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Futility of extra-obedience to IMF

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WHEN the Argentine economy slipped into a full-fledged financial crisis in mid-July, it reinforced the vulnerabilities of financial liberalisation and inherent flaws of the international financial system.

But more than anything else, it shows the futility of being extra-obedient to the dictates of the International Monetary Fund.

Argentina is seen by foreign investors as IMF's quintessential star pupil so much so that other developing countries are asked to emulate her example. She has complied with IMF's stringent conditionalities, which entailed large fiscal cutbacks, massive privatisation and deregulation.

Her structural reforms have pleased private foreign investors for they include the so-called "painful but necessary prescription" of multiple corporate closures and bankruptcies.

Yet, as we saw in July, this star pupil was battered by currency speculators. Pleasing the God of Foreign Investor Confidence and turning to IMF for succour did not put the Holy Grail of Competitive Economy in her hands.

It is the same story with Brazil, another star pupil of IMF. Yes, there has been an economic recovery since its early 1999-financial crisis. But the basis of it is an IMF-tutored privatisation programme that saw the sale of lucrative state assets in the petroleum, telecom, insurance and other sectors to private (mostly foreign) buyers.

It had taken the extra step of pleasing international investors when selecting key financial persons and so, Arminio Fraga, former deputy of George Soros, was appointed as head of its Central Bank. Despite all these, its current account is in deficit to the tune of almost US\$24 billion (RM91.2 billion) and with the contagion effect of the Argentine crisis, things can only get worse.

The truth is, as tirelessly pointed out by Prime Minister Datuk Seri Dr Mahathir Mohamad, the global financial system renders economies of developing countries more vulnerable, even in situations where macroeconomic fundamentals are sound.

As shown by Thailand, Indonesia, Brazil and Argentina, the IMF-prescribed measures such as large-scale privatisation of utilities and their sale to multi-national companies - independent of their adverse effects on the people - cause further problems of balance of payments fragility due to the large foreign exchange outflows such measures entail.

The "unrestricted opening-up of the economy" to foreign capital serves to produce an enslaving deficit in capital account, as seen in Brazil's case. In most cases where there is no restriction on foreign dominance of the dynamic sectors of the economy, the amount of capital leaving exceeds the amount entering.

In reality, the IMF-sponsored structural reforms that involve allowing bank and corporate closures - popularly proclaimed by mainstream economic thought as "current pain for future gain" - would contribute to economic contraction. But despite the plain evidence of further contraction that the forced closure of banks and companies would entail, many choose to condemn any government-aided measures to prevent this economic contraction as a bail-out. Many choose to ignore the Nordic countries' "nationalisation" and rescue of banks as a measure to recover from the Nordic economic crisis (1992-1996).

But IMF is showing no signs to review its economic thought. According to

a review of the 40 IMF loans issued in 2000, 12 of them (issued to poor sub-Saharan Africa) came with the conditionalities requiring the full privatisation of water supply and other public services.

It is no coincidence that there are strong indications that the United States and her allies wish to incorporate public services into the ongoing negotiations of the General Agreement on Trade in Services. The implication is that all public services are targeted for "free trade", not for national capitalist development (privatisation of some public services have been for national capitalist development with the state having a golden share to ensure that the people's interests are protected). The potential for profit is mind-boggling. Global expenditure on health, for example, is US\$3.5 trillion a year, more than the total value of exports for all the countries of the Organisation for Economic Co-operation and Development.

Argentina's troubles, as is the case with the other good and not-so-good pupils of IMF, is a classic case of dependent capitalism. The term is not strange to Argentina since a great majority of the dependentista school of development thinkers are Latin American.

The gap between the rich and poor countries is not caused by the lack of integration into the global financial system but by dependency in its various forms. Financial dependency is an international economic cumulative effect - conditioned by the inequal character of the global financial system and by the monopoly of large-scale capital and control of the international monetary system by the US and her allies and monopoly of technology by the West-based corporations.

Dependent capitalism sees the subservience of national interests to the whims of global finance. It is this form of dependency that Dr Mahathir said we must liberate ourselves from. For that, we need more boldness and courage in our economic thought and action.

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