

# The Blood Bankers: Tales from the Global Underground Economy

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**Publisher: Four Walls Eight Windows, New York**

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James S. Henry is not new to writing. His articles have appeared regularly in the New Republic, the New York Times, the Washington Post, US News & the World Report, the Nation, Fortune, and the Wall Street Journal. He has also authored various books. He is the former Chief Economist of the McKinsey and Co and also served as the Vice President of Strategy at IBM/Lotus Development.

He spent many years researching the cross-country corruption in more than fifty countries and tried to find an underlying reason for all that had gone wrong in those countries. This book is a result of this effort. In this book he seeks to answer a major development economics' riddle: "what has become of the more than \$2.7 trillion of debt, aid, and investment dollars that was made available to the developing world since the 1970s? And, why – despite all this capital – is so much of the developing world still locked in poverty?"

A look at the index makes an interesting read as one finds names like Benazir Bhutto, Asif Ali Zardari and General Zia-ul-Haq. Needless to mention, he discusses the massive corruption in the political corridors of Pakistani power brokers. This, however, is not the main focus of the book.

He has exposed how three trillion dollars (approximately) have been given allocated to the developing world between 1970s and 2000s but these countries have little

to show except giant white elephant projects, massive corruption and private oligarchs who have siphoned off much of this money to offshore bank accounts in Switzerland, Cayman Islands, Bahamas, and other offshore banking havens. While, there is no shortage of armchair analysts of the so-called "third world debt crisis" or the succeeding "globalization crisis"; Henry's analysis seems deep rather than superficial. He has cited many examples of how billions and billions were wasted and how the welfare of millions was compromised for the welfare of the few leaders.

Most orthodox western economists have cited a combination of unpredictable shocks and the corrupt or "plain stupid" third world policies as the main reason for this fiasco. For example, the conventional view of the 1980s debt crisis is that in response to the 1973 oil rise, the Western Banks recycled oil deposits from the Middle East back to the Third World, lending to finance oil imports and development projects. This was coupled by a huge tidal wave of capital flight. Then, an unfortunate combination of events like rising interest rates, recession, the 1982 Malvinas War etc took everyone by surprise. So, there is no one to be blamed for what happened. Another standard cliché is KKN (corruption, cronyism, and collusion) of the developing world's politicians and bureaucrats. Henry calls this "orthodox wisdom" as an economist's fairytale. It leaves out important details like the payoffs, the black market "round trip" transfers, arms deals, fraudulent loans,

insider information, and behind-the-scene operation of the global haven banking network that aided this behavior.

He states that the third world de-capitalization had occurred because of preeminent global financial institutions like Citigroup, JPMorgan Chase, UBS, Barclays, Credit Suisse First Boston, ABN-AMRO, Merrill Lynch, ING Bank, the Bank of New York, American Express Bank, and about two dozen other leading Swiss, British, Dutch, French, German, and Austrian banks. He claims that despite their reputations of being lenders, these banks have actually been net borrowers from poor countries for most of this period. He remarks that it is misleading to call this a third world debt crisis. More appropriately, it shall be called an asset crisis. For the first world, it was an incredibly profitable global bleed-out.

He criticizes the first world citizens as living in a bubble. They have a tremendous lack of knowledge as to what is happening in the world around them. A poll taken in late 2002 showed that only thirteen percent of American aged eighteen to twenty-four could find Iraq on the map. He warns that if the awareness levels do not improve in the developed world, the third world could fall down to the fourth world levels. This can have, according to Henry, dangerous negative externalities for the developed world.

He outlines the pharaoh-style nature of Brazilian mega projects. In 1970s, Brazil was the fifth largest country in the world, accounted for forty percent of South American economic activity, and was the third largest borrower in the world. In 2005, Brazil still remained the third world's largest debtor. It is paying more debt service, as a share of national income then it did at the height of the crisis in 1980s. In 2002, after all the reforms in the 1990s, Brazil still needed a \$30 billion IMF bailout to prevent it from following Argentina into default. The roots of this sorry state lie in 1970s when Brazil wanted to enter the first world as quickly as possible. It opened up, in the process, more than a hundred public projects in energy, transport, and telephone sectors. By 1990s, more than twenty-five

percent of its \$120 billion foreign debt was derived from projects in the energy sector alone. After 1979, the easy availability of Western credit began to dry up. Brazil was caught up with hastily conceived, capital intensive projects that turned out to be poorly designed and way behind schedule. Now, Brazil, according to Henry, was not Enron that could declare bankruptcy and walk away. In case of developing countries, IMF exists to bailout so the lenders funds are safe. Today, Brazil owes around \$250 billion which is more than any other developing country and more than all of Sub-Saharan Africa. It services it at a cost of \$63 billion a year which is around eleven percent of all GDP. This is despite the most aggressive and the largest privatization program in the world. Sounds familiar?

He goes on to discuss similar large-scale projects undertaken by the Philippines. For example, in 1973 the Philippines National Power Corporation started a nuclear power plant. It cost \$2.3 billion and had a capacity of 620 MW. This plant was a mere twenty-five miles of three earthquake fault lines and less than five miles from two active volcanoes, which erupted in 1991.

In Peru's arid southwest region, one of the world's driest deserts, the massive Majes-Siguely irrigation project was conceived by the military junta of General Alvarado. Huge dams were constructed across the Apurimac and Colca Rivers, and 60 miles of tunnels and 250 miles of service roads were constructed. After thirty years and \$2 billion, one hundred and fifty thousand acres have been irrigated but it is clear that this capital and water intensive approach to agricultural reform made little sense. The growth of agriculture productivity remains modest in this region. The project's main beneficiaries were the top three percent of the landowners.

Among Mexico's white elephants is a \$2 billion Canadian designed nuclear power plant, Laguna Verde. It was designed by GE and built with US EXIM bank loans. It took eleven years to complete. There have been more than sixty accidents since the day it began operations. It is called "Chernobyl on the Gulf". There are four underutilized ports at Las Truchas, Altamira, Ostion,

and Salinacruz that cost \$4 billion. Another example is the underutilized second stage of the La Truchas steel mills that cost \$2.4 billion.

Throughout the third world, you will see examples of such adventurous and when they fail all the blame is leveled at the local leadership with no liability for the bankers who approved the funds. Henry concludes that this behavior is in existence because there is a deeply entrenched, transnational system of interests and influences that profit from committing the same mistakes.

He narrates a story: "An official visits his friend, an official of another country, who has an impressive estate, fancy cars, and a collection of polo ponies. "Confidentially, how did you get so rich?" the first official asks. "I will show you", says the second. He takes his friend on a drive to a huge dam. "See that project? Fifty percent" Later, the second was visiting the first, who had an even more impressive estate. "Confidentially, how did you get so rich?" the second asks. "I will show you", says the first. They take a drive to a river where a major dam was supposed to have been built. "You see that dam?" the first official says, pointing to the completely unobstructed river "One hundred percent".

At the end of 1980s, the third world countries had accumulated huge debts which were escalated by cuts in the Western aid at the end of the Cold War. The World Bank and International Monetary Fund experts got together in 1992 to develop the Washington Consensus which was established to

cripple the developing economies of the third world. The clichés of neoliberalism and free trade have devastating effects on the economies of the meek. These demands call for removal of tariff-barriers from the developing world's markets, while, the developed United-States refuses to open up its agriculture market. The result of these reforms is that the developed world's banks, multinational corporations, and governments have promoted the rise of "a new, highly efficient global haven banking network" which has caused the funds to elope the developing world into the developed world's banks. He quotes a Federal Reserve official: "The problem is not that these countries don't have any assets. The problem is, they're all in Miami". Henry quotes the examples of Chile, Argentina, Brazil, Nicaragua, and Venezuela as the poster children of the causalities of the neoliberal economics.

He recognizes that the real danger in world today is the outrageous poverty that engulfs most of the world. He proposes that the international economic policy should be overhauled completely. He lauds the efforts of those countries that are resisting the neoliberal pressures at grass root levels. He also challenges the rationale of the protection of first world's banks' finance to the developing world when it was already ill-motivated and ill-willed.

This book has assisted in the conviction of Manuel Noriega, recovery of assets stolen by Stroessner in Paraguay, and the identification of the loan money diverted to the Marcos through Philippines Central Bank.