the yardstick of economic success and this book will be forced to talk in terms of free markets, free trade, and GDP, despite serious reservations as to their value as objective and useful concepts.

A further myth arising from the mathematical pretensions of the discipline is that of objectivity. In fact, a political choice is implicit in any technical debate over the rival merits of state and market. States are, to some degree, accountable and representative. Markets are not. Whatever the flaws of the Latin American state, many grassroots organizations and other pressure groups have spent decades learning how to pressure it into listening to their needs and demands. Replacing the state with the market disenfranchises them, unless they are to acquire genuine influence over the decisions of transnational corporations, large local companies, and others, an implausible scenario that the technocrats seek to avoid at all costs in the name of economic efficiency. Some critics believe that the central purpose of neoliberalism is political rather than economic:

> The aim of the last generation of free market thinkers, notably Hayek and his followers, was less to build a robust view of what actually happens in a market economy than a model that could compete with Marxism. The aim was ideological and required all kinds of contortions to produce the desired result. As a source of inspiration in a battle of ideas which the West needed to win, it worked; as a source of policy recommendations, millions have reason to curse the theory for the avoidable suffering exacted in its name.[51]

Such matters would be of little concern if the rise of the technocracy had not given economists such enormous (and growing) influence over the way governments decide policy. In extreme cases, as in Pinochet's Chile, the economic cabinet can end up resembling Aztec high priests, sacrificing thousands of lives on the altars of the unfathomable gods of monetarism or structural adjustment.

Green, Duncan. 2003. Silent Revolution: The Rise and Crisis of Market Economics in Latin America. New York: Monthly Review Press.

2—Poverty Brokers

The International Monetary Fund and the World Bank

The acronyms of faceless international organizations do not usually start riots, but the three letters IMF (International Monetary Fund) provoke explosive reactions throughout Latin America. Since 1982 and the start of the debt crisis, "IMF riots" have periodically ravaged the region's cities from Buenos Aires to Caracas, leaving hundreds of dead and wounded and losses of millions of dollars in damaged and looted property.

The riots have been a response to the IMF's role in orchestrating (some say imposing) neoliberal reforms in response to the region's debt crisis. These have involved austerity measures to "stabilize" the crisis, followed by the wider restructuring of "structural adjustment." Since the mid-1980s, other institutions, notably the World Bank and Inter-American Development Bank, have joined the IMF in its crusade. Critics charge that such policies have failed to produce a return to sustained growth, while exacerbating poverty and inequality. Such claims have led to a growing international clamor for the reform of the two institutions and their policies, but so far behavior on the ground suggests that little has changed in the institutions' underlying policy prescriptions.

One of the bloodiest IMF riots took place in 1984 in the Dominican Republic, which shares a troubled island with Haiti in the Caribbean. After a year of wrangling over the Dominican government's failure to fulfill its promises to the Fund, the IMF retaliated with a virtual financial blockade of the country. On April 19, 1984, the Dominican government caved in and announced that food and medicine prices would be "liberalized." Overnight, medicine went up by 200 percent, while milk, rice, and cooking oil all doubled in price. Four days later riots started in the capital, Santo Domingo, then spread to thirty other towns. By the night of April 25, 112 civilians were dead and 500 wounded.[1]

The hunger and carnage in Santo Domingo and Caracas (300 to 1,500 dead in IMF riots in 1989, depending on whom you believe) are a far cry from the gleaming opulence of the joint annual meetings of the Fund and its sister organization, the World Bank.

These meetings are extraordinary events, half cult gathering, half beauty contest. One such beauty contest took place in September 1999 in the darkened seminar rooms of the palatial Marriott Hotel in Washington as one third world official after another stepped up to the podium and pitched to the bankers and fund managers who made up the audience. Reforms were on track. Political will was there. Inflation was coming down. Banks were being overhauled. This was the quest for that elusive beast, "market confidence." By publicly swearing fealty to the market, the officials hoped to reassure investors and prevent the kind of disastrous capital flight that had brought down economies in Asia, Latin America, and Eastern Europe over the previous two years.

The cult is built on the endless repetition of free market mantras (liberalize, privatize, encourage foreign trade and transnational corporations) combined with attacks on the cult's enemies—protectionism, government interference, capital controls. One investment banker in a seminar on Korea added to the quasi-religious feel by demanding that the government "respects the sanctity of contracts." The uniform dark suits and neat haircuts ensured that the delegates even *looked* like cult members. After a week of mutual brainwashing, thousands of them emerged blinking into the sticky Washington air, fortified and resolute, and scattered across the globe to continue leading their peoples on the long march toward the market.[2]

According to its founding articles, the IMF's purposes include:[3]

- to "promote international monetary cooperation"
- to "facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income"
- to "promote exchange stability" and "avoid competitive exchange depreciation"
- to help eliminate foreign exchange restrictions "which hamper the growth of world trade"
- to provide members with loans "under adequate safeguards" when they get into balance of payments difficulties
- to lessen and shorten imbalances in the international balance of payments of member countries.

At first sight, such apparently laudable aims make the IMF sound like a philanthropic institution, smoothing the path of world trade and lending a helping hand to members who get into difficulties. It hardly seems the stuff to provoke mayhem and bloodshed on the streets of the third world. But the IMF's enormously increased power after the onset of the debt crisis in 1982, coupled to its hard-line interpretation of its role in "adjusting" troubled economies, has turned it into an "Institute of Misery and Famine" in the eyes of much of the developing world.

Like the United Nations, the IMF and its sister organization, the World Bank, were born at the end of the Second World War as part of an attempt by the victorious Western powers to prevent a repeat of the trade disputes of the Great Depression, which had sown the seeds of war. Although constitutionally they are part of the UN system, in practice the structure and role of the giant multilateral organizations demonstrate two radically opposed approaches. While the UN and its organizations largely subscribe to a "one country, one vote" principle (at least in the General Assembly), decisions at the IMF and World Bank are taken on the basis of "one dollar, one vote," guaranteeing the dominance of both by the U.S. government.

With Europe largely reduced to rubble, the United States emerged from the war as the world's economic superpower, able to dictate the rules of the game. At the IMF and World Bank's founding conference in Bretton Woods, New Hampshire, in July 1944, the U.S. delegation swiftly quashed the suggestions of John Maynard Keynes, the illustrious economist who headed the British delegation, and imposed Washington's blueprint for the postwar world economy and the institutions that would guide it. Half a century later, the third world (which at the time was still emerging from colonial rule) is still paying the price for that fateful clash between a triumphant United States and a bankrupt Britain.

Bretton Woods established the U.S. dollar as the international currency, although Keynes had argued for a new, neutral world currency. The arrangement simplified U.S. investment overseas, allowing the U.S. government to fund both investment and military spending by printing dollars as required. At the same time, in the third Bretton Woods institution, the General Agreement on Tariffs and Trade (GATT), founded in 1947, a body was created to press for fewer restrictions on world trade. In 1995, following the Uruguay Round of trade negotiations, the GATT agreement finally evolved into a new institution, the World Trade

Organization (WTO), which quickly acquired a public notoriety on a par with that of its older siblings.

The IMF and World Bank, officially named the International Bank for Reconstruction and Development, at first confined their attentions to rebuilding Europe with loans to Denmark, France, and Holland. As Europe began to recover, the Bretton Woods institutions began to look further afield. The Bank's first loan to a developing country went in 1948 to Chile.[4]

Bretton Woods enshrined "might is right" at the heart of global economic management. Voting power at the international financial institutions, as the IMF and World Bank are known, is determined by contribution to working capital. As of 2002 the United States had 17.16 percent of the vote,[5] sufficient to guarantee it the right to a veto over major IMF policy decisions, which require at least 85 percent support.[6] In contrast, no other country has more than 6.5 percent of the voting rights. In the real world, U.S. economic supremacy has dwindled, but the IMF has frozen the 1944 balance of power and Washington's veto into its voting system. As a sop to European sensibilities, the managing director of the IMF has traditionally been a European (currently Horst Köhler from Germany), while the World Bank president has always been an American (since 1995, James Wolfensohn, a former investment banker and patron of the arts).

The U.S. government even won the symbolic squabble over where to locate the offices of the international financial institutions, which ended up in Washington, under the wing of the U.S. government and well away from the UN headquarters in New York. Locating the global financial institutions in the U.S. political capital, rather than its financial center, further underlined the political importance Washington attached to the international financial institutions' role in building a new global economic order along U.S. guidelines.

THE IMF

In theory, the IMF concerns itself with short-term stabilization, while the World Bank deals with longer-term issues like project funding and structural adjustment. In practice, the distinction has become increasingly blurred in recent years. Starting operations with 44 member governments,[7] by 2002 the IMF's membership had expanded to 183,[8]

swollen by the rapidly escalating number of Eastern European republics desperate to rejoin the capitalist fold.

In normal times, the IMF oversees members' economic performance with regular visits to discuss policies and put pressure on member governments to observe Fund rules on issues like free trade and capital transfers. In such periods of tranquility, the IMF does not need to impose sanctions, but does have considerable influence over the weaker economies, not least through its gamut of "technical aid" services, including conferences, training, and the secondment of economic advisers to member governments.

However, the Fund only really comes into its own as a "lender of last resort," when a member gets into balance of payments difficulties—which usually means it cannot borrow sufficient money abroad to cover its trade deficit *and* keep up with debt service payments. In these circumstances, a member government can approach the IMF for a loan to bridge the financial gap, a procedure known as a "standby arrangement." In return for the loan, the Fund imposes conditions on the borrower, intended to make it pursue policies that will eliminate the balance of payments problem. The borrower's promises are enshrined in a "letter of intent" to the IMF. The letter is almost invariably drafted by IMF officials, leaving the government to try to negotiate modifications to the document.[9] Once the letter is "received" by the Fund, it releases ("disburses") the loan in staggered installments ("tranches"). If at any point the country fails to comply with the promises and targets ("performance criteria") laid out in the letter of intent, the Fund can suspend payments. Stand-by arrangements usually run from twelve to eighteen months, and can then be renewed if the balance of payments problem has not been solved. It frequently isn't—confirmed addicts like Honduras and Bolivia are now approaching the end of their second decade of almost continuous IMF loans.

From 1982, in the first years of the debt crisis, the IMF worked closely with creditor banks, which embarked on a seemingly endless round of negotiations to reschedule the debts of most Latin American nations. Rescheduling postponed a debtor's repayments (often at the cost of increasing a country's overall debt) and saved the commercial banks from having to write off their Latin American loans, which would have spelled disaster for their images on their home stock markets. For each debtor country, the banks formed advisory committees of creditors who undertook negotiations with individual debtors on a "case-by-case" basis. In the language of the school playground, the banks ganged up on the debtors, using divide-and-rule tactics to prevent any chance of a debtors' cartel forming. The advisory committees worked with IMF officials also engaged in negotiations with the government, creating what one critic has called "the Consortium" of commercial banks, Northern governments and international financial institutions that spoke with one all-powerful voice to the financially crippled nations of the South.[10]

It is its role as a leading agency in the Consortium that gives the Fund its real power, for the amounts of money it loans are often small compared to capital flows in and out of the third world. Instead, its clout stems from its role as international financial policeman. Most other potential lenders, such as the World Bank and the governments and banks of the rich industrialized world, usually make their loans conditional on an agreement with the IMF. International investors also see an IMF deal as a clean bill of financial health. The equation is simple: no standby arrangement, no cash. For any debtor country, the Fund is thus able to turn the taps of world finance off and on at will, turning it into "the most powerful international organization of the twentieth century, decisively influencing the well-being of the majority of the world's population."[11]

This was particularly the case in the first years of the 1980s, when most other sources of capital had dried up. When private capital flows surged back into the larger economies of Latin America in the early 1990s, the IMF's supremacy declined temporarily, but since foreign investors and the Fund frequently share the same view of what constitute "sound policies" in Latin America, the impact of this change was limited. Many of the smaller economies, however, remain starved of capital and as dependent on the IMF as ever. From 1995 on, a series of spectacular financial crashes in the larger economies (Mexico, 1995; Brazil, 1998; Argentina 2002) all involved massive IMF bailouts and a reassertion of the Fund's influence with even the largest players.

The IMF's elaborate strategy of carrots and sticks was not devised at Bretton Woods. Conditions were not attached to the European borrowers in the international financial institutions' initial phase of postwar reconstruction. Conditionality, as it is known, began in the 1950s and has grown steadily more stringent and all-pervasive ever since. In the

aftermath of the debt crisis of the 1980s, the IMF and later the World Bank's use of conditionality allowed the powerful industrialized nations to revamp one third world economy after another along free market lines. Critics believe that in the process, the IMF and World Bank have systematically put the powerful nations' self-interest before the welfare of the third world poor, allowing Washington, London, and Frankfurt to exert huge leverage over other countries at arm's length through the mechanism of a "deniable" and nominally impartial international organization. In the words of one U.S. deputy trade secretary on the virtues of the Bank's role in the Philippines:

> We have not been particularly successful ourselves in winning policy reforms from the Philippines. Because it is something of a disinterested party, however, the World Bank has been enormously successful in negotiating important policy changes which we strongly support.[12]

The fewer the options open to the bankrupt government, the greater the Fund's ability to dictate terms. The Argentine crisis of 2002 demonstrated how the Fund's power waxes and wanes even within individual countries. When the economy was booming and private capital was flowing into the country in the early 1990s, the Fund's calls for spending restraint made more sense, but were ignored by a government flushed with success that proceeded to run up massive debts. When capital dried up, the government was finally forced to listen to the Fund and cut spending, but at just the wrong time for an economy desperate for some kind of stimulus.[13]

With few exceptions (such as when the British Labor government was forced to go to the IMF in 1976), the IMF is unable to influence the policies of the powerful nations, despite their often outrageous double standards, and has not lent to a developed country since Australia and Iceland in 1982. The powerful patrons of the international financial institutions rarely practice what they preach. Throughout the debt crisis of the 1980s, the United States was running up the world's largest trade and fiscal deficits and a national debt far greater than that of the whole third world put together, yet the IMF was powerless to make its most powerful and out-of-control member take a dose of its own neoliberal medicine. Looking back on his achievements, Eddie Bernstein, the key U.S. negotiator at Bretton Woods, reflected that U.S. double standards had damaged the credibility of the IMF: "It suffers from having never been able to discipline its principal member, the United States."[14]

Many believe the United States was right to avoid following the IMF recipe. As Arthur Schlesinger, the U.S. historian who worked for President Kennedy, pointed out:

> If the criteria of the International Monetary Fund had governed the United States in the 19th century, our own economic development would have taken a good deal longer. In preaching fiscal orthodoxy to developing nations, we were somewhat in the position of the prostitute who, having retired on her earnings, believes that public virtue requires the closing down of the red-light district.[15]

Since its first loan to Chile in 1948, the IMF had periodically been involved in Latin America. When the debt crisis broke in August 1982 this occasional involvement rapidly escalated. During 1982 and 1983, seventeen Latin American governments signed IMF agreements, the only significant exceptions being Venezuela, Colombia, Paraguay, and Nicaragua,[16] which throughout the period of Sandinista rule was effectively boycotted by the international financial institutions under political pressure from Washington. By the mid-1980s, the Fund was involved in almost every country in the region (see table 2.1).

HOW THE FUND THINKS

The IMF was created to help countries sort out occasional balance of payments problems, which occur when a country's foreign exchange receipts (through both export income and capital inflows) are no longer sufficient to cover its foreign exchange requirements (for imports and capital outflows such as debt repayments). The Fund sees balance of payments problems as stemming from what it calls "excessive demand"—a diagnosis that, whatever its technical merits, must sound perverse to the poverty-stricken masses of the South. In IMF eyes, too much demand is chasing too few goods. This sucks in imports, creating an unsustainable trade deficit that then feeds the balance of payments crisis.

Excess demand also forces up prices, and the IMF believes that inflation also adds to the balance of payments problem. Since the causal connection between inflation and a balance of payments deficit is at first sight not at all obvious, it is worth spending some time to understand the IMF's reasoning.

Inflation at home erodes the real value of the national currency. If the government is to ensure that goods produced inside the country are to remain competitive with imports and competing exports from elsewhere, the exchange rate must fall by the same amount, but this rarely happens since exchange rates are seldom completely free to float. Over the whole economy, the process will thus encourage imports and deter exports, exacerbating the balance of payments deficit. Price distortions generally contribute to inefficiency in the economy, by skewing the way producers and consumers make decisions.

TABLE 2.1. IMF Adjustment Loans to Latin American and Caribbean Countries, 1981–2001

The various kinds of IMF loans are:

- **STAND-BY ARRANGEMENT** (SBA): The traditional short-term loan described in the text. Covers from one to two years.
- **EXTENDED FUND FACILITY** (EFF): A medium-term loan, usually for three years, with annual reviews to assess compliance with performance criteria and to 'spell out' policies for the next year.
- **STRUCTURAL ADJUSTMENT FACILITY** (SAF): A concessional medium-term loan for low-income countries, usually for a three year period.
- **ENHANCED STRUCTURAL ADJUSTMENT FACILITY** (ESAF): Similar to the SAF in terms of objectives and conditions for eligibility, but differs 'in the scope and strength of structural policies'.
- **POVERTY REDUCTION AND GROWTH FACILITY** (PRGF): Replaced ESAF in 1999 as the name for the IMF's concessional lending arm. Provides the finance to back Poverty Reduction Strategy Paper (PRSP)-based lending.

APPROVAL DATE	AMOUNT APPROVED	Type of Loan (mn SDRs[2])
ARGENTINA		
1983	1,500	SBA
1984	1,419	SBA
1987	948	SBA
1989	736	SBA
1992	2,483	EFF (3 year)
1996	720	SBA
1998	2,080	EFF
2000	10,850	SBA
BARBADOS		
1982	32	SBA
BELIZE		
1984	7	SBA
BOLIVIA		
1986	50	SBA
1986	58	SAF (3 year)
1988	36	ESAF (3 year)
1991	27	2 year extension to ESAF
1994	101	ESAF
1998	101	ESAF/PRGF

APPROVAL DATE	AMOUNT APPROVED	Type of Loan (mn SDRs[2])
BRAZIL		
1983	4,239	EFF (3 year)
1988	1,096	SBA
1992	1,500	SBA
1998	13,024	SBA
2001	12,144	SBA
CHILE		
1983	500	SBA
1985	750	EFF (3 year)
1988	75	1 yr extension of EFF
1989	64	SBA
COLOMBIA		
1999	1,957	EFF
COSTA RICA		
1981	276	EFF (3 year)[3]
1982	92	SBA
1985	54	SBA
1987	40	SBA
1989	42	SBA
1991	34	SBA
1993	21	SBA
1995	52	SBA
DOMINICA		
1981	9	EFF (3 year)
1984	1	SBA
1986	3	SAF (3 year)
DOMINICAN REPUBLIC		
1983	371	EFF (3 year)
1985	79	SBA
1991	39	SBA
1993	32	SBA
ECUADOR		
1983	158	SBA
1985	106	SBA
1986	75	SBA
1988	75	SBA
1989	110	SBA

APPROVAL DATE	AMOUNT APPROVED	Type of Loan (mn SDRs[2])
1991	75	SBA
1994	174	SBA
2000	227	SBA
EL SALVADOR		
1982	43	SBA
1990	36	SBA
1992	42	SBA
1993	47	SBA
1995	38	SBA
1997	38	SBA
1998	38	SBA
GRENADA		
1981	3	SBA
1983	14	EFF (3 year)
GUATEMALA		
1981	19	SBA
1983	115	SBA
1988	54	SBA
1992	54	SBA
GUYANA		
1990	50	SBA
1990	82	ESAF (3 year)
1994	54	ESAF
1998	54	ESAF/PRGF
HAITI		
1982	35	SBA
1983	60	SBA
1986	28	SAF (3 year)
1989	21	SBA
1995	20	SBA
1996	91	ESAF
HONDURAS		
1982	77	SBA
1990	31	SBA
1992	47	ESAF
1999	157	ESAF/PRGF

APPROVAL DATE	AMOUNT APPROVED	Type of Loan (mn SDRs[2])
JAMAICA		
1981	478	EFF (3 year)
1984	64	SBA
1985	115	SBA
1987	85	SBA
1988	82	SBA
1990	82	SBA
1991	47	SBA
1992	109	EFF (3 year)
MEXICO		
1983	3,411	EFF (3 year)
1986	1,400	SBA
1989	3,263	EFF (3 year)
1992	466	1 yr extension to EFF
1995	12,070	SBA
1999	3,103	SBA
NICARAGUA		
1991	41	SBA
1994	120	ESAF
1998	149	ESAF/PRGF
PANAMA		
1982	30	SBA
1983	150	SBA
1985	90	SBA
1992	94	SBA
1995	84	SBA
1997	120	EFF
2000	64	SBA
PERU		
1982	650	EFF (3 year)
1984	250	SBA
1993	1,018	EFF (3 year)
1996	300	EFF
1999	383	EFF
2001	128	SBA

APPROVAL DATE	AMOUNT APPROVED	Type of Loan (mn SDRs[2])
TRINIDAD & TOBAGO		
1989	99	SBA
1990	85	SBA
URUGUAY		
1981	32	SBA
1983	378	SBA
1985	123	SBA
1990	95	SBA
1992	50	SBA
1996	100	SBA
1997	125	SBA
1999	70	SBA
2000	150	SBA
VENEZUELA		
1989	3,857	EFF (3 year)
1992	-	9 month extension of EFF
1996	976	SBA

SOURCES: IMF Annual Reports, www.imf.org

1 Although the World Bank and IADB also make many adjustment-related loans, the sheer number of such loans, and lack of clarity over what is/is not adjustment-related makes it impossible to include them in this table.

2 IMF loans are measured in Special Drawing Rights (SDRs), the Fund's international unit of account. As of 29 May 2002, 1 SDR was worth $1.286

3 cancelled following year and replaced by SBA

Overvaluation also contributes to the balance of payments problem by encouraging capital flight, as peso holders try to convert them into dollars and get them out of the country before the impending devaluation reduces their value. The general mood of uncertainty and instability created by inflation and devaluation also discourages foreign investors, who will be reluctant to convert their dollars into depreciating pesos.

The Fund also rightly claims that high inflation is a tax on the poor, since they are worst hit by price rises and have no means of defending their income levels, whereas better-off wage earners can usually index their incomes to inflation, or convert them into dollars. High inflation often provides rich pickings for investors able to play the financial system; for example, by jumping between different interest-bearing accounts and currencies to take advantage of the short-term distortions that inflation produces.

However, the Nobel Prize–winning economist Joseph Stiglitz, himself a former chief economist at the Bank, believes the IMF has become too fixated with inflation. He draws a distinction between high inflation (over 40 percent a year), where firm evidence exists for the harmful effects on growth, and lower levels where no conclusive evidence exists. The IMF, it seems, has been tilting at windmills for much of the last decade (Latin America's level of regional inflation fell below 40 percent in 1995).[17] When it should have been arguing for increased spending and reflation, the Fund continued to demand austerity, at enormous social cost.[18]

In the debt crisis of the 1980s, an obvious way for Latin American countries to ease their balance of payments problems would have been to declare a moratorium on their escalating debt service payments, but the IMF used all its influence to prevent this from occurring, arguing that countries that defaulted would become international financial pariahs who would be unable to borrow in the future. Instead, the Fund argued for a further reduction in demand and devaluation, this time to cut imports and diversify the economy's efforts to exports, in order to generate a trade surplus with which to pay the debt service. The result was a "double whammy," driving Latin America into an acute recession.

Beyond the immediate objective of correcting a balance of payments deficit, the IMF clearly has a much broader agenda, namely imposing "sound" (i.e., neoliberal) economic policies on the country concerned. IMF conditions demand a smaller role for government, a switch in power and resources to the private sector, the privatization and deregulation of industry, and the opening up of the economy to foreign trade, investment, and capital flows. In return, a successful IMF program promises to enable a country to move smoothly from "stabilization," through "structural adjustment" to reach the promised land of "export-led growth."

WHAT THE FUND DOES

In the short term, rather than increasing supply to bring supply and demand into balance, the Fund responds to a balance of payments crisis by proposing a swift but painful cure of recession and reduced demand, provoking two otherwise sober economists to write, "To many people who have witnessed the consequences of IMF programs on the poor, this cure seems about as sensible as the idea of bleeding a feverish patient."[19]

The Fund's measures can broadly be divided into two groups, those aimed at achieving short-term stabilization and those concerned with longer-term changes in the economic structure. Stabilization aims to control inflation and rapidly create a large trade surplus with which to continue debt service payments. Measures include:

- Cutting consumer spending power by raising interest rates to limit domestic credit. High interest rates also discourage capital flight and encourage inward investment. In practice, the Fund is also willing to tolerate wage controls as a means of controlling inflation, though it claims to disapprove.
- Curtailing the fiscal deficit by cutting government spending. This involves removing state subsidies on food, fuel, and public transport and reducing social spending on health, housing, and education, measures that also help cut demand in the economy as a whole. Measures can also include raising government revenue by increasing charges on state-run utilities such as electricity and water and charging "user fees" for hitherto free education and health services.
- Devaluing the currency to encourage exports and discourage imports (which, since they are priced in dollars, become more expensive in terms of the local currency).

Structural adjustment is a more profound and longer-term process, through which the international financial institutions try to implant a functioning free market economy in the country concerned. Controls on prices, wages, interest rates, investment, trade and exchange rates are removed since the IMF believes in letting the unregulated market decide prices to maximize the efficient allocation of resources. Governments are forced to cut back on state investment in the economy, as part of the effort to reduce state spending, but also in the belief that the state is both less efficient and "crowds out" private-sector investment by soaking up the available credit. The full repertoire of structural adjustment measures did not come into force until the late 1980s, once the World Bank had become fully immersed in the adjustment process. As the 1990s wore on, new kinds of conditions were added, specifying a broader range of institutional and legal changes, which the Bank and Fund deemed necessary to build a modern, functioning economy.

THE WORLD BANK

From the Mexican default in August 1982 until mid-1985, the IMF and its short-term stabilization approach dominated the response to the debt crisis. The continent was forced to cut back on imports and use the dollars it saved to pay debt service, and to go through a fierce recession to curb inflation. The scheme saved the banks and Northern financial markets from collapse, but at huge social cost in the South.

By 1985, it had become obvious that the commercial banks had no intention of renewing lending to Latin America, and resistance was growing among debtor countries that saw no point in squeezing their people to pay endless tribute to the rich nations while receiving nothing in return. In the second half of 1985, Peru's President Alan García defied the IMF by announcing that "Peru's main debtors are its people" and unilaterally limited debt repayments to 10 percent of the value of Peru's exports, calling on other Latin American debtors to join him.[20] Peru was duly punished for its presumption, but the West realized that a change of tack was needed to prevent its whole debt strategy from crashing.

U.S. Treasury Secretary James Baker retook the initiative within months of García's move. In October 1985, at the annual IMF-World Bank meeting in Seoul, South Korea, he unveiled his "Baker Plan" for shifting from recessive to growth-oriented adjustment. The plan, which applied only to the fifteen largest debtors, entailed asking the private banks to renew lending to the South (a request they largely ignored). It also gave the World Bank and regional development banks like the InterAmerican Development Bank (IDB) a greatly increased role in lending and overseeing longer-term structural adjustment.

The World Bank, the second of the Bretton Woods "heavenly twins" has traditionally played the role of Mr. Nice Guy in contrast to the IMF's Mr. Scrooge. It has also proved far more of a chameleon, regularly changing its stated aims and policies during its fifty years of operation in accordance with the prevailing political wind, although the impact of the new rhetoric on its policies on the ground remains debatable.

> In recent years the Bank has adopted—if only superficially—virtually every suggestion its supporters and critics have offered, with one exception: that the Bank practice self-restraint. It is now committed, at least on paper, to helping the private sector, women, and the poor; to working with non-governmental organizations and the people directly affected by their projects; to increasing its lending for education, health, nutrition, and micro-enterprises; to protecting or improving the environment; to reducing military expenditures and corruption; to promoting openness in government, the rule of law and equitable income distribution—and to doing it all "sustainably."[21]

Despite, or more likely because of this constant "mandate creep," the Bank is an organization racked by low morale and self-doubt. Periodically, it responds to criticisms of its lack of focus with another organizational restructuring that only adds to the "initiative fatigue" and low morale of its 10,000-member staff. In January 2001 one leaked memo from staff in the Middle East and North Africa Department, complained:

> The Bank today has no focus and is driven by an ever growing list of mandates imposed on it through a variety of means. . . . [The World Bank] President's favorite subjects as mentioned above, Board sentiments as discerned from time to time, public pressures, ideas generated by internal constituencies, and even fads. These are all cumulative with nothing ever taken off.[22]

The Bank's organizational traumas stand in marked contrast to the complacent insularity of the Fund, whose staff, despite all evidence to the contrary, continue to believe that they know best.

The Bank played a minor role in European reconstruction, lending for large infrastructure projects, then adopted the same "big is best" philosophy in the South. Until shortly before the debt crisis, the Bank remained a project lender, concentrating on giant projects such as road- and dam-building. By backing such "mega-projects" it has become notorious among environmentalists for its role in deforestation, flooding out indigenous communities and supplanting peasant agriculture with large agribusiness schemes. Such projects still constitute a significant proportion of the Bank's loans, a vast global enterprise that churned out over $2.9 million an hour in 2000.[23] Latin America claimed a larger portion of Bank lending than any other region, accounting for $5.3 billion in 2001.[24]

The Bank's own articles of agreement specify that "loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development."[25] Nevertheless, the onset of the debt crisis saw a shift from project-based lending to structural adjustment, a process that accelerated sharply with the Baker Plan. In 1980 the World Bank created a new credit line of Structural Adjustment Loans (SALs) to support economic reform programs. SALs remained a minor part of the World Bank's loans portfolio until the Baker Plan was announced, but by 1987 these and other forms of policy-based lending had risen to 20 percent of the Bank's loans to Latin America.[26]

SALs came with a new checklist of conditions and performance targets attached. The Bank usually made SALs conditional on countries having already put in place an "appropriate macroeconomic framework." In practice, this usually meant having agreed a stabilization program with the IMF.[27] The phenomenon of "cross-conditionality" was born, whereby a country had to satisfy simultaneously two different but interconnected sets of conditions from the IMF and World Bank. Were it to break either set, the result could be a suspension of the program and an economic boycott by world capital markets. While the Fund's conditions tended to be quantified and precise, the Bank's were more qualitative and negotiable. The result was an administrative nightmare, as recipient government officials spent more time trying to satisfy the international financial institutions' endless requirements than on running their own economies.

The debt crisis of the 1980s accelerated the convergence of the two

institutions. In the years following Bretton Woods, there was a clear division of roles: the IMF was placed in charge of finding short-term, economy-wide solutions to balance of payments crises; the World Bank promoted long-term development via project funding. Since the early 1970s, this division of labor has become increasingly blurred. In 1974 the IMF moved into medium-term lending with its EFF (Extended Fund Facility). Later it added SAFs (Structural Adjustment Facility) and ESAFs (Enhanced Structural Adjustment Facilities), new kinds of concessional loans geared even more directly to structural adjustment policies. In 1999, their paths converged still further when ESAFs were replaced with the Poverty Reduction and Growth Facility (PRGF), while the Bank subsequently introduced the Poverty Reduction Support Credit (PRSC). The Bank and Fund agreed that from 2002, both institutions' funding to low-income countries such as Bolivia and Nicaragua would be based on the Poverty Reduction Strategy Paper process (see below).

At the same time, the shift to SALs brought the World Bank into competition with the Fund on short-term, economy-wide reform. With the creation of Sectoral Adjustment Loans (SECALs) in 1983, the Bank further increased its ability to intervene in third world economies by lending in return for reforms in specific sectors, such as privatization, "rationalization," or stimulating exports.[28] The Bank can now throw its weight around in the economies of the South to manage the fine detail of policy in a far more all-pervasive way than the IMF's efforts, which are restricted to macroeconomic targets like the fiscal deficit or exchange rate. It has become a more effective neoliberal battering ram, while its more sensitive handling of publicity and its own image have so far allowed it to escape the IMF's global notoriety.

The Bank's adjustment-related lending promoted very specific reforms, such as:

- DEREGULATING FOREIGN TRADE. The international financial institutions believe that protectionism spawns inefficiency, so import taxes and quotas are removed as part of the wider effort to "get the prices right." The market can then allocate resources more efficiently and comparative advantage becomes the basis for a country's trade.

- LIBERALIZING THE FINANCIAL MARKET. The Fund and Bank believe that the freest possible flow of capital would lead to the most efficient allocation of investment, so they pressured countries to open up to foreign capital flows and deregulate their domestic financial institutions.

- PRIVATIZING STATE-OWNED COMPANIES. This has proved an extremely attractive option to both governments and the international financial institutions from the mid-1980s onward, since it sheds loss-making companies that contribute to the fiscal deficit, while the proceeds from sales create a one-off boost to government revenue (not to mention plentiful opportunities for corruption). The international financial institutions also believed that privatization would lead to a more efficient economy, since it would encourage the private sector (especially transnational companies) to inject new capital and technology, and "muscular management," free from political considerations, could sack staff deemed surplus to requirements.
- DEREGULATING THE LABOR MARKET. This involved making it easier for employers to hire and fire at whim, an assault on the power of trade unions that enabled employers to cut salaries, reducing "red tape" such as health and safety legislation which pushes up employers' costs, and encouraging a range of "flexible practices" such as subcontracting, self-employment, and part-time work, all of which increase business competitiveness, while reducing workers' wages and job security.
- Tax reform and higher charges for state-produced goods like electricity and water were both introduced as a means of balancing government budgets. Most tax reforms involved increasing sales taxes, such as VAT, which proportionally hit the poor hardest.

Just as with the initial stage of IMF-run stabilization, the Baker Plan may have failed to fulfill its stated aims, but the World Bank's plunge into structurally adjusting the South proved remarkably successful in opening up the Latin American economy to the traders and investors of the rich nations, and reforming it along neoliberal lines, while further eroding Latin America's economic sovereignty.

THE IDB

A lesser-known international financial institution, the Inter-American Development Bank (IDB), also plays a leading role in the region's adjustment process. Founded in 1959, the IDB has stuck closer than the World Bank has to its original role in providing finance for specific

projects. During its first twenty years it concentrated on agriculture and social sector projects, leaving the World Bank to its romance with infrastructural "megaprojects" such as giant dams and roads. With the onset of the debt crisis, the IDB lost favor in Washington, as structural adjustment took over from project lending as the policy makers' favorite, but since the late 1980s it has made a comeback and gained new funding for its lending. To get the new funds from the United States, it was forced to clamber aboard the structural adjustment bandwagon, but opposition from Latin America limited the extent of its adjustment-oriented sectoral loans.[29] In 2000, of total lending of $5.3 billion, the IDB classified $1.9 billion as "reform and modernization of the state."[30] By comparison, gross disbursements to the region by the World Bank came to $4.1 billion in that year.[31]

As with the IMF and World Bank, the U.S. government exerts a high level of control over the IDB, which is conveniently headquartered in Washington. The United States has just enough votes (30.008 percent in 2002)[32] to veto loans financed through the Fund for Special Operations, IDB's "soft window" for concessional loans.

CRITICISMS OF STRUCTURAL ADJUSTMENT

The human and economic impact of structural adjustment is examined in detail in subsequent chapters. The Bretton Woods institutions argue their case on the basis of "no pain, no gain." While the model invariably produces the pain through increased poverty, inequality, and unemployment, the gains have so far proven more elusive. The Fund and Bank still avow that they will be proved right in the long run, but as Keynes acerbically remarked, "In the long run, we are all dead."[33] The model can be criticized both in terms of its recipe for stabilization and the model of trade underpinning its advocacy of growth based on exports.

In the short term, while nominally attacking inflation, the devaluation which almost invariably accompanied an IMF agreement led to a surge in prices as imports suddenly rose in price. These policies plunged much of Latin America into a "stagflation" cycle of recession and high inflation during the 1980s. As pointed out earlier, the Fund's obsession with even moderate levels of inflation prevented it from trying to reflate recession-hit economies.

In the 1990s, structural adjustment took over from stabilization as the focus for most Bank and Fund loans, liberalizing trade and capital flows, and deregulating and privatizing the domestic economy. The results demonstrated that financial liberalization brings with it even greater risks and instability than liberalization of areas such as direct investment or trade. Financial deregulation combined with liberalization of countries' capital accounts produced an explosive mix of high-volume flows of short-term capital. When, for whatever reason, investors of this "hot money" took fright and fled, they triggered national crises and banking collapses, which almost inevitably ended in huge public bailouts and a legacy of increased debt payments.

The Bretton Woods institutions' advice on trade, based on orthodox notions of comparative advantage, ignores what is known as the "fallacy of composition." In dealing with each country separately, they assume the rest of the world economy remains unchanged so that devaluing and boosting both traditional and nontraditional exports will improve a country's trading performance. But if the whole third world follows the same policies, it risks flooding the market with new agricultural products, with the inevitable impact on prices; if Kenya and Vietnam and Guatemala all decide to compete in exporting coffee or nontraditional products such as mange tout (snow peas), it may be good news for shoppers in the North's supermarkets, but leaves developing countries with falling incomes despite increased export volumes. Under Washington's tutelage, third world economies were forced to run just to stand still, as their terms of trade continued to deteriorate.

Reviews of SAPs, including some commissioned by the Fund, repeatedly found serious flaws in their design. In 1997–1998 internal and external reviews of the Fund's ESAF lending found that programs with large number of conditions tended to perform poorly, often due to policy disagreements between IMF staff and borrower governments.[34]

The Fund and the Bank's standard policy packages take little account of local political or economic conditions. As one local expert complains, "Even before they arrive in a given Latin American country, the experts of the IMF know better than Latin American economists how to tackle the problem."[35] Typically, IMF "missions" from Washington fly in for three weeks with a blueprint for the country's future economic policy already in their briefcases. Once in the country, they

negotiate with local technocrats from the Finance Ministry, often themselves former IMF or World Bank employees, but they do not consult other bodies like the Agriculture Ministry or the UN Food and Agriculture Organization, which have a far better understanding of how the Fund's economic prescriptions will affect people on the ground.[36] Still less do they talk to the peasants' organizations, community associations, trade unions, or NGOs who are most in touch with the poor communities the Fund is supposed to be helping. The Fund's dismissive attitude toward "the field" was summed up by one of its executive directors, who recalled, "In the old days, if someone was no good, we would say, 'send them to Honduras!'"[37]

In a hundred-page open letter of resignation from his job as senior economist with the IMF, Grenadian economist Davison L. Budhoo lambasted the IMF mentality in the 1980s:

> Let us remove all elements of recipient discretion from our programs. Let us state explicitly and unequivocally what the third world blighters must be made to do, and when and how they must be made to do it Let us give the countries of the South specific things to do in specific months, and even during specific weeks of specific months. Let us finally put a particular cut-off point for completing our task of effecting Reaganomics and Thatcheromics in the South.[38]

One of the most ambitious reviews of the impact of SAPs on the ground was carried out by a network of NGOs, trade unions, and academics in a dozen countries that had gone through Bank-funded adjustment programs, including Mexico, El Salvador, and Ecuador in Latin America. The Structural Adjustment Participatory Review Initiative (SAPRI) began with a challenge to James Wolfensohn shortly after he became World Bank president. By the time the initiative was completed, it had come to include thousands of local organizations participating in national field exercises on four continents, the majority of which were carried out jointly with the Bank and the national government. The parties investigated, in a highly participatory fashion, the impact of a broad range of economic adjustment policies, such as trade liberalization, financial sector reform, agricultural-reform measures, and the privatization of public utilities.

The conclusions, published in April 2002, were damning, and can be found on the SAPRI website.[39] Unfortunately, according to the document summarizing the project's findings, even though it funded the exercise, the Bank

> went to extraordinary lengths to bury SAPRI and its findings within the institution, as well as to lower its profile to the outside world. After insisting on joint actions throughout the exercise, management decided to write its own final report, which focused as much on its own in-house research as on SAPRI fieldwork. . . . At the conclusion of the forum, it immediately closed down the SAPRI process without any commitment to follow up or any trace of the multi-year SAPRI analysis in any of its internal documents.[40]

Among the key findings of the study:

TRADE LIBERALIZATION has led to growing trade deficits, export growth typically based on natural resources and low-skilled labor, and the failure of many local manufacturing firms, particularly innovative, small and medium-sized firms that generate a great deal of employment. Transnational corporations have often been the principal beneficiaries.

FINANCIAL SECTOR LIBERALIZATION has increased inequality. Instead of helping producers that need capital to maintain or expand their operations, financial intermediaries have directed financing toward large (usually urban) firms and extended the largest share of loans to a few, powerful economic agents. Small and medium-size firms, rural and indigenous producers, and women have very limited access to the formal financial system, thereby exacerbating existing inequalities.

LABOR MARKET REFORMS have had adverse employment effects. "Flexibilization" policies have undermined the standing of workers generally. Reforms have led to fewer regulations concerning labor stability and firing practices, thus facilitating widespread use of temporary contracts and leaving workers with little recourse when employers choose to reduce their workforce. Labor rights have been affected by restrictions placed on the right to strike and to bargain collectively.

PRIVATIZATION earns mixed reviews. Civil society groups drew a distinction between the privatization of enterprises involved in production (which sometimes made economic sense) and those delivering basic services, such as water and electricity. As far as the latter category was concerned, access to affordable quality services did not improve for the societies as a whole and, in some cases, worsened. Privatization measures exacerbated inequality and failed to contribute to macroeconomic efficiency. In El Salvador, poor consumers saw their bills rise at nearly twice the pace of increases for high-end consumers.

AGRICULTURAL REFORMS have generally included the removal of subsidies on agricultural inputs and credit; liberalization of producer prices; privatization of state entities involved in marketing and the distribution of inputs and produce; liberalization of trade in agricultural inputs and commodities; and currency devaluation. The result has been increasing rural inequality, since only those producers with previous access to resources and economies of scale were able to benefit.

REDISCOVERING POVERTY

As the human toll of the first wave of stabilization and structural adjustment policies in the 1980s became apparent, criticism grew. UNICEF conducted an impressive lobbying effort while always treating the IMF with "an appropriate degree of professional deference."[41] Its 1987 publication of *Adjustment with a Human Face* was a landmark critique of the international financial institutions' policies in the South.[42] One of its principal findings was that although structural adjustment had greatly increased poverty in the region, the international financial institutions' lending policies and conditions had paid "almost no attention to the special problems of the poor."[43] One high-ranking World Bank economist confessed, "We did not think that the human costs of these programs could be so great, and the economic gains so slow in coming."[44]

True to form, the Bank responded by agreeing with its critics. In 1990, World Bank President Lewis Preston described sustainable poverty reduction as "the overarching objective of the World Bank. It is the benchmark by which our performance as a development institution will be measured."[45] The new strategy aimed "to reduce poverty through broadly based labor-intensive growth to generate jobs and income for the poor; social investment to improve poor people's access to education, nutrition, health care, and other social services and social safety nets to protect the poorest and most vulnerable sections of society."[46] The Bank's annual flagship World Development Report reflected the extent of the intellectual overhaul. Its 1997 edition was devoted to arguing that an effective state was vital for development, marking an important change from the "market good, state bad" rhetoric of the early days of the Washington Consensus.

In the larger economies, criticism subsided somewhat in the early 1990s, as renewed capital flows led to a brief return to reasonably high levels of growth. However, the 1995 Mexican crash, rapidly followed by crises and bailouts in Brazil and Argentina, marked a new phase of apparently permanent instability. Along with crises in Asia and Russia, this prompted a much broader range of critics to take issue with structural adjustment policies.

In both Brazil and Argentina, multibillion-dollar bailouts proved unable to prevent a crash, raising suspicions that they were in fact designed merely to buy enough time for foreign investors to exit the country before the devaluation occurred. Nobel Prize-winning economist Joseph Stiglitz, who in recent years has become the Fund's most trenchant critic, is in no doubt:

> When the IMF and the Brazilian government spent some $50 billion maintaining the exchange rate at an overvalued level in late 1998, where did the money go? The money doesn't disappear into thin air. It goes into somebody's pocket—much of it into the pockets of the speculators. In a sense, it is the IMF that keeps the speculators in business.[47]

Stiglitz also points out that the IMF's standard policy of prescribing high interest rates and spending cuts to governments already in or approaching recession merely makes matters worse.[48] It is worth recalling that the Bush administration responded to the slowdown in the United States in 2001 in precisely the opposite way—cutting interest rates and boosting the economy with tax cuts.

In low-income countries such as Nicaragua and Bolivia, concerns also mounted about the levels of foreign debt. Unattractive to private investors, these countries, along with the poor countries of Africa and Asia, piled up debts to the Bank and Fund. In Bolivia, the proportion of public debt owed to the multilateral lenders like the Bank, Fund, and IDB rose from 32 percent in 1981 to 70 percent in 2001.[49] Critics pointed out that the crushing debt burden was preventing poor countries from achieving precisely the kind of sustained growth and development that the Bretton Woods Institutions were supposed to be promoting, and called for sweeping debt relief. Jubilee 2000, an international Church-based movement calling for cancellation of unpayable debts to mark the dawn of the new millennium, started to exert significant political pressure on Northern governments. When 70,000 people (many of them middle-aged churchgoers on their first demonstration) formed a human chain around the G7 summit in Birmingham in 1998, they succeeded in forcing debt onto the agenda and won significant concessions at the G7 summit in Cologne the following year.

The Asian crisis also prompted attacks from the Republican Right in the United States, which used the occasion to argue for a drastic reduction in the funding and scope of both Bank and Fund, for example pulling the IMF out of structural adjustment funding altogether.[50] Such pressures subsequently increased with the election of George W. Bush. On the eve of the Fund's 2002 Annual Meeting, *The Economist* reported, "A growing chorus of insiders, from staff members to Wall Street bankers, is asking whether the Fund and the rich countries that largely determine its policies know what they are doing. The reason for the disquiet is Latin America."[51] The magazine reported that the Fund was under attack on three fronts: for not pushing its policies hard enough, for flaws in the policies themselves, and for not being consistent in its message to developing countries. Such attacks posed an interesting challenge for left-wing critics of the Fund and Bank, who suddenly found themselves arguing for the same things as their erstwhile foes, albeit for different reasons!

The "growth versus equity" debate came to a bloody head around the 2000–2001 World Development Report, entitled "Attacking Poverty." Unfortunately, Bank staff drafting the report also spent a fair amount of time attacking one another. For the WDR exercise in 2000, the Bank took the unusual step of publishing the first draft and organizing a far greater degree of public consultation than is customary. As a result, onlookers were able to observe a full-scale war for the Bank's economic soul being fought between the old guard neoliberals headed by the appropriately named David Dollar and the new thinking on so-called second-generation reforms being proposed by Joseph Stiglitz and others.

The first draft was an exciting departure, concentrating much more on previously missing issues such as how to combine growth with equity as the best means of reducing poverty. The counterattack was fierce: the Bank's leading neoliberals publicly accused their rivals of getting their sums wrong and the WDR editor, Ravi Kanbur resigned.[52] The final version of the report dropped many of the sections criticizing standard Bank views on liberalization and added a whole new chapter rehashing orthodox Washington Consensus views. The result was a schizophrenic document that accurately reflected the confusion within the institution. Oxfam described the result as a "painful disjuncture between policy messages on equity and the macroeconomic message on growth."[53]

PRSP—POVERTY REDUCTION OR PUBLIC RELATIONS?

Progress has been swiftest over the low-income countries still mired in debt to the Bretton Woods institutions. In September 1999, the World Bank and the IMF responded to the political pressure generated by Jubilee 2000 by agreeing that "nationally owned participatory poverty reduction strategies should provide the basis of all their concessional lending and for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative." In time, lending by both Bank and Fund would be based on Poverty Reduction Strategy Papers (PRSPs), drawn up by country authorities for submission to the Bank and Fund boards. By 2002, Honduras, Guyana, Nicaragua, and Bolivia all started to benefit from the new debt relief. The crucial point was that PRSPs were to be drawn up with full participation of the public, not agreed behind closed doors between finance ministry and IMF or Bank officials. The IMF duly rechristened its Enhanced Structural Adjustment Facility as the new, more cuddly-sounding Poverty Reduction and Growth Fund.

The Fund and Bank promised that poverty reduction would be placed at the heart of policy design, but the practice to date has been very different. Civil society organizations found themselves consulted when it came to "soft items" about public spending, but were not invited when the subject turned to broader economic policy issues. A study by Christian Aid of Bolivia's PRSP process, carried out in 2000, found that part of the reason for excluding even specialist economic policy NGOs was political—even some government employees admitted that if Bolivia had presented an alternative strategy to the Fund and Bank, it would have risked losing its debt relief. Although more than 100 Bolivian civic organizations subsequently appealed to the IMF not to approve the final document, it was endorsed in May 2001.[54]

CIDSE, an international alliance of Catholic development agencies, concluded:

> In countries producing PRSPs, poverty reduction is not being integrated into the heart of structural and macroeconomic policies. The same structural adjustment policies of the past dominate PRSPs, focusing on budget austerity, economic growth, and free market approaches, with little consideration of who benefits and who loses from these policies. Instead, poverty reduction is still treated as a new layer on top of the old policies, often reduced to increased investments in health and education and expansion of "safety nets."[55]

IS THERE A POST-WASHINGTON CONSENSUS?

Much of the academic and policy debate in and around the Bretton Woods institutions has focused on what, if anything, should replace the ten commandments of the Washington Consensus reform program of the early 1990s. Insider critics such as Stiglitz argued that what was needed was a "post-Washington Consensus," where the focus was on building institutions, both state and private, to address the failings of the market:

> The policies advanced by the Washington Consensus are not complete, and they are sometimes misguided. Making markets work requires more than just low inflation; it requires sound regulation, competition policy, and policies to facilitate the transfer of technology and to encourage transparency.[56]

As usual, the change in tack was reflected in the theme of the Bank's flagship World Development Report, which in 2002 was titled "Building Institutions for Markets."

Table 2.2 shows one version of the policy areas covered by both the Washington Consensus and its successor, but the scramble to redefine the Washington Consensus included a large number of often mutually contradictory proposals. While the original consensus had been found wanting, there was clearly very little consensus on what should take its place beyond admitting that "life is more complicated than we thought."

TABLE 2.2. Washington Consensus and After[57]

THE ORIGINAL WASHINGTON CONSENSUS:	THE AUGMENTED WASHINGTON CONSENSUS *The original list plus:*
• Fiscal discipline	• Legal/political reform
• Reorientation of public expenditures	• Regulatory institutions
• Tax reform	• Corruption
• Financial liberalization	• Labor market flexibility
• Unified and competitive exchange rates	• WTO agreements
• Trade liberalization	• Financial codes and standards
• Openness to foreign direct investment	• "Prudent" capital-account opening
• Privatization	• Non-intermediate exchange rate regimes (i.e., fixed or floating)
• Deregulation	• Social safety nets
• Secure property rights	• Poverty reduction

Dani Rodrik, the economist who compiled table 2.2, is skeptical of what he calls, in order to stress the degree of ideological continuity with its predecessor, the "Augmented Washington Consensus":

> Operationally, these institutional reforms have two noteworthy features. First, they are heavily influenced by an Anglo-American conception of what constitutes desirable institutions (as in the preference for arm's-length finance over "development banking" and flexible labor markets over institutionalized labor markets). Second, they are driven largely by the requirements of integration into the world economy.[58]

One such second-generation issue is corruption, politely rechristened "governance" in World Bank parlance. The Bank's website proudly proclaims that though few Bank country programs discussed the issue prior to 1998, between January 1998 and June 1999, 78 percent of "country assistance strategies" mentioned governance.[59] On both political and practical grounds, Rodrik argues against trying to correct the failings of the 1980s by trying to build up a whole set of institutions from scratch:

> The practical difficulties of implementing many of the institutional reforms under discussion are severely underestimated. Today's developed countries did not get their regulatory and legal institutions overnight. It would be nice if third world countries could somehow acquire first world institutions, but the safe bet is that this will happen only when they are no longer third world countries.[60]

Another observer, Moises Naim, questions whether any post-Washington Consensus exists, pointing to the "wildly gyrating ideas about controls on foreign capital or about exchange rate regimes" and stressing the constantly shifting demands on Southern governments:

> Reforming governments everywhere saw how the policy goals that just a few years, or even months, earlier had been specified as the final frontier of the reform process became just a mere precondition for success. New, more complex, and more difficult goals were constantly added to the list of requirements for an acceptable performance.[61]

Whatever the intellectual gymnastics in Washington, criticism has continued to mount over the gap between the new rhetoric and the reality on the ground. In January 2001, the Annual Review of Development Effectiveness, by the Bank's Operations Evaluation Department found that

> for most adjustment operations, the focus on public expenditures outweighs that of addressing economic distortions or safety nets, and the impact of reforms on the poorest is rarely considered.[62]

The third world governments that borrow money from the Bank confirmed that not much has changed. When an internal assessment by the Bank asked them what the Bank was good at, helping strengthen civic participation in national development efforts came bottom of the list, with 14 percent. At the top of the list came "Helping strengthen and maintain sound macroeconomic and trade policies" and "helping attract investment."[63]

THE POLITICS OF ADJUSTMENT

The motive for Davison Budhoo's resignation was one of the most serious claims of fraud and bad faith leveled at the Fund in recent years. Budhoo worked for the IMF between 1985 and 1987, evaluating the economy of Trinidad and Tobago. He later resigned, charging that he had uncovered evidence that the Fund deliberately distorted the state of the country's economy in order to force it to adopt stronger adjustment measures. This included more than doubling the figures for Trinidad's fiscal deficit, vastly inflating the figures for the rises in the country's labor costs, and giving a distorted picture of the real exchange rate to strengthen its argument for devaluation of the local currency. Budhoo claimed that when he pointed out the mistakes, he was ignored, forcing him to conclude that the distortions were "premeditated and systematic" frauds.[64]

The Bretton Woods institutions invariably present their policy packages as an "objective" solution to a country's internal problems, yet self-interest is clearly involved, since powerful interests in the North reap rich rewards from structural adjustment, which opens up the economies of the South to first world traders and investors. In the massive privatizations of the 1990s, U.S. and European transnational corporations were able to snap up the pick of Latin America's airlines, banks, and telecommunications companies and also moved in on its oil sector. Structural adjustment's emphasis on export-led growth, along with its tendency to deindustrialize third world economies, leads to more abundant, and therefore cheaper, supplies of raw materials for the industrialized economies, locking much of the South into a neocolonial economic relationship with the North. Given the control by those same rich countries of the Fund and the Bank, it is hard to believe that this is pure coincidence.

Such suspicions are borne out by the spin the Bank puts on its presentations to U.S. audiences. One such briefing read: "The Bank's loans have helped develop these new markets [for U.S. exports]. . . . In Argentina, export diversification loans pushed the country to open closed markets, allowing average U.S. exports to increase from $862m to $3.7bn." [65] The briefing went on to quote the Congressional testimony of a vice president of the Caterpillar company:

> By encouraging—and at times pressuring—countries to lower trade barriers, privatize enterprises, and support democratic reforms, [the World Bank] is helping to develop markets for American products.

Often, it is impossible to disentangle political from economic criteria. The IMF and World Bank believe in the market and will not fund a government that rejects their ideas in favor of a more progressive a

genda such as redistributing wealth or building up national industry through some measure of protection. Staff at the Bretton Woods institutions believe that their decisions are based purely on economic grounds, but in practice, they promote the U.S. agenda for the third world. Washington certainly sees it that way according to one U.S. official, who advised, "We must counter, both in the UN and within the framework of the North-South dialogue, any discussion of global problems which questions the validity of the free market and of free enterprise in the countries of the third world."[66]

The United States has regularly used the Fund and the Bank to reward its allies, however undeserving, and punish its enemies, however strong their case for a loan. In 1993, Mexico, emerging from a decade of neoliberal shock treatment, duly reaped its reward when it took over from India as the World Bank's all-time largest borrower.[67] A few years earlier, a leaked memo from the British Foreign Office provided a revealing account of political interference in the World Bank, at a time when Britain was faithfully toeing Washington's hard line against Nicaragua at the height of the Contra war. Stamped "Confidential," the memo stated, "There is no need to amend our voting policy toward Nicaragua for the time being. The problem of explaining it in public will, however, persist and we shall need to stick to our present line of claiming that our opposition is based on technical grounds." Underneath this paragraph, an exasperated civil servant had scribbled, "If we can find them!"[68]

Joseph Stiglitz traces the political problems back to the nature of the IMF's relationships with governments:

> The IMF's governance structure makes it accountable to finance ministeries and central banks, with close connections to the financial community . . . the IMF has pursued the *collective interests* of a subset of the international community, rather than serving the broader collective interests for which it was originally created.
>
> The IMF interacts with a country's finance ministry, which all too often largely reflects the interests of that country's financial community, or more broad elites. The interaction enhances the strength of the finance ministry— which is often already out of proportion. Critics are labeled as populists, and other members of government are told that if they resist the demands of the finance ministry, it will jeopardize the Fund program, forcing the country's budget into disarray, and risking the country's standing in international financial markets. Since

> typically only the finance ministry deals directly with the IMF, and the dealings are in secret, other ministries have to take the threats seriously: the IMF, in effect, enlarges the bargaining power of the finance ministry. . . . It is more than likely that the IMF would have been more concerned about the effects of its policies on unemployment and wages if it reported directly to labor ministers!

In all this there is a danger in oversimplifying what is going on. Many critics of structural adjustment talk as if the international financial institutions are solely responsible for imposing structural adjustment from outside on a passive Latin America. In many ways, this view resembles the oversimplifications of the "dependency school" of development economics of the 1960s and 1970s, which tended to place all of Latin America's economic ills at the door of the rich metropolitan countries of the North, blaming them for having locked the region into an endless cycle of commodity dependence and poverty.

Adjustment also had powerful allies within Latin America, not least among the business groups who have made fortunes out of privatization and deregulation. Even among those who do not stand directly to gain, the collapse of the import substitution model, and the failure in the mid-1980s of many of the attempts to find a less painful "heterodox" way of stabilizing the economy, led to the widespread adoption of the "there is no alternative" attitude. In 1988, even the Sandinistas in Nicaragua turned to a more or less neoliberal package to stabilize an economy riven by hyperinflation. There was also a much higher level of consensus over the need for longer-term export-led growth than over how to stabilize the economy in the first years of the silent revolution. Furthermore, those doing the adjusting found the IMF an ideal scapegoat for policies that they may well have wanted to introduce anyway. For any Latin American politician, an IMF riot is infinitely preferable to an anti-government revolution.

Yet while many Latin American governments may agree with much of the neoliberal recipe, the wider issue of sovereignty is at stake. With each new twist and turn in Fund and Bank policy, further conditions have been placed on the recipient governments. First the IMF's broad macroeconomic targets, then the World Bank's more detailed demands—privatization, public sector redundancies, and sectoral adjustment. Now a new layer of second-generation issues is being added. Many of these changes, such as signing regional trade agreements, or dollarization, are in practice almost impossible to reverse, should future governments wish to do so. The steady encroachment by the multilateral organizations and their rich sponsors on the sovereignty of the indebted nations of the South seems inexorable.

THE IMF IN 2003

Despite its tattered self-confidence, the crises in the Andes and the Southern Cone in 2002–2003 showed how little has changed. In return for new lending to Ecuador, the Fund was demanding mass layoffs in the public sector, international administrators for the state-run electricity and telecoms companies, and a cut in the subsidy on domestic cooking gas.[69]

In Brazil, the Fund approved a $30 billion loan during the middle of the election campaign that ultimately led to the victory of the left-wing Workers' Party candidate, Lula. First, however, it sent representatives to Brazil for pre-election discussions with the candidates, tying the hands of the future leaders to its terms (including serious spending cuts) before agreeing to the loan. Critics objected to this level of political interference, arguing that it ignored Brazil's political process, under which the Senate must approve foreign loans.[70]

In Argentina, when crisis hit, the Fund made matters worse by pressuring Argentina to apply its standard, and heavily criticized, procyclical recipe of trying to balance budgets during a recession by cutting public spending. In January 2003, the Fund's agreement with the Duhalde government included the requirement to generate a $13 billion surplus in 2003. To achieve this, public sector wages and pensions will be frozen in nominal terms, despite the government's own prediction of 35 percent inflation over the year. VAT and utility charges were also increased.[71]

Joseph Stiglitz, from his vantage point as former chief economist at the Bank and chair of the U.S. Council of Economic Advisers who guided President Clinton, is in no doubt that beneath the change in tone, what is going on remains a form of colonial control:[72]

> Though different from 19th-century colonialism, the new economic colonialism is perhaps equally insidious: the nascent democracies have economic policies dictated to them by the international organizations, whose policies in turn are largely driven by the G-7, and some would say by the financial interests of the "G-1."