Whitewashing the IMF's Destructive Role in Greece

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This Autumn may see anti-austerity coalitions gain power in Portugal, Spain and Italy, while Marine le Pen's National Front in France presses for outright withdrawal from the eurozone. These countries face a common problem: how to resist the economic devastation that the European Central Bank (ECB), European Council and IMF "troika" has inflicted on Greece and is now intending to do the same to southern Europe.

To resist the depression and debt deflation that the troika seeks to deepen, one needs to bear in mind the dynamics that make the IMF un-reformable. Its destructive role in Greece provides an object lesson for how southern Europe must shun its horde of ideologues, as Third World countries learned to avoid it by May 2013, the year that Turkey capped the world's extrication from IMF "advice." Already in 2008, Turkey's prime minister Recep Tayyip Erdogan announced: "We cannot darken our future by bowing to the wishes of the IMF."[1]Greek voters have now said the same thing.

To soften resistance to the IMF's austerity demands, a public relations drive is being mounted to rehabilitate the myth that the Fund can act as an honest broker mediating between anti-labor finance ministers and the PIIGS – Portugal, Italy, Ireland, Greece and Spain. On Friday, August 28, three Reuters reporters published a long "think piece" trying to show that the IMF is changing and that its head, Christine Lagarde, has seen the light and seeks to promote real debt relief.[2]

The timing of this report seems significant. The IMF got "back in business" in 2010 when its head, Dominique Strauss-Kahn, overrode its staff and many Board members in order to join the troika and shift the country's bad debt from French and German bankers onto the Greek people. That is the story I tell in *Killing the Host*, which*CounterPunch* published in an e-version last week. (The hard-printand Kindle versions are now available on Amazon.)

President Obama and Treasury Secretary Tim Geithner insisted that Angela Merkel and French President Sarkozy pressure the IMF to go against the opposition of its own staff and join the European Central Bank's hardline demands that Greece impose austerity. Geithner and Obama warned that if Greek bondholders were not paid in full, some giant U.S. banks would lose heavily on the default insurance contracts and derivatives they had written, and their losses could spread "contagion" to Europe.

It was at this 2011 G8 meeting that Merkel told Greek PM George Papandreou that he had to cancel his proposed referendum on whether Greece should surrender to austerity to help foreign bondholders. As the late *Frankfurt Allgemeine Zeitung* editor Frank Schirrmacher observed at the time, this meant that "Democracy is Junk."

Papandreou's acquiescence led his PASOK party to be swept utterly away, having lost all credibility – the same credibility that the IMF has lost. Papandreou was replaced by a pro-bank puppet. Italy's Prime Minister suffered the same fate later that week, in a continent-wide crisis turning the eurozone into an economic dead zone.

It took until last July, four years later, for Greek voters finally to be given their say in a referendum. And just as Merkel, Sarkozy and Obama feared, they voted by an overwhelming 61 percent (a 3:2 margin) to reject austerity.

The Reuters piece quotes the same complaints by IMF insiders that my book records – as if this is a revelation that has just came out in their "examination of previously unreported IMF board minutes." Actually, the information has been out for a year. So the question is, why is this information being reported as if it were new?

The aim seems to be to distract attention from the political dynamics that *actually* were going on and the conflicts of interest that were at work – and still are. In addition to my own book published last week, former Greek finance minister Yanis Varoufakis has gone public with his own sad experience with Lagarde and the European Central Bank (ECB) demanding further austerity and mass privatizations.[3] "If you were a fly on the wall watching our negotiations," he reports, "you would see as well as I saw that Ms Lagarde, Mr Draghi, Mr Juncker, certainly Dr Schäuble, were interested in one thing: In dictating to us 'terms of surrender'. Terms that put an end to the Athens Spring."

By comparison, the Reuters whitewash distorts history, dumbing it down and censoring the U.S. role of Obama and Geithner, while trying to depict Christine Lagarde as urging an alleviation of Greek debt and austerity.

The world needs to know the whole story, because it will show the degree to which the IMF is under the thumb of Wall Street and European banks, and of U.S. political leaders backing hardline creditor interests. This in turn shows the impossibility of reforming the IMF (or World Bank, whose presidents traditionally are drawn from the U.S. Defense Department or its Cold War supporters).

Killing the Host discloses complaints leaked by angry IMF officials who became whistleblowers and published their complaints at Canada's prestigious Center for International Governance Innovation (CIGI). These same quotes were just cited breathlessly by Reuters. What the wire service did *not* report was the point that the IMF's former economists made.

Lagarde continues to insist that Greek debts can be paid by "extend and pretend," lowering the interest rate and stretching out the maturities. This is *her* definition of "writing down Greek debts." Most peoples' definition would mean writing down the debt principal. Reading Reuters' selective quotes, it is almost as if the seemingly detailed report was written to counter the political points Varoufakis, I and others have been making.

What Reuters *excluded* from its report that provides the key to unlock what is most politically embarrassing: The behavior of Obama and Geithner in protecting Wall Street's casino bets that Greece could be arm-twisted to pay. Dominique Strauss-Kahn had two conflicts of interest: He wanted to run for the presidency of France, gaining favor by protecting French banks; and he wanted to get the IMF back into the austerity advice business, by joining the Eurozone troika. When Christine Lagarde started to repeat his refusal to back the recent IMF staff report endorsing write-down of Greek debt, the staff leaked it this spring, much to her embarrassment when the IMF signed onto a troika program with no real debt relief.[4]

The Reuters report throws up a cloud of disinformation saying that she backs debt relief, as if this means backing a writedown of unpayably high Greek debt. Quite the contrary, Lagarde has said again and again that *her* idea of debt relief is simply to extend and pretend – to stretch out the maturity of Greece's debt, to lower the interest rate charged.

The real story is not simply the warnings that Reuters published so breathlessly from IMF staff members and board members that Greece could not pay its debts and that attempting to do so would bring on depression. The real story is why Strauss-Kahn overrode them in 2010. The IMF officials who resigned blamed his action on his political ambitions in French politics and his opportunism in trying to finally get the IMF "back in business" rather than being left out by the ECB for not being sufficiently pro-creditor. To override the fact that the IMF was violating its own directives, the Fund introduced a "contagion" escape clause that nullified the demand that it not endorse loans that could not be paid. (I describe the small print in*Killing the Host*.)

Lagarde is still adhering to the demand that Greece must repay all the debt principal, including what IMF staff members urged to be written off four years ago. Like Strauss-Kahn, she was about to override her own staff when they leaked their report on Greece's inability to pay. An indication of her position was her statement at a May 2012 IMF meeting in Riga, where they came to celebrate Latvia's punishing austerity model that could be exported to "serve as an inspiration for European leaders grappling with the economic crisis."

The fact that the IMF's head has to be a French pro-bank, pro-austerity ideologue, taking orders from Washington officials wield veto power on behalf of Wall Street bankers and bondholders, makes the IMF hopelessly compromised. The icing on the cake is its recent loan to Ukraine, money that Ukrainian President Poroshenko has said will be spent to wage war on Russian-speakers in eastern Ukraine where most of the export industry was located.

By no stretch of the imagination can Ukraine pay this debt. It already has negotiated a 20 percent writedown of its debt to private bondholders, and both Poroshenko and "Yats" insist that they will default on their $3 billion debt to Russia's sovereign wealth fund falling due this December. That alone will require the IMF to withdraw, because the terms of its Articles of Agreement prevent it from lending to countries that unilaterally default on debts owed to official institutions. (The original idea had in mind the United States, not Russia or China.)

Yet the IMF has not warned that Ukraine must either pay or see itself turned into a financial pariah Greek-style. The Fund has been pulled into the New Cold War in addition to the financial war against labor and against government ability to resist austerity.

Past Reuters reports (and those of the *New York Times* and other neoliberal press) have popularized the trivializing idea that the reason China, Russia and other BRICS countries have created their own alternative development banks and international currency institutions is merely because they don't have a large enough vote within the IMF. (Congress has blocked new U.S. contributions to the IMF, preventing a renegotiation of quotas.)

This is not what the BRICS countries say. Their disagreement is that the development philosophy of the IMF and World Bank is to promote austerity to pay bondholders and sell off the public domain to U.S. and other foreign financial investors. No matter how large the foreign quota, the U.S. Government retains veto power to enforce these U.S.-centered rules. The BRICS want a different development philosophy, an alternative to austerity economics and IMF "stabilization plans" whose effect is to destabilize countries submitting to their austerity.

The tragic Greek experience should stand as a warning of the need to withdraw from the rules that have turned the eurozone into an economic dead zone, and the IMF and Troika into brutal debt collectors for European, U.S. and British banks and bondholders. This is not a story that the mainstream press is happy to popularize. And as for the academic economists trotted out as talking heads, they still don't get it.

Michael Hudson's new book, Killing the Host is published in e-format by CounterPunch Books and in print by Islet. He can be reached via his website, mh@michael-hudson.com

Notes.

[1] Delphine Strauss, "Turkish politicians argue over need for IMF help as crunch bites," *Financial Times*, October 28, 2008.

[2] Lesley Wroughton, Howard Schneider and Dina Kyriakidou, "How the IMF's misadventure in Greece is changing the fund," Reuters, Aug. 28, 2015, http://www.reuters.com/investigates/special-report/imf-greece/

[3] Introduction: Our Athens Spring, https://varoufakis.files.wordpress.com/2015/08/frangy-2-23-aug-2015.pdf

[4] Jack Ewing, "I.M.F. Report Shines Uncomfortable Light on Greece's Financing Gap," *The New York Times*, July 15, 2015, and Peter Spiegel and Shawn Donnan, "IMF raises doubts over its bailout role," *Financial Times*, July 15, 2015.