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IMF's four steps to damnation

How crises, failures, and suffering finally drove a Presidential adviser to the wrong side of the barricades

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It was like a scene out of Le Carré: the brilliant agent comes in from the cold and, in hours of debriefing, empties his memory of horrors committed in the name of an ideology gone rotten.

But this was a far bigger catch than some used-up Cold War spy. The former apparatchik was Joseph Stiglitz, ex-chief economist of the World Bank. The new world economic order was his theory come to life.

He was in Washington for the big confab of the World Bank and International Monetary Fund. But instead of chairing meetings of ministers and central bankers, he was outside the police cordons. The World Bank fired Stiglitz two years ago. He was not allowed a quiet retirement: he was excommunicated purely for expressing mild dissent from globalisation World Bank-style.

Here in Washington we conducted exclusive interviews with Stiglitz, for The Observer and Newsnight, about the inside workings of the IMF, the World Bank, and the bank's 51% owner, the US Treasury.

And here, from sources unnamable (not Stiglitz), we obtained a cache of documents marked, 'confidential' and 'restricted'.

Stiglitz helped translate one, a 'country assistance strategy'. There's an assistance strategy for every poorer nation, designed, says the World Bank, after careful in-country investigation.

But according to insider Stiglitz, the Bank's 'investigation' involves little more than close inspection of five-star hotels. It concludes with a meeting with a begging finance minister, who is handed a 'restructuring agreement' pre-drafted for 'voluntary' signature.

Each nation's economy is analysed, says Stiglitz, then the Bank hands every minister the same four-step programme.

Step One is privatisation. Stiglitz said that rather than objecting to the sell-offs of state industries, some politicians - using the World Bank's demands to silence local critics - happily flogged their electricity and water companies. 'You could see their eyes widen' at the possibility of commissions for shaving a few billion off the sale price.

And the US government knew it, charges Stiglitz, at least in the case of the biggest privatisation of all, the 1995 Russian sell-off. 'The US Treasury view was: "This was great, as we wanted Yeltsin re-elected. We DON'T CARE if it's a corrupt election." '

Stiglitz cannot simply be dismissed as a conspiracy nutter. The man was inside the game - a member of Bill Clinton's cabinet, chairman of the President's council of economic advisers.

Most sick-making for Stiglitz is that the US-backed oligarchs stripped Russia's industrial assets, with the effect that national output was cut nearly in half.

After privatisation, Step Two is capital market liberalisation. In theory this allows investment capital to flow in and out. Unfortunately, as in Indonesia and Brazil, the money often simply flows out.

Stiglitz calls this the 'hot money' cycle. Cash comes in for speculation in real estate and currency, then flees at the first whiff of trouble. A nation's reserves can drain in days.

And when that happens, to seduce speculators into returning a nation's own capital funds, the IMF demands these nations raise interest rates to 30%, 50% and 80%.

'The result was predictable,' said Stiglitz. Higher interest rates demolish property values, savage industrial production and drain national treasuries.

At this point, according to Stiglitz, the IMF drags the gasping nation to Step Three: market-based pricing - a fancy term for raising prices on food, water and cooking gas. This leads, predictably, to Step-Three-and-a-Half: what Stiglitz calls 'the IMF riot'.

The IMF riot is painfully predictable. When a nation is, 'down and out, [the IMF] squeezes the last drop of blood out of them. They turn up the heat until, finally, the whole cauldron blows up,' - as when the IMF eliminated food and fuel subsidies for the poor in Indonesia in 1998. Indonesia exploded into riots.

There are other examples - the Bolivian riots over water prices last year and, this February, the riots in Ecuador over the rise in cooking gas prices imposed by the World Bank. You'd almost believe the riot was expected.

And it is. What Stiglitz did not know is that Newsnight obtained several documents from inside the World Bank. In one, last year's Interim Country Assistance Strategy for Ecuador, the Bank several times suggests - with cold accuracy - that the plans could be expected to spark 'social unrest'.

That's not surprising. The secret report notes that the plan to make the US dollar Ecuador's currency has pushed 51% of the population below the poverty line.

The IMF riots (and by riots I mean peaceful demonstrations dispersed by bullets, tanks and tear gas) cause new flights of capital and government bankruptcies This economic arson has its bright side - for foreigners, who can then pick off remaining assets at fire sale prices.

A pattern emerges. There are lots of losers but the clear winners seem to be the western banks and US Treasury.

Now we arrive at Step Four: free trade. This is free trade by the rules of the World Trade Organisation and the World Bank, which Stiglitz likens to the Opium Wars. 'That too was about "opening markets",' he said. As in the nineteenth century, Europeans and Americans today are kicking down barriers to sales in Asia, Latin American and Africa while barricading our own markets against the Third World 's agriculture.

In the Opium Wars, the West used military blockades. Today, the World Bank can order a financial blockade, which is just as effective and sometimes just as deadly.

Stiglitz has two concerns about the IMF/World Bank plans. First, he says, because the plans are devised in secrecy and driven by an absolutist ideology, never open for discourse or dissent, they 'undermine democracy'. Second, they don't work. Under the guiding hand of IMF structural 'assistance' Africa's income dropped by 23%.

Did any nation avoid this fate? Yes, said Stiglitz, Botswana. Their trick? 'They told the IMF to go packing.'

Stiglitz proposes radical land reform: an attack on the 50% crop rents charged by the propertied oligarchies worldwide.

Why didn't the World Bank and IMF follow his advice?

'If you challenge [land ownership], that would be a change in the power of the elites. That's not high on their agenda.'

Ultimately, what drove him to put his job on the line was the failure of the banks and US Treasury to change course when confronted with the crises, failures, and suffering perpetrated by their four-step monetarist mambo.

'It's a little like the Middle Ages,' says the economist, 'When the patient died they would say well, we stopped the bloodletting too soon, he still had a little blood in him.'

Maybe it's time to remove the bloodsuckers.

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