Ernst Wolff

Pillaging the World

The History and Politics of the IMF

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This book is dedicated to those people in Africa, Asia and South America who cannot read it because the politics of the IMF have denied them the right to education.

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Foreword

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

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

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

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

Because of its global status as "lender of last resort" governments usually have no choice but to accept the IMF's offer and submit to its terms – thus

getting caught in a web of debt, which they, as a result of interest, compound interest and principal, get deeper and deeper entangled in. The resulting strain on the state budget and the domestic economy inevitably leads to a deterioration of their financial situation, which the IMF in turn uses as a pretext for demanding ever new concessions in the form of "austerity programs".

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

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

At the other end of the social scale, however, the policies of the IMF have helped a tiny layer of ultra-rich increase their vast fortunes even in times of crisis. Its measures have contributed decisively to the fact that global inequality has assumed historically unprecedented levels. The income difference between a sun king and a beggar at the end of the Middle Ages pales compared to the difference between a hedge fund manager[1] and a social welfare recipient of today.

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

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

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

[1] In 2010 hedge fund manager John Paulsen earned $ 5 billion. This equals a daily income of $ 19.2 million, almost ten million times the amount of $ 2 a day which 2.5 billion people had to live on that year.

Harry Dexter White and John Maynard Keynes at the opening meeting of the IMF's Board of Governors in Savannah, Georgia, March 8, 1946.

The Bretton Woods Conference: Starting out with Blackmail

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

The conference had been preceded by several years of secret negotiations between the White House and Downing Street which had already been working on plans for a new world monetary order since 1940. A recorded comment from the head of the British delegation, the economist Lord Keynes, sheds light on the former elite's attitude towards the interests and concerns of smaller countries: "Twenty-one countries have been invited which clearly have nothing to contribute and will merely encumber the ground… The most monstrous monkey-house assembled for years."[2]

It did not take long before their contemptuous attitude rebounded on Lord Keynes and his compatriots. During the course of the conference, it became increasingly clear how much the global balance of power had shifted to the disadvantage of Great Britain. Excessive war spending had turned the country, already severely weakened by the First World War, into the world's

biggest debtor and pushed it to the brink of insolvency. Great Britain's economy was on its knees and the rise of the liberation movements around the world already heralded the final breakup of its once global colonial empire.

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

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

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

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

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

The distribution of voting rights suggested by the US for the proposed organizations[3] was also far from democratic. Member countries were not to be treated equally or assigned voting rights according to the size of their population, but rather corresponding to the contributions they paid – which meant that Washington, by means of its financial superiority, secured itself absolute control over all decisions. The fact that South Africa's racist apartheid dictatorship was invited to become a founding member of the IMF sheds a revealing light on the role that humanitarian considerations played in the process.

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

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

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

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

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

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

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

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

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

- To facilitate the expansion and balanced growth of international trade,

- To promote exchange rate stability and assist in the establishment of a multilateral system of payments,

- To provide member countries facing balance of payments difficulties with temporary access to the Fund's general resources and under adequate safeguards,

- To shorten the duration and lessen the degree of disequilibrium in the international balances of payments of member countries.

These official terms make it seem as if the IMF is an impartial institution, placed above nations and independent of political influences, its main objective consisting in running the global economy in as orderly a manner

as possible, swiftly correcting malfunctions. This is no coincidence. This impression was intended by the authors and has in fact achieved its desired effect: It is exactly this notion that has been conveyed to the global public for more than six decades by politicians, scientists and the international media.

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

Camille Gutt in Bretton Woods, 1944

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

as the "Gutt operation") that had cost the working population of Belgium large amounts of their savings.

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

The world's major political changes after World War II caused considerable headaches for the IMF, because they limited the scope of the organization. Above all, the Soviet Union took advantage of the post-war situation, characterized by the division of the world among the major powers and the drawing of new borders in Europe. Still relying on the socialization of the means of production by the Russian Revolution of 1917, Stalin's officials sealed off the so-called "Eastern bloc" from the West in order to introduce central economic planning in these countries. The Soviet bureaucracy's primary objective, however, was not to enforce the interests of working people, but to assure the subordination of the Eastern Bloc under its own interests for the purpose of pillaging these countries[4]. In any case, the fragmentation of Eastern Europe meant that Poland, East Germany, Czechoslovakia, Hungary, Romania, Bulgaria and several other markets became blank areas for international financial capital.

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