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Structural Adjustment—a Major Cause of Poverty

by Anup Shah | This Page Last Updated Wednesday, October 29, 2008

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> Debt is an efficient tool. It ensures access to other peoples' raw materials and infrastructure on the cheapest possible terms. Dozens of countries must compete for shrinking export markets and can export only a limited range of products because of Northern protectionism and their lack of cash to invest in diversification. Market saturation ensues, reducing exporters' income to a bare minimum while the North enjoys huge savings. The IMF cannot seem to understand that investing in … [a] healthy, well-fed, literate population … is the most intelligent economic choice a country can make.

— Susan George, A Fate Worse Than Debt, (New York: Grove Weidenfeld, 1990), pp. 143, 187, 235

Many developing nations are in debt and poverty partly due to the policies of international institutions such as the International Monetary Fund (IMF) and the World Bank.

Their programs have been heavily criticized for many years for resulting in poverty. In addition, for developing or third world countries, there has been an increased dependency on the richer nations. This is despite the IMF and World Bank's claim that they will reduce poverty.

Following an ideology known as neoliberalism, and spearheaded by these and other institutions known as the "Washington Consensus" (for being based in Washington D.C.), Structural Adjustment Policies (SAPs) have been imposed to ensure debt repayment and economic restructuring. But the way it has happened has required poor countries to reduce spending on things like health, education and development, while debt repayment and other economic policies have been made the priority. **In effect, the IMF and World Bank have demanded that poor nations lower the standard of living of their people**.

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A Spiraling Race to the Bottom

As detailed further below, the IMF and World Bank provide financial assistance to countries seeking it, but apply a neoliberal economic ideology or agenda as a precondition to receiving the money. For example:

- They prescribe cutbacks, "liberalization" of the economy and resource extraction/export-oriented open markets as part of their structural adjustment.
- The role of the state is minimized.
- Privatization is encouraged as well as reduced protection of domestic industries.
- Other adjustment policies also include currency devaluation, increased interest rates, "flexibility" of the labor market, and the elimination of subsidies such as food subsidies.
- To be attractive to foreign investors various regulations and standards are reduced or removed.

The impact of these preconditions on poorer countries can be devastating. Factors such as the following lead to further misery for the developing nations and keep them dependent on developed nations:

- **Poor countries must export more** in order to raise enough money to pay off their debts in a timely manner.
- Because there are so many nations being asked or forced into the global market place—before they are economically and socially stable and ready—and told to concentrate on similar cash crops and commodities as others, the situation resembles a large-scale **price war**.
- Then, the **resources from the poorer regions become even cheaper**, which favors consumers in the West.
- Governments then need to **increase exports** just to keep their currencies stable[1] (which may not be sustainable, either) and earn foreign exchange with which to help pay off debts.
- Governments therefore must:
    - spend less
    - reduce consumption
    - remove or decrease financial regulations
    - and so on.
- Over time then:
    - the value of labor **decreases**
    - capital flows become more **volatile**
    - **a spiraling race to the bottom** then begins, which generates
    - **social unrest**, which in turn leads to "IMF riots" and protests around the world[2]

- These nations are then told to peg their currencies to the dollar. But keeping the exchange rate stable is costly[3] due to measures such as increased interest rates.
- Investors obviously concerned about their assets and interests can then pull out[4] very easily if things get tough
  - In the worst cases, **capital flight can lead to economic collapse**, such as we saw in the Asian/global financial crises of 1997/98/99, or in Mexico, Brazil, and many other places. During and after a crisis, the mainstream media and free trade economists lay the blame on emerging markets and their governments' restrictive or inefficient policies, crony capitalism, etc., which is a cruel irony.
- When IMF donors keep the **exchange rates in their favor[5], it often means that the poor nations remain poor, or get even poorer**. Even the 1997/98/99 global financial crisis[6] can be partly blamed on structural adjustment and early, overly aggressive deregulation for emerging economies.
- Millions of children end up dying each year[7].

> Competition between companies involved in manufacturing in developing countries is often ruthless. We are seeing what Korten described as "a race to the bottom. With each passing day it becomes more difficult to obtain contracts from one of the mega-retailers without hiring child labor, cheating workers on overtime pay, imposing merciless quotas, and operating unsafe practices."

— John Madeley, Big Business Poor Peoples; The Impact of Transnational Corporations on the World's Poor, (Zed Books, 1999) p. 103

This is one of the backbones to today's so-called "free" trade. In this form, as a result, it is seen by some as unfair and one-way, or extractionalist. It **also serves to maintain unequal free trade[8]** as pointed out by J.W. Smith.

As a result, policies such as Structural Adjustments have, as described by Smith, contributed to "the greatest peacetime transfer of wealth from the periphery to the imperial center in history", to which we could add, without much media attention.

Maintaining Dependency and Poverty

One of the many things that the powerful nations (through the IMF, World Bank, etc.) prescribe is that the developing nation should open up to allow more imports in and export more of their commodities. However, this is precisely what contributes to poverty and dependency.

> [I]f a society spends one hundred dollars to manufacture a product within its borders, the money that is used to pay for materials, labor and, other costs moves through the economy as each recipient spends it. Due to this multiplier effect, a hundred dollars worth of primary production can add several hundred dollars to the Gross National Product (GNP) of that country. If money is spent in another country, circulation of that money is within the exporting country. This is the reason **an industrialized product-exporting/commodity-importing country is wealthy and an undeveloped product-importing/commodity-exporting country is poor**. [Emphasis Added]

> …Developed countries grow rich by selling capital-intensive (thus cheap) products for a high price and buying labor-intensive (thus expensive) products for a low price. This imbalance of trade expands the gap between rich and poor. The wealthy sell products to be consumed, not tools to produce. This maintains the monopolization of the tools of production, and assures a continued market for the product. [Such control of tools of production is a strategy of a mercantilist process. That control often requires military might.]

— J.W. Smith, The World's Wasted Wealth 2, (Institute for Economic Democracy[9], 1994), pp. 127, 139.

As seen above as well, one of the effects of structural adjustment is that developing countries must increase their exports. Usually commodities and raw materials are exported. But as Smith noted above, poor countries lose out when they

- export commodities (which are cheaper than finished products)
- are denied or effectively blocked from industrial capital and real technology transfer, and
- import finished products (which are more expensive due to the added labor to make the product from those commodities and other resources)

This leads to less circulation of money in their own economy and a smaller multiplier effect. Yet, this is not new. Historically this has been a partial reason for dependent economies and poor nations. This was also the role enforced upon former countries under imperial or colonial rule. Those same third world countries find themselves in a similar situation. This can also be described as *unequal* trade:

> At first glance it may seem that the growth in development of export goods such as coffee, cotton, sugar, and lumber, would be beneficial to the exporting country, since it brings in revenue. In fact, it represents a type of exploitation called *unequal exchange*. A country that exports raw or unprocessed materials may gain currency for their sale, but they lose it if they import processed goods. The reason is that processed goods—goods that require additional labor—are more costly. Thus a country that exports lumber but does not have the capacity to process it must then re-import it in the form of finished lumber products, at a cost that is greater than the price it received for the raw product. The country that processes the materials gets the added revenue contributed by its laborers. (Emphasis is original)

— Richard Robbins, Global Problems and the Culture of Capitalism, (Allyn and Bacon, 1999), p. 95

Exporting commodities and resources is seen as favorable to help earn foreign exchange with which to pay off debts and keep currencies stable. However, partly due to the price war scenario mentioned above, commodity prices have also dropped. Furthermore, reliance on just a few commodities makes countries even more vulnerable to global market conditions and other political and economic influences. As *Gemini News Service* also reports, talking to the World Bank:

> More than 50 developing countries depend on three or fewer commodities for over half of their export earnings. Twenty countries are dependent on commodities for over 90 percent of their total foreign exchange earnings, says the World Bank.

— Ken Laidlaw, Market Cure Proposed For Third World's Battered Farmers[10], Gemini News Service, December

4, 2001 (Link is to reposted version on this web site)

Almost four years after the above was written, *Oxfam* reveals that things have not changed for the better: more than 50 per cent of Africa's export earnings is derived from a single commodity [11]; numerous countries are dependent on two commodities for the vast majority of their export earnings; and there are a number of other countries in Africa heavily dependent on very few commodities.

In addition, as Celine Tan of the *Third World Network* explains:

> Falling [commodity] prices have meant that large increases in export volume by commodity producers have not translated into greater export revenues, leading to severely declining terms of trade for many commodity producing countries. When the purchasing power of a country's exports declines, a country is unable to purchase imported goods and services necessary for its sustenance, as well as generating income for the implementation of sustainable development programs.
>
> A vast majority of developing countries depend on commodities as a main source of revenue. Primary commodities account for about half of the export revenues of developing countries and many developing countries continue to rely heavily on one or two primary commodities for the bulk of their export earnings.

— Celine Tan, Tackling the Commodity Price Crisis Should Be WSSD's Priority[12], TWN Briefings for WSSD No.14, Third World Network, August 2002

Tan also highlights in the above article that "a fall in commodity prices have [sic] also led to a build-up of unsustainable debt." The lack of greater revenues from exports has knock-on effects, as described further above. The irony is that structural adjustments were prescribed by the IMF and the World Bank due to debt repayment concerns in the first place.

As debt-relief and trade became major topics of discussion during the G8 Summit 2005[13], Yaya Orou-Guidou, an economist from Benin (a small African country), also noted that exporting raw materials and agricultural products would not help fight poverty. Those raw materials have to be processed in the same poor country to help create a multiplier effect:

> Orou-Guidou believes Benin will need to start processing the raw materials it produces if it is to escape the poverty trap.
>
> "A prime material kept in Africa for processing in our factories is one less thing for Western factories to earn money on," he notes. But, if "we content ourselves with selling our agricultural or mining products in their raw states, they will always feed Western factories which provide jobs for (the West's) own people."

— Ali Idrissou-Toure, Debt Cancellation No Panacea for Benin[14], Inter Press Service, July 7, 2005

Political economist Adam Smith also provided some insights in his 1776 classic, *The Wealth of Nations*, which is regarded as the Bible of capitalism. He was highly critical of the mercantilist practices of the wealthy nations, while he recognized the value of local industry and the impact of imported manufactured products on local

industries:

> Though the encouragement of exportation and the discouragement of importation are the two great engines by which the mercantile system proposes to enrich every country, yet with regard to some particular commodities it seems to follow an opposite plan: to discourage exportation and to encourage importation. Its ultimate object, however, it pretends, is always the same, to enrich the country by the advantageous balance of trade. **It discourages the exportation of the materials of manufacture, and of the instruments of trade, in order to give our own workmen an advantage, and to enable them to undersell those of other nations in all foreign markets**; and by restraining, in this manner, the exportation of a few commodities of no great price, it proposes to occasion a much greater and more valuable exportation of others. **It encourages the importation of the materials of manufacture in order that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable importation of the manufactured commodities**. (Emphasis Added)

— Adam Smith, Wealth of Nations, Book IV, Chapter VIII, (Everyman's Library, Sixth Printing, 1991), p.577

Reading the above, we can say that structural adjustment policies are also mercantilist. We are constantly told that we live in a world of global capitalism, and yet we see that while free markets are preached (in Adam Smith's name), mercantilism is still practiced!

Of course, today it is a bit more complicated too. We do have, for example, products being exported from the poorer countries (albeit some facing high barriers in the rich nations). But exporting rather than first creating and developing local industry and economy, means the "developing" country loses out in the long run, (hardly "developing") because there is little multiplier effect of money circulating within the country, as mentioned above. Furthermore, with labor being paid less[15] than their fair wages in the poorer nations, wealth is still accumulated by—and concentrated in—the richer nations.

The Luckiest Nut In The World[16] is an 8 minute video (sorry, no transcript available, as far as I know), produced by Emily James. It is a cartoon animation explaining the effects of loans, structural adjustment and cashcrops, and their impacts on poorer countries. It traces how Senegal was encouraged to grow nuts for export. In summary,

- As a poor nation without many resources, it took out loans to help develop the industry.
- Other nations saw this was going well, so they followed suit.
- The price of nuts started to drop and Senegal faced debt repayment problems.
- Structural adjustment policies were put in place, cutting spending and reducing government involvement in the nut industry and elsewhere.
- However, things got worse.
- At the same time rich countries, such as the US, were subsidizing their own nut (and other) industries, allowing them to gain in market share around the world.
- Rich countries have tools such as trade tariffs and the threat of sanctions at their disposal to help their industries, if needed.

The luckiest nut in the world[17]

Thus we are in a situation where the rich promote a system of free trade for everyone else to follow, while mercantilism is often practiced for themselves.

- “Free trade” is promoted by the rich and influential as the means for all nations to achieve prosperity and development.
- The wealth accumulated by the richer countries in the past is attributed to this policy to strengthen this idea.
- That such immense wealth was accumulated not so much from “free” trade but from the violent and age-old mercantilism or “monopoly capitalism” is ignored.
- Such systems are being practiced again today, and even though they are claimed to be Adam-Smith-style free trade, they are the very systems that Adam Smith himself criticized and attacked.

In 1991 Larry Summers, then Chief Economist for the World Bank (and US Treasury Secretary, in the Clinton Administration, until George Bush and the Republican party came into power), had been a strong backer of structural adjustment policies. He wrote in an internal memo:

> Just between you and me, shouldn’t the World Bank be encouraging more migration of dirty industries to the LDCs [less developed countries]?… The economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable, and we should face up to that… Under-populated countries in Africa are vastly under-polluted; their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City… The concern over an agent that causes a one in a million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-five mortality is 200 per thousand.

— *Lawrence Summers, Let them eat pollution, The Economist, February 8, 1992. Quoted from Vandana Shiva,*

Stolen Harvest, (South End Press, 2000) p.65; See also Richard Robbins, Global Problems and the Culture of Capitalism (Allyn and Bacon, 1999), pp. 233-236 for a detailed look at this.

When looked at in this light, poverty is more than simple economic issues; it is also an ideological construct.

© Polyp/New Internationalist[18]

Earn More, Eat Less

> Half a world away [from Zambia] in Washington, the architects of this human disaster dine in comfort and seclusion, spending more on one meal than Masauso Phiri's wife makes in a year of selling buns in their shantytown. Although most World Bank staff work at its Washington headquarters, those unlucky enough to be posted in the Third World receive ample compensation for their misfortune. This includes subsidized housing (complete with free furnishings), an extended "assignment grant" of $25,000 and a "mobility premium" to defray the cost of child education. Salaries are tax-free and averaged $86,000 in 1995, according to a General Accounting Office report to Congress. No "structural adjustment," then, for this privileged coterie of bankers and policy analysts. Meanwhile, in Africa a hidden genocide lays waste the continent.
>
> "It's not right for a bank to run the whole world," says Fred M'membe, editor of the Zambia Post. "They do not represent anybody other than the countries that control them. What this means in practice is that the United States runs our countries." He continues: "Look at any African country today, and you'll find that the figures are swinging down. Education standards are going down, health standards going down and infrastructure is literally breaking up."

— Mark Lynas, Letter from Zambia[19], The Nation, February 14, 2000

In some countries, more is spent on debt servicing than education[20]. For example, even in the former communist countries that are trying to undergo rapid economic "reform", education is given a back seat[21]. In fact, the UK-based development and relief organization, Oxfam, goes as far as saying that the IMF policies deny children an education[22].

Since the end of the Cold War, even wealthier nations have seen government rollback on some functions, in a similar style to structural adjustment. John McMurtry captures this well, being very critical on the impact of such adjustments on "life requirements":

> Such systematic overriding of life requirements is now clearly evident from the most undeveloped

> to the most advanced societies of the world. In the case of Canada, again, infant mortality rates, the quintessential indicator of social health, rose an astonishing 43 per cent in the 1995 Statistics Canada figures, the first recorded rise in over thirty-one years, while child poverty had increased by 46 per cent since 1989. In Africa an estimated 500,000 more children died from the imposed restructuring of their countries' economies to ensure increased flows of money to external banks, while spending on health care declined by 50 per cent and on education by 25 per cent since these structural adjustment programs began.

— John McMurtry, Unequal Freedoms; The Global Market as an Ethical System, (Kumarian Press, 1998), p.305.

And as the crisis of AIDS gets worse in Africa, measures that reduce health budgets in already poor countries contribute to the problems. (See this site's section on AIDS in Africa[23] for more on that issue.)

What is the IMF/World Bank Prescription?

As economist Robin Hanhel summarizes:

> The IMF has prescribed the same medicine for troubled third world economies for over two decades:
>
> - *Monetary austerity.* Tighten up the money supply to increase internal interest rates to whatever heights needed to stabilize the value of the local currency.
> - *Fiscal austerity.* Increase tax collections and reduce government spending dramatically.
> - *Privatization.* Sell off public enterprises to the private sector.
> - *Financial Liberalization.* Remove restrictions on the inflow and outflow of international capital as well as restrictions on what foreign businesses and banks are allowed to buy, own, and operate.
>
> Only when governments sign this "structural adjustment agreement" does the IMF agree to:
>
> - Lend enough itself to prevent default on international loans that are about to come due and otherwise would be unpayable.
> - Arrange a restructuring of the country's debt among private international lenders that includes a pledge of new loans.

— Robin Hanhel, Panic Rules!, (South End Press, 1999) p. 52.

Joseph Stiglitz, former chief economist at the World Bank, "resigned" under pressure from criticisms he made of the IMF and World Bank. He was also a member of Bill Clinton's cabinet and chairman of the U.S. President's Council of Economic Advisers. His insights and criticisms are worth paying attention to. He notes that:

> The IMF likes to go about its business without outsiders asking too many questions. In theory, the fund supports democratic institutions in the nations it assists. In practice, it undermines the democratic process by imposing policies. Officially, of course, the IMF doesn't "impose" anything. It "negotiates" the conditions for receiving aid. But all the power in the negotiations is on one

> side—the IMF's—and the fund rarely allows sufficient time for broad consensus-building or even widespread consultations with either parliaments or civil society. Sometimes the IMF dispenses with the pretense of openness altogether and negotiates secret covenants.

— *Joseph Stiglitz, What I learned at the world economic crisis. The Insider* [24]*, The New Republic, April 17, 2000*

In April 2001, Greg Palast conducted an interview with Joseph Stiglitz [25] which was published in the British newspaper *Observer and Guardian*.

The World Bank talks of "assistance strategies" for every poor nation using careful country by country investigations. However, as reported in the article, "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."

Stiglitz then tells Palast that after each nation's economy is analyzed, the World Bank "hands every minister the *same* four-step program" (emphasis added), described in the article as follows:

1. **Privatization**. Stiglitz tells Palast that some politicians were corrupt enough to go ahead with some state sell-offs: "Rather than object to the sell-offs of state industries, he said national leaders—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 prospect of 10% commissions paid to Swiss bank accounts for simply shaving a few billion off the sale price of national assets." According to Palast, Stiglitz asserts that the US government knew about, at least in one case: 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.'" (Emphasis added)
2. **Capital market liberalization**. According to Palast, Stiglitz describes the disastrous capital flows that can ruin economies as being "predictable," and says that "when [the outflow of capital] 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%."
3. **Market-based pricing**. Palast writes that it is at this point that the IMF "drags the gasping nation" to this third points, described as "a fancy term for raising prices on food, water and cooking gas" which, Palast continues, "leads, predictably, to Step-Three-and-a-Half: what Stiglitz calls, 'The IMF riot.'" These riots, which the article clarifies are "peaceful demonstrations dispersed by bullets, tanks and teargas[sic]," cause further capital outflows, a situation which, as Palast points out, is not without a "bright" side: "foreign corporations … can then pick off remaining assets, such as the odd mining concession or port, at fire sale prices."
4. **Free trade**. But a version dominated by "rules of the World Trade Organization and the World Bank," which according to Palast, Stiglitz likens to the Opium Wars: "That too was about 'opening markets'," he said. Palast writes that "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." (Note that while even President Bush will claim that we want rules based global mechanisms, the mainstream media often does not ask what the rules themselves are, and whether they are most appropriate.) Palast highlights Stiglitz's problems with the IMF/World Bank plans, plans that the article describes as "devised in secrecy and driven by an absolutist ideology": first, they are not open to discourse and dissent, and second, that they don't work. Palast writes that "Under the guiding hand of IMF

> structural ‘assistance’ Africa's income dropped by 23%.”

In a 5 minute video clip (available in transcript[26]), the well-respected Martin Khor, director of the Third World Network[27] notes similar concerns to Stiglitz’s and adds that rich countries are being hypocritical and aggressive by

- Protecting their own industries while attempting to force open markets of poor countries
- Selling artificially cheaper products in poor countries, undermining local producers
- Promising more aid while real economic development suffers:

Martin Khor, Structural Adjustment Explained[28], July 15, 2005, © Big Picture TV

As part of a wider process of globalization, these policies, he argues in another clip (2 minutes, transcript[29]), create a “straight jacket” for poor countries in terms of policy space to make their own decisions:

Martin Khor, Debt in the Developing World—Part One[30], July 15, 2005, © Big Picture TV

Africa Action, an organization working for political, economic and social justice in Africa is highly critical of SAPS[31], noting that, "The basic assumption behind structural adjustment was that an increased role for the market would bring benefits to both poor and rich. In the Darwinian world of international markets, the strongest would win out. This would encourage others to follow their example. The development of a market economy with a greater role for the private sector was therefore seen as the key to stimulating economic growth."

Focusing on Africa, the article points out that the issue wasn't that African countries did not need corrective reforms, but whether SAPs were the appropriate answers. "The key issue with adjustments of this kind, however, is whether they build the capacity to recover and whether they promote long-term development. The adjustments dictated by the World Bank and IMF did neither."

In these ways then, the IMF and World Bank's encouragement of poor countries to open up for foreign trade is too aggressive; arguing that these policies will help create a "level playing field" with rich countries is almost opposite to what has happened in reality in most cases.

> Oxfam International estimates that, in the Philippines alone, IMF-imposed cuts in preventative medicine will result in 29,000 deaths from malaria and an increase of 90,000 in the number of untreated tuberculosis cases. Tribunals investigating "crimes against humanity" take note!

— Jeremy Brecher, Panic Rules: Everything you want to know about the Global Economy, by Robin Hahnel (South End Press, 1999).

Perhaps one of the most serious effects is that these external policies indirectly undermine democracy and democratic accountability, not only of the IMF and World Bank (after all, if their policies fail, who are they

accountable to?) but also of the governments of the poor countries themselves, who see a reduction in their ability to make important decisions for their people. In some cases, the more corrupt governments can use structural adjustment as an excuse not to cater to all their people.

Because some of the poor nations are not as aggressive in privatization and other conditionalities as the IMF or World Bank would like, they face continual delays of debt relief[32].

This model of development, whereby the North (or the developed Nations) impose their conditions on the South (the developing Nations) has come under criticism[33] by many NGOs and other groups/individuals. Perhaps the model needs to be revised and approached from different angles, as this Oxfam paper[34] suggests.

True, in some cases corrupt governments have borrowed money from these institutions and/or directly from various donor nations and ended up using that money to pursue conflicts, for arms deals, or to divert resources away from their people. However, in most cases that has been done knowingly, with the support of various rich nations due to their own "national interests", especially during the Cold War. As Oxfam says [35], "it would be wrong to hold civilians to ransom by placing stringent conditions on humanitarian relief because of the way their government spends its money."

Furthermore, it has been argued that Structural Adjustments encourage corruption and undermine democracy[36]. As Ann Pettifor and Jospeh Hanlon note, top-down "conditionality has undermined democracy by making elected governments accountable to Washington-based institutions instead of to their own people." The potential for unaccountability and corruption therefore increases as well.

As the article from Africa Action above also mentions, "African countries require essential investments in health, education and infrastructure before they can compete internationally. The World Bank and IMF instead required countries to reduce state support and protection for social and economic sectors. They insisted on pushing weak African economies into markets where they were unable to compete with the might of the international private sector. These policies further undermined the economic development of African countries."

Side Note

What is also of note here is that African countries, before SAPs, were making some progress in things like health, though economic reform of some sort was needed. But SAPs have appeared to made the problem worse, as the following, quoted at length, summarizes:

> Health status is influenced by socioeconomic factors as well as by the state of health care delivery systems. The policies prescribed by the World Bank and IMF have increased poverty in African countries and mandated cutbacks in the health sector. Combined, this has caused a massive deterioration in the continent's health status.
>
> The health care systems inherited by most African states after the colonial era were unevenly weighted toward privileged elites and urban centers. In the 1960s and 1970s, substantial progress was made in improving the reach of health care services in many African countries. Most African governments increased spending on the health sector

during this period. They endeavored to extend primary health care and to emphasize the development of a public health system to redress the inequalities of the colonial era. The World Health Organization (WHO) emphasized the importance of primary healthcare at the historic Alma Ata Conference in 1978. The Declaration of Alma Ata focused on a community-based approach to health care and resolved that comprehensive health care was a basic right and a responsibility of government.

These efforts undertaken by African governments after independence were quite successful.…

While the progress across the African continent was uneven, it was significant, not only because of its positive effects on the health of African populations. It also illustrated a commitment by African leaders to the principle of building and developing their health care systems.

With the economic crisis of the 1980s, much of Africa's economic and social progress over the previous two decades began to come undone. As African governments became clients of the World Bank and IMF, they forfeited control over their domestic spending priorities. The loan conditions of these institutions forced contraction in government spending on health and other social services.…

The relationship between poverty and ill-health is well established. The economic austerity policies attached to World Bank and IMF loans led to intensified poverty in many African countries in the 1980s and 1990s. This increased the vulnerability of African populations to the spread of diseases and to other health problems.…

The deepening poverty across the continent has created fertile ground for the spread of infectious diseases. Declining living conditions and reduced access to basic services have led to decreased health status. In Africa today, almost half of the population lacks access to safe water and adequate sanitation services. As immune systems have become weakened, the susceptibility of Africa's people to infectious diseases has greatly increased.…

Even as government spending on health was cut back, the amounts being paid by African governments to foreign creditors continued to increase. By the 1990s, most African countries were spending more repaying foreign debts than on health or education for their people. Health care services in African countries disintegrated, while desperately needed resources were siphoned off by foreign creditors. It was estimated in 1997 that sub-Saharan African governments were transferring to Northern creditors four times what they were spending on the health of their people. In 1998, Senegal spent five times as much repaying foreign debts as on health. Across Africa, debt repayments compete directly with spending on Africa's health care services.

The erosion of Africa's health care infrastructure has left many countries unable to cope with the impact of HIV/AIDS and other diseases. Efforts to address the health crisis have been undermined by the lack of available resources and the breakdown in health care

> delivery systems. The privatization of basic health care has further impeded the response to the health crisis….
>
> The World Bank has recommended several forms of privatization in the health sector…. Throughout Africa, the privatization of health care has reduced access to necessary services. The introduction of market principles into health care delivery has transformed health care from a public service to a private commodity. The outcome has been the denial of access to the poor, who cannot afford to pay for private care…. For example … user fees have actually succeeded in driving the poor away from health care [while] the promotion of insurance schemes as a means to defray the costs of private health care … is inherently flawed in the African context. Less than 10% of Africa's labor force is employed in the formal job sector.
>
> Beyond the issue of affordability, private health care is also inappropriate in responding to Africa's particular health needs. When infectious diseases constitute the greatest challenge to health in Africa, public health services are essential. Private health care cannot make the necessary interventions at the community level. Private care is less effective at prevention, and is less able to cope with epidemic situations. Successfully responding to the spread of HIV/AIDS and other diseases in Africa requires strong public health care services.
>
> The privatization of health care in Africa has created a two-tier system which reinforces economic and social inequalities. As health care has become an expensive privilege, the poor have been unable to pay for essential services. The result has been reduced access and increased rates of illness and mortality. Despite these devastating consequences, the World Bank and IMF have continued to push for the privatization of public health services.

— Ann-Louise Colgan, Hazardous to Health: The World Bank and IMF in Africa[37], Africa Action, April 18, 2002

With the other ills, corruption too has soared, so challenges in improving things like health care are even greater.

The article also comments on recent increases in funds to tackle HIV/AIDS and other problems and concludes that because some underlying causes and issues are not addressed, these steps may not have much effective impact:

> The World Bank has also increased its funding for health, and for HIV/AIDS programs in particular. While the shift in focus towards prioritizing social development and poverty eradication is welcome, fundamental problems remain. New lending for health and education can achieve little when the debt burden of most African countries is already unsustainable. Debt cancellation should be the first step in enabling African countries to tackle their social development challenges. Additional resources to support health and education programs should be conceived as public investment, not new loans. The new spin on the World Bank and IMF priorities fails to change the basic agenda and operations of these institutions. Indeed, it appears to be largely an exercise in public relations. The conditions attached to World Bank and IMF loans still reflect the same orientation

> prescribed over the past two decades. The recent moves towards promoting poverty reduction have actually permitted these institutions to increase the scope of their loan conditions to include social sector reforms and governance aspects. This allows an even greater intrusion into the domestic policies of African countries. It is highly inappropriate that external creditors should have such control over the priorities of African governments. And it is disingenuous for such creditors to proclaim concern with poverty reduction when they continue to drain desperately needed resources from the poorest countries.…
>
> The free market fundamentalism of the World Bank and IMF has had a disastrous impact on Africa's health. The all-out pursuit of market-led growth has undermined health and health care in African countries. It has forced governments to sacrifice social needs to meet macroeconomic goals.
>
> This approach to development is fundamentally flawed. The failure to prioritize public health denies its significance in promoting long-term economic growth. As the WHO Commission on Macroeconomics and Health recently concluded, health is more than an outcome of development, it is a crucial means to achieving development.

— Ann-Louise Colgan, Hazardous to Health: The World Bank and IMF in Africa[38], Africa Action, April 18, 2002

Furthermore, there is the phenomena of "brain drain[39]" whereby the poor countries educate some of their population to key jobs such as medical areas and other professions only to find that some rich countries try to attract them away. The prestigious journal, *British Medical Journal* (BMJ) sums this up in the title of an article: "Developed world is robbing African countries of health staff" (Rebecca Coombes, *BMJ*, Volume 230, p.923, April 23, 2005.)

Some countries are left with just 500 doctors each with large areas without any health workers of any kind. A shocking one third of practicing doctors in UK are from overseas[40], for example, as the *BBC* reports.

And yet, this is not just a problem Africa faces, but many other poor countries, such as various Asian countries, Central and Latin America, Eastern Europe, the Caribbean, etc. Other industries also suffer this issue. Yet, at the same time, it is understandable that individuals would want to escape the misery of poverty and corruption in their own country. A lot of the poverty and corruption results from these same structural adjustment programs, which then contributes to this brain drain, thus twisting the knife in the back, so to speak, as some of what little is allowed to be spent on health is now lost to the already rich, and the poor have to bear the burden.

This inevitably means that the poor suffer[41], while the rich get richer[42].

Also note that the illegal drug trade has increased in countries that are in debt (because of the hard cash that is earned), as Jubilee 2000 points out[43]. Growing such illegal crops also diverts land away from meeting local and immediate needs, which also leads to more hunger. Debt's chain reactions and related effects are enormous. (For more information on debt in general, see this web site's section on debt related issues[44].)

These policies may be described as "reforms", "adjustments", "restructuring" or some other benign-sounding term, but the effects on the poor are the same nonetheless. Some even describe this as leading to economic apartheid[45].

> - The U.S. uses its dominant role in the global economy and in the IFIs [International Financial Institutions] to impose SAPs on developing countries and open up their markets to competition from U.S. companies.
> - SAPs are based on a narrow economic model that perpetuates poverty, inequality, and environmental degradation.
> - The growing civil society critique of structural adjustment is forcing the IFIs and Washington to offer new mitigation measures regarding SAPs, including national debates on economic policy.

— Carol Welch, Structural Adjustment Programs & Poverty Reduction Strategy[46], Foreign Policy in Focus, Vol 5, Number 14, April 2000

In a more cynical or harsher description, structural adjustments and other trade related policies could also be seen as a "weapon of mass destruction" as Raj Patel hints, (commenting on the Doha WTO conference in November, 2001. Although this is a different context, the overall aspect remains the same):

> A fertilizer bomb that kills hundreds in Oklahoma. Fuel-laden civil jets that kill 4000 in New York. A sanctions policy that kills one and a half million in Iraq. A trade policy that immiserates continents. You can make a bomb out of anything. The ones on paper hurt the most.

— Raj Patel, They also make bombs out of paper[47], ZNet, November 28, 2001

Indeed, consider the following:

> According to UNICEF, over 500,000 children under the age of five died each year in Africa and Latin America in the late 1980s as a direct result of the debt crisis and its management under the International Monetary Fund's structural adjustment programs. These programs required the abolition of price supports on essential food-stuffs, steep reductions in spending on health, education, and other social services, and increases in taxes. The debt crisis has never been resolved for much of sub-Saharan Africa. Extrapolating from the UNICEF data, **as many as 5,000,000 children and vulnerable adults may have lost their lives in this blighted continent as a result of the debt crunch**.

— Ross P. Buckley, The Rich Borrow and the Poor Repay: The Fatal Flaw in International Finance[48], World Policy Journal, Volume XIX, No 4, Winter 2002/03 (Emphasis Added)

The "Welfare" State has Helped Today's Rich Countries to Develop

> The era of globalization can be contrasted with the development path pursued in prior decades, which was generally more inward-looking. Prior to 1980, many countries quite deliberately

> adopted policies that were designed to insulate their economies from the world market in order to give their domestic industries an opportunity to advance to the point where they could be competitive. The policy of development via import substitution, for example, was often associated with protective tariffs and subsidies for key industries. Performance requirements on foreign investment were also common. These measures often required foreign investors to employ native workers in skilled positions, and to purchase inputs from domestic producers, as ways of ensuring technology transfers. It was also common for developing countries to sharply restrict capital flows. This was done for a number of purposes: to increase the stability of currencies, to encourage both foreign corporations and citizens holding large amounts of domestic currency to invest within the country, and to use the allocation and price of foreign exchange as part of an industrial or development policy.

— Mark Weisbrot, Dean Baker, Egor Kraev and Judy Chen, The Scorecard on Globalization 1980-2000: Twenty Years of Diminished Progress[49], Center for Economic Policy and Research, July 11, 2001

As J.W. Smith notes, every rich nation today has developed because in the past their governments took major responsibility to promote economic growth[50]. There was also a lot of protectionism and intervention in technology transfer. There was an attempt to provide some sort of equality, education, health, and other services to help enhance the nation.

The industrialized nations have understood that some forms of protection allow capital to remain within the economy, and hence via a multiplier effect, help enhance the economy.

Yet, as seen in the structural adjustment initiatives and other western-imposed policies, **the developing nations are effectively being forced[51] to cut back[52] these very same provisions that have helped the developed countries to prosper in the past**.

The extent of the devastation caused has led many to ask if development is really the objective of the IMF, World Bank, and their ideological backers. Focusing on Africa as an example:

> The past two decades of World Bank and IMF structural adjustment in Africa have led to greater social and economic deprivation, and an increased dependence of African countries on external loans. The failure of structural adjustment has been so dramatic that some critics of the World Bank and IMF argue that the policies imposed on African countries were never intended to promote development. On the contrary, they claim that their intention was to keep these countries economically weak and dependent.
>
> The most industrialized countries in the world have actually developed under conditions opposite to those imposed by the World Bank and IMF on African governments. The U.S. and the countries of Western Europe accorded a central role to the state in economic activity, and practiced strong protectionism, with subsidies for domestic industries. Under World Bank and IMF programs, African countries have been forced to cut back or abandon the very provisions which helped rich countries to grow and prosper in the past.
>
> Even more significantly, the policies of the World Bank and IMF have impeded Africa's

> development by undermining Africa's health. Their free market perspective has failed to consider health an integral component of an economic growth and human development strategy. Instead, the policies of these institutions have caused a deterioration in health and in health care services across the African continent.

— *Ann-Louise Colgan, Hazardous to Health: The World Bank and IMF in Africa*[53]*, Africa Action, April 18, 2002*

While the phrase "Welfare State" often conjures up negative images, with regards to globalization, most European countries feel that protecting their people when developing helps society as well as the economy.

It may be that for real free trade to be effective countries with similar strength economies can reduce such protective measures when trading with one another. However, for developing countries to try to compete in the global market place at the same level as the more established and industrialized nations—and before their own foundations and institutions are stable enough—is almost economic suicide.

An example of this can be seen with the global economic crisis of 1997/98/99 that affected Asia in particular. A UN report looking into this suggested that such nations should rely on domestic roots for growth, diversifying exports and deepening social safety nets. For more about this economic crisis and this UN report, go to this web site's section on debt and the economic crisis[54].

The *type* of trade is important. As the UN report also suggested, diversification is important. Just as biodiversity is important[55] to ensure resilience to whatever nature can throw at a given ecosystem, diverse economies can help countries weather economic storms. Matthew Lockwood is worth quoting in regards to Africa:

> What Africa needs is to shake off its dependence on primary commodity exports, a problem underlying not only its marginalization from world trade but also its chronic debt problems. Many countries rely today on as narrow a range of agricultural and mineral products as they did 30 years ago, and suffer the consequences of inexorably declining export earnings. Again, the campaigners' remedy—to improve market access for African exports to Europe and America—is wide of the mark.

— *Matthew Lockwood, We must breed tigers in Africa*[56]*, The Guardian, June 24, 2005*

Asia too has seen development where policies counter to neoliberalism have been followed, as Lockwood also notes.

To see more about the relationship of protectionism with free trade, check out this site's section on Free Trade[57], which also discusses protectionism and its pros and cons.

IMF and World Bank

The IMF and World Bank's policies are very different now from their original intent, as summarized here by the John F. Henning Center for International Labor Relations:

> The International Monetary Fund and the World Bank were conceived by 44 nations at the Bretton Woods Conference in 1944 with the goal of creating a stable framework for post-war global

> economy. The IMF was originally envisioned to promote steady growth and full employment by offering unconditional loans to economies in crisis and establishing mechanisms to stabilize exchange rates and facilitate currency exchange. Much of that vision, however, was never born out. Instead, pressured by US representatives, the IMF took to offering loans based on strict conditions, later to be known as structural adjustment or austerity measures, dictated largely by the most powerful member nations. Critics charge that these policies have decimated social safety nets and worsened lax labor and environmental standards in developing countries. The World Bank (The International Bank for Reconstruction and Development) was created to fund the rebuilding of infrastructure in nations ravaged by World War Two. Its vision too, however, soon changed. In the mid 1950's, the Bank turned its attention away from Europe to the Third World, and began funding massive industrial development projects in Latin American, Asia, and Africa. Many scholars and activists contend that the Bank's aggressive dealings with developing nations, which were often ruled by dictatorial regimes, exacerbated the developing world's growing debt crisis and devastated local ecologies and indigenous communities. Both IMF and World Bank policies remain a source of heated debate.

— John F. Henning Center for International Labor Relations[58]*, Institute for Industrial Relations, University of California, Berkeley*

Although their goals are slightly different, the IMF and World Bank policies complement each other:

> World Bank and IMF adjustment programs differ according to the role of each institution. In general, IMF loan conditions focus on monetary and fiscal issues. They emphasize programs to address inflation and balance of payments problems, often requiring specific levels of cutbacks in total government spending. The adjustment programs of the World Bank are wider in scope, with a more long-term development focus. They highlight market liberalization and public sector reforms, seen as promoting growth through expanding exports, particularly of cash crops.
>
> Despite these differences, World Bank and IMF adjustment programs reinforce each other. One way is called "cross-conditionality." This means that a government generally must first be approved by the IMF, before qualifying for an adjustment loan from the World Bank. Their agendas also overlap in the financial sector in particular. Both work to impose fiscal austerity and to eliminate subsidies for workers, for example. The market-oriented perspective of both institutions makes their policy prescriptions complementary.

— Ann-Louise Colgan, Hazardous to Health: The World Bank and IMF in Africa[59]*, Africa Action, April 18, 2002*

But economics is often driven by politics. As a result of policies by the IMF, World Bank and various powerful nations, basic human rights have been severely undermined in many countries, as also noted sharply by Global Exchange:

> By insisting that national leaders place the interests of international financial investors above the needs of their own citizens, the IMF and the World Bank have short circuited the accountability at the heart of self-governance, thereby corrupting the democratic process. The subordination of social needs to the concerns of financial markets has, in turn, made it more difficult for national

> governments to ensure that their people receive food, health care, and education—basic human rights as defined by the Universal Declaration of Human Rights. The Bank's and the Fund's erosion of basic human rights and their perversion of the democratic process have made the institutions a clear and present threat to the well being of hundreds of millions of people worldwide.

— How the International Monetary Fund and the World Bank Undermine Democracy and Erode Human Rights[60], Global Exchange, September 2001

The IMF and World Bank are largely controlled by the developed nations such as the USA, Germany, UK, Japan etc. (The IMF web site has a breakdown of the quotas and voting powers[61].) The US, for example, controls 17 of the voting power at the IMF. When an 85% majority is required for a decision, the US effectively has veto power at the IMF[62]. In addition, the World Bank is 51% funded by the U.S. Treasury[63].

Journalist John Pilger also provides a political aspect to this:

> Under a plan devised by President Reagan's Secretary to the Treasury, James Baker, indebted countries were offered World Bank and IMF "servicing" loans in return for the "structural adjustment" of their economies. This meant that the economic direction of each country would be planned, monitored and controlled in Washington. "Liberal containment" was replaced by *laissez-faire* capitalism known as the "free market".

— John Pilger, Hidden Agendas, (The New Press, 1998), p.63

The IMF and World Bank's policies have indeed been heavily criticized for many years and are seen as unhelpful[64] and sometimes, unaccountable[65], as they have led to an increased dependency by the developing countries upon the richer nations, as also mentioned at the top of this page. At the same time, the different cultures[66] are not respected when it comes to prescribing structural adjustment principles, either.

In Africa, the effects of policies such as SAPs have been felt sharply. As an example of how political interests affect these institutions, Africa Action describes the policies of the IMF and World Bank, but also hints at the influences behind them too:

> Over the past two decades, the World Bank and International Monetary Fund (IMF) have undermined Africa's health through the policies they have imposed. The dependence of poor and highly indebted African countries on World Bank and IMF loans has given these institutions leverage to control economic policy-making in these countries. The policies mandated by the World Bank and IMF have forced African governments to orient their economies towards greater integration in international markets at the expense of social services and long-term development priorities. They have reduced the role of the state and cut back government expenditure.
>
> …
>
> The World Bank and IMF were important instruments of Western powers during the Cold War in both economic and political terms. They performed a political function by subordinating development objectives to geostrategic interests. They also promoted an economic agenda that sought to preserve Western dominance in the global economy.

> Not surprisingly, the World Bank and IMF are directed by the governments of the world's richest countries. Combined, the "Group of 7" (U.S., Britain, Canada, France, Germany, Italy and Japan) hold more than 40% of the votes on the Boards of Directors of these institutions. The U.S. alone accounts for almost 20%. (The U.S. holds 16.45% of the votes at the World Bank, and over 17% of the votes at the International Monetary Fund.)

— *Ann-Louise Colgan, Hazardous to Health: The World Bank and IMF in Africa*[67], *Africa Action, April 18, 2002*

But it is not just health. Basic food security has also been undermined. An example in 2002 at least made it to mainstream media attention in UK. As Ann Petifor, head of debt campaign organization, *Jubilee Research* noted, the IMF forced the Malawi government to sell its surplus grain in favor of foreign exchange just before a famine struck [68]. This was explicitly so that debts could be repaid. 7 million of the total 11 million population were severely short of food.

"But its [sic] worse than that," said Petifor. "Because Malawi is indebted, her economic policies are effectively determined by her creditors—represented in Malawi by the IMF." Malawi spent more than the budget the foreign creditors set. As a result the IMF withheld $47 million in aid. Other western donors, acting on advice from IMF staff, also withheld aid, "*pending IMF approval* of the national budget." (Emphasis added).

"To add to the humiliation of the Malawian government, the IMF has also suspended the debt service relief for which she was only recently deemed eligible—because she is 'off track.'"

That is not the end of the story unfortunately. As Petifor also mentioned, under the economic program imposed by her creditors, Malawi removed all farming and food subsidies allowing the market to determine demand and supply for food. This reduced support for farmers, leading many to go hungry as prices increased. As she also noted, the rich countries, on the other hand, do not follow their own policies; Europe and the US subsidize their agriculture with billions of dollars.

But the US, for example, sees this situation as exploitable. Petifor again:

> US Secretary for Agriculture, Dan Glickman, illustrates well the US attitude to countries suffering famine and in need of food aid:
>
> "Humanitarian and national self interest both can be served by well-designed foreign assistance programs. Food aid has not only met emergency food needs, but has also been a useful market development tool." (OXFAM report: "Rigged Rules and Double Standards: Trade Globalization and the Fight Against Poverty" by Kevin Watkins and Penny Fowler)

— *Ann Petifor, Debt is still the linchpin: the case of Malawi*[69], *Jubilee Research, July 4, 2002*

It is not just the US that uses aid in this way. Most rich countries do this. And it isn't just food aid, but aid in general that is often used inappropriately. The *Guardian* reported (August 29, 2005) how £700,000 (about $400,000) of £3 million in British aid to Malawi was mis-spent on US firms' hotel and meal bills[70]. Even notebooks and pens were flown in from Washington rather than purchased locally. See this site's section on foreign aid[71] for more details about the issue of foreign aid and its misuse.

IMF and World Bank Reform?

Throughout the period of structural adjustment from the 80s, various people have called for more accountability and reform of these institutions, to no avail.

Following the IMF and World Bank protests in Washington, D.C on April 16, 2000, and coinciding with the Meltzer Report criticizing the IMF and World Bank, there has been more talk about IMF reforms. At first thought the reforms sound like the protests and other movements' efforts are paying off. However, as Oxfam noted, some of the reform suggestions may not be the way to go and may do even more harm than good. In their own words:

> While some of the reform proposals now being debated are sensible, the thrust of the reform agenda is a source of concern for the following reasons:
>
> - It reflects a growing disenchantment with multilateralism
> - It threatens to replace inappropriate IMF conditions with inappropriate conditions dictated by the G7 countries
> - It fails to address the real policy issues at the heart of the IMF's failure as a poverty reduction agency
> - It does not address the politicization of IMF loans, especially with regard to the US Treasury's influence
> - It does not adequately consider the "democratic deficit" which prevents poor countries from having an effective voice in the IMF

— Reforming the IMF[72], Oxfam International Policy Paper, April 2000

On the one hand it seems appropriate to demand an end to the IMF. However, such an abrupt course of action may itself lead to a gaping hole in international financial policies without an effective alternative. And that is another topic in itself!

Into 2008, and the global financial crisis[73] has been so severe that rich countries have been affected. Calls for reform have therefore increased, even from within some of these institutions themselves. These calls have included more transparency and accountability as well as specifics such as creating a more stable financial system, and cracking down on tax havens.

This time, however, developing countries are demanding more voice, and have more power that in past years to try and affect this. In April, the IMF conceded just 3% of rich country votes to the developing countries, but developing countries rightly want more.

Historically democracy and power have not gone well together, and as journalist John Vandaele has found,

> The most powerful international institutions tend to have the worst democratic credentials: the power distribution among countries is more unequal, and the transparency, and hence democratic control, is worse.

— John Vandaele, Democracy Comes to World Institutions, Slowly[74], Inter Press Service, October 27, 2008

If change is to be effective, these fundamental issues will need resolving. Powerful countries may try to reshape things only in so far as they can get themselves out of trouble and if they can avoid it, they will try to limit how much power they concede to others. And perhaps a sad reality of geopolitics will be that any emerging nations that become truly influential and powerful in this area will one day try to do the same. For now, however, developing countries generally have a common agenda of more voice and will therefore champion common principles of better democracy and accountability.

IMF and World Bank Admit Some of Their Policies Do Not Work

Recently, we have heard members of the World Bank and IMF entertain the possibility that maybe their structural adjustment policies did have some negative effects.

For example, the *Bretton Woods Project* revealed that in 2000, an "**internal World Bank report has concluded that the poor are better off without structural adjustment**[75]". The report itself is titled The Effect of IMF and World Bank Programs on Poverty[76]. (Requires a PDF reader[77].)

The report doesn't really look in detail at *why* the poor benefit less from adjustment. Instead it speculates that they "may be ill-placed to take advantage of new opportunities created by structural adjustment reforms" because, as the Bretton Woods Project insinuates, the report implies that the poor "have neither the skills or financial resources to benefit from high-technology jobs and cheaper imports."

Now, it may not have been the intent of the report to do so, but one can't help but notice how it almost seems as though while they may admit that structural adjustment didn't benefit the poor, it is almost as though the Bank tries to subtly absolve itself by sort of blaming the poor for not benefiting from this. When structural adjustments have required cut backs in health, education and so on, then what would one expect?

In March 2003, the IMF itself admitted in a paper that globalization may actually increase the risk of financial crisis in the developing world [78]. "Globalization has heightened these risks since cross-country financial linkages amplify the effects of various shocks and transmit them more quickly across national borders" the IMF notes and adds that, "The evidence presented in this paper suggests that financial integration should be approached cautiously, with good institutions and macroeconomic frameworks viewed as important." In addition, they admit that it is hard to provide a clear road-map on how this should be achieved, and instead it should be done on a case by case basis. This would sound like a move slightly away from a "one size fits all" style of prescription that the IMF has been long criticized for.

As mentioned further above, and as many critics have said for a long time, opening up poorer countries in an aggressive manner can leave them vulnerable to large capital volatility and outflows. *Reuters*, reporting on the IMF report also noted that the IMF "sounded more like its critics"[79] when making this admission.

In theory there may indeed be merit to various arguments supporting global integration and cooperation. But politics, corruption, geopolitics, as well as numerous other factors need to be added to economic models, which could prove very difficult. As suggested in various parts of this site, because economics is sometimes separated from politics and other major issues, theory can indeed be far from reality.

Sitglitz, the former World Bank chief economist, is worth quoting a bit more to give an insight into the power that

the IMF has, and why accusations of it and its policies being colonial-like are perhaps not too far off:

> …The IMF is not particularly interested in hearing the thoughts of its "client countries" on such topics as development strategy or financial austerity. All too often, the Fund's approach to the developing countries has had the feel of a colonial ruler. A picture can be worth a thousand words, and a single picture snapped in 1998, shown throughout the world, has engraved itself in the minds of millions, particularly those in the former colonies. The IMF's managing director, Michel Camdessus (the head of the IMF is referred to as its "Managing Director"), a short, neatly dressed former French Treasury bureaucrat, who once claimed to be a Socialist, is standing with a stern fact and crossed arms over the seated and humiliated president of Indonesia. The hapless president was being forced, in effect, to turn over economic sovereignty of his country to the IMF in return for the aid his country needed. In the end, ironically, much of the money went not to help Indonesia, but to bail out the "colonial power's" private sector creditors. (Officially, the "ceremony" was the signing of a letter of agreement, an agreement effectively dictated by the IMF, though it often still keeps up the pretense that the letter of intent comes from the country's government!)
>
> Defenders of Camdessus claim the photograph was unfair, that he did not realize that it was being taken and that it was viewed out of context. But that is the point—in day-to-day interactions, away from cameras and reporters, this is precisely the stance that the IMF bureaucrats take, from the leader of the organization on down. To those in the developing countries, the picture raised a very disturbing question: Had things really changed since the "official" ending of colonialism a half century ago? When I saw the pictures, images of other signings of "agreements" came to mind. I wondered how similar this scene was to those marking the "opening up of Japan" with Admiral Perry's gunboat diplomacy or the end of the Opium Wars or the surrender of maharajas in India.

— Joseph Stiglitz, Globalization and its Discontents, (Penguin Books, 2002), pp. 40–41

The above passage is from Stiglitz's book, *Globalization and its Discontents*. In it, he highlights many, many more issues, criticisms and aspects of IMF/Washington Consensus ideological fanaticism that have hindered development, and in many cases, as he points out, worsened situations. It is surprising and also quite illuminating to get the "insider" image of the workings of some large institutions in this way.

Into mid-2005, and though not as vocal as Stiglitz, others at the IMF are also questioning the institution's strict adherence to the free market doctrine[80], as *Bretton Woods Project* reveals. One of the authors of a paper from the IMF "concedes the failure of IFI policies for the poorest countries" saying that "Much of sub-Saharan Africa has been under IMF and World Bank programmes during the last three decades, and while a modicum of macroeconomic stability has been achieved, progress has been spotty at best." Another working paper from the IMF suggests that trade liberalization has crippled some governments of poorer countries, and that prospects for further trade liberalization in poor countries may be troubling.

PSRPs replace SAPs but still SAP the poor

The IMF in 1999 replaced Structural Adjustments with Poverty Reduction Growth Facility (PRGP) and Policy Framework Papers with Poverty Reduction Strategy Papers (PSRP) as the new preconditions for loan and debt relief. However, the effect is still the same[81] as the preceding disastrous structural adjustment policies, as the

World Development Movement reported. Many civil society organizations are increasing their critique of the PSRPs.

> [T]he PRSP process is simply delivering repackaged structural adjustment programmes (SAPs). It is not delivering poverty-focused development plans and it has failed to involve civil society and parliamentarians in economic policy discussions.

— PRSPs just PR say civil society groups[82], Bretton Woods Project Update #23, June/July 2001

As Jubilee Research (formerly Jubilee 2000, the debt relief campaign organization) adds:

> Joint World Bank/IMF papers (39) on the PRSP stress "poverty reduction" and that the paper must be "country-driven with the broad participation of civil society". But the IMF in its own papers stresses that this is in addition to everything that was required in the past; none of the old "Washington consensus" policies have been removed. In a paper for a meeting of African finance ministers, 18-19 January 2000, to explain the new PRGF, (40) the IMF stresses that it will demand of all countries "a more rapid privatisation process" and "a faster pace of trade liberalization"—the conditions criticized by Joseph Stiglitz when he was chief economist of the World Bank.
>
> … James Wolfensohn, president of the World Bank, commented that "it is also clear to all of us that ownership is essential. Countries must be in the driver's seat". The theory is fine, but the practice distorts the meaning of these words. Countries are in the driving seat only as the chauffeur of the Washington Consensus limousine. And as Angela Woods and Matthew Lockwood comment, all too often "ownership relates to persuading the public that reforms are necessary and good in order to minimize political opposition to them".
>
> … The implication is that governments wishing to take an alternative economic approach must expect to forgo aid and debt relief. But Wood and Lockwood note that "not only does the Bank define a 'good' policy environment very narrowly, the consensus on what defines 'good' policies is subject to change. What may have been regarded as a good policy yesterday may not be today."
>
> … It is impossible to ignore the sweeping critique, by the second most important man in the World Bank [Joseph Stiglitz], of policies still being imposed on poor countries as a condition of debt cancellation and aid. And it must be remembered that these are being imposed in the names of "good governance", "sound policies" and "poverty reduction".
>
> Stiglitz notes that had the US followed IMF policy it would have not achieved its remarkable expansion.

— Joseph Hanlon and Ann Pettifor, Kicking the Habit; Finding a lasting solution to addictive lending and borrowing—and its corrupting side-effects[83], Jubilee Research, March 2000

Additionally, as this book[84] reports (see pages 37-38 of the PDF online version), "[A] senior [World] Bank official described the PRSP-PRGF as a 'compulsory programme, so that those with the money can tell those without the money what they need in order to get the money.'" It would be worth additionally noting the cruel irony that nations that are "those with the money" today have largely accumulated it through plunder via imperialism and

colonialism upon those very nations who today are "without the money." Prescribing how to get "the money," in that context, is dubious indeed.

For additional information and critique, you can see the following links as well:

- Reports from the World Development Movement:
  - Still Sapping the Poor: A critique of IMF poverty reduction strategies[85], by Charles Abugre, June 2000
  - Polices to Roll-back the State and Privatize?[86] from the World Development Movement, April 2001 provides additional studies and examples
- From the Bretton Woods Project, an IMF and World Bank monitoring organization:
  - Structural Adjustment/PRSP[87] section of their web site
  - The ABC of the PRSP[88], an introduction to the new Bank and Fund Poverty Reduction Strategy Papers, by Angela Wood, April 2000
- From the Focus on the Global South:
  - The World Bank and the PRSP: Flawed Thinking and Failing Experiences[89]

The Asian Development Bank

Like the IMF and World Bank, the Asian Development Bank (ADB) has also fallen under much criticism for its policies, which also require structural adjustments for loans. Through its policies it encourages export-driven, capital and resource-intensive development, just like the other international financial institutions. The largest financing and influence of the bank comes from Japan and the United States.

As summarized from chapter 2 of The Transfer of Wealth; Debt and the making of a Global South[90]:

The escalating dependence of developing countries in the [Asia] region on debt-financed development has a number of negative consequences. These include:

a. the neglect of domestic savings as a source of development finance;
b. cuts in government expenditure for basic social services and basic infrastructure in order to meet debt servicing requirements;
c. an escalation of export-oriented resource extraction to generate hard currency receipts for debt servicing;
d. a reorientation of agricultural production from meeting local needs to production for export in highly skewed regional and global markets;
e. increased dependence on imported, capital intensive technologies as a consequence of tied procurement and project design processes led by foreign consulting companies;
f. increased dependence on and influence of international financial institutions such as the ADB and the World Bank, particularly through the imposition of debt-induced structural adjustment programs and policy based lending.

Also, as with the IMF and World bank, and mentioned in the above link, "governments are using the rubric of poverty reduction to channel taxpayer funds to their private sector companies via the ADB. This is occurring with little or no pubic scrutiny although government representatives will, if necessary, appeal to commercial

self-interest to justify continued contributions to the ADB and other multilateral development banks." As with the IMF for example, loans by the IMF are guaranteed by the creditor country. In essence then, tax payers from the lending countries will bail out the IMF and ADB if there are problems in their policies.

(For more details, statistics etc., the above link is a good starting place.)

The ADB has mentioned its desires to promote "good governance." However, Aziz Choudry is highly critical in terms of whom this governance would actually be good for:

> It has nothing to do with democratization, humanitarianism or support for peoples' rights. It is a euphemism for a limited state designed to service the market and undermine popular mandates. The term is explicitly linked to the kinds of structural adjustment measures promoted by the ADB—measures for which there is little popular support and which are rapidly increasing economic inequalities.

— Aziz Choudry, The Asian Development Bank—"Governing" the Pacific?[91]*, June 6, 2002*

Structural adjustment policies have therefore had far-reaching consequences around the world. Yet, this is just one of the mechanisms whereby inequality and poverty has been structured into laws and institutions on a global scale.

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1. J.W. Smith, Economic Democracy; Political Struggle of the 21st Century, (1st Books, 2002), Chapter 10, http://www.ied.info/books/ed/unequaltrade.html