Egypt vs IMF: Time to Default?

By Eric Walberg
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The financial flip-flop of Egypt's revolutionary government, first requesting and then declining a $3 billion dollar IMF loan, highlights Egypt's hard choices at this point in the revolution, but is a good sign.

It is no secret that Egypt has put all its faith in the US and Western international institutions since the days of Egyptian president Anwar Sadat, contracting a huge foreign debt, a process that was increasingly corrupt, despite being careful watched over by those very agencies. This debt is financed by foreign banks, and must be repaid in dollars — with interest. If much of the money they create and then "lend" is siphoned off into Swiss bank accounts, that is Egypt's problem. No one is trying to charge the people who gave Mubarak or his henchmen their money and then let them re-deposit it with them, but it takes two to tango.

Whether or not a fraction of it actually helps the Ahmeds in the meantime, it is the Egyptian people who are held responsible for it all and must comply with IMF "adjustment programmes", involving privatisation, deregulation, regressive taxation, an end to subsidies to the poor, and much more unpleasant "tough love".

Egypt's revolution momentarily shattered the complacency of this devilish scenario. The explosion under the weight of the grinding poverty the system produced caught the Western bankers and political leaders by surprise and they hurried to embrace the revolution and co-opt it when they realised it was inevitable. This culminated in the IMF's offer of the loan to cover the yawning gap in Egypt's first post-revolution budget, which will double the lowest salaries, improve social services and introduce a progressive income tax.

This unusual gesture of generosity by the IMF (a low interest rate and supposedly no strings attached) was really intended to keep Egypt from straying from the orthodox monetary fold, as other countries have done in the past in similar situations. It was enthusiastically supported by Egypt's elite, largely trained at US universities in the arcana of monetary theory. "Otherwise, Egypt was about to be considered in default," Hani Genena, senior economist at Pharos Holding for Investments told Al-Ahram Weekly. This is precisely what countries such as Russia, Argentina and Ecuador have done in the past.

The Higher Council of the Armed Forces, Egypt's de facto ruler, was not impressed with assurances that the loans were "without conditions", and General Sameh Sadeq told the government to cancel the loan, with its "five conditions that totally went against the principles of national sovereignty" which would "burden future generations". Finance Minister Samir Radwan complied and hastily negotiated funds from Qatar and Saudi Arabia (countries with their own agendas for Egypt's revolution) to plug the remaining hole. The spurned lover, the IMF, and its sidekick the World Bank, were not pleased. The latter said it would have to "review" its financial plans for Egypt.

As news of the loan tiff was breaking, US Senators John McCain, Joe Lieberman and John Kerry visited Cairo to offer their gift to the revolution: a bill in Congress to create "economic assistance funds" for Egypt and Tunisia. Recall McCain's presidential campaign slogan to "Bomb, bomb, bomb Iran!", and his and Lieberman's militant support of Israel. If anything, their visit merely confirmed to Egypt's military leaders the need to keep the IMF and its henchmen at bay.

Another visitor to Cairo last week was Mahatir Mohamed, who turned Malaysia into an economic powerhouse after extricating it from its colonial past. When his "tiger" economy was subverted by speculators in 1997, he stopped the run on the Malaysian currency and stabilised the economy without going to the IMF cap in hand, and Malaysia survived the crisis much better than the other "Asian tigers" who bowed to IMF pressure. "Malaysians refused the IMF and World Bank's assistance because we wanted our economic decisions to be independent," he told reports in Cairo this week proudly — music to Field Marshall Mohamed Tantawi's ears.

In fact, many observers are convinced the army's decision was in response to the same popular anger and national pride that allowed Mahatir to successfully defy the bankers in his day. "I felt a surge of pride when I heard the loan was rejected," University of Cairo employee Mohamed Shaban told the Weekly. Egyptians intuitively understand Mayer Rothschild's principle: "Give me control of a nation's currency and I care not who makes her laws." Egypt's military leaders understand this too.

The process of petitioning the grudging financial centres of Zurich and London to recover at best a tiny fraction of the stolen billions that were stashed abroad and thus are responsible for an outsize part of Egypt's foreign debt will take decades and yield precious little besides huge legal costs, as the experience of the Philippines and Indonesia shows.

Egypt indeed could consider defaulting on what is called in financial jargon an "odious debt", referring to the national debt incurred by a regime for purposes that do not serve the best interests of the nation. The US did this to tear up Iraq's debt in 2003. Ecuador did it in 2009. The latter (unlike the US in Iraq) even in compliance with international law. Greek citizens have already formed an Audit Committee to establish which parts of the national debt are "odious" or otherwise illegitimate.

But such a radical step would bring the collective wrath of the powerful world financial elite down on Egypt and is not an easy option. There is no longer a Soviet Union to turn to, as there was in the time of Nasser, when he dared defy the empire.

But neither is there any need to leave Egypt's budgetary financing up to an elite of world bankers. Once a government realises that money is just a convention, something that it can use responsibly to grease the wheels of the economy, to generate employment and incomes, using the nation's wealth for the people, it can responsibly create what money it needs, keeping a careful eye on what will increase production and wealth without putting too much pressure on prices. Taxation returns this money that the government in effect "loaned" to itself interest-free.

Michael Hudson, president of the Institute for the Study of Long Term Economic Trends and adviser to the Russian, Japanese and Icelandic governments, told the Weekly Egypt has a "much broader choice" than Western governments in pursuing an independent financial and economic reform, as it still has nationally-owned commercial banks. It could set up a Recovery Fund for the Revolution without any need to borrow from anyone, using Egypt's millions of unemployed — a force that can move mountains — as collateral, to create jobs which will automatically repay the money the government creates in new income and more tax revenue.

The plan to bring Toshka back to life by redistributing land to peasants and providing them with start-up capital is a perfect example of what must be done. There is no reason to "borrow" this money, especially from other countries, and worse yet to pay them interest. After all, investment in the country's future is a risk that should be equally share by both the giver and taker of loans, in compliance with sharia law.

Hudson's associates at the Center for Full Employment and Price Stability, the Levy Economics Institute, and the Center for Full Employment and Equity are now preparing a report for the Asian Development Bank on alternative monetary and fiscal policies to promote full employment and price stability without relying on IMF/WB funding.

Eric Walberg writes for Al-Ahram Weekly http://weekly.ahram.org.eg/ You can reach him athttp://ericwalberg.com/ His Postmodern Imperialism: Geopolitics and the Great Games is available athttp://claritypress.com/Walberg.html

Articles by: Eric Walberg

About the author:

Canadian Eric Walberg is known worldwide as a journalist specializing in the Middle East, Central Asia and Russia. A graduate of University of Toronto and Cambridge in economics, he has been writing on East-West relations since the 1980s. He has lived in both the Soviet Union and Russia, and then Uzbekistan, as a UN adviser, writer, translator and lecturer. Presently a writer for the foremost Cairo newspaper, Al Ahram, he is also a regular contributor to Counterpunch, Dissident Voice, Global Research, Al-Jazeerah and Turkish Weekly, and is a commentator on Voice of the Cape radio. Eric Walberg was a moderator and speaker at the Leaders for Change Summit in Istanbul in 2011.