Brief for the June 1988 mission.

7. Implications for Trinidad and Tobago of our statistical trickery during 1985-88

It behooves me at this stage to summarize briefly the implications for Trinidad and Tobago of our multi-dimensional statistical trickery as described so far in this Part of the Letter. And in this respect, let me say at once that what we did, had a direct and absolutely critical bearing on the country's capacity to cope effectively with the myriad economic problems that surfaced after 1982 (precipitated by secularly declining oil prices) and that turned into an avalanche of all-inclusive woes (after the dramatic oil price collapse in 1986).

Even in vastly reduced economic circumstances and with international reserves dwindling, the country opted to remain a Fund creditor under our Designation Plan until towards the end of 1986. Such a tactic was heroic or foolish, or both. At any rate, with its "graduation" from World Bank loans, and with virtually no bilateral aid programs from donor countries, the only scope for easing the burden of domestic adjustment through use of foreign savings lay in a phased program of prudent recourse to international capital markets. The scope for such recourse was considerable, given Trinidad and Tobago's relatively low debt service ratio and quite modest stock of outstanding external debt relative to GDP.

During 1984 and early 1985—there was no Fund mission to Port of Spain in 1984 and therefore we could not, over that period, articulate credibly to others our policy stance for the country—the authorities did in fact manage to achieve their foreign borrowing targets; this served to give a much needed breathing space for effecting a range of fiscal and demand management policies consistent with norms of social justice and economic equity, including some measures to protect the poor and the underprivileged sectors of society.

Alas, our subsequent decision to start anew a virulent campaign of misinformation and statistical misrepresentation, so as to force the government into submission, resulted—as we fully well knew it would—in the sudden and dramatic freezing up of virtually all foreign funding. In turn, this has served to create a situation where the country finds it difficult to restore a semblance of financial balance, much less set its sights on the resumption of economic growth. In punishing Trinidad and Tobago for not biting the bullet, we have equally forced it to operate within a set of economic and financial parameters that not only rule out an international cooperative effort on its behalf, but subverts the logic of the marketplace by constraining severely the operations of international money markets in the country. In actual practice, the choice that we have given the government is either to accept our Deadliest Medicine or to go it alone as an international outcast. Either way, the consequences are accelerating economic chaos and ultimate social disintegration. (. . .)