Bretton Woods Twins and the Odious Debts of Poor Countries

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Abstract

The economies of most of the underdeveloped countries have greatly been influenced by the World Bank and the IMF that imposed structural adjustment programs in order to make it possible for the repayment of odious debts. The austerity measures often include cuts in health, education and other social services as well as liberalization and privatization that cause enormous hardship on the vast majority in the periphery. Yet, the World Bank's motto remains: "Our dream is a world without poverty." Do the operations of the Bank contribute to that imperative? Are the IMF and the World Bank accelerating prosperity for some countries and accentuating poverty for others? Whose interest do they serve?

Applying an aggregate of empirical evidence and logical plausibility, it is argued in this paper that the IMF and the World Bank immensely contribute to poverty and backwardness in a number of the poor countries due to the prescribed structural adjustment programs and the odious debts. In doing so, the study has examined the operations of the Bretton Woods' financial institutions in selected countries in Africa, Latin America and Asia, and concluded that the most viable alternative to the institutions is the establishment of regional rather than global banks for addressing the needs of the marginalized countries.

Introduction

The forces of globalization are driving down the standard of living of many of the underdeveloped countries. The internal economies of most of the peripheral world have been under the direct control of officials of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), better known as the World Bank, who imposed ***structural adjustment programs*** that have changed domestic spending patterns to make possible the repayments of enormous debts being owed to the developed countries' financial institutions. The changes often included cuts in health, education, and other social service programs. Much of the debts had been incurred during the oil shortages of the 1970s (to be discussed later in this paper) and grew with a rise in interest rates in the 1980s. The debt of a typical African country almost amounts to five times annual export income. Many Latin American countries now had paid out about one-fourth of their export receipts in debt payments on long-term loans, some of which did not even cover interest due.

Privatization programs, which transferred the control of government services to private firms, further loosened the thin ties that link public resources to public needs. On the recommendations of the IMF and the World Bank, the underdeveloped countries, instead of demanding for fair trade, have opened their markets for "free trade," which allows the globalized corporate agriculture, in particular, to destroy jobs and small farms that sustained the peoples in the periphery for centuries.[1] Yet, World Bank's motto is: "Our dream is a world without poverty." Do the activities of the Bank contribute to that imperative? Are the IMF and the World Bank accelerating prosperity for some countries and accentuating poverty for others? Whose interest do they serve? Applying an aggregate of empirical evidence and logical

[1] Joseph N. Weatherby, et al., *The Other World: Issues and Politics of the Developing World*, 6th Edition (New York: Pearson/Longman, 2005), p. 63.

plausibility, it is argued in this paper that the IMF and the World Bank share the blame for today's poverty and backwardness in a number of the underdeveloped countries due to the prescribed structural adjustment programs and the astronomical odious debts.

Background

The IMF and the World Bank are the United Nations' associated agencies, created in 1944 at the Bretton Woods Conference. Formed originally to provide long-term loans for the post-World War II reconstruction of Europe, the World Bank has become one of the primary international institutions that provide long-term loans to the underdeveloped countries. The IMF was established for the purpose of supporting international monetary stability as well as establishing stable exchange rates among nation-states. The IMF was to do this by establishing exchange rates between currencies under a fixed exchange rate system. It had at its disposal a fund of gold and currencies that it could use to credit accounts of countries that experienced chronic balance of payments deficits. Although fixed exchange rate system was eventually replaced by a floating system by former President Richard Nixon (unilaterally) to the advantage of the U.S., the IMF still uses its funds to credit the accounts of countries with chronic balance of payment problems. The developed countries fund both the two financial institutions. They operate on a weighted voting system, providing the most votes to the countries that contribute the most funds. The presidency of the World Bank has always been an American and the presidency of the IMF has always been a European.

The IMF/World Bank and the Dependent Economies

That background serves as a backdrop to our understanding of why the underdeveloped countries distrust these institutions. The peripheral countries play no role in the institutions except as dependent recipients of repayable loans with outrageous interest rates. There is little surprise therefore that both the World Bank and the IMF have caused unbearable hardships on people around the world. The IMF regularly imposes austerity measures including structural adjustments on borrowers. Even a neo-liberalist and Columbia University Economist, Jeffrey Sachs, who had helped Russia dismantle its state-run economy, called the IMF the "Typhoid Mary of emerging markets, spreading recessions in country after country."[2] When the Asian financial crisis erupted in 1997, the IMF imposed higher interest rates to supposedly shore up investor confidence in local currencies, cuts in government spending to reduce deficits, and privatization of state-owned enterprises.[3] Similar measures were imposed on Mexico and other Latin American countries to overcome a serious debt crisis in the 1980s.[4] This is the way the IMF can be rest-assured that the loan will be repaid. But the stringent spending cuts and high interest have driven troubled economies into further difficulties because businesses could no longer afford to borrow money, factories shut down and workers lost their jobs. Moreover, many of these peripheral countries already have weak social programs. So, the austerity measures have further exacerbated the falling standards of living. As shown in **Table I** – **Regional Breakdown of Poverty in Developing Countries** – there is a widening economic gap between the developed and the underdeveloped countries in terms of the number of people living in poverty. In the study conducted by the World Bank, the number of people living on less than $1 per day in 1990, as the **Table I** indicates, was much lower in the developed countries than the underdeveloped

[2] Jeffery D. Sachs, "With Friends Like IMF," *The Cleveland Plain Dealer*, June 6, 1998.
[3] Congressional Quarterly, Inc., *Global Issues* (Washington, DC: Congressional Quarterly Press, 2001), p. 77.
[4] Ibid.

countries. In East Asia and Pacific, it was 452,000,000; in South Asia, it was 495,000,000; in Latin America and the Caribbean, it was 74,000,000; and in Sub-Saharan Africa, it was 242,000,000. But in Europe and Central Asia it was only 7,000,000. Similarly, the Table I shows the same trend in the World Bank's study of the number of people living on less than $2 per day in 1990. In East Asia and Pacific, it was 1,084,000,000; in South Asia, it was 976,000,000; in Latin America and the Caribbean, it was 167,000,000; and in Sub-Saharan Africa, it was 388,000,000. Also, according to Table I, the projected number of people living on less than $2 per day in 2015 will decline in each region except in Sub-Saharan Africa. The projected number is 597,000,000. The continued population explosion and economic stagnation as well as lack of industrial base may have combined to forecast the gloomy picture of the region.

TABLE I – Regional Breakdown on Poverty in Developing Countries

Region	Number of people living on less than $1 per day (Millions) 1990	1999	2015	Number of people living on less than $2 per day (Millions) 1990	1999	2015
East Asia and Pacific	452	260	59	1,084	849	284
Excluding China	92	46	6	285	236	93
Europe Central Asia	7	17	4	44	91	42
Latin America and the Caribbean	74	77	60	167	138	146
Middle East and North Africa	6	7	6	59	87	65
South Asia	495	490	279	976	1,098	1,098
Sub-Saharan Africa	242	300	345	388	484	597
Total	1,276	1,151	758	2,718	2,777	2,230
Excluding China	916	936	700	1,919	2,164	2,040

Region	Head Count Index (%) 1990	1999	2015	Head Count Index (%) 1990	1999	2015
East Asia and Pacific	27.6	14.2	2.8	66.1	46.2	13.5
Excluding China	18.5	7.9	0.9	57.3	40.4	13.3
Europe Central Asia	1.6	3.6	0.8	9.6	19.3	8.7
Latin America and the Caribbean	16.8	15.1	9.7	38.1	33.1	23.4
Middle East and North Africa	2.4	2.3	1.5	24.8	29.9	16.7
South Asia	44.0	36.9	16.7	86.8	82.6	65.5
Sub-Saharan Africa	48.7	46.7	39.3	76.4	75.3	68.0
Total	29.0	22.7	12.3	61.7	54.7	36.3
Excluding China	28.1	24.5	14.8	58.8	56.5	43.0

Source: The World Bank, *Global Economic Prospects and the Developing Countries: Making Trade Work for the World's Poor* (Washington, DC: The World Bank, 2002), p. 30.

The economic crises in Africa threaten its peoples' traditional resiliency. The facts are grim. In material terms, the average African is poorer today than at independence, and it is predicted that poverty will only increase in the immediate future. The continent is faced with myriad of problems including the Acquired Immune Deficiency Syndrome (A.I.D. pandemic), foreign debt, mismanagement of resources, and armed conflicts. Even nature is not so kind to Africa. Drought conditions in recent decades have led to food shortages across the continent. According to Table II – **Measuring Misery**, a Human Development Report of 2002 published by the United Nations Development Program – nearly all the African countries are among the least underdeveloped countries of the world. With the exception of Seychelles (ranked 47), Libya (ranked 64), and Mauritius (ranked 67), the ranking of African states among world nations is from 100 to 173.

Therefore, nowhere are impacts of the IMF/World Bank's machinations felt more intensely than Africa. As Festus Iyayi laments: "The fact (is) that the economy of Nigeria is not owned by Nigerians; that World Bank and the IMF officials are in control of our national politics and economy; that we are indebted to external creditors to the tune of over $32 billion when, indeed, other nations should be indebted to us."[5] As a consequence of the IMF/World Bank austerity measures that have been imposed on Nigeria in the late 1980s, the country, like many other Asian and Latin American countries, is steadily retrogressing; or simply put, Nigeria has all of the trappings of 'the development of underdevelopment.' The 2002 World Development report succinctly unravels the puzzle on Nigeria. The report provides information on the quality of life and the level of poverty in 174 countries in the world. According to the report, in 1998, Nigeria ranked 23rd poorest country in the world out of the 174 nations. Between 1980 and 1998, gross domestic GDP per capita in Nigeria declined from $314 in 1980 down to $258 in 1990 and to $256 in 1998. The average annual rate of change in GDP during the period was a negative 0.7 percent. The life expectancy at birth in 1998 was 51.5 years for females and 48.7 years for males. That means the life expectancy of the people of Nigeria at birth was only 50.1 years. Indeed, the report further revealed that 33.3 percent of the Nigerian population in 1998 was not expected to survive to age 40. Again, whereas, the poorest 20 percent of population had access to 4.4 percent of the national income, the richest 20 percent consumed 55.7 percent of the national income. In addition, 70.2 percent of the Nigerian population earned less than $1.0 a day between 1987 and 1998, indicating that at least 43 percent of the population lived below the poverty line.[6] In the midst of the abundant data that show the declining economic development, the IMF and World Bank are now demanding the repayment of their loans while the Nigerian government has been requesting for a debt relief.

[5] Festus Iyayi, "Leadership and Failed Nigeria Nation-State," paper delivered to the Association for Good Governance and Productive Leadership in Edo State at Saidi Centre, Benin City, Nigeria, printed in Guardian, December 16, 2001 http://ngrguardiannews.com/appointments/ap843612.html

[6] Ibid, p. 77.

TABLE II – Measuring Misery

United Nations Human Development Index, 2002:* Ranking of African States Among World Nations. Total Number of States Ranked: 173. African States Not Ranked: Liberia, Somalia					
Rank	Country	Rank	Country	Rank	Country
47	Seychelles	134	Kenya	158	Benin
64	Libra	135	Cameroon	159	Guinea
67	Mauritius	136	Republic of Congo	160	The Gambia
100	Cape Verde	137	Comoros	161	Angola
106	Algeria	139	Sudan	162	Rwanda
107	South Africa	141	Togo	163	Malawi
111	Equatorial Guinea	147	Madagascar	164	Mali
115	Egypt	148	Nigeria	165	Central Africa Republic
117	Gabon	149	Djibouti	166	Chad
119	Sao Tome and Principe	150	Uganda	167	Guinea-Bissau
122	Namibia	151	Tanzania	168	Ethiopia
123	Morocco	152	Mauritania	169	Burkina Faso
125	Swaziland1	153	Zambia	170	Mozambique
126	Botswana	154	Senegal	171	Burundi
198	Zimbabwe	155	Democratic Republic of the Congo	172	Niger
129	Ghana	156	Cote d'Ivoire	173	Sierra Leone
132	Lesotho	157	Eritrea		

*Standing among 173 countries, with the ranking 173 indicating the lowest development. Source: UNDP, Human Development Report 2002 (see also F. Jeffress Ramsay and Wayne Edge, *Global Studies*, 10th Edition (Guilford, CT: McGraw-Hill/Dushkin Company, 2004. p. 16.

Indeed, under the rubric of globalization championed by the IMF/World Bank, many other African countries besides Nigeria have been going through unprecedented economic distress.

Table III – Development Indicators for Selected African Countries and the United States, 1992-1993 – illustrates the enormity of the problem.

The data is an indication that life in contemporary Africa is a matter of survival. While the income per capita as an economic indicator of the growth of a nation-state is debatable because it does not show the complete development outlook, suffice it to say that great disparity exists between African countries and the developed countries like the United States. The continent displays a great diversity in lifestyles and jobs. Approximately 70 percent of Africans live in rural areas and work in agriculture. Yet, the World Bank/IMF lending activities are not targeted at the grassroots where the peasants can be part of the development plans. Instead, development plans are usually urban-centered and the peasants are marginalized. Even a large number of the other roughly 30 percent of the African population who reside in the cities or urban areas have chronic problem of joblessness. A small number of the people in the cities make a very good living, but others barely earn enough money to keep them from starving. The unemployed and the unemployable usually resort to social vices such as prostitution, drug abuse, begging, stealing, and other similar activities. Indeed, large African cities are populated with beggars many of whom are children.

The IMF/World Bank's policies have direct effects on the African conditions. Globalization is not just a vague concept like liberty or equality. It is actually a well-planned program with an agenda for action. This agenda is known as "Washington consensus,"[7] an idea conceived by the United States government in close collaboration with the IMF/World Bank. It stands for ten policies, detailed in the consensus document. They are (a) free trade; (b) freely flowing FCI; (c) fiscal disciplines

[7] Jay Dubashi, "Globalization Is Economic Terrorism," *Samachar*, October 10, 2001.

Table III – Development Indicators for Selected African Countries and the U.S., 1992-1993

Country	GNP per Capita (Average Income)	Under-five Mortality	Percent of Total Population Living in Urban Areas	Percent of Workers in Non-agricultural Jobs
Botswana	$ 2,590	56	26%	approx 5%
Ghana	$ 430	170	35%	45%
Kenya	$ 270	105	26%	20-25%
Namibia	$ 1,660	79	35%	40%
Nigeria	$ 310	191	38%	46%
Rwanda	$ 200	141	6%	7%
South Africa	$ 2,900	69	50%	70%
Tanzania	$ 100	167	23%	10%
Uganda	$ 190	185	12%	under 20%
Zaire	$ 230	187	29%	25%
Zambia	$ 370	203	42%	15%
United States	**$ 24,750**	**10**	**76%**	**97.1%**

Sources: World Bank 1995a; UNICEF 1995; Government of Kenya and UNICEF 1992; CIA 1995.

meaning smaller budget deficits; (d) cuts in subsidies; (e) tax reforms; (f) competitive exchange rates; (g) liberalized financial systems; (h) privatization; (i) deregulation; and (j) property rights.[8]

There is little doubt that the agenda had been carefully designed to serve the need of the rich nations at the expense of the poor. The developed countries have surplus capital. When the American capitalists started to accumulate surplus capital around 1980 or so, globalization which is a very sophisticated lexicon for neo-colonialism, was envisioned. But it did not take off immediately due to the Cold War. However, following the collapse of communism in the former Soviet Union and the Eastern bloc and the fashioning of privatization and democratization in those countries, the capitalists declared victory (see the works of Francis Fukuyama 1989 and 1992 – *The End of History)* and embarked on a mission to unify the world into one economic, political, and social entity. Thus, globalization designed to homogenize the world into a monoculture earnestly began in 1990. Its first test was Iraq. The invasion of Kuwait by Iraq in 1990 presented an opportunity for the United States to test its victory in the aftermath of the Cold War. The invocation of collective security and the use of military force against Iraq marked the first time the United Nations had applied the collective security in its charter other than in 1950

[8] Ibid.

in Korea (note that the former USSR, a permanent member with veto power, was not present in the Security Council to cast a vote).

Indeed, the Bretton Woods twin sisters have failed woefully to alleviate poverty in the world. They have failed because they were never designed to serve the interest of anyone but their shareholders. Instead of promoting economic growth, the IMF and the World Bank have institutionalized economic stagnation in the underdeveloped countries. They show little concern about the central goal of eliminating global poverty. Driven by the interests of key political and economic institutions in the Group of Seven (G-7) countries, in particular the United States, the IMF and the World Bank are more concerned about the internal imperative of capitalist expansionism or empire building for capital accumulation. In terms of achieving positive development impact, a Meltzer Report in April 2000 indicates that the World Bank's own evaluation of its projects shows an outstanding 55-60 percent failure rate. The failure rate is particularly high in the poorest countries, where it ranges from 65 percent to 70 percent.[9] Those are the countries that are supposed to be the main targets of the Bank's anti-poverty approach. The report states that the rhetoric about focusing on poverty alleviation is contradicted by the reality that 70 percent of the Bank's non-aid lending is concentrated in 11 countries, while the Bank's 145 other member countries are left to divide the remaining 30 percent. Moreover, the report concludes that: "80 percent of World Bank resources have gone, not to poor countries with poor credit ratings and investment ratings, but to countries that could have raised the money in international private capital markets [due to high investment ratings]."[10]

Lending Practices to Troubled Underdeveloped Countries

Furthermore, the World Bank in its quest for capital accumulation lends money to the states noted for atrocities including gross violations of human rights. This has been observed: "In Fiscal Year 2001 alone, the World Bank extended capital commitments totaling $17.3 billion…. in many cases to states that have been the venues for atrocities and abuses committed by either the government or other groups."[11] It is important to note that a government engaged in or facilitating atrocities will have less incentive to adhere to international legal norms if it continues to receive funds from the World Bank or the IMF without any consideration of the atrocities or the impunity of those responsible. The issue is not whether the Bretton Woods Twin Sisters should automatically cease all activities in a country at the first sign of humanitarian law violations. The power of the purse is not even used by the institutions as one of the loudest voices, one that can be applied to complement the efforts by the United Nations, some concerned states, and non-governmental organizations (NGOs) to protect civilians and prevent violations of international humanitarian law. Diplomatic pressure will lose its muscle when matched with "reverse" economic incentives to the states that undermine the gross violations of human rights.

In two decades since 1980, structural adjustment programs (SAPs) were jointly imposed by the IMF and the World Bank on over 100 peripheral countries, from Gambia to Zambia in Africa, from Philippines to Thailand in Asia, and from Mexico to Argentina in Latin America. The prescriptions by IMF/World Bank under the rubric of SAPs included **monetary austerity** (tighten up the money supply to increase internal interest rates to whatever heights needed to

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[9] Cited in the work of Walden Bello, (ed.), *The Future in the Balance: Essays on Globalization and Resistance* (Oakland, CA: Food First Books, 2001), p. 63.
[10] Ibid.
[11] Laurie R. Blank, *The Role of International Financial Institutions in International Humanitarian Law* (Washington, DC: U.S. Institute of Peace, 2002), pp. 15-16.

stabilize the value of the local currency), **fiscal austerity** (increase tax collections and reduce government spending dramatically), **privatization** (sell off public enterprises to the private sector), and **financial liberalization** (capital as well as restrictions on what foreign businesses and banks are allowed to buy, own, and operate). Despite important differences among the various economies, SAPs had the same basic requirements: export more and spend less. SAPs encouraged the elimination of customs barriers designed to do away with locally produced goods and services made unprofitable due to international competition. Another primary goal of SAPs was to provide incentives to export in order to obtain the currency needed to discharge the debt and balance the budget; this meant reorienting the economy to modernize the export product sectors, such as coffee, cocoa, bananas, sugar, and peanuts. This restructuring often brought new investment for which the World Bank readily provided credit, thereby adding to the debt burden. SAPs also emphasized on all-round deregulation particularly prices of agricultural products, wages, interest rates and exchange rates as well as liberalization of legislation, especially laws controlling foreign investment and profit transfers which benefited the MNCs. As a consequence of SAPs recommended policy of privatization based on the notion that the economy organized by the market's "invisible hand," not by bureaucrats or politicians, would produce dividends for all. SAPs also required public spending cuts in what some observers might call the "unproductive" but indispensable social services necessary for economic development: education, health-care and housing.[12]

In spite of these drawbacks, the underdeveloped countries continued in 1980s to lubricate the international financial, trade, and investment processes promoted by the IMF/World Bank which undermined their development efforts. Cheryl Payer,[13] a leading authority on foreign debts crisis, whose name seems to symbolize the problem she treats, delivered in 1974, the year in which the crisis finally declared itself in an indisputable way, her first scratching critique of the trap laid for the underdeveloped countries by the international financial institutions controlled by Western creditors: *The Debt Trap: The IMF and the Third World*. While she assails the entrapment of the underdeveloped countries by detailing the history of the first 30 years of the system of aid and credit by the IMF, it is in her second work: *Lent and Lost: Foreign Credit and Third World Development* that Cheryl Payer more vividly captures the essence of the international financial system of the early 1980s and the debt crisis that ensued as a Ponzi Scheme.[14] But how does Ponzi Scheme work? The answer is that:

[12] Wada Taw-il "We Are to be Sacrificed: Indigenous Peoples and Dams" in the work of Robin Broad, *Global Backlash*: *Citizens Initiatives for A Just World Economy* (Lanham, MD: Rowman & Littlefield Publishers, Inc., 2002), p. 110.

[13] See Sheryl Payer, *The Debt Trap: The IMF and the Third World* (New York: Monthly Review Press, 1974).

[14] Ponzi scheme is a fraudulent investment plan in which the investments of later investors are used to pay earlier investors, giving the appearance that the investments of the initial participants dramatically increase in value in a short amount of time. As more investors participate, the money contributed by later investors is paid to the initial investors, purportedly as the promised interest on their loans. A Ponzi scheme works in its initial stages but inevitably collapses as more investors participate. A Ponzi scheme is a variation of illegal pyramid sales schemes. In a pyramid sales plan, a person pays a fee to become a distributor. Once the person become a distributor he receives commissions not only for the products he sells but also for products sold by individuals he brings into the business. These new distributors are beneath the person who brought them into the pyramid scheme, so they are "under the pyramid." In illegal pyramid schemes, only the people at the top of the pyramid make substantial money because they get a commission from the products sold by everyone below them. As more people become distributors, the persons lower in the pyramid have less chance to gain. A Ponzi scheme was once called a "bubble," but it was renamed in 1920 after Charles Ponzi and his Boston-based company had collected almost $10 million

> In such scheme each person is promised double his or her original investment so long as he or she brings a certain number of new investors into the scheme. Thus, if I were to enter with an initial investment of $100, I would immediately get $200 so long as I was able to convince another five investors to enter the scheme by paying $100 each. They would be inclined to do so, because they too would see their investments double immediately so long as they each brought in another five investors to enter the scheme. In its simplest version, a Ponzi scheme pays off the investors in round (n-1) by using the money gained from investors in the nth round. Theoretically, the game can go on forever even in a finite population because the same investor can play it any number of times. In reality, as the number of payers needed ratchets exponentially, most Ponzi schemes end with the last (and largest) round of investors being gypped out of their money and the organizers disappearing with a nice bundle. The crux of such games lies in the confidence that players have in them – they continue so long as it is still available – hence they are called "con games."[15]

The basic idea inherent in the "con game" known as "Ponzi Scheme" is that commercial banks that had lent to the underdeveloped countries could only recover their loans by convincing a new round of lenders about the essential soundness of the loans to these impoverished nations. The scheme relies much on confidence of the global market. The SAPs were like a certification process forced upon the underdeveloped countries by the IMF in order to shore up global confidence in them. The aim of the IMF was to present the debtor nations as credible and that they were making genuine efforts to put their houses in such a way that would attract a new round of lenders, whose loans as well as that of the IMF enabled the debtor nations to service their debts, that is, for the prior round of lenders to recover their investments. The fact is that the IMF was not (and is not) interested in the welfare of debtor nations as it was in averting the collapse of the global financial system on account of a mass default, salvaging investments of Western commercial banks, and simply using the situation as an opportunity to coerce the underdeveloped countries into the emerging neoliberal consensus about free trade as the engine of economic growth. The debtor nations were ill-equipped to resist the IMF and therefore they could not afford to default. Challenging the IMF would almost certainly ensure that no lender, commercial or institutional, would step into the breach of contractual obligations, ensuring the default of their loans and the collapse of their dependent economies.[16] This scenario prompted Cheryl Payer to assert that "if free trade was imposed on the underdeveloped countries via gunboat diplomacy, today it is done through ostensibly neutral international financial institutions like the IMF and the World Bank."[17] But what are the consequences of a default by a debtor nation?

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from roughly ten thousand investors by selling promissory notes that claimed to pay 50 percent profit in forty-five days. When the scheme was exposed, a Boston bank collapsed, and investors lost most of their money.

[15] See Sankaran Krishna, *Globalization and Postcolonialism: Hegemony and Resistance in the Twenty-First Century* (Lanham, MD: Rowman & Littlefield Publishers, Inc., 2009), pp. 48-49. See also Cheryl Payer, *Lent and Lost: Foreign Credit and Third World Development* (London: Zed, 1991).

[16] Ibid.

[17] Ibid.

In an answer to that question, the World Bank had boasted that it had never suffered any defaults, perhaps, in an effort to stimulate confidence in the global financial transactions by making this claim:

> We have not had any losses on loans. We have never had a non-accruing loan. We have a firm policy against debt rescheduling. We do not tolerate late payments. These are substantial pragmatic reasons why borrowers not default on World Bank loans. In the event of a default, no further disbursement would be made on that loan or any other loan we had outstanding in the country. And, no new loans would be committed until the default had been cured. Borrowers know our policies in this regard, and given the substantial amount of our undisbursed loans, I suggest they would be extremely reluctant to take steps to jeopardize the transfer of future resources. A default to the Bank also carries consequences that would affect the credit of the country involved, both with other countries and with commercial suppliers of resources.[18]

Even an official of the World Bank stated that they did not anticipate the possibility of bad debts by proclaiming: "While our financial statements include a general reserve (initially called 'reserve against losses on loans') that item constitutes, in fact, our accumulated retained earnings. We have no actuarial basis for our reserves simply because we have never had a bad loan."[19]

The World Bank was not engaged in an empty rhetoric to appease its shareholders when they said that they made no provisions for bad loans because they were certain that there would not be any defaults; it is due to the inherited colonial dependent economies of the peripheral countries. The legacies of colonialism continue to ensure that through administrative, political, fiscal and other controls, the structured incorporation of the underdeveloped countries' economies into an unequal, exploitative, and hostile international institutions including the global financial institutions remain unchanged. The World Bank could afford to be boastful and arrogant because the underdeveloped countries have yet to extricate themselves from the contradictions, limitations and constraints imposed on them during the colonial era. The symbiotic linkage between the World Bank and the peripheral countries is characterized by a dependent economy and the dominant external economy, the structure of the former is greatly shaped as much or more by the requirements of the external economy and by its own domestic needs. While the asymmetric relationships between the peripheral countries and their former colonial masters in the 1970s and 1980s precipitated the downward spiral of the economies of the former and conversely accelerated the upward spiral of the economies of the latter, there is lessening of dependency on the Western power brokers since 1990s to the present – thanks to the emergence of 'Communist' China as a global economic power. Increasing number of the underdeveloped countries particularly in Africa and Latin America are turning to China for financial, technical, and trade transactions. Chinese investments have become the new driving force for economic development in Africa – with African-Chinese trade reaching $40 billion in

[18] Ibid. See also Eugene H. Rothberg, *The World Bank: A Financial Appraisal* (Washington, D.C.: World Bank, 1976 and 1978); and World Bank Annual Report 1981.
[19] Ibid.

2009[20] – and many African countries see China as their ticket to prosperity. Chinese aid is especially attractive to Africa because it comes without all the troublesome conditions that Western donors and their institutions like the IMF and the World Bank place on recipients of the so-called 'aid.' It should be noted, however, while China can assist these marginalized countries through mutually beneficial trade agreements, it cannot be the panacea for long-term economic development. The most sustainable avenue for the achievement of economic development rests upon self-reliance. China, the Asian Tigers and, to some extent, North Korea are prime examples.

Since late 1970s and 1980s, the IMF and World Bank have been lending money to a number of the underdeveloped countries during financial crises with specific conditions. The countries have to follow the IMF's policies to get loans, international assistance, and even debt relief. The IMF decides on how much debtor nations can spend on education, healthcare, environmental protection, the maintenance and development of infrastructure, and essentially controls the economies of over 60 impoverished nations. Kevin Donaher lucidly captures this perspective:

> The unwritten goal of the IMF and the World Bank was to integrate the elites of all countries into the capitalist world system of rewards and punishments. The billions of dollars controlled by the IMF and the World Bank have helped to create greater allegiance of national elites to the elites of other countries than they have to their own national majorities. When the World Bank and the IMF lend money to debtor countries the money comes with strings attached. The policy prescriptions are usually referred to as "structural adjustment" and they require that debtor governments open their economies up to penetration by foreign corporations, allowing them access to the workers and natural resources of the country at bargain basement prices.[21]

Rather than increasing economic stability, the financial liberalization promoted by the IMF and the World Bank has caused financial crises in most of the world's economies particularly the dependent economies. Even, an IMF study found that "133 of the institution's 181 member countries suffered at least one significant banking crisis from 1980 to 1995. The World Bank identified more than 100 major bank collapses in 90 underdeveloped countries…in late 1960s to 1974."[22] Martin Khor believes that the prescribed structural adjustment programs of 1980s was devised to shift the burden of economic mismanagement and financial mismanagement from the developed countries to the underdeveloped, and from the elites in the peripheral world to their people and the communities. He notes that the structural adjustment is also a policy to continue trade and economic patterns developed during the colonial period. He concludes by asserting that the Western imperialist powers are using the IMF and the World Bank to play the role of

[20] Scott Baldowf, "Hu's Trip to Sudan Tests China-Africa Ties: Chinese President Hu Jintao's Visit to Sudan Could Cement China's Position as the Continent's Business Partner of Choice" *The Christian Science Monitor*, 3 February 2007. Accessed online, 1 April 2009. www.csmonitor.com/2007/02/p96s01-woaf.html

[21] "WTO, IMF and World Bank" Accessed online, 23 March 2009. www.govspot.com/features/wtoimfworldbank.html See also Kevin Danaher, *50 Years Is Enough: The Case against the World Bank and the International Monetary Fund* (Cambridge, MA: South End Press, 1994).

[22] "Globalization" Accessed online, 23 March 2009. http://incarta.msn.com/encyclopedia_1741588397_3/Globalization.html

subjugating and exploiting the underdeveloped countries that have become dependent than ever before.[23]

Loan Defaults and Repudiations

Contrary to the claim by the World Bank that they had never suffered any loss or default in lending money to the debtor nations, there is ample evidence that some of the impoverished, entrapped borrowers have reneged or repudiated the loans. One example is Chile. Chile defaulted on its debts to the World Bank by suspending service on all payments of interest and principal to the institution on January 1, 1973. But the response of the World Bank was swift but conciliatory because such a default could trigger a wave of defaults that would bankrupt the international financial institution. Imagine if all the debtor nations were to be united in their repudiation of the outrageous debts and refused to pay back to the creditors, what would be the fate of the neoliberal capitalist system? Therefore, the World Bank concluded that while the resumption of normal development lending was not feasible, it promised to provide the highest priority to "accelerating disbursements on existing loans to Chile, to amend two earlier loan agreements to ease the interest burden during construction, and to extend a small technical assistance loan as evidence of the Bank's desire to assist Chile's future economic development when circumstances permitted."[24] Only then the Chilean government decided to normalize relations with the World Bank and agreed to resume service on loans and credits with the Bank from July 1, 1973, and to honor all debt in arrears by December 31, 2973.[25] The fact is that the World Bank made the decision to cooperate rather than confront the Chilean government under the leadership of President Salvador Allende to prevent an avalanche of defaults by debtor nations. It should be noted that by the time Allende announced that Chile had decided in 1971 to suspend payments due on foreign debts, the country had started to accumulate astronomical debts. It was $300 million in 1971; but in 1972, it was $400 million – altogether it was equivalent of Chile's regular annual earnings at that period of time.[26] One suggestion was that if Chile had implicitly or explicitly opted for debt repudiation strategy, they would have been faced with international isolationism engineered by the World Bank while another economist suggested that refusal to pay back the debt implied that all further transactions between Chile and the World Bank would have come to a halt and that the consequences would have been unbearable for Chile.[27] The two suggestions should be considered shortsighted. The suggestions had simply ignored some historical facts. China and other former East European socialist countries achieved a measure of economic growth compared to most of the African and Latin American debtor nations. They did not depend on the economic miracle of the World Bank.

Another case of repudiation by a debtor nation occurred in Ghana. Ghana, the first African country to gain independence from Britain, treated the world in January 1972 to the novel spectacle of an anti-IMF/World Bank military coup led by Colonel I. K. Acheampong, who dethroned the elected President Kofi Busia for devaluating the currency: cedi. The colonel then decided to take "a unilateral but selective repudiation of some of Ghana's external debts, and the unilateral rescheduling of much of the rest as well as embarked on reversing the

[23] Kevin Danaher, *50 Years Is Enough*….,p. 28.
[24] Cheryl Payer, *The World Bank: A Critical Analysis* (New York: Monthly Review Press, 1982), p. 47.
[25] Ibid.
[26] Cheryl Payer, *The Debt Trap*…, p. 192.
[27] Ibid., p. 193.

devaluation. During the rescheduling, the then Minister of Finance, J. H. Mensah launched a protest to the IMF/World Bank that the repayment conditions were creating enormous hardship on the country to such a degree that "per capita income of Ghana had fallen from $261 in 1965, under President Kwame Nkrumah, to $239 in 1969 and that unemployment now was as high as 30-35 percent."[28] He provided this gloomy remark:

> The agreement we are signing only threatens to sanctify, with the concurrence of our government, the principle of relieving debts by increasing them, but also embodies a particularly harsh application of that principle. It is impossible to convince any Ghanaian that public money should be spent on paying such debts rather than on developing the country.[29]

As a result of the debt repudiation by Ghana, Britain and the European Economic Council (EEC – now known as European Union – EU) decided to cut off export credit insurance to the country. Acheampong reacted by mobilizing internally to stimulate the domestic economic activities in order to make up for the decreased import of goods. The government launched an 'Operation Feed Yourself' movement to reduce its dependence on food imports and imposed the most stringent import rationing in history. The regime urged the factories that depended on imported agricultural raw materials to go into farming business so that they can produce their own raw materials and ultimately feed the nation. Indeed, after eight months in office, Acheampong announced to his people that the budget for 1972-1973 would be entirely financed from domestic sources,[30] attesting to his commitment to self-reliance.

While the debt repudiation was overwhelmingly supported by Ghanaians, the administration of Acheampong failed to meet the basic necessities for the people not because of the noble course to break up its extraordinary dependence on IMF/World Bank, but because the government failed to seek for international solidarity. Granted that most African countries had just gained their independence (and others were in the process), self-reliance is not synonymous with autarky. The government could have sought for assistance outside Africa, especially with the then Soviet bloc to alleviate its constraints. Its failure caused consumer shortages and price inflation that further accelerated underdevelopment and poverty in the country.

More recent events in Latin America indicate that some of the countries in the region are gearing up for a vigorous opposition to the IMF/World Bank's odious lending practices and are seeking a way out. After two decades as one of the IMF's most dedicated pupils, Bolivia, under President Evo Morales is now following the footsteps of Argentina, Brazil, and Venezuela to free itself of the corset imposed by the multilateral lender. The socialist leaning government declared, in April 2006, that it would not renew the country's three-year stand-by loan with the IMF which expired on March 31, 2006. Argentina and Brazil had repaid their outstanding debts of $9.8 billion and $15.44 billion respectively to the IMF. But, unlike Brazil and Argentina, Bolivia does not have plans to pay off its "illegitimate" debt of $13.9 billion to the IMF ahead of schedule. President Morales is opposed to "neoliberal" free market policies followed by his predecessors in 1990s in Bolivia, South America's poorest country since he took office in January 2006.[31]

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[28] Ibid., p. 201.
[29] Ibid, pp. 201-202.
[30] Ibid., p.203.
[31] "Morales to Shake free of IMF York" Accessed online, 20, April 206. www.globalexchange.org/countries/americas/bolivia/3933.html

Morales, the country's first-ever indigenous president who garnered nearly 54 percent of the vote on his way to landslide victory in the election conducted in December 2005 and has a current popularity rating of 80 percent, aims to put an end to 20 years of dependency on the IMF and its economic policy prescriptions.[32] In the words of Catholic Priest Gregorio Iriarte who has been at the forefront of the movement for the cancellation of Bolivia's external debt: "The debt is illegal and illegitimate not only because the capital has already been paid off, but rather because of the political conditions imposed by the indebtedness and the high rates of interest."[33] In 2007, the efforts undertaken by Iriarte and others resulted to a successful curbing in the annual "breading" of Bolivia through debt service payments, which had climbed to $400 million yearly. The IMF's structural adjustment programs imposed on Bolivia contributed to 25,000 percent yearly inflation in 1980s, a sharp cut in public spending which led to the layoffs of some 30,000 public employees and a ruin economy.[34]

Another South American country that had not been spared by the IMF/World Bank is Argentina. Even the IMF's internal audit unit report confirms that its policies crippled Argentina in the 1990s. The IMF's handling of the country's economic crisis undoubtedly deepened a recession that threw millions of Argentines into poverty and sparked political chaos throughout the country. The IMF overlooked the country's growing indebtedness and continued to lend money even when its debt burden had become unsustainable. The turning point was when the Argentine government defaulted on nearly $100 billion on debt to private creditors and had to abandon the "convertibility" system that pegged the peso to the dollar at a one-on-one rate. The ensuing crash led to an 11 percent decline in the country's output in 2002, which greatly contributed to a soaring jobless rate and a series of presidents being toppled in a country that the IMF had once hailed as a model of the "invincible hand" free market reform and development.[35] The cause of the political and economic downturn can be attributed to the decision by Argentine government to follow the prescription of the IMF word for word for every issued instruction. The state corporations were privatized and the main sources for public financing built by pension contributions were disrupted and left to international banks. In short, Argentina depended almost entirely on international finance and foreign investment for national development. That is a recipe for economic calamity, especially in a forced system that stipulated that one Argentine peso was to be equal to one U.S. dollar without much consideration to external factors.

That situation led to two fundamental pillars of poverty: the cheap dollar prevented Argentine corporations from exporting, and conversely the internal market purchased all kinds of imported goods whose price was lower than that of locally manufactured items. Meanwhile, the foreign debt rose from $50 billion to $150 billion in only ten years.[36] Consequently, Argentina that had a very low unemployment rate (under 6 percent) in 1984, one of the highest literacy rates in the world, and an industrial and cultural project with no precedents in Latin America, was faced with an unemployment of 20 percent, and pushed the number of people living in poverty from one million to 14 million."[37]

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[32] Ibid.
[33] Ibid.
[34] Ibid.
[35] Paul Blustein, Washington Post "IMF Says Its Policies Crippled Argentina: International Audit Finds Warnings Were Ignored" 30 July 2004 http://www.globalexchange.org/campaigns/wbimf/2377.html
[36] Elizabeth Levy Sad "The IMF and Usury: Crime Without Punishment" 11 July 2005 http://upsidedownworld.org/main/content/view/26/32
[37] William I. Robinson, "Storm Clouds Over Latin America" Focus on Trade Number 83, December 2002 http://nadir.org/nadir/iinitiative/agp/free/imf/stormclouds.html

The neo-liberal project, so meticulously imposed on Latin America as a whole by transnational financial oligarchs and their local compradors fostered the collapse of their economies. The unprecedented widespread political turmoil such as the revolt in Argentina, peasant insurrection in Bolivia, aborted *coups d'état* in Venezuela and Haiti, street uprisings in Paraguay, Uruguay, and Peru, a currency slide in Brazil, the continued escalating civil war in Columbia were the direct consequence of the austerity measures imposed on the region by the IMF and the World Bank. Needless to say that the neo-liberal model imposed on Latin American countries failed woefully. The foreign debt climbed astronomically throughout the late 1980s and 1990s, from $230 billion to $533 billion in 1999, and then to over $1 trillion by the 21st century. Payment of this colossal debt exacted a painful mark on Latin American economies and prevented any lasting recovery in the 1990s. Argentina's payment on the interest alone consumed 35.4 percent of export earnings in 1998. For Brazil, the figure was 26.7 percent; for Colombia, 19.7 percent; for Ecuador, 21.2 percent; for Nicaragua, 19.3 percent; for Peru, 23.7 percent; and for Venezuela, 15.3 percent.[38] Consequently, as the debt mounted repayment pressures got to the point where the Latin American governments could no longer meet even minimal social responsibilities. The local compradors or the ruling classes were caught between the withdrawal of transnational investors and the civil unrest in the societies due to the fact that the poverty-stricken marginalized majorities could no longer bear the enormous hardship created by the infamous austerity measures.

That the IMF and the World Bank act as a usurer that undermines the growth of the economies of the peripheral world and insist on using recipes that are designed to perpetuate the 'development of underdevelopment' can only be disputed by those who are appendage to these institutions. The activities of the IMF and the World Bank have had disastrous consequences on the underdeveloped countries' economies:

> In 1982, Mexico owed $57 billion to credit entities. Two decades later it owes $152 billion, an amount that triples what it has already paid. According to official data, this country has 55 million poor people, almost half of its total population.
> Brazil, one of the most unequal countries on Earth in terms of income distribution, [owed] 223 billion dollars. [One third of Colombia's national budget] will be used to pay the principal interest on [its] debt. Meanwhile, 62 percent of the Colombian children are poor and indigent.[39]

In Latin America, conditions of abject poverty were worsened by the odious debts. Loans procured by governments like the military junta in Argentina and the dictatorship of Augusto Pinochet of Chile were used to prop up the repressive governments under the guidance of the IMF and the World Bank. In Argentina, the military junta that came to power in 1976 coup accrued more than $168 billion in foreign debt. While more than 70,000 people were tortured, killed, or disappeared during the regime's rule, the IMF/World Bank still lined up to offer loans to the leaders, increasing the Argentine debt by 600 percent.[40] These cases demonstrate that the

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[38] Ibid.

[39] Elizabeth Levy Sad, "The IMF and Usury: Crime Without Punishment," 11 July 2005 http://upsideownworld.org/main/content/view/26/32.html

[40] California Newsreal, Globalization: People, Places and Power. Sixteen Films: A Project of California Newsreal www.newsreal.org. The IMF/World Bank practice of supporting repressive governments extended beyond Latin American. In South Africa and Philippines, conditions of abject poverty were worsened by the same type of odious debt. Loans procured by the South African apartheid regime to prop up its repressive machinery weighed heavily on

IMF and the World Bank systematically sacrificed human rights and democratic principles for profits. That sentiment has been observed by Thomas Pogge of Columbia University.

> We pressure poor countries to repay their debts. But many such loans were taken out by autocrats who used it to repress dissent and to build personal wealth in the West. [We tolerate] the effects of forcing poor populations to foot the bill for their own oppression.[41]

Raymond Baker also echoes the sentiment:

> We loaned hundreds of billions of dollars to illegitimate regimes, then facilitated the flow of trillions of dollars of corrupt and tax evading money out of these same countries, and now have the audacity to tell the next generation of poor people that they have to pay off their debts in order to be credit worthy in the future. The arrogance of this position is breathtaking.[42]

Yet, the area where the IMF/World Bank have the most tenuous claim to moral authority is the war against corruption even though the World Bank's internal operation is not known for transparency and good governance. For example, Paul Wolfowitz who was appointed President of the World Bank to promote "good governance" among the financial institution's borrowers was ignominiously forced to resign over the well-documented $50,000 a year, tax free pay rise given to his British-born girlfriend, Shaha Riza. How could such a hypocrite have championed the fight against the 'culture of corruption' that is so pervasive in the underdeveloped world? Who wants to be lectured on corruption by a guy telling others 'do as I say, not as I do'? Suffice it to say that the like of Paul Wolfowitz with propensity for gross abuse of power are still masquerading in the World Bank as the prophets of change in the crusade of antipoverty.

Nearly everywhere that mass state pillage has taken place over the past four decades, the IMF and the World Bank have always been the first on the scene of the crime, looking the other way as the locals filled up their pockets; they have been writing the ground rules for the theft. Naomi Klein captures this perspective:

> From Chile's dictator Augusto Pinochet, who accumulated more than 125 bank accounts while building the first neoliberal state, to Argentine President Carlos Menem, who drove a bright red Ferrari Testarossa while he liquidated his country, to Iraq's "missing billions" today, there is, in every [underdeveloped] country, a class of ambitious, bloody-minded politicians who are willing to act as Western subcontractors. They will take a fee, and that fee is called corruption – the silent but ever-present partner in the crusade to privatize the [underdeveloped] world.[43]

The fact of the matter is that there is substantial evidence to believe that corruption has never been a high priority for the World Bank and the IMF: the policies that are being propagated against the furious opposition of the masses in the recipient countries by these financial

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the succeeding governments that were determined to repay them to remain attractive for foreign investors. Similarly, in the Philippines, lending institutions lined up to offer funds to Ferdinand Marcos in spite of his flagrant abuse of human rights.

[41] Ibid., p 12.

[42] Ibid.

[43] Naomi Klein, "IMF/World Bank Atrocities" Accessed online, 1 May 2007. http://www.thenation.com/doc/2070514/klein

institutions cannot be enforced without the willing cooperation of the enlisted politicians who are ordered to advance an economic agenda that mutually serves the interests of the institutions and themselves.

Indeed the backlash against neoliberalism in Latin American is now leading to confrontations between several of the region's governments and the IMF/World Bank. In the span of just a few weeks in May 2007, President Rafael Correa announced that Ecuador was expelling the World Bank's representative from the country; and President Hugo Chavez announced that Venezuela would be withdrawing from both the institutions and even rightly proposed the formation of a new regional lending institution, the "Bank of the South" as a replacement for the discredited institutions that tie credit to the adoption of neoliberal policies like privatizing public enterprises, reducing public employment, eliminating price controls on basic goods, weakening protections for workers and labor unions. Meanwhile privatization programs, which transfer the control of government services to profit-making companies, continue to accentuate the thin ties that link public resources to public needs and benefits. There is nowhere the policy of the IMF/World Bank has had more adverse impact than Africa - a region that is still largely agrarian.

The policies of the IMF/World do not contribute to stable, sustained economic expansion; they often lead to growing inequality in the peripheral world, particularly in Africa. The IMF/World policies – especially reductions in government spending – have a severe negative impact on the underdeveloped countries because they generate high rates of unemployment and lead to the cutting of social programs. Still, the IMF/World Bank rationalize their prescription for draconian spending cuts in times of crisis by claiming that balanced budgets are the foundation of long-term economic stability and growth. That is a fallacy. Some economists believe in global recessions, government deficits are desirable because they boost spending which in turn counteracts the spiral downturn of the economy; balanced budgets in such circumstances tend to accelerate the downturns. Additionally, curtailing social spending – on education, healthcare, and infrastructure projects – undermines the long-term economic progress.[44]

There is nowhere in Africa the neoliberal economic policies of the World Bank and the IMF is stifling the lives of the people than in South Africa – a country that has suffered (and continues to endure) enormous pain caused by the infamous apartheid system. *De jure* apartheid had since died but its legacies are still contributing to the economic exploitation and injustice being felt daily by those who were marginalized under the nefarious system. The structural adjustment policies have been destroying lives in South Africa due to the closing down of clinics, hospitals, and schools because the IMF/World Bank asserted that the black majority government was spending too much money on the poor. Consequently, water and even roads are now being privatized. As argued by Trevor Ngwane, Secretary of the Anti-Privatization Forum, a coalition of many communities, labor, student and other progressive social organizations in the Johannesburg region dedicated to the struggle for racial, gender, social, environmental and economic justice:

> Today, in South Africa, in our budget, our government is spending 48 billion rands [roughly $7 billion] servicing the debt. But you know where this debt comes from? This is the money which was borrowed by apartheid to buy guns and bullets to kill us. Today, we

[44] Betsy Rakocy, Alejandro Reuss, Chris Sturr and the Dollar and Sense R*eal World Globalization: A Reader in Business Economics and Politics* (9th edition). (Boston, MA: Dollar and Sense, 2007), p. 121.

> are being made to pay twice for apartheid. We paid for apartheid with our blood, we paid with our lives. Today, we are paying the debts of apartheid. Away with the World Bank….[45]

The neoliberal policies which include the intensified privatization of electricity, water, transport, telecommunications and other essential services are disproportionately affecting the nonwhite population. They also affect women than men, and hurt the life chances of the young, the elderly, and the disabled. For instance, water cutoffs and denial of service to low-income rural women in Kwazulu Natal province forces them to walk long distances to polluted rivers to fetch water for cooking and other usage. That was the reason why in recent past South Africa had suffered 100,000 cases of cholera, a significant number of the cases recorded in Soweto where black people had suffered (and continue to experience) extreme hardship because of the IMF/World Bank prescribed and the South African black majority government enforced policy of refusing to subsidize services sufficiently to those who cannot afford the "economic" or the market-driven rates.[46]

The dubious activities of the IMF/World Bank on South Africa dates back to the infamous apartheid era. During that period of white minority settler regime in South Africa, the IMF/World Bank committed, among others, the following crimes:

(1) The [World] Bank's $100 in loans to Eskom from 1951-67 that gave only white people electric power, but for which all South Africans paid the bill;
(2) The [World] Bank's point-blank refusal to heed a United Nations General Assembly instruction in 1966 not to lend to apartheid South Africa;
(3) IMF apartheid-supporting loans of more than $2 billion between the Soweto uprising in 1976 and 1983, when the U.S. Congress finally prohibited lending to Pretoria;
(4) [World] Bank loans for Lesotho dams, which were widely acknowledged to "sanctions-bust" apartheid South Africa in 1986, via a London trust; and
(5) IMF advice to Pretoria in 1991 to impose the regressive Value Added Tax, in opposition to which 3.5 million people went on a two-day stay away.[47]

During the late 1970s and early 1980s, the IMF made billions of dollars of loans to apartheid South Africa. So, in the late 1980s and early 1990s when it became obvious that the end of the white regime was only a matter of time, the apartheid government decided to sell state assets to white-owned conglomerates and raised interest rates to the highest levels in the history of the country under the guidance of the IMF. The IMF consistently argued that South African workers were overpaid, and that South Africa should implement a Value Added Tax to shift the burden of tax payment to starvation wage-earning South African workers, majority of them were blacks. The World Bank staff were also responsible for a 1995 infrastructure policy which recommended low standards and high prices for household water and electricity, even though the Reconstruction and Development Program (RDP) initiated by black majority government under the then President Nelson Mandela mandated the opposite. Yet, the World Bank staff

[45] Democracy Now! *The War and Peace Report*. Thousands in Washington Kick Off IMF-World Bank Protests Demanding Debt Relief for Poor Countries. Accessed online, 10 April 2010. http://www.democracynow.org/2000/4/10/thousands_in_Washington_kick_off_imf

[46] Trevor Ngwane "South Africa Movement" Accessed online, 25 August 2010. http://nadir.org/nadir/initialiv/agp/free/imf/africa/0825movement.html

[47] Patrick Bond, "Reflections from South Africa: Breaking the Chains of Global Apartheid" *International* Socialist Review Issue 19, July-August 2001 Accessed online, 5 November 2010. http://www.isrevew.org/issues/19/PatrickBond.html

recommended that low-income households not be provided flush toilets but instead use pit-latrines, without considering the public health risks of excrement leaking into Johannesburg's water table through its dolomitic rock.[48]

Furthermore, during the transition to democracy and after the attainment of black majority rule in 1994, neo-apartheid lending and policy advice by the World Bank/IMF include among other damages to the oppressed South Africans:

- an $850 million IMF loan to South Africa in December 1993 that carried conditions of wage restraint and cuts in the budget deficit, which in turn hampered the transition to democracy;
- the [World] Bank promotion of "market-oriented" land reform in 1993-94, which established such onerous conditions (similar to the failed Zimbabwe policy) that instead of 30 percent land distribution as mandated in the RDP, less than 1 percent of good land was distributed;
- the [World] Bank's endorsement of bank-centered housing policy in August 1994, with recommendation for smaller housing subsidies;
- the [World] Bank's design of South African infrastructure policy in November 1994, which provided the rural and urban poor with only pit latrines, no electricity connections, adequate roads, and communal taps instead of house or yard taps;
- the [World] Bank's insistence that corrupt Lesotho Highlands Development Authority boss Masupha Sole stay in his job in December 1994 (six years after he began taking bribes from international construction companies) in a threatening letter to the Lesotho government;
- the [World] Bank's promotion of water cutoffs for those unable to afford payments, opposition to a free "lifeline" water supply, and recommendations against irrigation subsidies for black South Africans in October 1995, within a government water-pricing policy in which the World Bank claimed (in its 1999 "County Assistance Review") to play an "instrumental" role;
- the [World] Bank's conservative role in the Lund Commission in 1996, which recommended a 44 percent cut in the monthly grant to impoverished, dependent children from R135 ($18.51) per month to R75 ($10.28); and
- the [World] Bank and the IMF's consistent message to South African workers that their wages are too high and that unemployment can only be cured through "labor flexibility".[49]

The global capitalist led attacks on working class in the world, particularly in the peripheral regions, is noteworthy. For instance, a World Bank report on Mexico, entitled "An Integral Agenda of Development for the New Era," includes specific recommendations on labor policy for the government of the then President Vincente Fox, most notably proposals for increasing the "flexibility" of Mexican labor. The report recommends eliminating such regulations as severance pay, collective bargaining, exclusion contracts, obligatory benefits, restrictions on contracts for temporary employment and apprenticeships, seniority-based promotion schemes, company-sponsored training programs, and company payments to social security and housing plans.[50] The IMF/World Bank fabricated function of assisting development in many countries by

[48] Tevor Ngwane and George Dor, "The IMF Can Only Bring Misery to South Africa," Accessed online, 7 December 2000. http://nadir.org/nadir/iniativ/agp/free/imf/africa/africa.html
[49] Bond, "Reflections from South Africa…."
[50] World Bank, "An Integral Agenda of Development for the New Era" (Washington, DC: The World Bank, 201).

offering the governments of those countries enormous financial loans is nothing but a sophisticated financial scheme. The IMF/World, usually backed by the world's most powerful corporations, grant loans and then reap billions of dollars in profits from the governments in the form of outrageous interest which in legal term is called "usury" but in political term we call it "gross exploitation." These profits have to be paid for by the working class who are forced to deal with the lack of healthcare, reduced education budgets, destruction of public transportation and housing, and the degradation of their working conditions. This enormous burden is placed on the workers to keep the corporate bottom-line of generating accumulation of wealth for the shareholders.

Under that backdrop, when the heads of the IMF and the World Bank toured Africa in 2002, they had hard time convincing Africans that they want the continent to develop and prosper. In fact, they spent more time defending their policies that are mostly blamed for the poverty and suffering throughout the continent. In a short and restricted meeting between the IMF/World Bank and the African heads of governments without their advisers in Mali in that year (2002), the workers of the Air Afrique protested the decision of the World Bank to break up the company to allow Western corporations to purchase it. Air Afrique is owned by 11 West African nations.[51] The takeover of the airline by the Western firms would have meant higher prices of airfare for the people in the region. In Nigeria, the IMF/World Bank pressured the government to cut fuel subsidies in order to raise more money for debt repayment. Most of the country's $37 billion debt was owed to European governments, the largest part of which was owed to Britain, the former colonial power in Nigeria.[52] In Kenya, the financial twin sisters pressurized the government to move ahead to speed up privatization and sell the country's telecommunications company. They also advised against the government's efforts to regulate the price of oil and stop the country's commercial banks from imposing high interest rates on loans.[53] In both cases the major beneficiaries are foreign banks and multinational corporations that are making huge profits at the expense of the citizens and local businesses.

Despite the devastating impact of the policies of IMF/World Bank on Africa imposed on behalf of Western transnational corporations and governments, the officials of the financial institutions focused their attention on where debt payments were high namely: Nigeria, Kenya and Tanzania. Africa paid roughly $15 billion to Western governments and banks in 2002 out of which Nigeria paid $3 billion, Kenya paid $500 million while Tanzania paid $600 million. Yet, the World Bank own report entitled "African Development Indicators" provides a grim picture of healthcare and education in the continent where about 300 million people, almost nearly half of the continent's population survive on less than 65 cents a day. The Africa's illiteracy levels remain on average at 41 percent and for women the number is at 49 percent. The average gross national product is $492 but in 24 countries it is less than $350. Even some African countries have much lower incomes such as Ethiopia with less than $100, Democratic Republic of Congo with less than $110, Burundi with less than $120 and Sierra Leone less than $130.[54] The population in town and city slums had further been aggravated by the problem of urbanization. Meanwhile governments' slashed healthcare funding had increased infant mortality rates as well as reduction in life expectancy particularly in Kenya, Zambia, Mozambique, and Ivory Coast. In

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[51] Alexander's Gas & Oil Connections. "IMF and World Bank Blamed for Poverty and Suffering in Africa" *News & Trends: Africa*, Vol. 8, Issue #7, 4 April 2003. http://www.gasandoil.com/goc/news/ntae1474.html
[52] Ibid.
[53] Ibid.
[54] Ibid.

short, "mortality rate in Africa is 10 percent but on average, about 151 of every 1,000 children die before the age of 5.... [the underdeveloped] countries have mortality rates ranging from 6 to 8."[55] In general, the life expectancy that had slightly risen in Africa in the past few years is today being reversed due to the acquired immune deficiency syndrome (A.1.D.S) epidemic. In Zimbabwe, it has fallen by 5 years and in Botswana by 10 years. In 21 African countries, 7 percent of adult population currently has HIV/AIDS. South Africa has the dubious distinction of having the highest number of AIDS cases with one in every 5 adults.[56]

In many African countries today, the little progress made in the post-independence era of 1960s and 1970s is rapidly being reversed. Indeed, Africa is undergoing what Andre Gunder Frank calls "the development of underdevelopment." In countries such as Tanzania where literacy levels were high because of free educational scheme, high cost of education is now cutting the school enrollment levels as well as increasing dropout rates. It is therefore evident that Africa's increasing poverty and underdevelopment is directly proportional to the rate at which it assimilates the austerity policies of the IIMF/World Bank. The debt repayment by African countries to the world most predatory creditors is quite in contrast with the United States, which is responding to its downturn economy with a giant Keynesian deficit spending program, despite the roughly \$3 to \$4 trillion debt to foreign central banks, a substantial part of which is currently owed to China.

The Odious Debts

There is an interesting phenomenon known as "odious debt" in international law. An academic lawyer by the name of Alexander Sack coined the concept at the beginning of the 20th century. Writing about a national debt of a country, he argued: "If a despotic power incurs a debt not for the needs or in the interest of the state, but to strengthen its despotic regime, this debt is odious for the population of all the state. This debt is not an obligation for the nation."[57] Sack's work provided the legal rationale for action taken by the U.S. against Spain in the aftermath of the Spanish-American War. When the Americans captured Cuba from Spain in 1898, the Spanish demanded that the U.S. should repay Cuba's debts. The U.S. government refused to repay debts it considered to have been "imposed upon the people of Cuba without their consent and by force of arms. The creditors, from the beginning took the chance of the investment."[58] The debts, as the U.S. government was concerned had been used to suppress the democratic will of the people of Cuba. It was therefore an unjust debt and as such should not be repaid. Subsequently, the doctrine that "odious debts" are not the responsibility of the people and the successor governments had since become part of international law. Yet, the U.S.-led World Bank continues to insist that the debts owed primarily by Asian, Latin American, and African countries must be repaid, irrespective of international law or however odious.

In 1973, the United Nations described the apartheid system of South Africa as a "crime against humanity." The massive loans were granted to the illegitimate white minority settler regime despite the public warnings by lawyers for U.S. banks that the pending black majority government might not repay apartheid debts as the debts proceeds were used to support the

[55] Ibid.
[56] Ibid.
[57] Life and Debt Education pack Odious Debt – "Don't Owe – Won't Pay" 14 April 2009. http://www.detireland.org/resources/education-resources/j-edu-r-odious-debt.html
[58] Cited in the work of Joseph Hanlon "Take The hit!" *Economic Justice News Online* Vol. 2, No. 3, September 1999 http://www.50years.org/cms/enj/story/219

ostracized government against the interest of the local populace. Nevertheless, when President Nelson Mandela was sworn-in in April 1994, he inherited roughly $18 billion in debts. The IMF warned that unless the debts were repaid, South Africa would continue to be isolated even under the new democratic dispensation. Consequently, the money that should have been used to build schools, hospitals, homes and to create jobs for jobless millions in an effort to redress the legacy of apartheid was instead being sent to the very same U.S., British, Swiss and other Western banks that supported the infamous apartheid system. The irony of the situation is that the oppressed are being asked to pay for their oppression.

Another example of "odious debt" and the violation of international law occurred in Zaire (now The Democratic Republic of Congo) under President Mobutu Sese Seko. Mobutu was the man for whom the concept of "kleptocrat" was developed – a combination of compulsive thief and autocrat. But he acted as a bulwark against the threat of communism for the West during the height of cold war in 1970s and 1980s. That was sufficient to ignore his repressive regime as he plundered the nation's resources and kept the people of his country in perpetual fear and abject poverty while the bulk of the loans were converted into his personal Swiss account – a figure estimated to be more than $10 billion. In spite of the damning report by Edwin Blumenthal who was hired to work with Central Bank of the then Zaire (Congo) at the insistence of the IMF that "there is no chance, 1 repeat no chance that Zaire's numerous creditors will ever recover their loans,"[59] the IMF still lent the country $600 million, the World Bank lent $650 million and Western governments lent nearly $3 billion. When Mobutu was overthrown and died in 1998, the accumulated debt was over $13 billion much of which had been squandered on lavish palaces, maintenance of repressive machine through sordid and pernicious corruption while the rest of the money was siphoned to private accounts in the West. Instead of the successor government spending every penny it has rebuilding the plundered nation, "every man, woman, and child must repay $260 in debt."[60]

A third example of odious debt and flagrant violation of international law by the IMF is connected with Philippines under President Ferdinand Marcos, a dictator whose wife, Imelda, was proud to have more than 1,000 shoes. Marcos impoverished his country while amassing a personal fortune estimated to be well over $10 billion. The political milieu of Philippines was marked with corruption and favoritism. Marcos and his cronies pocketed more than a third of all loans worth billions of dollars in the form of kickbacks and commissions. When President Corazon Aquino took over power, rather than seize Marcos's foreign accounts for repayment of the debts, the IMF decided to put the burden on Aquino administration and directed the government to raise taxes and end rice subsidy in order to repay the debts.[61] The Philippine government is still struggling to pay off the odious debt resulting from the loans that President Marcos accumulated in office, much of which did not benefit the people.

A fourth example of "odious debt" occurred in Rwanda. The Hutu-led government that organized and carried out the genocide against Tutsi ethnic group in the country in 1994 was in receipt of hundreds of millions of dollars of loans from foreign creditors, about 87 percent of which was lent by the IMF/World Bank. At the end of 1999, Rwanda, one of the heavily indebted poor countries (HIPC), had external debt of $1.2 billion or 61 percent of gross national product.[62] Many observers including even the British House of Commons International

[59] Life and Debt Education Pack Odious Debt "Don't Owe – Won't Pay."
[60] See Joseph Hanlon, *Economic Justice News Online*….
[61] Ibid.
[62] USAID "Rwanda" 12 March 2002 http://www.usaid.gov/pubs/bj2001/afr/rwl

Development Committee in its May 1998 recognized the loans as an example of "odious debt" by asserting that "the bulk of Rwanda's external debt was incurred by the genocidal regime which preceded the current administration……loans were used by the genocidal regime to purchase weapons and the current administration and ultimately, the people of Rwanda, should not have to repay these odious debts."[63] The irony of this situation is that when the Tutsi-led successor government took over power, the IMF insisted that the government must repay the loans the bulk of which were used to buy the weapons to kill about one million ethnic minority Tutsis while the IMF/World Bank and the rest of the world idly watched.

In each of these cases of "odious debts" the IMF/World Bank and other Western creditors lent the money undoubtedly knowing the questionable standing of those borrowers who received it. Even if it is assumed that the creditors did not know how the loans were being used, it is not ethically or morally responsible to ask the oppressed to pay for their oppression? Joseph Hanlon lucidly postulates: "If a compulsive gambler goes to a bank to borrow money and the bank is stupid enough to lend it: who is liable? [Is it] the bank or the gambler's children? The lenders backed…repressive [regimes] that made it impossible for citizens to object to the loans. This is not just lending to the gambler – it's helping him to abuse his spouse when she objects."[64] The fact of the matter is that in each case of the "odious debts" the people were not consulted and there is hardly any evidence that they benefited from the loans.

So, why did the IMF/World Bank and Western governments turn a blind eye to obvious corruption perpetrated by Mobutu, Marcos and other dictators? Why did the IMF/World Bank support the fascist white minority settler regime in apartheid South Africa by furnishing it with billions of dollars of loans used to keep black majority in bondage, a crime against humanity in the words of the United Nations? There are several factors that accounted for the U.S. directed but the World Bank/IMF enforced neoliberal policy. The first and obvious factor is self-interest inspired by Cold War paradigm. Besides the profit motive, the IMF/World Bank, as a tool of the U.S. foreign policy, followed the prescriptions laid down by the American policy makers to strengthen allies and weaken adversaries such as the then Eastern bloc led by the Soviet Union in the East-West competition for world hegemony. Another factor is that the generated profits by the IMF/World Bank and the billions of dollars amassed by the corrupt leaders were siphoned back to the Western nations' private accounts which had enhanced their economic development efforts at the expense of the underdeveloped countries. Most importantly, it is also noteworthy that the international financial multilateral creditors led by the IMF/World Bank that created the "odious debts" were fully aware that the United States government which has enormous global economic and political leverage would enforce repayment.

Conclusion

In conclusion, the IMF's and the World Bank's policies significantly contribute rather than reduce poverty. The World Bank's money has done nothing to improve the living conditions of the countries it "donates" or lends money. The countries that have received loans from the IMF/World Bank are still as poor as they were 40 years ago because of the odious debts in addition to the internal constraints such as mismanagement and corruption. The poverty or backwardness of Africa is certainly not an inscrutable will of some divine power as some apologists would have us believe; rather, the IMF and the World Bank are appendage to the

[63] Joseph Hanlon, *Economic Justice News Online…*
[64] Ibid.

problem. The underdeveloped regions, particularly Africa, have always been and remain a dumping ground for toxic waste for the Western multinational corporations. In 1991, for instance, then Chief Economist for the World Bank and recently President Barrack Obama administration's Chief Economist Adviser, who had been a strong backer of structural adjustment policies, wrote in an internal memo:

> Just between you and me, shouldn't the World Bank be encouraging more migration of dirty industries to the LDCs [less developed countries]?...The economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable, and we should face up to that… Under-populated countries in Africa are vastly under-polluted; their air quality is probably vastly inefficiently low compared to Los Angeles… The concern over an agent that causes a one in a million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-five mortality is 200 per thousand.[65]

That view held by a World Bank president is far-fetched from the institution's motto: "Our dream is a world without poverty." Thus, globalization, from the perspective of neoliberal advocates, fosters the agenda of the IMF and the World Bank in their quest for domination of global political economy. It is time to boycott the IMF and the World Bank and replace them with several regional banks such as the proposed "Bank of the South" by the late President Hugo Chavez of Venezuela. The marginalized countries would be better off through regional cooperation and collaboration rather than the twin sisters' institutions that do not serve their best interest.

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[65] Anup Shah, "Criticisms of Current Forms of Free Trade," 31 March 2006. http://www.globalissues.org/article/40/cricisms-of-current-forms-of-free-trade.

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