



The New Economic Order - International Focus



THE GLOBALISATION OF POVERTY AND ILL-HEALTH - ASSESSING THE IMF-WORLD BANK STRUCTURAL ADJUSTMENT PROGRAMME

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Since the early 1980s, the “*macro-economic stabilisation*” and “*structural adjustment*” programmes imposed by the IMF and the World Bank on developing countries (as a condition for the re-negotiation of their external debt) have led to the impoverishment of hundreds of millions of people. Contrary to the spirit of the Bretton Woods agreement which was predicated on “economic reconstruction” and stability of major exchange rates, the adjustment programmes have largely contributed to destabilising national currencies and ruining the economies of developing countries. Internal purchasing power has collapsed, famines have erupted, health clinics and schools have been closed down, millions of children have been denied the right to primary education. In several regions of the developing World, the reforms have been conducive to a resurgence of infectious diseases including tuberculosis, malaria and cholera. Since the late 1980s, the IMF-World Bank “economic medicine” has been imposed on Eastern Europe, Yugoslavia and the former Soviet Union with devastating economic and social consequences.

Since the mid-1980s, the impacts of structural adjustment including the derogation of the social rights of women and the detrimental environmental consequences of economic reform have been amply documented. While the Bretton Woods institutions have acknowledged “*the social impact of adjustment*”, no shift in policy direction is in sight. In fact since the late 1980s, the IMF-World Bank policy prescriptions (now imposed in the name of “*poverty alle-*



An international panel of speakers discuss health and the New Economic Order
From left: Abdulrahman Sambo, David Sanders, John Seaman, Pamela Zinkin (chairperson) and Michel Chossudovsky

viation") have become increasingly harsh and unyielding. Moreover, these reforms—when applied simultaneously in more than one hundred countries—are conducive to a "*globalisation of poverty*", a process which undermines human livelihood and destroys civil society in the South, the East and the North.

With the formation of the World Trade Organisation in 1995, a new "*triangular division of authority*" between the IMF, the World Bank and the World Trade Organisation (WTO) has unfolded. The IMF has called for "*more effective surveillance*" of developing countries' economic policies and increased coordination between the three international bodies.

Under the new trade order (which emerged from the completion of the Uruguay Round at Marrakesh), the relationship of the Washington-based institutions to national governments is to be redefined. Enforcement of IMF-World Bank policy prescriptions will no longer hinge upon *ad hoc* country-level loan agreements (which are not "*legally binding*" documents). Henceforth, many of the clauses of the structural adjustment programme (eg. trade liberalisation and the foreign investment regime) will become permanently entrenched in the articles of agreement of the new World Trade Organisation (WTO). These articles will set the foundations for "*policing*" countries (and enforcing "conditionalities") according to international law. The WTO articles violate fundamental peoples' rights, particularly in the areas of foreign investment, bio-diversity and intellectual property rights. The WTO's mandate consists in regulating World trade to the benefit of the international banks and transnational corporations as well as "supervising" (in close collaboration with the IMF and the World Bank) the enforcement of national trade policies.

The IMF/WB/WTO Menu

The same "menu" of budgetary austerity, trade liberalisation and privatisation is applied simultaneously in more than 100 indebted countries. Debtor nations forego economic sovereignty and control over fiscal and monetary policy. The Central Bank and the Ministry of Finance are re-organised (often with the complicity of the local bureaucracies), State institutions are undone and an "economic tutelage" is installed. A "parallel government" which bypasses civil society is established by the international financial institutions (IFIs). Countries which do not conform to the IMF's "performance targets" are black-listed. While adopted in the name of "democracy" and "governance", the structural adjustment programme requires the strengthening of the internal security apparatus: political repression with the collusion of the Third World elites—supports a parallel process of "economic repression".

So-called "*governance*" and the holding of multi-party elections are added conditions imposed by the donors and creditors. Yet the very nature of the economic reforms, precludes a genuine democratisation, i.e. their implementation invariably requires (contrary to the "spirit of anglo-saxon liberalism") the backing of the Military and of the authoritarian State. Structural adjustment promotes bogus institutions and a fake parliamentary democracy which in turn supports the process of economic restructuring.

Throughout the Third World, the situation is one of social desperation and hopelessness of a population impoverished by the interplay of market forces. Anti-SAP riots and popular uprisings are brutally repressed. For example in Caracas in 1989, President Carlos Andres Perez, after having rhetorically denounced the IMF for practising "an economic totalitarianism which kills not with bullets but with famine", declared a state of emergency and sent regular units of the infantry and the marines into the slum areas (*barrios de ranchos*) on the hills overlooking the capital. The Caracas anti-IMF riots had been sparked off as a result of a 200 percent increase in the price of bread. Men, women and children were fired upon indiscriminately: "*The Caracas morgue was reported to have up to 200 bodies of people killed in the first three days ... and warned that it was running out of coffins*".

Unofficially more than a thousand people were killed in Tunis, January 1984: bread riots were largely instigated by unemployed youth protesting the rise of food prices in Nigeria: 1989, the anti-SAP student riots lead to the closing of six of the country's universities by the Armed Forces Ruling Council in Morocco: 1990, a General Strike and a popular uprising occurred against the government's IMF sponsored reforms; Mexico 1993: the insurrection of the Chiapas Indians in Southern Mexico, protest movements in the Russian Federation and the storming of the Russian parliament in 1993, and so on, the list is long...

Economic Repression

Structural adjustment is conducive to a form of "economic genocide" which is carried out through the deliberate manipulation of market forces with devastating impact. It is comparable to forced labour and slavery during various periods of colonial history. Structural adjustment programmes directly affect the livelihood of more than four billion people. The application of the structural adjustment programme in a large number of individual debtor countries favours the "internationalisation" of macro-economic policy under the direct control of the IMF and the World Bank, acting on behalf of powerful financial and political interests (eg. the Paris and London Clubs, the G 7). This new form of economic and political domination—a form of "*market colonialism*"—subordinates people and governments through the seemingly neutral interplay of market forces. The International Creditors and Multinational corporations entrust the Washington-based international bureaucracy with the execution of a global economic design which affects the livelihood of more than 80 percent of the world's population. At no time in history, has the "free" market—through the instruments of macro-economics operating at a World level—played such an important role in shaping the destiny of "sovereign" nations. The restructuring of the World economy under the guidance of the Washington based financial institutions and the new World Trade Organisation (WTO) increasingly denies individual Third World countries the possibility of building a national economy. The internationalisation of economic policy transforms countries into open economic territories and national economies into "reserves" of cheap labour and natural resources. The application of the IMF economic medicine tends to further depress World commodity prices because it forces individual countries to simultaneously gear their national economies towards a shrinking World market.

In parallel with this "remoulding" of the global and national economies, the dominant economic discourse has, since the early 1980s, reinforced its clutch in academic and research institutions throughout the World. Critical analysis is strongly discouraged, the dominant economic dogma admits neither dissent nor discussion of its main theoretical paradigm. Similarly, Third World intellectuals are increasingly enlisted in support of the neo-liberal paradigm and the internationalisation of economic "science" unreservedly supports the process of global economic restructuring. Moreover, whereas the IMF-World Bank sponsored reforms accentuate social and income disparities between and within nations. The realities of World poverty are increasingly concealed by the blatant manipulation of income statistics. The World Bank "estimates", for instance, that in Latin America and the Caribbean only 19 percent of the population is "poor" - a gross distortion when we know for a fact that in the United States (with an annual per capita income of \$20,000) one American in five is defined (by the Bureau of the Census) to be below the poverty line.

Policing Countries Through Loan "Conditionalities"

Because countries are indebted, the IMF and the World Bank can oblige them through the so-called "conditionalities" of the loan agreements to "appropriately" redirect their macro-economic policy in accordance with the interests of the international creditors. The objective consists in enforcing the

legitimacy of the debt servicing relationship while maintaining debtor nations in a strait-jacket which prevents them from embarking upon an independent national economic policy. While the circumstances of the "adjusting" countries differ markedly, the same economic recipe is applied worldwide. The adoption of the Fund's prescriptions under the economic stabilisation package is not only conditional for obtaining loans from multilateral institutions, it also gives "the green light" to the Paris and London Clubs, foreign investors, commercial banking institutions and bilateral donors. The evidence suggests that countries which refuse to accept the Fund's corrective policy measures face serious difficulties in rescheduling their debt and/or obtaining new development loans and international assistance. The IMF also has the means to disrupt a national economy by blocking short-term credit in support of commodity trade.

Invariably, substantial reforms will be required *prior* to the negotiation of a structural adjustment loan. The government has to show the IMF that it is "seriously committed to economic reform" before loan negotiations can take place. This process is often carried out in the context of a so-called "IMF Shadow Programme" in which the IMF provides policy guidelines and "technical advice" to the government without any formal loan support. The Shadow Programme applies to countries whose economic reforms are considered (in IMF jargon) "*not to be on track*" (eg. Peru under Alberto Fujimori (1990-91) or Brazil under Fernando Collor de Mello and Itamar Franco (1990-94)). "*Satisfactory performance*" under the Shadow programme is considered necessary, before the formal negotiation of a loan agreement. Once the loan has been granted, policy performance is tightly monitored on a quarterly basis by the Washington institutions. The disbursements can be interrupted at any time if the reforms are not "on track", in which case the country is "back on the black list" with the danger of reprisals in the area of trade and capital flows.

In many indebted countries, the "sovereign government" is obliged under its agreement with the Washington-based institutions to outline its priorities in a so-called "*policy framework paper*" (PFP). Although officially a government document determined by the country, the PFP is written under the close supervision of the IMF and the World Bank according to a standard pre-set format. There is, in this context, a clear division of tasks between the two sister organisations. The IMF is involved in key policy negotiations with regard to the exchange rate and the budget deficit. The monitoring of a country's economic performance by the IMF provides the basis of so-called "IMF surveillance activities" over members' economic policies. The World Bank, on the other hand, is far more involved in the actual reform process through its country-level representative office and its numerous technical missions. Moreover, the World Bank is also present in most of the line ministries: the reforms in health, education, industry, agriculture, transportation, the environment, etc. are under its jurisdiction. Moreover, since the late 1980s, the World Bank closely monitors the structure of public expenditure through the so-called *Public Expenditure Review* (PER). The composition of expenditure in each of the ministries is under its supervision.

Destroying a nation's currency

Destroying the national currency is a key objective of IMF-World Bank intervention: currency devaluation ordered by the IMF is conducive to abrupt price hikes and a dramatic compression of real earnings while at the same time it dramatically depresses the cost of labour (expressed in US dollars). The currency devaluation is usually demanded as a pre-condition before the negotiation of a structural adjustment loan. In Sub-Saharan Africa, the devaluation of the CFA franc imposed by the IMF and the French Treasury in early 1994, rather than constituting "*a means of eradicating rural poverty*" as claimed by the donor community, compressed (with the stroke of a pen) the real value of wages and government expenditure (expressed in hard currency) by fifty percent while massively redirecting State revenues towards debt servicing. The impact of devaluation was brutal and immediate: the

domestic prices of food staples, essential drugs, equipment, etc. skyrocketed. It is worth recalling that in Nigeria in the 1980s, the steep increase in the price of soap which resulted from the devaluation of the Naira was the cause of a high incidence of certain types of skin disease.

While the devaluation triggers inflation and the "dollarisation" of domestic prices, the IMF obliges the government to adopt a so-called "anti-inflationary programme". The latter is predicated "*on a contraction of demand*" instrumented through the dismissal of public employees, drastic cuts in social sector programmes and the de-indexation of wages. To achieve this objective, strikes are outlawed and tradeunion leaders are arrested. (The levels of wages in indebted countries are as much as seventy times lower than in the OECD countries).

Engineering the collapse of state investment

The reforms also trigger the collapse of public investment. Precise "ceilings" are placed on all categories of expenditure. The State is no longer permitted to mobilise its own resources to build public infrastructure, roads or hospitals, etc. The creditors not only become the "brokers" of all major public investment projects, they also decide in the context of the "*Public Investment Programme*" (PIP) (established under the technical auspices of the World Bank) on what type of public infrastructure should or should not be funded by the "donor community". The control of public investment by the donors not only contributes to the demobilisation of domestic resources but also to the enlargement of the external debt through the system of international tender (and "competitive bidding") which allocates the entire execution of public works projects to international construction and engineering firms. Large amounts of money are skimmed off into a variety of consulting and management fees. Local construction companies (whether public or private) tend to be excluded from the tendering process although much of the actual construction work will be undertaken by local companies (using local labour at very low wages) in separate sub-contracting deals reached with the transnationals.

The World Bank "Helps the Poor"

The Bretton Woods institutions claim to be firmly committed to the alleviation of poverty. So-called "*targeted programmes*" earmarked "*to help the poor*" combined with "cost recovery" and the "privatisation" of health and educational services are said to constitute "*a more efficient*" way of delivering social programmes. So-called "*sustainable poverty reduction*" under World Bank guidance is predicated on slashing social sector budgets and redirecting expenditure on a selective and token basis "*in favour of the poor*". As the State withdraws many programmes under the jurisdiction of line ministries will henceforth be managed by the organisations of civil society under the umbrella of the Social Emergency Fund (SEF). The latter also finances the "*social safety net*", eg. severance payments and/or minimum employment projects earmarked for public sector workers laid off as a result of the adjustment programme. An entirely separate and parallel organisational structure unfolds, various non-governmental organisations (NGOs) funded by international "aid programmes" gradually take over many of the functions of local level governments whose funds have been frozen as a result of the structural adjustment programme.

Small scale production and handicraft projects, sub-contracting for export processing firms, community-based training and employment programmes, etc. are set up under the umbrella of the "social safety net". A meagre survival for local-level communities is ensured while at the same time containing the risk of social upheaval. The "*social emergency fund*" established (on the Bolivia-Ghana model) constitutes an institutional mechanism for "*the management of poverty*", while the State's public finances are dismantled. The Social Emergency Fund constitutes a useful policy framework for "*managing poverty*" and attenuating social unrest at minimal cost to the creditors.

In Sub-Saharan Africa, "*targeting*" in favour of so-called "*vulnerable groups*" has largely been responsible for the collapse of schools, health clinics and hospitals, while providing a semblance of legitimacy to the Washington-based institutions. Freezing the number of graduates of the teacher training colleges and increasing the number of pupils per teacher are explicit conditions of World Bank social sector adjustment loans. The educational budget is curtailed, the number of contact-hours spent by children in school is cut down and a "double shift system" is installed: one teacher now does the work of two, the remaining teachers are laid off and the resulting savings to the Treasury are funnelled towards the Paris Club of official creditors.

These initiatives (implemented in the name of "poverty alleviation"), however, are still considered to be incomplete: in Sub-Saharan Africa, the donor community has recently proposed a new imaginative ("cost-effective") formula which consists in eliminating the teachers' meagre salary altogether (in some countries as low as 15-20 dollars a month) while granting small loans to enable unemployed teachers to set up their own informal "private schools" in rural backyards and urban slums. Under this scheme, the Ministry of Education would nonetheless still be responsible for monitoring "the quality" of teaching.

Structural adjustment destroys health care

As a result of massive budget cuts under the structural adjustment programme, health centres are unable to meet operating costs and maintenance and renewal of equipment is neglected. Economic reforms have also contributed to reducing the overall availability of medical personnel in hospitals and health centres due to low pay and poor working conditions. A recent study points to the exodus of human capital including doctors and nurses from Africa. The brain drain from Africa was estimated at some 30,000 middle level, high level and professional workers between 1984 and 1987.¹ A similar pattern is occurring in several Latin American and South Asian countries.

In some cases, government salaries are not disbursed and health centres were obliged to close down due to the stoppages of water and electricity. There has been a notable deterioration of maternal and child health care since the early 1980s in many developing countries as a result of the contraction of public expenditure in the health care sector. In many countries in Sub-Saharan Africa, the functioning of the public sector and government departments is paralysed: civil servants are not paid enough to cover their transport to and from work, government departments, including the Ministry of Health, lack the resources to meet current administrative costs.

Cost recovery and user fees

According to the World Bank, State subsidies to health are said to create undesirable "market distortions" which "*benefit the rich*". Moreover, according to the World Bank's most recent "estimate" (contained in its 1993 World Development Report entitled "*Investing in Health*"), an expenditure of 8 dollars per person per annum is in any event sufficient to meet acceptable standards of clinical services. Moreover, user fees for primary health care to impoverished rural communities should be exacted both on the grounds of "*greater equity*" and "*efficiency*". These communities should also participate in the running of the primary health care units by substituting the qualified nurse or medical auxiliary (hitherto paid by the Ministry of Health) by an untrained and semi-illiterate health volunteer.

With the exception of a small number of externally funded "showpieces", health establishments in Sub-Saharan Africa have *de facto* become a source of disease and infection. A study assessing the impact of user fees on utilisation of health facilities in Ashanti-Akim and the Volta region of Ghana suggests that utilisation rates dropped substantially after the introduction of the fees in 1985.² In the

Ivory Coast it is estimated that the imposition of user fees resulted in a decline of consultations of 39 percent for children and 15 percent for adults as well as a shift into self-care and/or the services of traditional healers (Anyiam and Stock, 1991, p. 21). In Swaziland, the introduction of user fees was conducive to a decline in attendance in government health facilities of 39 percent.³

In Peru, the hike in user fees in hospitals implemented alongside the 1990 stabilisation programme was conducive to a dramatic decline of internal admissions (in an urban hospital in Cusco by as much as 80 percent; external consultations declined by more than fifty percent).⁴

The example of Vietnam

In Vietnam, the most immediate impact of the structural adjustment programme was the collapse of the district hospitals and commune-level health centres. Until 1989, health units provided medical consultations as well as essential drugs free of charge to the population. The disintegration of health clinics in the South is on the whole more advanced where the health infrastructure was only developed after Re-unification in 1975. With the reforms, a system of user fees was introduced. Cost recovery and a free market sale of drugs was applied, the consumption of essential drugs (through the system of public distribution) declined by 89 percent, pushing Vietnam's pharmaceutical and medical supply industry into bankruptcy.⁵ By 1989, the domestic production of pharmaceuticals had declined by 98.5 percent in relation to its 1980 level, with a large number of drug companies closing down. With the complete deregulation of the pharmaceutical industry, including the liberalisation of drug prices, imported drugs (now sold exclusively in the "free" market at exceedingly high prices) have now largely displaced domestic brands. A considerably "down-sized" yet highly profitable commercial market has unfolded for the large pharmaceutical transnationals. The average annual consumption of pharmaceuticals purchased in the "free" market is of the order of one dollar per annum which even the World Bank considers to be too low.⁶ The impact on the levels of health of the Vietnamese population were dramatic.

The government (under the guidance of the donor community) has also discontinued budget support for the provision of medical equipment and maintenance leading to the virtual paralysis of the entire public health system. Real salaries of medical personnel and working conditions have declined dramatically: the monthly wage of medical doctors in a district hospital is as low as 15 dollars a month. With the tumble in State salaries and the emergence of a small sector of private practice, thousands of doctors and health workers have de facto abandoned the public health sector. A Survey conducted in 1991, confirms that most of the Commune-level health centres have become inoperative: with an average staff of 5 health workers, the number of patients had dropped to less than six a day (slightly more than one patient per health worker per day).⁷

Since the reforms, there has also been a marked downturn in student admissions to the country's main medical schools which are currently suffering from a massive curtailment of their operating budgets.

A WHO study confirms that the number of malaria deaths in Vietnam increased three-fold in the first four years of the reforms alongside the collapse of curative health and soaring prices of anti-malarial drugs. What is striking in this data is that the number of malaria deaths has increased at a faster rate than the growth in reported cases of malaria suggesting that the collapse in curative health services played a decisive role in triggering an increase in malaria deaths. These tendencies are amply confirmed by commune level data:

*"The state of health used to be much better, previously there was an annual check-up for tuberculosis, now there are no drugs to treat malaria, the farmers have no money to go to the district hospital, they cannot afford the user fees"*⁸

The World Bank candidly acknowledges the collapse of the health system (the underlying macro-economic "causes", however, are not mentioned):

*"[d]espite its impressive performance in the past, the Vietnamese health sector is currently languishing... there is a severe shortage of drugs, medical supplies and medical equipment and the government health clinics are vastly underutilised, The shortage of funds to the health sector is so acute that it is unclear where the grass-roots facilities are going to find the inputs in the continue functioning in the future"*⁹

Whereas the World Bank concedes that the communicable disease control programmes for diarrhoea, malaria and acute respiratory infections *"have [in the past] been among the most successful of health interventions in Vietnam"*, the proposed "solutions" consist in the "commercialisation" (and commodification) of public health as well as the massive lay off surplus doctors and health workers. Wages of health workers should be increased within the same budgetary envelope: *"an increase in the wages of government health workers will almost necessarily have to be offset by a major reduction in the number of health workers."*¹⁰

Conclusion

Throughout the developing World and in Eastern Europe and the former Soviet Union, there is a consistent and coherent pattern: the IMF-World Bank reform package constitutes a coherent programme of economic and social collapse. The austerity measures lead to the disintegration of the state, the national economy is remoulded, production for the domestic market is destroyed through the compression of real earnings, health and educational programmes are dismantled. In turn, there has been a resurgence of a number of communicable diseases which were believed to be under control.

References

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- ² Anyiam and Stock, op cit p. 12.
- ³ Yoder, RA, "Are People Willing and Able to Pay for Health Services", Social Science and Medicine, vol. 29, p. 35-42.
- ⁴ Based on hospital interviews in Cusco by author conducted in July 1991.
- ⁵ Figures of the Ministry of Health quoted in World Bank, Vietnam: Population, Health, Nutrition Sector Review, Washington DC 1993, table 4.6, p. 159.
- ⁶ World Bank, Population, Nutrition, Health Sector Review, Hanoi, 1993, p. 89.
- ⁷ World Bank, Vietnam: Population, Health, Nutrition Sector Review, Washington DC, 1993, p. 86.
- ⁸ Interview conducted by the author in 1994 in Phung Thuong Commune, Phue Tho district, Hay Tay province, North Vietnam.
- ⁹ World Bank, Transition to Market Economy, Washington 1993, p. 169.
- ¹⁰ Ibid., p. 171.