A CRITIQUE OF CORPORATE GLOBALIZATION (PART III):

World Bank, IMF turned poor Third World nations into loan addicts

By John Cavanagh and Jerry Mander

Creating a world that works for all must begin with an effort to undo the enormous damage inflicted by the free trade economic policies that so badly distort economic relationships among people and countries. The thrust of those policies is perhaps most dramatically revealed in the structural adjustment programs imposed on low- and intermediate-income countries by the International Monetary Fund (IMF) and the World Bank. Structural adjustment requires governments to do the following:

- cut government spending on education, health care, the environment, and price subsidies for basic necessities such as food grains and cooking oils;
- devalue the national currency and increase exports by accelerating the plunder of natural resources, reducing real wages, and subsidizing export-oriented foreign investments;
- liberalize (open) financial markets to attract speculative short-term portfolio investments that create enormous financial instability and foreign liabilities while serving little, if any, useful purpose;
- eliminate tariffs and other controls on imports, thereby increasing the import of consumer goods purchased with borrowed foreign exchange, undermining local industry and agricultural producers unable to compete with cheap imports, increasing the strain on foreign exchange accounts, and deepening external indebtedness.

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The World Bank

According to its charter, the World Bank was created "to assist in the reconstruction and development of territories of member nations by facilitating the investment of capital for productive purposes" and "to promote the long-range balanced growth of international trade."

The World Bank was originally intended to focus on financing the post-World War II reconstruction of Europe, using capital subscribed by member governments against which it could borrow in international financial markets at favourable rates and then lend out for development projects. When Europe showed little interest in mortgaging the future of its economy to foreign bankers, the World Bank set about marketing its loans in the newly independent former colonies. At first, that too proved a hard sell. So the Bank invested in training and education to indoctrinate scores of Third World bureaucrats and economists in an economic ideology that equates development with export-led economic growth fuelled by foreign borrowing and investment—the basic fallacy that remains a cornerstone of its policy today.

Originally, the loans were used to finance infrastructure projects and imports beyond the means of the country's export earnings. Eventually, ever-larger new loans were needed just to service payment of interest and principle due on previous loans. The more the borrowing, the greater the need for still larger loans, and borrowing became something of an economic addiction. Aside from a handful of citizen watchdog groups, few paid attention to the burden these loans placed on domestic economies when the time came to repay.

During the 1970s, OPEC sharply increased oil prices and hence the cost of energy imports. Northern banks, awash with OPEC deposits, lavished loans on Third World countries—often with the encouragement of the World Bank. Soon the costs of debt service exceeded repayment capacity by such a wide margin that there was a threat of a global financial crisis. Beginning with Mexico in 1982, the World Bank and the IMF swung into action with structural adjustment as their primary response. Together they reoriented national economies to focus on debt repayment and to further open their resources, labour, and markets to foreign corporations.

"Adjusted" countries came under great pressure to increase the export of their natural resources and the products of their labour, become more import-dependent, and increase the foreign ownership of their economies. Once the countries accepted these conditions, the IMF and the World Bank rewarded them with still more loans, thus deepening their indebtedness—rather like a fireman pouring gasoline on a burning house to stop the blaze.

The results have been disastrous, not only in human and environmental terms, but also in economic terms. In 1980, the total external debt of all developing countries was $609 billion; in 2001, after 20 years of structural adjustment, it totalled $2.4 *trillion.* In 2001, sub-Saharan Africa paid $3.6 billion more in debt service than it received in new long-term loans and credits. Africa spends about four times more on debt-service payments than it does on health care.

In recent years, the World Bank has provided hundreds of billions of dollars in low-interest loans to subsidize the efforts of global corporations to establish control over the natural resources and markets of assisted countries. Corporations in the energy and agriculture sectors have been among the main beneficiaries. Often World Bank-financed roads, power plants, and electrical grids were built primarily to serve the global corporations establishing operations in the service area of the loan-financed facilities, rather than to serve the local populations. Indeed, as documented by the Institute for Policy Studies, the World Bank has become the major contributor to global greenhouse gas emissions through fossil fuel projects that primarily benefit global corporations. Regional development banks such as the Asian Development Bank (ADM) and the Inter-American Development Bank have generally copied the World Bank's model.

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Structural adjustment socially, economically, ecologically disastrous

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The International Monetary Fund

The International Monetary Fund (IMF) was originally created to work with member nations to implement measures to ensure the stability of the international financial system and correct balance-of-payment maladjustments. By the early 1980s, however, it took a different course. Rather than helping governments avoid currency crises, it has persistently pressured them to abandon the regulation of cross-border trade and financial flows, resulting in massive trade imbalances and reckless financial speculation.

IMF-sanctioned policies helped attract huge inflows of foreign money to what were called the "emerging market economies" of Asia and Latin America in the form of loans and speculative investment. As Walden Bello and Martin Khor have documented, the rapid buildup of foreign financial claims set the stage for the subsequent financial meltdown in Mexico in 1994 and in Asia, Russia, and Brazil from 1997 to 1998.

This is why: When it became clear that the huge financial bubbles the inflows had created could not be sustained and that claims against foreign exchange could not be covered, speculators were spooked and suddenly pulled out billions of dollars. Currencies and stock markets went into free-fall. Millions of people fell back into poverty. Then the IMF stepped in with new loans to bail out the foreign banks and financiers involved—leaving it to the taxpayers of the devastated economies to pick up the bill once the loan payments came due. In many instances, at IMF insistence, uncollectible private debts were converted into public debt.

Over the last two decades, structural adjustment programs were imposed by the IMF and the World Bank on close to 90 developing countries, from Guyana to Ghana. The objective of these SAPs went beyond debt repayment or attainment of short-term macroeconomic stability, seeking nothing less than the dismantling of protectionism and other policies of government-assisted capitalism that their theorists judged to be the main obstacles to sustained growth and development.

Two decades after the first structural adjustment loan, the Bank states that it has formally abandoned the entire program, replacing it with what it calls the "Comprehensive Development Framework." This new paradigm, according to a statement by the Group of Seven Finance Ministers and Central Bank Governors, has the following elements:

- increased and more effective fiscal expenditures for poverty reduction, with better targeting of budgetary resources, especially on social priorities in basic education and health;
- enhanced transparency, including monitoring and quality control over fiscal expenditures;
- stronger country ownership of the reform and poverty reduction process and programs, involving public participation;
- stronger performance indicators that can be monitored for follow-through on poverty reduction; and
- assurance of macroeconomic stability and sustainability, and reduction of barriers to access by the poor to the benefits of growth.

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What brought about this shift in plans? Clearly, it was spectacular failure that could no longer be denied at the pain of totally losing all credibility. With dozens of countries under "adjustment" for over a decade, even the World Bank had to acknowledge that it was hard to find a handful of success stories. In most cases, structural adjustment caused economies to fall into a hole wherein low investment, reduced social spending, reduced consumption, and low output interacted to create a vicious cycle of decline and stagnation rather than a virtuous circle of growth, rising employment, and rising investment, as originally envisaged by the World Bank-IMF theory.

With much resistance from the Bank's entrenched bureaucracy, President James Wolfensohn moved slowly to distance the Bank from hard-line adjustment policies, and even convinced some of his staff (grudgingly) to work with civil society groups to assess SAPs in the so-called Structural Adjustment Program Review Initiative (SAPRI). For the most part, however, the change in attitude did not translate into changes at the operational level because of the strong internalization of the structural adjustment approach among Bank operatives.

Although self-doubt began to engulf the World Bank, the IMF plowed confidently on. Lack of evidence of success was interpreted to mean simply that a government lacked the political will to push adjustment. Through the establishment of the Enhanced Structural Adjustment Facility (ESAF), the IMF sought to fund countries over a longer period in order to institutionalize more fully the desired free-market reforms.

It was the Asian financial crisis that finally provoked the IMF to make some cosmetic changes. In 1997-98, it moved with grand assurance into Thailand, Indonesia, and Korea with its classic formula of short-term fiscal and monetary policy cum structural reform in the direction of liberalization, deregulation, and privatization. This was the price it exacted from governments for financial rescue packages that would allow them to repay the massive debt incurred by their private sectors. Instead, a short-term crisis turned into a deep recession as governmental capacity to counteract the drop in private-sector activity was destroyed by budgetary and monetary repression. If some recovery is now discernible in a few economies, it is widely recognized as coming in spite of, rather than because of, the IMF.

For a world that had long been resentful of the IMF's arrogance, this was the last straw. In 1998-99, criticism of the organization rose to a crescendo. Criticism went beyond the IMF's stubborn adherence to structural adjustment and its serving as a bailout mechanism for international finance capital to its being

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WTO serves U.S., corporate interests over civil-society interests

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non-transparent and unaccountable. Its vulnerable position was exposed during an early-2000 debate in the U.S. Congress over a G-7 initiative to provide debt relief to 40 poor countries. Legislators depicted the IMF as the agency that had caused the debt crisis of the poor countries in the first place, and some called for its abolition within three years. Said Representative Maxine Waters: "Do we have to have the IMF involved at all? Because, as we have painfully discovered, the way the IMF works causes children to starve."

In the face of such criticism from legislators in the IMF's most powerful member, Clinton Administration Treasury Secretary Larry Summers claimed that the IMF-centred process would be replaced by "a new, more open and inclusive process that would involve multiple international organizations and give national policy-makers and civil society groups a more central role."

What did that mean? Was structural adjustment dead, and had the Bretton Woods institutions seen the light? The fact is, in the case of the IMF, as well as that of the World Bank, jettisoning the paradigm of structural adjustment left them adrift, with the rhetoric and broad goals of reducing poverty but without an innovative macroeconomic approach. Wolfensohn and his former chief economist, Joseph Stiglitz, talked about "bringing together" the "macroeconomic" and "social" aspects of development, but World Bank officials cannot point to a larger strategy beyond increasing lending to health, population, nutrition, education, and social protection to 25% of its total lending. Most at sea are IMF economists, some of whom have openly admitted to NGO representatives that the new approach was limited to changing the name of the Enhanced Structural Adjustment Facility to the Poverty Reduction Facility, and that they were looking to the World Bank to provide leadership.

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It is not surprising that in such circumstances the old paradigm would reassert itself. For example, the IMF told the Thai government—already its most obedient pupil—to cut its fiscal deficit despite a very fragile recovery, and it pushed Indonesia to open its retail trade to foreign investors despite the consequences of higher unemployment. Similarly, technocrats of the Asian Development Bank made energy loans contingent on the Philippine government's accelerating the IMF-promoted privatization of the country's National Power Corporation, even though consumers were likely to end up paying more to the seven private monopolies that will succeed the state enterprise. "It's the same old approach of deregulation, privatization, and liberalization, but with safety nets," is the acccurate description of one Filipino labour leader.

The GATT and the World Trade Organization

The World Trade Organization (WTO) has emerged as the third pillar of the Bretton Woods system.

A very healthy debate was launched after World War II about the need for a global trade and investment institution that could help generate full employment, protect worker rights around the world, and protect against what were then referred to as "global cartels"—small groups of corporations that gained too much power over a sector. These broad-based goals were enshrined in a charter that proposed the formation of an International Trade Organization (ITO). Rejected by the U.S. Senate on the grounds that its broad mandate would compromise U.S. sovereignty, only one element of the ITO—the General Agreement on Tariffs and Trade (GATT)—was created instead, with the more narrow goal of reducing tariffs in goods and services and setting up a handful of broad trade principles.

World trade grew dramatically following World War II, under the guidance of the GATT. While initially limited to this trade expansion mandate, the GATT evolved into an institution that promoted corporate rights over human rights and other social and environmental priorities.

In the early 1980s, economists and politicians, powered by the so-called Reagan Revolution in the U.S. and the Thatcher and Kohl acendancies in Europe, began planning a new but substantially different GATT negotiating round. Their goal was to expand the GATT disciplines to bind signatory governments to a set of multilateral policies regarding the service, government procurement, and investment sectors; to establish global limits on government regulation of environmental, food safety, and product standards; to establish new protections for corporate intellectual property rights granted in rich countries; and to have this broad panoply of one-size-fits-all rules strongly enforced over every level of government in every signatory country.

This agenda was translated into the Uruguay Round of GATT negotiations, a transformational undertaking pushed largely by U.S.-based global corporations and their allies in the U.S. government. When completed in 1994, the Uruguay round replaced the old GATT trade contract with a new institution, the World Trade Organization. The WTO was given a built-in enforcement system more powerful than that of any previous treaty. This system, with closed tribunals of trade bureaucrats who determined if a country's laws exceeded the constraints set by the new rules, included automatic, permanent trade sanctions against any country refusing to comply with WTO demands. In short, the WTO took on the role of implementing globally much of the same policy agenda that the World Bank and the IMF had already imposed on most of the Third World.

Proponents of the WTO argue that it is needed to regulate trade, prevent trade wars, and protect the interests of poor nations, but its actions tell a different story. [It has ruled against nearly all the national environmental laws that have been challenged by corporations.] WTO panels have also ruled against Canada's cultural protections, which taxed U.S. magazines. India has been told it was in violation of WTO

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Policies of IMF, World Bank, WTO spur growth in global inequality

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rules for providing its people with inexpensive generic drugs, because that reduced the profits of the big pharmaceutical companies who produce the more costly brand-name drugs.

Given the claim that the WTO protects the poor and prevents trade wars, its 1999 decision on Caribbean-grown bananas is especially revealing. Europeans were told by the WTO that they could not give import preference to bananas produced by small banana-farmer cooperatives in the Caribbean because it was unfair to two giant U.S. agribusiness corporations, Chiquita and Dole, which control half the world's banana trade. When Europe refused to obey the WTO, the WTO sanctioned a retaliatory move by the United States to impose 100% tariffs on a wide variety of European exports. Thus, in a single case, the WTO struck down a preference for the poor and sanctioned a trade war.

Specifically, the WTO has served primarily U.S. government and U.S. corporate interests over developing-country and civil-society interests. Just as it was the United States that blocked the founding of the International Trade Organization in 1948 [fearing the ITO might obstruct its overwhelming economic dominance in the post-war world], so it was the United States that became the dominant lobbyist for the comprehensive Uruguay Round and the founding of the WTO when it felt that global conditions then favoured U.S. corporate interests.

It was U.S. pressure that brought agriculture fully under the WTO in 1995. Said then U.S. Agriculture Secretary John Block: "The idea that developing countries should feed themselves is an anachronism from a bygone era. They [should be] relying on U.S. agricultural products, which are available in most cases at much lower cost." Of course Washington did not just have developing country markets in mind, but also the European Union, Japan, and South Korea.

It was also the United States that pushed to bring services under WTO coverage, and to expand WTO jurisdiction to Trade-Related Intellectual Property Rights (TRIPs) and Trade-Related Investment Measures (TRIMs). It was again the United States that forced the creation of the WTO's formidable dispute-resolution and enforcement mechanism after being frustrated with what U.S. trade officials considered weak GATT efforts to enforce rulings favourable to the U.S.

In sum, it was not global necessity that gave birth to the WTO, but rather the U.S. government's assessment that the interests of its corporations were no longer served by a loose and flexible GATT. In the course of the 1990s, what had been a U.S. idea spread to become the mantra of the wealthiest countries, then known as the G-7 (the United States, Japan, Germany, France, the United Kingdom, Italy, and Canada). From the free-market paradigm that underpins it to the rules and regulations set forth in the various trade agreements to its system of decision-making and accountability, the WTO is a blueprint for the global dominance of the largest corporations based in the richest nations.

> "The WTO regulates national and local governments to prevent them from regulating international trade and investment. In short, it regulates governments to protect corporations."

The WTO rules and enforcement system is regularly used by corporations and their allied governments to attack measures taken by national governments to protect the health, safety, and culture of their people and to preserve the environment. Yet, under WTO rules, governments are allowed (even encouraged) to take ever stronger steps to protect the profits and property rights of corporations and financiers.

Although the WTO presumes to impose a one-size-fits-all set of rules constraining the public interest policies of WTO member nations, it does nothing to limit the excesses of global corporations and financial speculators—two priority regulatory needs. Instead, it regulates national and local governments to prevent them from regulating international trade and investment.

In short, the WTO regulates governments to protect corporations.

Conclusion

The World Bank, IMF, and WTO have a distorted view of economic progress. Their embrace of unlimited expansion of trade and foreign investment in order to achieve economic growth suggests that they consider the most advanced state of development to be one in which all productive assets are owned by foreign corporations producing for export; that the currency that facilitates day-to-day transactions should be borrowed from foreign banks; that education and health services should be operated by foreign corporations on a fee-for-profit basis; and that almost everything that local people consume should be imported.

When stated in such stark terms, the absurdity of this ideology becomes obvious. It also becomes clear who is served by such policies. Rather than enhancing the life of people and the planet, they consolidate and secure the wealth and power of a small corporate élite.

The relevant data demonstrate that trade and investment liberalization does not necessarily bring increased economic growth or prosperity. It does, however, contribute to serious imbalances in the global economy, including alarming growth in inequality, both inside and between nations. Alternative models that emphasize domestic production for domestic markets and that direct trade and foreign investment to the service of national needs hold greater promise.

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