

NOTES ON LIBERIA'S ECONOMIC CRISIS BEFORE THE START OF THE CIVIL WAR

1. The Liberian civil war, which erupted in 1989 and lasted a prolonged 14 years, is generally analyzed without looking closely at its prehistory (1). Numerous reports have been published about the predatory policies that have accompanied the war, but very little effort has been made to understand the historical causes that led to the war in the first place. Yet it is extremely important that a careful analysis of the prehistory of the war be made, and this not only in view of the vast destruction of human life, the disruption of social life and the losses in terms of natural resources caused by the Liberian war. It is also required because this war has affected several other countries in West Africa. Sierra Leone for instance, which too descended into a gruesome civil war in the beginning of the 1990s. The below summary purports to contribute to an understanding of the causes of the Liberian war, by looking at the role which the International Monetary Fund (I.M.F.) has played in the Liberian economy during the decade preceding the beginning of war, i.e. in the 1980s.

2. Over a period of just over four years, between September 1980 and December, 1984, the I.M.F. approved no less than five stand-by agreements with the Doe's military dictatorship, the then Liberian government. As a consequence of these agreements, outstanding credit (excluding Trust Fund loans) of the I.M.F. to Liberia increased from SDR 30 Million in 1979, to a peak of about SDR 121 Million by the end of 1984 (2). These loans provided by the IMF were short-term loans issued on *non*-concessional terms. For a tiny country like Liberia, the loans were large-scale in size. They reportedly were accompanied by rigid schedules for repayment, and rapidly led to the emergence of arrears on repayment of the given debts. The first comment to be placed, is that the effect of the loans was to significantly increase Liberia's external dependence. Whereas the country had been drawing on the IMF's finance since the early 1960s (3), the stand-by-arrangements of 1980-1984 importantly increased the country's dependence on the world financial institution.

3. Further, it needs to be noted that the stand-by-arrangements dramatically failed to achieve their principal target, namely to support the country's economic growth. Liberia in the past had witnessed high growth rates, for instance in the decade of the 1950s. Whereas the IMF had projected a positive growth rate for Liberia as a consequence of its proposed stabilisation measures, agreed under the stand-by-arrangements, - Liberia saw a *decline* in its real GDP (Gross Domestic Product) averaging 3.6 percent per year between 1980 and 1985. The cumulative decline in real GDP, according to the author Mills-Jones, amounted to more than *18 percent* between 1980 and 1985 (4)! There is thus a pressing need to analyse why the Liberian government failed to achieve the IMF's targets, and understand whether the then military government of Liberia is to be blamed, or the IMF, or perhaps both. The *negative growth rate* throughout the period when stand-by-arrangements were signed, in any case, brings out that these did not help the Liberian economy to resume its process of growth.

4. From the established literature it is evident that the Liberian economy suffered from the same kind of external constraints, that affected many other Third World countries in the given period. From the late 1970s onwards, the terms of trade for most raw materials traded by Third World countries on the world market fell, and this was also true for the raw materials on which Liberia depended at the time, i.e. rubber and iron ore. Moreover, contrary to Middle

Eastern countries possessing rich oil and natural gas resources; and similar to other Less Developed Countries (LDCs) which are exporters of non-fuel raw materials, - Liberia was dependent on the importation of oil, the price of which skyrocketed at the time of the second oil shock in 1979, i.e. on the eve of the first stand-by-arrangement. Thus, throughout the years when Liberia implemented the IMF's prescriptions, the country's terms of trade continued to deteriorate. This again is brought out well by the chart on the terms of trade published alongside Mills Jones' essay on structural adjustment programs and Liberia (5).

5. Now, the IMF's prescriptions were aimed at helping the Liberian government to 'stabilise' the situation through a combination of measures. On the one hand the measures included devaluations, which presumably would help to stimulate the exports of raw materials. On the other hand, the government was also put under pressure to achieve a better budget balance. Neither of these prescriptions, however, bore the country convincing results. Noteworthy is the continuing imbalance in the government's budget. In the second half of the 1970s the budgetary surplus of \$ 3.4 million (1975) had already turned into a *deficit* of \$ 16 million (1976). The deficit reached the figure of \$ 141 million by 1979 (6). And the problem worsened under the IMF's structural adjustment programs of 1980-1984. According to Mills-Jones the budget deficit was higher in 1985 than it had been in 1980, and now was equivalent to more than *12 percent* of Liberia's GDP (7).

6. However, whereas the *ineffectiveness* of the IMF's policies towards Liberia were clearly stated by Mills-Jones, the biased nature of the prescriptions of the international financial institution were not fully revealed in his analysis. In order to fully expose the biases underlying the IMF's policies, we need to reflect more on the austerity measures which the Liberian government was obliged to undertake. First: these measures included savings- and taxation schemes, such as a compulsory national savings scheme, a national reconstruction tax and higher excise taxes, - proposals which targeted Liberian citizens, instead of Liberia's foreign concession-holders (8). This was a grave injustice to the Liberian people, as research undertaken by the Dutch academician van der Kraaij brings out crystal clear. In his comprehensive investigation of the role of concessions in the Liberian economy completed in 1983, van der Kraaij argues that the Liberian treasurer lost potential revenues of nearly \$ 300 million during the period from 1975 to 1979. According to him, \$ 60 million or 40 percent of the average annual domestic revenue was foregone in consequence of poor taxation policies vis-à-vis foreign companies (9).

7. Secondly: the austerity measures imposed by the IMF also comprised cuts in the salaries of state employees. And the cuts were major cuts. They amounted from 16 2/3 percent up to 25 percent in January, 1983 (10). From the IMF's ideological point of view these cuts may have seemed a very logical step. The IMF believed and believes that the role which government institutions play in Southern economies should be restricted, and that bureaucracies need to be 'slimmed'. Yet whereas the salary cuts obviously served to weaken the morale of Liberia's civil servants, they did not serve to strengthen the key function which Liberia's state functionaries were supposed to play, namely to oversee the activities of the foreign concession holders. And whereas it is true that Liberia's bureaucracy suffered from management deficiencies, the deficiencies were most marked with regard to supervision of the operations of the foreign concession holders present in Liberia.

8. A close review of the structure of the Liberian economy at the beginning of the 1980s, then, brings out that the IMF's structural adjustment policies were not only ineffectual and helped *aggravate* the crisis which the Liberian economy already was suffering from. It also brings

out that these policies were heavily biased against the interests of the Liberian people, and were implicitly biased in favour of the foreign concession holders. Liberia's 'Open Door Policy', under which foreign companies were granted ample privileges – tax exemptions, the freedom to repatriate profits, etc. –, was exceptionally lenient towards multinationals investing in the Liberian economy. Instead of addressing these biases in policymaking, the IMF designed policies which precisely played into the hands of the concession holders. In short – ill-designed structural adjustment measures contributed tremendously towards the downfall of the Liberian economy in the decade preceding the outbreak of civil war. They distinctly contributed to the dramatic collapse of the Liberian state in 1989.

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References:

(1) see eg. Patrick Johnston, 'Timber Booms, State Busts: The Political Economy of Liberian Timber' (*Review of African Political Economy*, No.101, September 2004, p.441); also Global Witness, 'Logging Off. How the Liberian Timber Industry Fuels Liberia's Humanitarian Disaster and Threatens Sierra Leone' (*Global Witness*, London, United Kingdom September, 2004);

(2) J.Mills-Jones, 'Economic Adjustment Programs Under Stand-By Arrangements with the International Monetary Fund: Liberia's Experience 1980-1985' (*Liberian Studies Journal*, XIII, 2 (1988), p.166;

(3) for the early experience, see eg. F.P.M.van der Kraaij, *The Open Door Policy of Liberia. An Economic History of Modern Liberia* (Bremer Afrika Archiv, 1983, p.319); for the I.M.F.'s assessment of the Liberian economy in the early 1960s, see Moeen A.Qureshi, Yoshio Mizoe and Francis d'A Collings, 'The Liberian Economy' (*International Monetary Fund Staff Papers*, Vol.XI, no.2, July 1964, p.285);

(4) J.,Mills-Jones (1988), op.cit., p.153 and p.166;

(5) *ibid*, p.168; according to the author (p.173), Liberia's terms of trade during 1980-1985 averaged 90% its 1980 level;

(6) *ibid*, p.156;

(7) *ibid*, p.166;

(8) *ibid*;

(9) F.M.P.van der Kraaij (191983), op.cit., p.330; in his conclusions, the author states (p.450): 'Another major conclusion of the present study is that a reform of the concession sector is long overdue. Such a reform should eradicate the errors and anomalies of the past by improving the administration of natural resources. *It would result in an increase of the Government's income from the foreign owned sector of the national economy* (italics mine) and contribute to the development of a more balanced economy with a diversified production structure.'

(10) J.Mills-Jones (1988), op.cit., p.166;

