The Bank of the South: An Alternative to IMF and World Bank Dominance

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In July, 2004, the IMF and World Bank commemorated the 60th anniversary of their founding at Bretton Woods, NH to provide a financial framework of assistance for the postwar world after the expected defeat of Germany and Japan. With breathtaking hypocrisy, an October, 2004 Development Committee Communique stated: “As we celebrate the 60th anniversary of the Bretton Woods Institutions….we recommit ourselves to supporting efforts by developing countries to pursue sustainable growth, sound macroeconomic policies, debt sustainability, open trade, job creation, poverty reduction and good governance.” Phew.

In fact, for 63 hellish years, both these institutions achieved mirror opposite results on everything the above comment states. From inception, their mission was to integrate developing nations into the Global North-dominated world economy and use debt repayment as the way to transfer wealth from poor countries to powerful bankers in rich ones.

The scheme is called debt slavery because new loans are needed to service old ones, indebtedness rises, and borrowing terms stipulate harsh one-way “structural adjustment” provisions that include:

— privatizations of state enterprises;

— government deregulation;

— deep cuts in social spending;

— wage freezes or cuts;

— unrestricted free market access for foreign corporations;

— corporate-friendly tax cuts;

— crackdowns on trade unionists; and

— savage repression for non-believers under a system incompatible with social democracy.

Everywhere the scheme is the same: huge public wealth transfers to elitist private hands, exploding public debt, an ever-widening disparity between the super-rich and desperate poor, and an aggressive nationalism to justify huge spending on security for aggressive surveillance, mass incarceration plus repression and torture for social control.

An Alternative to Debt Slavery – The Bank of the South

Last December, Hugo Chavez announced his idea for a Banco del Sur, or Bank of the South, as part of his crusade against the institutions of international capital he calls "tools of Washington." The bank will be officially launched at a presidential November 3 summit in Caracas, where it's to be headquartered, with seven founding member-states – Venezuela, Argentina, Brazil, Uruguay, Paraguay, Bolivia and Ecuador.

On October 12, Colombia's President Alvaro Uribe announced his nation agreed to become the eighth member but said "The decision is not a rejection to the World Bank or Inter-American Development Bank, but a sign of solidarity and fraternity towards the South American community." At this time, only four South American states aren't included – Chile, Peru, Guyana and Surinam, but Chile seems likely to come aboard following Colombia's lead, and the others may decide to join them.

Finance ministers from the founding countries met in Rio de Janeiro, Brazil October 8 to finalize the Bank's Founding Document. Many key operating issues have yet to be resolved, but unofficial information was that each nation will commit 10% of its international reserves and have equal oversight over the new institution. In a concluding news conference, Brazilian finance minister Guido Mantega stated: the participating countries "have been able to overcome all obstacles that were in the way of an understanding around the formation of the Bank of the South. We can now say that the (bank) is close to becoming a reality" even though Brazil (Latin America's largest economy) hasn't yet formalized its entry.

Venezuelan finance minister Rodrigo Cabeza explained the bank will help develop the region by offering South Americans more credits. It's being "created to build a new architecture that assumes an improved relationship of the bank and its capacity to offer credits for its people." It also aims to increase liquidity and revive socioeconomic development and infrastructure investments in participating countries and keep them outside the restrictive control of the IMF and World Bank that are fast losing influence and being phased out of the region.

In 2005, 80% of IMF's $81 billion loan portfolio was to Latin America. Today, it's 1% with nearly all its $17 billion in outstanding loans to Turkey and Pakistan. The World Bank is also being rejected. Venezuela had already paid off its IMF and World Bank debt ahead of schedule when Hugo Chavez symbolically announced on April 30: "We will no longer have to go to Washington nor to the IMF nor to the World Bank, not to anyone." Ecuador's Raphael Correa is following suit. He cleared his country's IMF debt, suspended World Bank loans, accused the WB of trying to extort money from him when he was economy and finance minister in 2005, and last April declared the Bank's country representative persona non grata in an extraordinary diplomatic slap in the face.

The Banco del Sur will replace these repressive institutions with $7 billion in startup capital when it begins operating in 2008. It will be under "a new financial architecture" for regional investment with the finance ministers of each member nation sitting on the bank's administrative council with equal authority over its operations as things now stand. Venezuelan Finance Minister Rodrigo Cabeza stressed the banks Latin roots saying: "The idea is to rely on a development agency for us, led by us" to finance public and private development and regional integration projects. He added: "There will not be credit subjected to economic policies. There will not be credit that produces a calamity for our people and as a result, it will not be a tool of domination" like the international lending agencies.

Hugo Chavez's vision is to liberate the region's countries from IMF, World Bank and Inter-American Development Bank (IBD) control that condemn millions to poverty through their lending practices. Helped by windfall oil profits, his government is already doing it with an unprecendented commitment to provide financial aid and below-market priced oil to regional and other countries. So far this year, it's on the order of around $9 billion, and, unlike the Washington-controlled kind, it comes at low cost and with good will, a cooperative spirit and few if any strings.

Nobel laureate economist Joseph Stiglitz recognizes Chavez's efforts and stated his support for the Banco del Sur on an October 10 visit to Caracas. He said "One of the advantages of having a Bank of the South is that it would reflect the perspectives of those in the South (while in contrast IMF and World Bank conditions) hinder (regional) development effectiveness."

Stiglitz met with Hugo Chavez on his visit and praised his redistributive social policies. He also criticized Washington Consensus neoliberal practices that exploit the regions' people, "undermin(e)….Andean cooperation, and it is part of the American strategy of divide and conquer, a strategy trying to get as much of the benefits for American companies" at the expense of the region and its people.

Venezuela's acting ambassador to the Permanent Mission to the UN, Aura Mahuampi Rodriguez de Ortiz, warned the world body about Latin American debt during her participation in the General Debate on Macroeconomic Policies in October. She stressed: "The persistence of the foreign debt of the developing countries affects negatively on its process of development. It is not worthy to direct resources for the development of poor countries if such resources end up directed to the payment of the foreign debt" instead of going to economic development internally. She also spoke of the new Bank of the South, how it will help strengthen regional integration and also fairly distribute investments and finance projects to reduce poverty and social exclusion.

A less publicized Bank of ALBA (Bolivarian Alternative for the Americas) will also begin operating by year end under "a new regional financial architecture under principles that create a new form of channeling financial resources" to its four country alliance – Venezuela, Cuba, Bolivia and Nicaragua.

Chavez first proposed ALBA as an alternative to the Free Trade of the Americas (FTAA) in 2001 with Venezuela, Cuba and Bolivia its original members in December, 2004. Nicaragua then joined the alliance in January, 2007 under its newly elected president, Daniel Ortega, who signed on as his first act in office. ALBA's goal is ambitious. It's the comprehensive integration of the region and development of its "the social state" for all its people. It's boldly based on member states complementarity, not competition; solidarity, not domination; cooperation, not exploitation; and respect for each participating nation's sovereign right to be free from the grip of other countries and corporate giants.

In April, the 5th ALBA summit was held in Caracas to discuss ways to improve the alliance. Initiatives covered included a Permanent (coordinating) Secretariat and a plan to create 12 public companies to be co-managed by ALBA member states. Its goal is to strengthen key economic sectors in areas of energy, agriculture, telecommunications, infrastructure, industrial supplies and cement production. ALBA country foreign ministers then agreed in June to create a development Bank of ALBA to help finance these ventures with low-cost credit. It will complement the Banco del Sur and also be headquartered in Caracas.

Uncertain Future Prospects

Socially responsible regional banks, like those discussed above, will challenge the dominant institutions of finance capital if they fulfill their promise. But therein lies the problem. These new institutions aren't panaceas, and they may end up letting capital interests exploit them for their own advantage. In addition, financial autonomy alone won't free the region from Washington's grip without greater change. What's needed are sweeping nationalizations of basic industries, an end to one-way WTO-style trade deals, socially redistributing national resources, developing local economies, achieving land and housing reform plus a sweeping commitment to social equity and a resolve to end a 25 year neoliberal nightmare. From 1960 to 1980, the region's per capita income growth was 82%. From 1980 to 2000, however, it was 9%, and from 2000 to 2005 only 4%. For the region, it meant sweeping poverty, inequality and the most extreme disparity between the super-rich and desperate poor in the world.

Change is needed, and Venezuela under Hugo Chavez has done most in the region to achieve it. Finance Minister Rodrigo Cabezas just presented his government's 2008 budget to the National Assembly that allocates 46% of it to social spending. It devotes special attention to health and education but also to subsidized and free food, land reform, housing, micro credit, job training, cooperatives and more as Chavez continues to use his nation's resources to address the needs of his people. Since he took office, social spending per person is up more than threefold and in 2006 was 20.9% of GDP.

Chavez now has an ally in Ecuador under Raphael Correa who's early efforts are promising. Hopefully, they'll continue under a new constitution to be drafted in the next six months and then put to a national referendum next year. Other Bank of the South founding countries like Brazil, Argentina and Bolivia, however, claim to be center-left but, in fact, embrace 1990s neoliberalism, and financial autonomy won't change that. The Bank of the South will only work if it fulfills a mandate to prioritize local needs and development, not corporate ones. That's a tall order, and achieving it won't be easy with its dominant member, Brazil under Lula, closely tied to Washington and in its grip.

Nonetheless, small signs of change are emerging, the Bank of the South may be one of them, and a new generation of leftist leaders may in the end break Washington's weakening (but still strong) hold on the region. That's the hope, and every step forward means more power to the people and another possible world.

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