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The IMF and World Bank: Partners in Backwardness

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"The purpose of a military conquest is to take control of foreign economies, to take control of their land and impose tribute. The genius of the World Bank was to recognize that it's not necessary to occupy a country in order to impose tribute, or to take over its industry, agriculture and land. Instead of bullets, it uses financial maneuvering. As long as other countries play an artificial economic game that U.S. diplomacy can control, finance is able to achieve today what used to require bombing and loss of life by soldiers."

I'm Bonnie Faulkner. Today on Guns and Butter: Dr. Michael Hudson. Today's show: *The IMF and World Bank: Partners In Backwardness*. Dr. Hudson is a financial economist and historian. He is President of the Institute for the Study of Long-Term Economic Trend, a Wall Street Financial Analyst, and Distinguished Research Professor of Economics at the University of Missouri, Kansas City. His most recent books include "... *and Forgive them Their Debts: Lending, Foreclosure and Redemption from Bronze Age Finance to the Jubilee Year*"; *Killing the Host: How Financial Parasites and Debt Destroy the Global Economy*, and *J is for Junk Economics: A Guide to Reality in an Age of Deception*. He is also author of *Trade, Development and Foreign Debt*, among many other books. We return today to a discussion of Dr. Hudson's seminal 1972 book, *Super Imperialism: The Economic Strategy of American Empire*, a critique of how the United States exploited foreign economies through the IMF and World Bank, with a special emphasis on food imperialism.

Bonnie Faulkner: Michael Hudson, welcome back.

Michael Hudson: It's good to be back, Bonnie.

Bonnie Faulkner: In your seminal work from 1972, *Super-Imperialism: The Economic Strategy of American Empire*, you write: "The development lending of the World Bank has been dysfunctional from the outset." When was the World Bank set up and by whom?

Michael Hudson: It was set up basically by the United States in 1944, along with its sister institution, the International Monetary Fund (IMF). Their purpose was to create an international order like a funnel to make other countries economically dependent on the United States. To make sure that no other country or group of countries – even all the rest of the world – could not dictate U.S. policy. American diplomats insisted on the ability to veto any action by the World Bank or IMF. The aim of this veto power was to make sure that any policy was, in Donald Trump's words, to put America first. "We've got to win and they've got to lose."

The World Bank was set up from the outset as a branch of the military, of the Defense Department. John J. McCloy (Assistant Secretary of War, 1941-45), was the first full-time president. He later became Chairman of Chase Manhattan Bank (1953-60). McNamara was Secretary of Defense (1961-68), Paul Wolfowitz was Deputy and Under Secretary of Defense (1989-2005), and Robert Zoellick was Deputy Secretary of State. So I think you can look at the World Bank as the soft shoe of American diplomacy.

Bonnie Faulkner: What is the difference between the World Bank and the International Monetary Fund, the IMF? Is there a difference?

Michael Hudson: Yes, there is. The World Bank was supposed to make loans for what they call international development. "Development" was their euphemism for dependency on U.S. exports and finance. This dependency entailed agricultural backwardness – opposing land reform, family farming to produce domestic food crops, and also monetary backwardness in basing their monetary system on the dollar.

The World Bank was supposed to provide infrastructure loans that other countries would go into debt to pay American engineering firms, to build up their export sectors and their plantation sectors by public investment roads and port development for imports and exports. Essentially, the Bank financed long- investments in the foreign trade sector, in a way that was a natural continuation of European colonialism.

In 1941, for example, C. L. R. James wrote an article on "Imperialism in Africa" pointing out the fiasco of European railroad investment in Africa: "Railways must serve flourishing industrial areas, or densely populated agricultural regions, or they must open up new land along which a thriving population develops and provides the railways with traffic. Except in the mining regions of South Africa, all these conditions are absent. Yet railways were needed, for the benefit of European investors and heavy industry." That is why, James explained "only governments can afford to operate them," while being burdened with heavy interest obligations.^[1] What was "developed" was Africa's mining and plantation export sector, not its domestic economies. The World Bank followed this pattern of "development" lending without apology.

The IMF was in charge of short-term foreign currency loans. Its aim was to prevent countries from imposing capital controls to protect their balance of payments. Many countries had a dual exchange rate: one for trade in goods and services, the other rate for capital movements. The

function of the IMF and World Bank was essentially to make other countries borrow in dollars, not in their own currencies, and to make sure that if they could not pay their dollar-denominated debts, they had to impose austerity on the domestic economy – while subsidizing their import and export sectors and protecting foreign investors, creditors and client oligarchies from loss.

The IMF developed a junk-economics model pretending that any country can pay any amount of debt to the creditors if it just impoverishes its labor enough. So when countries were unable to pay their debt service, the IMF tells them to raise their interest rates to bring on a depression – austerity – and break up the labor unions. That is euphemized as “rationalizing labor markets.” The rationalizing is essentially to disable labor unions and the public sector. The aim – and effect – is to prevent countries from essentially following the line of development that had made the United States rich – by public subsidy and protection of domestic agriculture, public subsidy and protection of industry and an active government sector promoting a New Deal democracy. The IMF was essentially promoting and forcing other countries to balance their trade deficits by letting American and other investors buy control of their commanding heights, mainly their infrastructure monopolies, and to subsidize their capital flight.

BONNIE FAULKNER: Now, Michael, when you began speaking about the IMF and monetary controls, you mentioned that there were two exchange rates of currency in countries. What were you referring to?

MICHAEL HUDSON: When I went to work on Wall Street in the '60s, I was balance-of-payments economist for Chase Manhattan, and we used the IMF's monthly *International Financial Statistics* every month. At the top of each country's statistics would be the exchange-rate figures. Many countries had two rates: one for goods and services, which was set normally by the market, and then a different exchange rate that was managed for capital movements. That was because countries were trying to prevent capital flight. They didn't want their wealthy classes or foreign investors to make a run on their own currency – an ever-present threat in Latin America.

The IMF and the World Bank backed the cosmopolitan classes, the wealthy. Instead of letting countries control their capital outflows and prevent capital flight, the IMF's job is to protect the richest One Percent and foreign investors from balance-of-payments problems. The World Bank and American diplomacy have steered them into a chronic currency crisis. The IMF enables its wealthy constituency to move their money out of the country without taking a foreign-exchange loss. It makes loans to support capital flight out of domestic currencies into the dollar or other hard currencies. The IMF calls this a “stabilization” program. It is never effective in helping the debtor economy pay foreign debts out of growth. Instead, the IMF uses currency depreciation and sell-offs of public infrastructure and other assets to foreign investors after the flight capital has left and currency collapses. Wall Street speculators have sold the local currency short to make a killing, George-Soros style.

When the debtor-country currency collapses, the debts that these Latin American countries owe are in dollars, and now have to pay much more in their own currency to carry and pay off these debts. We're talking about enormous penalty rates in domestic currency for these countries to pay foreign-currency debts – basically taking on to finance a non-development policy and to subsidize capital flight when that policy “fails” to achieve its pretended objective of growth.

All hyperinflations of Latin America – Chile early on, like Germany after World War I – come from trying to pay foreign debts beyond the ability to be paid. Local currency is thrown onto the foreign-exchange market for dollars, lowering the exchange rate. That increases import prices, raising a price umbrella for domestic products.

A really functional and progressive international monetary fund that would try to help countries develop would say: "Okay, banks and we (the IMF) have made bad loans that the country can't pay. And the World Bank has given it bad advice, distorting its domestic development to serve foreign customers rather than its own growth. So we're going to write down the loans to the ability to be paid." That's what happened in 1931, when the world finally stopped German reparations payments and Inter-Ally debts to the United States stemming from World War I.

Instead, the IMF says just the opposite: It acts to *prevent* any move by other countries to bring the debt volume within the ability to be paid. It uses debt leverage as a way to control the monetary lifeline of financially defeated debtor countries. So if they do something that U.S. diplomats don't approve of, it can pull the plug financially, encouraging a run on their currency if they act independently of the United States instead of falling in line. This control by the U.S. financial system and its diplomacy has been built into the world system by the IMF and the World Bank claiming to be international instead of an expression of specifically U.S. New Cold War nationalism.

BONNIE FAULKNER: How do exchange rates contribute to capital flight?

MICHAEL HUDSON: It's not the exchange rate that contributes. Suppose that you're a millionaire, and you see that your country is unable to balance its trade under existing production patterns. The money that the government has under control is pesos, escudos, cruzeiros or some other currency, not dollars or euros. You see that your currency is going to go down relative to the dollar, so you want to get our money out of the country to preserve your purchasing power.

This has long been institutionalized. By 1990, for instance, Latin American countries had defaulted so much in the wake of the Mexico defaults in 1982 that I was hired by Scudder Stevens, to help start a Third World Bond Fund (called a "sovereign high-yield fund"). At the time, Argentina and Brazil were running such serious balance-of-payments deficits that they were having to pay 45 percent per year interest, in dollars, on their dollar debt. Mexico, was paying 22.5 percent on its *tesobonos*.

Scudders' salesmen went around to the United States and tried to sell shares in the proposed fund, but no Americans would buy it, despite the enormous yields. They sent their salesmen to Europe and got a similar reaction. They had lost their shirts on Third World bonds and couldn't see how these countries could pay.

Merrill Lynch was the fund's underwriter. Its office in Brazil and in Argentina proved much more successful in selling investments in Scudder's these offshore fund established in the Dutch West Indies. It was an offshore fund, so Americans were not able to buy it. But Brazilian and Argentinian rich families close to the central bank and the president became the major buyers. We realized that they were buying these funds because they knew that their government was

indeed going to pay their stipulated interest charges. In effect, the bonds were owed ultimately to themselves. So these Yankee dollar bonds were being bought by Brazilians and other Latin Americans as a vehicle to move their money out of their soft local currency (which was going down), to buy bonds denominated in hard dollars.

BONNIE FAULKNER: If wealthy families from these countries bought these bonds denominated in dollars, knowing that they were going to be paid off, who was going to pay them off? The country that was going broke?

MICHAEL HUDSON: Well, countries don't pay; the taxpayers pay, and in the end, labor pays. The IMF certainly doesn't want to make its wealthy client oligarchies pay. It wants to squeeze ore economic surplus out of the labor force. So countries are told that the way they can afford to pay their enormously growing dollar-denominated debt is to lower wages even more.

Currency depreciation is an effective way to do this, because what is devalued is basically labor's wages. Other elements of exports have a common world price: energy, raw materials, capital goods, and credit under the dollar-centered international monetary system that the IMF seeks to maintain as a financial strait jacket.

According to the IMF's ideological models, there's no limit to how far you can lower wages by enough to make labor competitive in producing exports. The IMF and World Bank thus use junk economics to pretend that the way to pay debts owed to the wealthiest creditors and investors is to lower wages and impose regressive excise taxes, to impose special taxes on necessities that labor needs, from food to energy and basic services supplied by public infrastructure.

BONNIE FAULKNER: So you're saying that labor ultimately has to pay off these junk bonds?

MICHAEL HUDSON: That is the basic aim of IMF. I discuss its fallacies in my *Trade Development and Foreign Debt*, which is the academic sister volume to *Super Imperialism*. These two books show that the World Bank and IMF were viciously anti-labor from the very outset, working with domestic elites whose fortunes are tied to and loyal to the United States.

BONNIE FAULKNER: With regard to these junk bonds, who was it or what entity...

MICHAEL HUDSON: They weren't junk bonds. They were called that because they were high-interest bonds, but they weren't really junk because they actually were paid. Everybody thought they were junk because no American would have paid 45 percent interest. Any country that really was self-reliant and was promoting its own economic interest would have said, "You banks and the IMF have made bad loans, and you've made them under false pretenses – a trade theory that imposes austerity instead of leading to prosperity. We're not going to pay." They would have seized the capital flight of their comprador elites and said that these dollar bonds were a rip-off by the corrupt ruling class.

The same thing happened in Greece a few years ago, when almost all of Greece's foreign debt was owed to Greek millionaires holding their money in Switzerland. The details were published in the "Legarde List." But the IMF said, in effect that its loyalty was to the Greek millionaires who ha their money in Switzerland. The IMF could have seized this money to pay off the bondholders. Instead, it made the Greek economy pay. It found that it was worth wrecking the Greek

economy, forcing emigration and wiping out Greek industry so that French and German bondholding banks would not have to take a loss. That is what makes the IMF so vicious an institution.

BONNIE FAULKNER: So these loans to foreign countries that were regarded as junk bonds really *weren't* junk, because they were going to be paid. What group was it that jacked up these interest rates to 45 percent?

MICHAEL HUDSON: The market did. American banks, stock brokers and other investors looked at the balance of payments of these countries and could not see any reasonable way that they could pay their debts, so they were not going to buy their bonds. No country subject to democratic politics would have paid debts under these conditions. But the IMF, U.S. and Eurozone diplomacy overrode democratic choice.

Investors didn't believe that the IMF and the World Bank had such a strangle hold over Latin American, Asian, and African countries that they could make the countries act in the interest of the United States and the cosmopolitan finance capital, instead of in their own national interest. They didn't believe that countries would commit financial suicide just to pay their wealthy One Percent.

They were wrong, of course. Countries were quite willing to commit economic suicide if their governments were dictatorships propped up by the United States. That's why the CIA has assassination teams and actively supports these countries to prevent any party coming to power that would act in their national interest instead of in the interest of a world division of labor and production along the lines that the U.S. planners want for the world. Under the banner of what they call a free market, you have the World Bank and the IMF engage in central planning of a distinctly anti-labor policy. Instead of calling them Third World bonds or junk bonds, you should call them anti-labor bonds, because they have become a lever to impose austerity throughout the world.

BONNIE FAULKNER: Well, that makes a lot of sense, Michael, and answers a lot of the questions I've put together to ask you. What about Puerto Rico writing down debt? I thought such debts couldn't be written down.

MICHAEL HUDSON: That's what they all said, but the bonds were trading at about 45 cents on the dollar, the risk of their not being paid. The *Wall Street Journal* on June 17, reported that unsecured suppliers and creditors of Puerto Rico, would only get nine cents on the dollar. The secured bond holders would get maybe 65 cents on the dollar.

The terms are being written down because it's obvious that Puerto Rico can't pay, and that trying to do so is driving the population to move out of Puerto Rico to the United States. If you don't want Puerto Ricans to act the same way Greeks did and leave Greece when their industry and economy was shut down, then you're going to have to provide stability or else you're going to have half of Puerto Rico living in Florida.

BONNIE FAULKNER: Who wrote down the Puerto Rican debt?

MICHAEL HUDSON: A committee was appointed, and it calculated how much Puerto Rico can afford to pay out of its taxes. Puerto Rico is a U.S. dependency, that is, an economic colony of the United States. It does not have domestic self-reliance. It's the antithesis of democracy, so it's never been in charge of its own economic policy and essentially has to do whatever the United States tells it to do. There was a reaction after the hurricane and insufficient U.S. support to protect the island and the enormous waste and corruption involved in the U.S. aid. The U.S. response was simply: "We won you fair and square in the Spanish-American war and you're an occupied country, and we're going to keep you that way." Obviously this is causing a political resentment.

BONNIE FAULKNER: You've already touched on this, but why has the World Bank traditionally been headed by a U.S. secretary of defense?

MICHAEL HUDSON: Its job is to do in the financial sphere what, in the past, was done by military force. The purpose of a military conquest is to take control of foreign economies, to take control of their land and impose tribute. The genius of the World Bank was to recognize that it's not necessary to occupy a country in order to impose tribute, or to take over its industry, agriculture and land. Instead of bullets, it uses financial maneuvering. As long as other countries play an artificial economic game that U.S. diplomacy can control, finance is able to achieve today what used to require bombing and loss of life by soldiers.

In this case the loss of life occurs in the debtor countries. Population growth shrinks, suicides go up. The World Bank engages in economic warfare that is just as destructive as military warfare. At the end of the Yeltsin period Russia's President Putin said that American neoliberalism destroyed more of Russia's population than did World War II. Such neoliberalism, which basically is the doctrine of American supremacy and foreign dependency, is the policy of the World Bank and IMF.

BONNIE FAULKNER: Why has World Bank policy since its inception been to provide loans for countries to devote their land to export crops instead of giving priority to feeding themselves? And if this is the case, why do countries want these loans?

MICHAEL HUDSON: One constant of American foreign policy is to make other countries dependent on American grain exports and food exports. The aim is to buttress America's agricultural trade surplus. So the first thing that the World Bank has done is not to make any domestic currency loans to help food producers. Its lending has steered client countries to produce tropical export crops, mainly plantation crops that cannot be grown in the United States. Focusing on export crops leads client countries to become dependent on American farmers – and political sanctions.

In the 1950s, right after the Chinese revolution, the United States tried to prevent China from succeeding by imposing grain export controls to starve China into submission by putting sanctions on exports. Canada was the country that broke these export controls and helped feed China.

The idea is that if you can make other countries export plantation crops, the oversupply will drive down prices for cocoa and other tropical products, and they won't feed themselves. So instead of

backing family farms like the American agricultural policy does, the World Bank backed plantation agriculture. In Chile, which has the highest natural supply of fertilizer in the world from its guano deposits, exports guano instead of using it domestically. It also has the most unequal land distribution, blocking it from growing its own grain or food crops. It's completely dependent on the United States for this, and it pays by exporting copper, guano and other natural resources.

The idea is to create interdependency – one-sided dependency on the U.S. economy. The United States has always aimed at being self-sufficient in its own essentials, so that no other country can pull the plug on our economy and say, "We're going to starve you by not feeding you." Americans can feed themselves. Other countries can't say, "We're going to let you freeze in the dark by not sending you oil," because America's independent in energy. But America can use the oil control to make other countries freeze in the dark, and it can starve other countries by food-export sanctions.

So the idea is to give the United States control of the key interconnections of other economies, without letting any country control something that is vital to the working of the American economy.

There's a double standard here. The United States tells other countries: "Don't do as we do. Do as we say." The only way it can enforce this is by interfering in the politics of these countries, as it has interfered in Latin America, always pushing the right wing. For instance, when Hillary's State Department overthrew the Honduras reformer who wanted to undertake land reform and feed the Hondurans, she said: "This person has to go." That's why there are so many Hondurans trying to get into the United States now, because they can't live in their own country.

The effect of American coups is the same in Syria and Iraq. They force an exodus of people who no longer can make a living under the brutal dictatorships supported by the United States to enforce this international dependency system.

BONNIE FAULKNER: So when I asked you why countries would want these loans, I guess you're saying that they wouldn't, and that's why the U.S. finds it necessary to control them politically.

MICHAEL HUDSON: That's a concise way of putting it Bonnie.

BONNIE FAULKNER: Why are World Bank loans only in foreign currency, not in the domestic currency of the country to which it is lending?

MICHAEL HUDSON: That's a good point. A basic principle should be to avoid borrowing in a foreign currency. A country can always pay the loans in its own currency, but there's no way that it can print dollars or euros to pay loans denominated in these foreign currencies.

Making the dollar central forces other countries to interface with the U.S. banking system. So if a country decides to go its own way, as Iran did in 1953 when it wanted to take over its oil from British Petroleum (or Anglo Iranian Oil, as it was called back then), the United States can interfere and overthrow it. The idea is to be able to use the banking system's interconnections to stop payments from being made.

After America installed the Shah's dictatorship, they were overthrown by Khomeini, and Iran had run up a U.S. dollar debt under the Shah. It had plenty of dollars. I think Chase Manhattan was its paying agent. So when its quarterly or annual debt payment came due, Iran told Chase to draw on its accounts and pay the bondholders. But Chase took orders from the State Department or the Defense Department, I don't know which, and refused to pay. When the payment was not made, America and its allies claimed that Iran was in default. They demanded the entire debt to be paid, as per the agreement that the Shah's puppet government had signed. America simply grabbed the deposits that Iran had in the United States. This is the money that was finally returned to Iran without interest under the agreement of 2016.

America was able to grab all of Iran's foreign exchange just by the banks interfering. The CIA has bragged that it can do the same thing with Russia. If Russia does something that U.S. diplomats don't like, the U.S. can use the SWIFT bank payment system to exclude Russia from it, so the Russian banks and the Russian people and industry won't be able to make payments to each other.

This prompted Russia to create its own bank-transfer system, and is leading China, Russia, India and Pakistan to draft plans to de-dollarize.

BONNIE FAULKNER: I was going to ask you, why would loans in a country's domestic currency be preferable to the country taking out a loan in a foreign currency? I guess you've explained that if they took out a loan in a domestic currency, they would be able to repay it.

MICHAEL HUDSON: Yes.

BONNIE FAULKNER: Whereas a loan in a foreign currency would cripple them.

MICHAEL HUDSON: Yes. You can't create the money, especially if you're running a balance of payments deficit and if U.S. foreign policy forces you into deficit by having someone like George Soros make a run on your currency. Look at the Asia crisis in 1997. Wall Street funds bet against foreign currencies, driving them way down, and then used the money to pick up industry cheap in Korea and other Asian countries. This was also done to Russia's ruble. The only country that avoided this was Malaysia, under Mohamed Mahathir, by using capital controls. Malaysia is an object lesson in how to prevent a currency flight.

But for Latin America and other countries, much of their foreign debt is held by their own ruling class. Even though it's denominated in dollars, Americans don't own most of this debt. It's their own ruling class. The IMF and World Bank dictate tax policy to Latin America – to un-tax wealth and shift the burden onto labor. Client kleptocracies take their money and run, moving it abroad to hard currency areas such as the United States, or at least keeping it in dollars in offshore banking centers instead of reinvesting it to help the country catch up by becoming independent agriculturally, in energy, finance and other sectors.

BONNIE FAULKNER: You say that: "While U.S. agricultural protectionism has been built into the postwar global system at its inception, foreign protectionism is to be nipped in the bud." How has U.S. agricultural protectionism been built into the postwar global system?

MICHAEL HUDSON: Under Franklin Roosevelt the Agricultural Adjustment Act of 1933 called for price supports for crops so that farmers could earn enough to invest in equipment and seeds. The Agriculture Department was a wonderful department in spurring new seed varieties, agricultural extension services, marketing and banking services. It provided public support so that productivity in American agriculture from the 1930s to '50s was higher over a prolonged period than that of any other sector in history.

But in shaping the World Trade Organization's rules, the United States said that all countries had to promote free trade and could not have government support, except for countries that already had it. We're the only country that had it. That's what's called "grandfathering". The Americans said: "We already have this program on the books, so we can keep it. But no other country can succeed in agriculture in the way that we have done. You must keep your agriculture backward, except for the plantation crops and growing crops that we can't grow in the United States." That's what's so evil about the World Bank's development plan.

BONNIE FAULKNER: According to your book: "Domestic currency is needed to provide price supports and agricultural extension services such as have made U.S. agriculture so productive." Why can't infrastructure costs be subsidized to keep down the economy's overall cost structure if IMF loans are made in foreign currency?

MICHAEL HUDSON: If you're a farmer in Brazil, Argentina or Chile, you're doing business in domestic currency. It doesn't help if somebody gives you dollars, because your expenses are in domestic currency. So if the World Bank and the IMF can prevent countries from providing domestic currency support, that means they're not able to give price supports or provide government marketing services for their agriculture.

America is a mixed economy. Our government has always subsidized capital formation in agriculture and industry, but it insists that other countries are socialist or communist if they do what the United States is doing and use their government to support the economy. So it's a double standard. Nobody calls America a socialist country for supporting its farmers, but other countries are called socialist and are overthrown if they attempt land reform or attempt to feed themselves.

This is what the Catholic Church's Liberation Theology was all about. They backed land reform and agricultural self-sufficiency in food, realizing that if you're going to support population growth, you have to support the means to feed it. That's why the United States focused its assassination teams on priests and nuns in Guatemala and Central America for trying to promote domestic self-sufficiency.

BONNIE FAULKNER: If a country takes out an IMF loan, they're obviously going to take it out in dollars. Why can't they take the dollars and convert them into domestic currency to support local infrastructure costs?

MICHAEL HUDSON: You don't need a dollar loan to do that. Now we're getting in to MMT. Any country can create its own currency. There's no reason to borrow in dollars to create your own currency. You can print it yourself or create it on your computers.

BONNIE FAULKNER: Well, exactly. So why don't these countries simply print up their own domestic currency?

MICHAEL HUDSON: Their leaders don't want to be assassinated. More immediately, if you look at the people in charge of foreign central banks, almost all have been educated in the United States and essentially brainwashed. It's the mentality of foreign central bankers. The people who are promoted are those who feel personally loyal to the United States, because they think that's how to get ahead. Essentially, they're opportunists working against the interests of their own country. You won't have socialist central bankers as long as central banks are dominated by the International Monetary Fund and the Bank for International Settlements.

BONNIE FAULKNER: So we're back to the main point: The control is by political means, and they control the politics and the power structure in these countries so that they don't rebel.

MICHAEL HUDSON: That's right. When you have a dysfunctional economic theory that is destructive instead of productive, this is never an accident. It is always a result of junk economics and dependency economics being sponsored. I've talked to people at the U.S. Treasury and asked why they all end up following the United States. Treasury officials have told me: "We simply buy them off. They do it for the money." So you don't need to kill them. All you need to do is find people corrupt enough and opportunist enough to see where the money is, and you buy them off.

BONNIE FAULKNER: You write that "by following U.S. advice, countries have left themselves open to food blackmail." What is food blackmail?

MICHAEL HUDSON: If you pursue a foreign policy that we don't like—for instance, if you trade with Iran, which we're trying to smash up to grab its oil—we'll impose financial sanctions against you. We won't sell you food, and you can starve. And because you've followed World Bank advice and not grown your own food, you will starve, because you're dependent on us, the United States and our Free World allies. Canada will no longer follow its own policy independently of the United States, as it did with China in the 1950s when it sold it grain. Europe also is falling in line with U.S. policy.

BONNIE FAULKNER: You write that: "World Bank administrators demand that loan recipients pursue a policy of economic dependency above all on the United States as food supplier." Was this done to support U.S. agriculture? Obviously it is, but were there other reasons as well?

MICHAEL HUDSON: Certainly the agricultural lobby was critical in all of this, and I'm not sure at what point this became thoroughly conscious. I knew some of the World Bank planners, and they had no anticipation that this dependency would be the result. They believed the free-trade junk economics that's taught in the schools' economics departments and for which Nobel prizes are awarded.

When we're dealing with economic planners, we're dealing with tunnel-visioned people. They stayed in the discipline despite its unreality because they sort of think that abstractly it makes sense. There's something autistic about most economists, which is why the French had their non-autistic economic site for many years. The mentality at work is that every country should

produce what it's best at – not realizing that nations also need to be self-sufficient in essentials, because we're in a real world of economic and military warfare.

BONNIE FAULKNER: Why does the World Bank prefer to perpetrate world poverty instead of adequate overseas capacity to feed the peoples of developing countries?

MICHAEL HUDSON: World poverty is viewed as *solution*, not a problem. The World Bank thinks of poverty as low-priced labor, creating a competitive advantage for countries that produce labor-intensive goods. So poverty and austerity for the World Bank and IMF is an economic solution that's built into their models. I discuss these in my *Trade, Development and Foreign Debt* book. Poverty is to them the solution, because it means low-priced labor, and that means higher profits for the companies bought out by U.S., British, and European investors. So poverty is part of the class war: profits versus poverty.

BONNIE FAULKNER: In general, what is U.S. food imperialism? How would you characterize it?

MICHAEL HUDSON: Its aim is to make America the producer of essential foods and other countries producing inessential plantation crops, while remaining dependent on the United States for grain, soy beans and basic food crops.

BONNIE FAULKNER: Does World Bank lending encourage land reform in former colonies?

MICHAEL HUDSON: No. If there is land reform, the CIA sends its assassination teams in and you have mass murder, as you had in Guatemala, Ecuador, Central America and Columbia. The World Bank is absolutely committed against land reform. When the Forgash Plan for a World Bank for Economic Acceleration was proposed in the 1950s to emphasize land reform and local-currency loans, a Chase Manhattan economist to whom the plan was submitted warned that every country that had land reform turned out to be anti-American. That killed any alternative to the World Bank.

BONNIE FAULKNER: Does the World Bank insist on client governments privatizing their public domain? If so, why, and what is the effect?

MICHAEL HUDSON: It does indeed insist on privatization, pretending that this is efficient. But what it privatizes are natural monopolies – the electrical system, the water system and other basic needs. Foreigners take over, essentially finance them with foreign debt, build the foreign debt that they build into the cost structure, and raise the cost of living and doing business in these countries, thereby crippling them economically. The effect is to prevent them from competing with the United States and its European allies.

BONNIE FAULKNER: Would you say then that it is mainly America that has been aided, not foreign economies that borrow from the World Bank?

MICHAEL HUDSON: That's why the United States is the only country with veto power in the IMF and World Bank – to make sure that what you just described is exactly what happens.

BONNIE FAULKNER: Why do World Bank programs accelerate the exploitation of mineral deposits for use by other nations?

MICHAEL HUDSON: Most World Bank loans are for transportation, roads, harbor development and other infrastructure needed to export minerals and plantation crops. The World Bank doesn't make loans for projects that help the country develop in its own currency. By making only foreign currency loans, in dollars or maybe euros now, the World Bank says that its clients have to repay by generating foreign currency. The only way they can repay the dollars spent on American engineering firms that have built their infrastructure is to export – to earn enough dollars to pay back for the money that the World Bank or IMF have lent.

This is what John Perkins' book about being an economic hit man for the World Bank is all about. He realized that his job was to get countries to borrow dollars to build huge projects that could only be paid for by the country exporting more – which required breaking its labor unions and lowering wages so that it could be competitive in the race to the bottom that the World Bank and IMF encourage.

BONNIE FAULKNER: You also point out in *Super Imperialism* that mineral resources represent diminishing assets, so these countries that are exporting mineral resources are being depleted while the importing countries aren't.

MICHAEL HUDSON: That's right. They'll end up like Canada. The end result is going to be a big hole in the ground. You've dug up all your minerals, and in the end you have a hole in the ground and a lot of the refuse and pollution – the mining slag and what Marx called the excrements of production.

This is not a sustainable development. The World Bank only promotes the U.S. pursuit of sustainable development. So naturally, they call their "Development," but their focus is on the United States, not the World Bank's client countries.

BONNIE FAULKNER: When *Super Imperialism: The Economic Strategy of American Empire* was originally published in 1972, how was it received?

MICHAEL HUDSON: Very positively. It enabled my career to take off. I received a phone call a month later by someone from the Bank of Montreal saying they had just made \$240 million on the last paragraph of my book. They asked what it would cost to have me come up and give a lecture. I began lecturing once a month at \$3,500 a day, moving up to \$6,500 a day, and became the highest-paid *per diem* economist on Wall Street for a few years.

I was immediately hired by the Hudson Institute to explain *Super Imperialism* to the Defense Department. Herman Kahn said I showed how U.S. imperialism ran rings around European imperialism. They gave the Institute an \$85,000 grant to have me go to the White House in Washington to explain how American imperialism worked. The Americans used it as a how-to-do-it book.

The socialists, whom I expected to have a response, decided to talk about other than economic topics. So, much to my surprise, it became a how-to-do-it book for imperialists. It was translated by, I think, the nephew of the Emperor of Japan into Japanese. He then wrote me that the United States opposed the book being translated into Japanese. It later *was* translated. It was received very positively in China, where I think it has sold more copies than in any other country. It was translated into Spanish, and most recently it was translated into German, and German

officials have asked me to come and discuss it with them. So the book has been accepted all over the world as an explanation of how the system works.

BONNIE FAULKNER: In closing, do you really think that the U.S. government officials and others didn't understand how their own system worked?

MICHAEL HUDSON: Many might not have understood in 1944 that this would be the consequence. But by the time 50 years went by, you had an organization called "Fifty Years Is Enough." And by that time everybody should have understood. By the time Joe Stiglitz became the World Bank's chief economist, there was no excuse for not understanding how the system worked. He was amazed to find that indeed it didn't work as advertised, and resigned. But he should have known at the very beginning what it was all about. If he didn't understand how it was until he actually went to work there, you can understand how hard it is for most academics to get through the vocabulary of junk economics, the patter-talk of free trade and free markets to understand how exploitative and destructive the system is.

BONNIE FAULKNER: Michael Hudson, thank you very much.

MICHAEL HUDSON: It's always good to be here, Bonnie. I'm glad you ask questions like these.

Notes.

1. C. L. R. James and *Revolutionary Marxism: Selected Writings, 1939-49* (Chicago: Haymarket Books, 1994), pp. 133f. ↑

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