

IMF and World Bank Face Declining Authority as Venezuela Announces Withdrawal

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Venezuela's decision this week to pull out of the IMF and the World Bank will be seen in the United States as just another example of the ongoing feud between Venezuelan President Hugo Chavez and the Bush Administration. But it is likely to be viewed differently in the rest of the world, and could have an impact on both institutions, whose power and legitimacy in developing countries has been waning steadily in recent years.



Wolfowitz leads World Bank to ruin

Other countries may follow. President Rafael Correa of Ecuador announced last week that it was kicking the World Bank's representative out of the country. It was an unprecedented action, which President Correa punctuated by stating that "we will not stand for extortion by this international bureaucracy." In 2005, the World Bank withheld a previously approved \$100 million loan to Ecuador to try to force the government to use windfall oil revenues for debt repayment, rather than the government's choice of social spending.

This is the way these two institutions have operated for decades. With the IMF as leader, and the U.S. Treasury department holding veto power, they have run a "creditors' cartel" that has been able to exert enormous pressure on governments over a wide variety of economic issues. This pressure has not only generated widespread resentment, but has also often led to economic failure in the countries and regions where the IMF and World Bank have had the most influence. Over the last 25 years Latin America has had its worst long-term economic growth performance in more than a century.

Venezuela also has specific grievances against the IMF, which are likely to generate sympathy in other developing countries with democratic, left-of-center governments. On April 12, 2002, just hours after Venezuela's democratically elected government was overthrown in a military coup, the IMF stated publicly that it was "ready to assist the new administration [of Pedro Carmona] in whatever manner they find suitable."

This instantaneous show of financial support for a newly installed dictatorship - one which immediately dissolved the country's constitution, general assembly, and Supreme Court - was unprecedented in the IMF's history. Typically the IMF does not react so quickly, even to an elected

government. It is no wonder that this move was seen in Venezuela and elsewhere as an attempt by the IMF to support the coup itself. Washington, which dominates the Fund, had advance knowledge of the coup, supported it, and funded some of its leaders - according to U.S. government documents.

In additions, Venezuela has not been happy with the IMF's consistently under-projecting its economic growth in recent years, as the Fund has also done with Argentina. The IMF's forecasts are widely used and can therefore influence investors.

But the resentment against the IMF and World Bank, and demands for change, are worldwide. The scandal over Paul Wolfowitz's leadership at the World Bank, which is about to topple the Bank's most unwanted president ever, is just the tip of the iceberg. Last month the IMF's Independent Evaluation Office stated that since 1999, nearly three-quarters of aid to the poor countries of Sub-Saharan Africa are not being spent. Rather, at the IMF's request, it is being used to pay off debt and accumulate reserves. This is a terrible thing to do to some of the poorest countries in the world, who desperately need to spend this money on such pressing needs as the HIV/AIDS pandemic.

Venezuela's decision is likely to strengthen the hand of developing nations within the IMF and World Bank who are demanding serious reforms. Right now the United States, with less than 5 percent of the world's population, has more votes in the IMF than countries representing the majority of the planet. The world's developing countries, which bear the brunt of these institutions' mistakes, have little or no voice in their decision-making. Venezuela's move - and any other countries that follow - will show the IMF and World Bank that the option of quitting these institutions altogether is a real one.

Whether this will spur reform that can actually change the colonial relationship that these institutions maintain with their borrowers remains to be seen. More likely, they will simply continue to become less relevant to the developing world, as has happened drastically over the last decade.

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