Pillaging the World. The History and Politics of the IMF

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No other financial organization has affected the lives of the majority of the world's population more profoundly over the past fifty years than the International Monetary Fund (IMF). Since its inception after World War II, it has expanded its sphere of influence to the remotest corners of the earth. Its membership currently includes 188 countries on five continents.

For decades, the IMF has been active mainly in Africa, Asia and South America. There is hardly a country on these continents where its policies have not been carried out in close cooperation with the respective national governments. When the global financial crisis broke out in 2007, the IMF turned its attention to northern Europe. Since the onset of the Euro crisis in 2009, its primary focus has shifted to southern Europe.

Officially, the IMF's main task consists in stabilizing the global financial system and helping out troubled countries in times of crisis. In reality, its operations are more reminiscent of warring armies. Wherever it intervenes, it undermines the sovereignty of states by forcing them to implement measures that are rejected by the majority of the population, thus leaving behind a broad trail of economic and social devastation.

In pursuing its objectives, the IMF never resorts to the use of weapons or soldiers. It simply applies the mechanisms of capitalism, specifically those of credit. Its strategy is as simple as it is effective: When a country runs into financial difficulties, the IMF steps in and provides support in the form of loans. In return, it demands the enforcement of measures that serve to ensure the country's solvency in order to enable it to repay these loans.

Because of its global status as "lender of last resort" governments usually have no choice but to accept the IMF's offer and submit to its terms – thus getting caught in a web of debt, which they, as a result of interest, compound interest and principal, get deeper and deeper entangled in. The resulting strain on the state budget and the domestic economy inevitably leads to a deterioration of their financial situation, which the IMF in turn uses as a pretext for demanding ever new concessions in the form of "austerity programs".

The consequences are disastrous for the ordinary people of the countries affected (which are mostly low-income) because their governments all follow the same pattern, passing the effects of austerity on to wage earners and the poor.

In this manner, IMF programs have cost millions of people their jobs, denied them access to adequate health care, functioning educational systems and decent housing. They have rendered their food unaffordable, increased homelessness, robbed old people of the fruits of life-long work, favored the spread of diseases, reduced life expectancy and increased infant mortality.

At the other end of the social scale, however, the policies of the IMF have helped a tiny layer of ultra-rich increase their vast fortunes even in times of crisis. Its measures have contributed decisively to the fact that global inequality has assumed historically unprecedented levels. The income difference between a sun king and a beggar at the end of the Middle Ages pales compared to the difference between a hedge fund manager and a social welfare recipient of today.

Although these facts are universally known and hundreds of thousands have protested the effects of its measures in past decades, often risking their lives, the IMF tenaciously clings on to its strategy. Despite all criticism and despite the strikingly detrimental consequences of its actions, it still enjoys the unconditional support of the governments of all leading industrial nations.

Why? How can it be that an organization that causes such immense human suffering around the globe continues to act with impunity and with the backing of the most powerful forces of our time? In whose interest does the IMF work? Who benefits from its actions?

It is the purpose of this book to answer these questions.

The Bretton Woods Conference:

Starting out with Blackmail

While the Second World War was still raging in Europe, in July 1944, the United States invited delegations from 44 countries to the small ski resort of Bretton Woods, New Hampshire. The official aim of the conference, held for three weeks in the luxurious “Mount Washington” hotel, was to define the basic features of an economic order for the post-war period and to provide the cornerstones of a system that would stabilize the world economy and prevent a return to the situation that had existed between the two world wars. The 1930s in particular were distinguished by high inflation, trade barriers, strongly fluctuating exchange rates, gold shortages and a decline in economic activity by more than 60 %. Furthermore, social tensions had constantly threatened to break down the established order.

The conference had been preceded by several years of secret negotiations between the White House and Downing Street which had already been working on plans for a new world monetary order since 1940. A recorded comment from the head of the British delegation, the economist Lord Keynes, sheds light on the former elite’s attitude towards the interests and concerns of smaller countries: “Twenty-one countries have been invited which clearly have nothing to contribute and will merely encumber the ground… The most monstrous monkey-house assembled for years.”

It did not take long before their contemptuous attitude rebounded on Lord Keynes and his compatriots. During the course of the conference, it became increasingly clear how much the global balance of power had shifted to the disadvantage of Great Britain. Excessive war spending had turned the country, already severely weakened by the First World War, into the world's biggest debtor and pushed it to the brink of insolvency. Great Britain's economy was on its knees and the rise of the liberation movements around the world already heralded the final breakup of its once global colonial empire.

The undisputed victor of the Second World War, however, was the United States. Having become the largest international creditor, it held nearly two-thirds of the world's gold reserves and commanded half of all global industrial production. In contrast to most European countries its infrastructure was intact and while its delegation engaged in negotiations at Bretton Woods, the US army's general staff planned a nuclear assault on the Japanese cities of Hiroshima and Nagasaki in order to emphasize America's claim to global dominion.

As a result of this new balance of power, Lord Keynes' plan for a new economic order was flatly rejected. Representing a country with substantial balance of payments problems, he had proposed an "international payments union" that would have given countries suffering from a negative balance of payments easier access to loans and introduced an international accounting unit called "Bancor" which would have served as a reserve currency.

The US, however, was unwilling to take on the role of a major creditor that Keynes' plan had foreseen for it. The leader of their delegation, economist Harry Dexter White, in turn presented his own plan that was finally adopted by the conference. This "White Plan" conceptualized a world currency system never before seen in the history of money. The US dollar was to constitute its sole center and was to be pegged to all other currencies at a fixed exchange rate while its exchange relation to gold was to be set at $ 35 per ounce of fine gold. The plan was supplemented by US demands for the establishment of several international organizations designed to monitor the new system and stabilize it by granting loans to countries facing balance of payments problems.

After all, Washington, due to its size and rapid economic growth, had to move ahead in order to obtain access to raw materials and create global sales opportunities for its overproduction. This required replacing the hitherto most widely used currency, the British pound, by the dollar. Also, time seemed ripe for replacing the City of London by Wall Street, thus establishing the US in its new position as the focal point of international trade and global finance.

The gold-dollar peg and the establishment of fixed exchange rates partially reintroduced the gold standard, which had existed between 1870 and the outbreak of World War I – albeit under very different circumstances. By fixing all exchange rates to the US dollar, Washington deprived all other participating countries of the right to control their own monetary policy for the protection of their domestic industries – a first step towards curtailing the sovereignty of the rest of the world by the now dominant United States.

The distribution of voting rights suggested by the US for the proposed organizations was also far from democratic. Member countries were not to be treated equally or assigned voting rights according to the size of their population, but rather corresponding to the contributions they paid – which meant that Washington, by means of its financial superiority, secured itself absolute control over all decisions. The fact that South Africa's racist apartheid dictatorship was invited to become a founding member of the IMF sheds a revealing light on the role that humanitarian considerations played in the process.

The US government sensed that it would not be easy to win over public opinion for a project so obviously in contradiction with the spirit of the US constitution and many Americans' understanding of democracy. The true goals of the IMF were therefore obfuscated with great effort and glossed over by empty rhetoric about "free trade" and the "abolition of protectionism". The New York Herald-Tribune spoke of the "most high-powered propaganda campaign in the history of the country."

The IMF's first task was to scrutinize all member states in order to determine their respective contribution rates. After all, the Fund was to exert a long-term "monitoring" function for the system's protection. The US thus claimed for itself the right to be permanently informed about the financial and economic conditions of all countries involved.

When half a year after the conference the British insisted on an improvement in their favor to the contracts, they were unambiguously made aware of who was in charge of the IMF. Without further ado Washington tied a loan of $ 3.75 billion, urgently needed by the U.K. to repay its war debts, to the condition that Great Britain submit to the terms of the agreement without any ifs, ands, or buts. Less than two weeks later Downing Street gave in to Washington's blackmail and consented.

On December 27, 1945, 29 governments signed the final agreement. In January 1946, representatives of 34 nations came together for an introductory meeting of the Board of Governors of the IMF and the World Bank in Savannah, Georgia. On this occasion, Lord Keynes and his compatriots were once again left empty-handed: Contrary to their proposal to establish the headquarters of the IMF, which had in the meantime been declared a specialized agency of the United Nations, in New York City, the US government insisted on its right to determine the location solely by itself. On March 1, 1947, the IMF finally took up its operations in downtown Washington.

The rules for membership in the IMF were simple: Applicant countries had to open their books and were rigorously screened and assessed. After that they had to deposit a certain amount of gold and pay their financial contribution to the organization according to their economic power. In return, they were assured that in the case of balance of payments problems they were entitled to a credit up to the extent of their contribution – in exchange for interest rates determined by the IMF and the contractually secured obligation of settling their debts to the IMF before all others.

The IMF finally received a starting capital of $ 8.8 billion from shares of its member states who paid 25 % of their contributions in gold and 75 % in their own currency. The United States secured itself the highest rate by depositing $ 2.9 billion. The amount was twice as high as Great Britain's and guaranteed the United States not only double voting rights, but also a blocking minority and veto rights.

The IMF was run by a Board of Governors, to whom twelve executive directors were subordinated. Seven were elected by the members of the IMF, the other five were appointed by the largest countries, led by the US. The offices of the IMF as well as those of its sister organization, the World Bank, were set up on Pennsylvania Avenue in Washington within walking distance from the White House.

The original statutes of the IMF state that the organization's objectives were, among others,

- To promote international cooperation in the field of monetary policy,

- To facilitate the expansion and balanced growth of international trade,
- To promote exchange rate stability and assist in the establishment of a multilateral system of payments,
- To provide member countries facing balance of payments difficulties with temporary access to the Fund's general resources and under adequate safeguards,
- To shorten the duration and lessen the degree of disequilibrium in the international balances of payments of member countries.

These official terms make it seem as if the IMF is an impartial institution, placed above nations and independent of political influences, its main objective consisting in running the global economy in as orderly a manner as possible, swiftly correcting malfunctions. This is no coincidence. This impression was intended by the authors and has in fact achieved its desired effect: It is exactly this notion that has been conveyed to the global public for more than six decades by politicians, scientists and the international media.

In actual fact, the IMF has, from the very beginning, been an institution launched by, controlled by, and tailored to the interests of the United States, designed to secure the new military superpower economic world domination. To conceal these intentions even more effectively, the founding fathers of the IMF in 1947 started a tradition which the organization has held to this day – appointing a non-American to the post of managing director.

The first foreigner, selected in 1946, was Camille Gutt from Belgium. As finance minister of his country during World War II, the trained economist had helped the British cover their war expenses by lending them Belgian gold. He had aided the war effort by supplying his government's allies with cobalt and copper from the Belgian colony of Congo and supporting the US government with secret deliveries of Congolese uranium for its nuclear program. In 1944 he had carried out a drastic currency reform (later known as the "Gutt operation") that had cost the working population of Belgium large amounts of their savings.

Gutt headed the IMF from 1946 to 1951. During his time in office he largely focused on the implementation and monitoring of fixed exchange rates, thus ushering in a new era of hitherto unknown stability for US and international corporations when exporting goods and purchasing raw materials. He also paved the way for major US banks seeking to deal in credits on an international scale and opened up markets all over the world for international finance capital searching for investment opportunities.

The world's major political changes after World War II caused considerable headaches for the IMF, because they limited the scope of the organization. Above all, the Soviet Union took advantage of the post-war situation, characterized by the division of the world among the major powers and the drawing of new borders in Europe. Still relying on the socialization of the means of production by the Russian Revolution of 1917, Stalin's officials sealed off the so-called "Eastern bloc" from the West in order to introduce central economic planning in these countries. The Soviet bureaucracy's primary objective, however, was not to enforce the interests of working people, but to assure the subordination of the Eastern Bloc under its own interests for the purpose of pillaging these countries. In any case, the fragmentation of Eastern Europe meant that Poland, East Germany, Czechoslovakia, Hungary, Romania, Bulgaria and several other markets became blank areas for international financial capital.

The seizure of power by Mao Zedong in 1949 and the introduction of a planned economy in China by the Communist Party deprived Western investors of another huge market and eventually led to the Korean War. Implementing their policy of “containment” of the Soviet Union’s sphere of influence, the US tacitly accepted the loss of four million lives only to deliver a clear message to the rest of the world: that the largest economic power on earth would no longer remain passive if denied access to any more global markets.

The Post-War Boom: The IMF Casts its Net

The post-war years were characterized by the rapid economic growth of all leading industrial nations, referred to as the “Wirtschaftswunder” (“economic miracle”) in Germany. Although IMF lending played only a minor role during this time, the organization’s leadership did not remain inactive. On the contrary: the second IMF chief Ivar Rooth, a former Governor of the Swedish Central Bank and ex-Director of the Basel Bank for International Settlements, set out on a course that was to acquire major significance in the later history of the organization – introducing conditionality, i.e. establishing obligatory requirements for granting loans.

Harry Dexter White had already made a proposal along these lines at the Bretton Woods Conference, but encountered fierce resistance from the British. Meanwhile, however, Britain’s position had continued to deteriorate. Former colonies, mainly in Africa, were fighting for their independence, and in the Middle East the Suez crisis was looming – providing the US with an opportunity to advance its own interests in the IMF more forcefully.

By establishing so-called “stand-by arrangements”, Ivar Rooth added the principle of “conditionality” to the IMF’s toolbox. The granting of loans was now subjected to conditions that went far beyond the specification of loan deadlines and the level of interest rates.

In implementing these measures, which were tightened after Britain’s defeat in Suez led to a rise of tensions in Anglo-American relations, the IMF’s strategists developed a strategy that helped them to cleverly deceive the public. Starting in 1958, they obliged the governments of debtor countries to draw up “letters of intent” in which they had to express their willingness to undertake “reasonable efforts” to master their balance of payments problems. This made it seem as though a country had itself proposed the measures that were actually required by the IMF.

But even that did not go far enough for the IMF. As a next step, loans to be disbursed were sliced into tranches (“phasing”) and thus made conditional upon the respective debtor country’s submissiveness. In addition, the IMF insisted (and still insists) that agreements between the IMF and its debtors should not be considered international treaties and therefore should not be subject to parliamentary approval. Finally, the IMF decreed that any agreements with it were not intended for the public eye and had to be treated as classified information – a scheme that applies to this day.

Conditions were to be continually tightened in the course of the IMF’s history and would prove to be a crucial mechanism for increasing foreign domination of developing countries. They also contributed to the growing power of the IMF, because the World Bank, most governments and the vast majority of international commercial banks from now on only granted loans to those countries which, on the basis of the fulfillment of the IMF’s criteria, had received its “seal of approval”.

In 1956 a meeting was held in Paris that was to win landmark importance for the later development of the IMF. Struggling to repay a loan, Argentina had to sit down with its creditor countries and representatives of the IMF in order to have new conditions dictated to it. The meeting took place in the offices of French Finance Minister Pierre Pflimlin, who also chaired it. It did not remain the only one of its kind. In subsequent years, meetings between IMF representatives, creditors and debtors were held frequently in the same place, gradually developing into fixed monthly conferences that were to become known as the “Paris Club”. A scope of extremely important decisions were taken within this framework – without parliamentary consent and hidden from the eyes of the public. Commercial banks around the world soon recognized the importance of these conferences, and therefore started their own “London Club”, whose meetings usually took (and still take) place simultaneously with those of the Paris Club.

Barely noticed by the global community, the IMF subsequently turned to a field of activity that was to boost its power massively in a relatively short time. The wave of declarations of independence by African states at the beginning of the 1960s marked the beginning of a new era. Countries that had been plundered for decades by colonialism and lay in tatters economically, now had to find their proper place in the world and especially in the world economy under rapidly changing conditions. Their governments therefore needed money. Since most of these countries offered commercial banks too little security due to social tensions, political unrest and barely existing infrastructure, the IMF took advantage of the situation and offered its services as a creditor.

Although most African countries were so poor that they were only granted relatively modest sums, even these had consequences. The maturity dates of interest and principal payments relentlessly ensured that states that had just escaped from colonial dependence were seamlessly caught in a new network of financial dependence on the IMF.

As credit lending required the debtor’s membership in the IMF, the organization, whose founding members had only included three African countries – Egypt, Ethiopia, and South Africa – was joined by more than 40 additional African states between 1957 and 1969. In 1969, 44 out of 115 members were African. Although they made up more than one third of the overall organization, their voting rights that same year amounted to less than 5 %.

Chile 1973:

Embarking upon the Path of Neoliberalism

The beginning of the 1970s marked the end of the post-war boom, a twenty-five year period of economic expansion in which workers in the leading industrial nations had been granted great social concessions and experienced a hitherto unknown improvement of their living standards. It was the internal disintegration of the Bretton Woods system that brought about the end of that period. As a result of rising US investment abroad and escalating military spending – particularly for the Vietnam War – the amount of dollars globally in circulation had continually increased. All attempts by the US government to bring this proliferation under control had failed because US capital had blended with foreign capital and no nation on earth was capable of reining in this massive concentration of financial power.

In 1971, the United States, for the first time in its history, ran a balance of payments deficit. At the same time the imbalance between the global dollar supply and US gold reserves stored in Fort Knox assumed such dimensions that even raising the gold price to $ 38.00 and then to $ 42.20 could no longer guarantee its exchange against an ounce of gold. On August 15, 1971, US President Nixon pulled the brakes and severed the link between gold and the dollar, displaying the typical arrogance of a superpower by not consulting a single ally.

In December 1971, a conference of the G10 group, founded in 1962 by the world's top ten industrialized nations, decided on an alignment of exchange rates, which brought about a readjustment of the dollar's value against other currencies. This led to a devaluation of the dollar, ranging from 7.5 % against the weak Italian lira to 16.9 % against the strong Japanese yen. In February 1973, the dollar was devalued again, but it soon became clear that the system of fixed exchange rates could no longer be upheld. In March 1973, the G10 and several other industrialized countries introduced the system of flexible exchange rates to be established by the central banks – without consulting a single country outside the G 10 and despite the fact that the new regime blatantly contradicted article 6 of the founding document of the IMF on fixed exchange rates and monetary stability.

The abolition of fixed exchange rates historically terminated the core tasks of the IMF. The only role left for it was that of a lender in charge of the allocation of funds and their conditionality, entitled to inspect the accounts of applicants and thus exercise direct influence on their policies. However, it was exactly this function for which extremely favorable conditions would soon arise.

In 1973, the members of the Organization of the Petroleum Exporting Countries (OPEC), which had been founded in 1960, used the Yom Kippur War between Egypt and Israel to curb the amount of oil supplied to the West ("oil embargo") and drastically raise oil prices. This led to a huge increase in the profits of oil companies and oil-producing countries. These gains ended up in commercial banks, which in turn tried to use them for profitable investments. As the global economy slipped into a recession in 1974 / 75 and investment opportunities in industrialized countries dwindled, the lion's share of the money took on the form of loans to third world countries in Asia, Africa and South America, which – due to their increased expenditures after the rise in oil prices – urgently needed money. The IMF itself responded to the increased credit needs of developing countries by introducing the "Extended Fund Facility" in 1974, from which member countries could draw loans of up to 140 % of their quota with terms of four and a half to ten years.

Although the facility had been specifically set up to finance much-needed oil imports, the IMF – as well as the banks – cared little about what the money was actually spent on. Whether it went straight into the pockets of dictators such as Mobutu in Zaire, Saddam Hussein in Iraq or Suharto in Indonesia – who either squandered it, transferred it to secret foreign accounts or used it for military purposes, in each case driving up the national debt – did not matter to the IMF and the banks as long as they received their interest payments regularly.

However, the situation changed abruptly when Paul Volcker, the new chairman of the US Federal Reserve, raised its prime rate (the interest rate at which commercial banks can obtain money from central banks) by 300 % in order to reduce inflation in 1979. The United States slipped into another recession, which meant that fewer raw materials were needed due to lower economic activity.

For many developing countries the combination of receding demand, falling raw material prices and skyrocketing interest rates meant that they could not meet their payment obligations to international banks. A massive financial crisis loomed. The debt burden of developing countries at the beginning of 1980 amounted to a total of $ 567 billion. A payment default of this magnitude would have led to the collapse of many Western banks and therefore had to be prevented at all costs.

It was at this point that the IMF was given its first great chance to enter the stage as a lender of last resort. While its public relations department spread the news that the organization was working on bail-outs in order to “help” over-indebted countries, the Fund took advantage of its incontestable monopoly position and tied the granting of loans to harsh conditions. In doing so, it was able to draw on two different experiences gained in the preceding years.

Firstly, a CIA-supported military coup in Chile in September 1973 had ended socialist president Salvador Allende’s rule and brought fascist dictator Augusto Pinochet to power. Pinochet had immediately reversed Allende’s nationalizations, but found no remedy against galloping inflation. In an attempt to regain control of the situation, he had turned to a group of 30 Chilean economists (known as the “Chicago Boys” because they had studied at the Chicago School of Economics under Nobel Prize winner Milton Friedman) and proposed to them a clearly defined division of labor: He would provide for the suppression of any kind of political and trade union opposition and crush all labor disputes, while they were to carry out a radical austerity program on the basis of neoliberal ideas.

Within a few weeks an extensive catalog of measures was developed. It called for a drastic limitation of money supply, cuts in government spending, layoffs in the public sector, privatization in health care and education, wage cuts and tax increases for working people, while at the same time lowering tariffs and corporate taxes. The program was openly referred to as a “shock therapy” by either side.

Both Pinochet and his partners, who were presented to the public as a “government of technocrats”, fulfilled their side of the agreement to the hilt. While the dictator violently smashed any opposition to the government’s drastic measures and ensured that many political dissidents disappeared forever, the “Chicago Boys” launched a frontal assault on the working population. They drove up unemployment, which had stood at 3 % in 1973, to 18.7 % by the end of 1975, simultaneously pushing inflation to 341 % and plunging the poorest segments of the population into even deeper poverty. The impacts of the program actually aggravated the problem of social inequality for decades to come: In 1980, the richest 10 % of the Chilean population amassed 36.5 % of the national income, expanding their share to 46.8 % in 1989, while at the same time that of the poorest 50 % fell from 20.4 % to 16.8 %.

During his bloody coup, Pinochet had fully relied on the active support of the CIA and the US Department of State under Henry Kissinger. When implementing the toughest austerity program ever carried out in a Latin American country, the “Chicago Boys” received the full backing of the IMF. Regardless of all human rights violations, IMF loans to Chile doubled in the year after Pinochet’s coup, only to quadruple and quintuple in the following two years.

The IMF’s other experience concerned the UK. Great Britain’s inexorable economic decline over two and a half decades had made the country the IMF’s largest borrower. From 1947 to 1971, the government in London had drawn loans totaling $ 7.25 billion. After the recession of 1974 / 75 and speculative attacks on the pound, it had come under even greater pressure. When in 1976, the British government once again turned to the IMF for help, the United States seized the opportunity to demonstrate their power. Allying themselves with the resurgent Germans, they forced the Labour government under Prime Minister Harold Wilson to limit public spending, impose massive cuts in social programs, pursue a restrictive fiscal policy, and refrain from import controls of any kind. This drastic intervention represented a hitherto unknown encroachment on the sovereignty of a European borrower country, resulting in the fact that no leading Western industrialized country ever again applied for an IMF loan.
