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PENSION TRUSTS

All Pain, No Gain

Following the success of the first five articles in our series on the topic of money, this time we look at how the International Monetary Fund and World Bank systematically plunder the world's poorest nations.

In March of 2023, the International Monetary Fund (IMF) announced it had decided to grant Ukraine the seventh-largest bailout of the Fund's 79-year history. By doing so, it broke one of its own cardinal rules – that of never lending money to a country at war. It was, to put it mildly, a controversial move. In one headline, The Economist warned that Western leaders may, in the fullness of time, regret "forcing" Ukraine to turn to the IMF, whose $15.6 billion loan could end up "crippling the country's economy while it is still at war".

If so, Ukraine will not be the first country to have had its economy crippled by an IMF loan and the excruciating strings attached. In fact, the IMF and its sister institution, the World Bank, have been crippling economies across Asia, Latin America, Africa and Eastern Europe for the best part of half a century.

The World Bank and IMF

Established at the Bretton Woods Conference of 1944, the World Bank and IMF's initial mission was pretty straightforward: help fund the reconstruction of Europe and Japan after the devastation of World War II. Set up as a classic development bank, the World Bank's job was to disburse loans for reconstruction. The IMF's was to address balance of payment concerns and step in if countries began struggling with their debts.

By the early 1960s, however, both Japan and Europe were more or less back on their feet, which meant that the Bretton Woods duo had essentially fulfilled their mission. So they needed a new one, which revolved around draining the resources of the former colonies of Africa, Asia and Latin America. All for the benefit of the United States – the only country to have veto powers over the boards of the Bank and the Fund – and to a lesser extent, Western Europe and Japan.

The Fund and Bank executed their roles with aplomb. By 1982 the net flow of funds from advanced economies to developing ones turned negative. From that point, developing countries began paying more in debt servicing costs to rich countries than all the money they received in aid, loans and development funds.

The World Bank's loans and the IMF's "structural adjustment" policies have plunged developing economies into bottomless debt traps, forcing them to focus on producing goods. These often basic commodities are made for consumption in the West, instead of developing domestic consumption and

industry, says Alex Gladstein, chief strategy officer (CSO) of the Human Rights Foundation and author of Hidden Repression: How the IMF and World Bank Sell Exploitation as Development.

This is, of course, the opposite of what the Fund and the Bank claim to do – i.e. help the world's poorest countries withstand financial crises and develop their economies. But the numbers speak for themselves:

- In 1970, the total external debt of developing countries was $46 billion; today, it is $8.7 trillion – a 189-fold increase in 52 years.
- Since 1970 poor countries have paid $4.2 trillion in interest payments alone. Today, 3.3 billion people live in countries that spend more on interest than on education and health.
- Total global public debt reached $92 trillion in 2022, a five-fold increase since 2000, with developing countries accounting for 30% of the burden—a disproportionate share given the size of their economies.

How does it work?

Here is a somewhat simplified, largely imaginary example of the way the Fund-Bank partnership works:

First, the World Bank offers country X a $2 billion loan so that its government can invest in a hydraulic dam that will help generate electricity for a new mining operation. Country X recently discovered deposits of bauxite in a remote mountain range and a Canadian company has bought the majority rights to mine the metal. A new road will also need to be built to transport the bauxite from the mountains to the sea.

In most cases like these, none of the electricity generated is actually made available to the local population. This is what has happened in the West African nation Niger, whose recent coup d'état threatens to escalate into a full-blown regional war. Niger supplies the EU with over a fifth of all its uranium yet over 80% of the country's citizens do not have access to electricity.

Now, back to country X. After a few years, its government predictably defaults on the World Bank loan, which is where the IMF comes in. The Fund prescribes its usual medicine – the so-called "structural adjustments" that are ostensibly meant to help the country generate enough exports to be able to service its restructured debt. But for the local economy, it is all pain, no gain, which is no surprise given the structural adjustments consist of:

- Currency devaluation, which wipes out local savers;
- The removal of all foreign exchange and capital controls, which enables massive capital flight from country X;
- A sharp reduction in domestic bank capital, which is often the final straw for struggling small local businesses;
- A sharp rise in local interest rates, which further constricts economic activity.
- Higher taxes (same again);
- The cancellation of all subsidies on food and energy, plunging many local households deeper into poverty;
- Wage ceilings, even as prices soar;

- Restrictions on government spending and education, fuelling even more poverty and hardship; g Favourable legal conditions and incentives for multinational corporations;
- The privatisation of state assets at heavy discounts.

The inevitable result of this regime is to strip country X of its assets on behalf of its creditor nations, destroy local businesses and open up new markets for foreign multinationals. In turn forcing the hand of the local companies that are still standing to focus on producing goods for consumption in the West, leaving the country unable to meet the basic consumption needs of its own people. The Fund is also disarmingly candid about one of the main aims of its structural adjustments: to minimise labour's share of the overall economy. In most cases, it has worked like a dream – or a nightmare, depending on whose perspective one takes.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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