How has the debt crisis led to the problems of structural adjustment? Where does this debt come from? What should be done about debt?

Most of the world's developing countries have very high external debt levels. It is that debt which has forced governments to seek loans from the IMF and World Bank. External debt thus has two debilitating impacts on countries: 1) payments on the debt, which can approach 50% of an annual budget in some cases, and deprive desperately impoverished countries of the funds needed to address the problems of the some of the world's most vulnerable peoples; and 2) the debt forces governments to become ensnared in the borrow-and-pay treadmill of the IMF and World Bank, and, worse, subjects them to the structural adjustment conditions which further impoverish their populations.

Much of this debt dates back to 1970s, when it was lent irresponsibly by commercial banks and borrowed recklessly by governments, most of which were not popularly elected and which no longer hold power. The advent of the debt crisis, which occurred in the early 1980s due to a worldwide collapse in the prices of commodities that developing countries export (e.g., coffee, cocoa) and to rising oil prices and interest rates, forced these countries into a position where they were unable to make payments. Yet there's no such thing as bankruptcy protection for a country, regardless of the circumstances. A country always has some natural resources, or cheap labor to offer, which will produce some revenues that can be claimed by creditors.

The 50 Years Is Enough Network calls for the IMF and World Bank to cancel all impoverished country debts on their books. The Network is eager to support countries in repudiating, perhaps collectively, the debts claimed by the IMF and World Bank.

While the international financial institutions claim they cannot "afford" to write off the debts owed them, it is the case that the IMF has gold reserves totaling over $30 billion, and that the IBRD alone had a net income of over $5 billion in 2003. At any rate, the solvency of the institutions is a much smaller concern than the solvency of the people who have been tyrannized by the debt for decades.

It is incumbent upon those who control the institutions and claim to be working for poverty reduction that the greatest tool for restoring stability and economic balance to the most impoverished countries would be the removal of the crippling and distorting debt burden. Recognition of this principle would force them to take the loss on debts that any other financial institution would have had to write off years ago. At the very least it would require a re-prioritization, meaning less funds for supporting "political risk insurance" and equity investments for multinational corporations – whatever is needed for the institutions to satisfy themselves that they can balance their accounts after writing off the debts.

How are the World Bank and the IMF part of "corporate globalization"?

It is no exaggeration to say that what we think of as the "globalized" economy – or, more precisely, "corporate globalization" – was designed and imposed by the IMF and World Bank, and continues to be enforced by those institutions. It was the IMF and World Bank which forced the economies of most of the world's countries open, by using the leverage of indebtedness to condition loans to desperate governments on measures that would invite foreign investors and multinational corporations to play leading roles in developing country economies and make those countries dependent on international trade, regardless of the terms.

It is also no exaggeration to view the World Trade Organization, created in 1995, as the child of the IMF and World Bank. For decades, the wealthy countries resisted the formation of such an organization, which was first proposed at the Bretton Woods conference where the IMF and World Bank were created. The success of structural adjustment in opening up developing countries to corporate exploitation was key in convincing politicians, investors, and corporate executives that the risks of submitting themselves to a world trade body were worth taking in exchange for being able to further lock in the measures that had created such enormous profit opportunities for them. Recent developments at the WTO, such as the refusal of developing countries to go along with U.S. and European demands at the Cancún ministerial in September 2003, may have some of those who pushed for its creation reconsidering now.

Structural adjustment programs, then, have not "failed." While they have not produced the results claimed for them – resolution of external debt problems, growth, prosperity – by fostering the corporate globalization model they have succeeded spectacularly in creating profit opportunities for those positioned to take advantage of their conditions – mostly wealthy foreign investors and multinational corporations.

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FAQ Frequently Asked Questions About IMF/World Bank

IMF/WORLD BANK 50 YEARS IS ENOUGH US Network for Global Economic Justice

IMF/World Bank & Economic Policy: The Basic Questions & Answers

- What is the World Bank?
- What is the International Monetary Fund (IMF)?
- Who makes decisions at the World Bank and IMF?
- What is structural adjustment?
- Has structural adjustment made a difference?
- What have the IMF and World Bank done to make structural adjustment more palatable?
- How has the debt crisis led to the problems of structural adjustment? Where does this debt come from? What should be done about debt?
- How are the World Bank and the IMF part of "corporate globalization"?

What is the World Bank?

Created at the Bretton Woods Conference in 1944, the World Bank Group is comprised of four agencies that make loans or guarantee credit to its 184 member countries. In addition to financing projects such as roads, power plants and other infrastructure projects, the Bank also makes loans to restructure a country's economic system by funding structural adjustment programs (SAPs). The Bank manages a loan portfolio totaling over US$250 billion.

Its component agencies are:

(1) the **International Bank for Reconstruction and Development (IBRD)**, which raises capital through bond issues on international capital markets (with the guarantee of the Bank's governmental shareholders) makes loans to governments at rates somewhat below market rates;

(2) the **International Development Association (IDA)**, founded in 1960, which makes very low interest loans (.25%, payable over 40 years) to low-income countries;

(3) the **International Finance Corporation (IFC)**, founded in 1956, which makes both loans and equity investments to encourage private sector development in developing countries; and

(4) the **Multilateral Investment Guaranty Agency (MIGA)**, created in 1985, which provides "political risk insurance" to encourage private sector development in developing countries.

A fifth agency, the **International Center for the Settlement of Investment Disputes (ICSID)**, is not involved in finance directly, but instead serves as a tribunal for addressing disagreements between corporations or investors and national governments.

Employees of the World Bank Group frequently refer to the IBRD and IDA as "the World Bank," which fosters the inaccurate impression that the IFC and MIGA are somehow separate entities. The rivalry between the different parts of the Bank fades into irrelevance once one is a few blocks from Pennsylvania Avenue in Washington, DC.

What is the IMF?

The International Monetary Fund (IMF), also created at the Bretton Woods Conference, has a narrow official mission: to monitor national economies and make cash or credit available to member states experiencing short-term balance-of-payments difficulties. However, the IMF has drifted far from its original mandate, and since the late 1970s has gotten involved in countries with chronic financial imbalances. Its main business now is

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making loans to developing and transition countries in financial crisis, and designing strict conditions ("structural adjustment programs") for those loans. Many of the IMF's client countries now take out consecutive loans, with the attendant conditions, from the IMF and World Bank. IMF "bail-out" packages, usually for larger middle-income countries, differ from standard structural adjustment loans in magnitude – they're bigger – and in urgency – they're often assemble in a matter of days and weeks in the face of a currency crisis. The conditions, however, are very similar to those imposed on the regular clients of the IMF.

Who makes decisions at the World Bank and IMF?

Decisions at the World Bank and IMF are made by a vote of the Board of Executive Directors, which represents member countries. The Boards of the two institutions are separate, but very similar in make-up and character (the different components of the World Bank Group technically have different boards, but in practice the same people serve on them, with the only difference being how much weight is accorded votes, depending on which agency the board is making decisions for).

Unlike the United Nations General Assembly, where each member nation has an equal vote, voting power at the World Bank and IMF is determined by the level of a nation's financial contribution. Therefore, the United States has between 15.5 and 18% of the vote on each board, with the seven largest industrialized countries (the G-7) holding about 45%. Because of the scale of its contribution, the United States has always had a dominant voice, which is further amplified by the location of the institutions in Washington (as mandated by the Articles of Agreement, which specify that the headquarters shall be in the capital of the country making the largest capital contribution). Significant changes in policy direction require a "super-majority" of 85%; the U.S. so far has retained its veto power by making sure its voting power never slips below 15%.

Although the institutions have no direct impact on the wealthy countries which control it, they have significant, even dominating, influence over the economic policies of developing countries, which have very little power within the institution. While the U.S. and eight other countries have Executive Directors which represent only one country, sub-Saharan Africa has two directors, each representing 23 countries. Together the two African directors' votes count for less than 5% of the total.

For all this talk of voting power, it should be kept in mind that the Boards of the institutions rarely take formal votes. Instead decisions are made by "consensus," arrived at through discussions in which the relative power of each of the participants is always a significant factor in determining the final outcome. Avoiding formal votes – and avoiding formal minutes which would record who says what at board meetings – is one way the boards evade accountability for their decisions.

By unwritten agreement, the President of the World Bank is a U.S. citizen, selected by the President of the United States, and the Managing Director of the IMF is a Western European. This arrangement was challenged, unsuccessfully, during the awkward selection process of Horst Köhler as head of the IMF in 2000. Köhler's surprise resignation in March 2004 to become President of Germany once again threw the IMF into turmoil as it launched another search for a new Managing Director.

What is structural adjustment?

Structural adjustment is the rather bland name given to the package of austerity policies that the IMF and World Bank require an indebted country government to adopt when it is forced to turn to them for financing. The institutions have stopped using the term in most cases (see note below on PRSPs), but it is still the most widely used label for the damaging macroeconomic "reforms" the IMF and World Bank insist on from virtually every country that gets a "policy-based" loan. Loans from the World Bank for infrastructure projects generally do not come with such wide-ranging conditions attached. Other names for these policies are "the Washington consensus," and, in a more general sense, "neoliberal."

The basic package of policies that constitute most structural adjustment programs has changed little since the late 1970s, when the term was first coined. The package became more sweeping and standardized with the Latin American debt crisis of the early 1980s, when Mexico, followed by other countries in the region, was forced to come to the IMF for an early version of what would become called a "bailout" loan. The policies imposed on Mexico as conditions for the bailout (which like later such programs, bailed out foreign investors rather than the citizens of the country itself) included the core policies that the IMF would soon impose on countries with debt problems around the world – about 100 in total.

The ostensible aim of structural adjustment policies is to enable a country to pay its debts (in hard currency – dollars, euros, etc., which must be earned through trade) and attain financial balance.

Almost every country that has taken out SAPs, however, has gotten more deeply into debt as it continues to take out new loans to pay off old debts.

SAP policies, in brief, are:

– **Devaluation of currencies**, to make exports cheaper and thus raise hard currency. This move also makes imported goods dramatically more expensive.

– **Cuts in subsidies for basic foods and fuels**, and for "inputs" (fertilizer, etc.) for small farmers.

– **Hikes in interest rates** to control inflation. Inflation control is necessary, but in many cases the IMF has tightened credit so much as to force thousands of small businesses and farms to fail.

– **Liberalization of investment regulations**, which encourages foreign investment. This can take the form of productive investments, but also of "hot money" speculation, which can enter and leave countries with destabilizing speed.

– **Trade deregulation**, including the slashing of tariffs (taxes on imports) and quotas.

– **Privatization of government-owned companies**, in the name of greater efficiency. Too often the companies are sold at vastly undervalued prices, sometimes in deals later revealed to be a product of cronyism and corruption. Often the companies are sold to foreign interests, with corresponding loss of control of the national economy, and greater risk that companies not maintaining high profits that can be taken out the country will be closed. Privatization usually leads to enormous pressures on workers, including curtailment of labor rights such as the right to organize, and layoffs.

– **Cuts in basic services** such as healthcare, education, housing, and environmental protection.

– **Cuts in government budgets** leading to mass layoffs.

– **An overall re-orientation of national economies away from self-sufficiency and toward export production.** This means that farmers who once grew food for local consumption are encouraged instead to devote their most productive land to "cash crops" such as flowers, tobacco, coffee, cotton, tea, and cocoa, which can be sold to rich countries for hard currency (though the obvious impact of the law of supply and demand was ignored, meaning that commodity prices have collapsed with so many countries sending the same goods to international markets). It means that governments are encouraged to give up on developing manufacturing capacity and instead told to concentrate on providing low-wage labor for niche positions in the global economy – often by working in assembly plants producing goods for sale in wealthy countries. And it means that countries are encouraged to rapidly exploit their natural resources, such as minerals, oil, and timber, often at the expense of grave environmental damage, rapid depletion of national assets, and dislocation and disinheritance of local populations.

Has structural adjustment made a difference?

Indeed. By subjecting most of the world's developing countries to a common set of flawed policies, the IMF and World Bank have created a new economic orthodoxy at the same time as they have contributed to a historic slowing of growth rates for the developing world, dramatic increases in the gaps between rich and poor (both between and within countries), and a collapse of social services that has, among many other things, exacerbated the impact of the HIV/AIDS crisis in Africa, where many countries' healthcare infrastructure was devastated by budget cuts.

The revolution in the global economy since the onset of the age of structural adjustment 25 years ago, together with the end of the Cold War, means that where once there were great variations in national economic programs, now virtually every country has similar export-oriented, corporate-friendly economic programs, vulnerable to the vagaries of the global economy.

What have the IMF and World Bank done to make structural adjustment more palatable?

In 1999, the IMF and World Bank, aware of the tremendously negative reputation of structural adjustment programs, attempted to rename them, without altering the basic substance of the policy package. The name they chose, in fine Orwellian fashion, was "poverty reduction." People around the world continue to call the policies "structural adjustment programs," or SAPs for short.

By adopting an ostensibly participatory process in which civil societies and governments would work with the institutions to compose their own development programs, known as "Poverty Reduction Strategy Papers." Although this process has been exposed as deeply flawed, at best – a purposeful fraud with the intent of co-opting civil society organizations at worst – the institutions continue to insist that countries getting loans from the World Bank's IDA division or the IMF's Poverty Reduction and Growth Facility (the new name of the Enhanced Structural Adjustment Facility) complete a PRSP.