The All-Too-Visible Hand:

A Five-Country Look at the Long and Destructive Reach of the IMF

EXCERPTED SUMMARIES

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OVERVIEW

On 13 November 1998, Brazil became the latest of the so-called emerging-market countries to receive a financial "rescue" package fashioned by the International Monetary Fund (IMF) and the U.S. Treasury Department, the principal force within the Fund. These packages, designed more to calm skittish foreign investors than to put national economies on a path to sustainable development, have been promoted as solutions to the increasing instability of the world economy.

As Asian economic and social crises deepen and the Russian economy continues to unravel, investors have looked to the IMF for guidance as to whether prospective economic performance warrants their continued involvement in those countries. With a war chest of funds and a staff of neoliberal economists at its disposal and the power and influence of Northern governments and financial markets behind it, the IMF not only sets the standards for such performance, it also forces compliance with the carrot of emergency funding and the stick of discouraging the flow of private-sector and other public-sector financing. When the going gets rough under IMF tutelage, the refrain is always the same: deepen the reforms with more of the same medicine.

But how good has IMF advice been, and how accurate a guide has the Fund's stamp of approval been for investors? The answer has become increasingly obvious. Before Brazil, the Fund had failed to warn of the three previous big crashes of the decade -- Mexico, East Asia and Russia. In fact, right up to the currency and stock-market collapses, the IMF was praising Mexico and the East Asian "tigers" as models of economic success and rationality. Beholden to the interests of investors and blinded by its own prescriptions to open these, and other, economies -- even before the necessary institutional, financial and social infrastructure is in place -- the Fund has consistently failed to recognize, or at least publicly acknowledge, the underlying weaknesses in these economies and its own contribution to the debacles.

Both the absurdity and the danger of the position assumed by the IMF and its allies in the U.S. Treasury are apparent in the cases of Brazil and Russia. In the former, they argued, the failure to increase the social-security contributions made by civil servants risked bringing down the entire international financial system. In the latter, they have steadfastly refused to deviate from the past IMF prescriptions that have caused profound economic and social hardships and political unrest, thereby risking the collapse of a nuclear power. In a short 20 years, these institutions, in the name of an economic orthodoxy that has wrought widespread suffering, unprecedented inequities and alarming instability, have effectively closed down the space in which citizen choice, democracy and economic diversity can exist, much less flourish.

In order to shed more light on this disturbing phenomenon, Friends of the Earth and The Development GAP, with the support of the Charles Stewart Mott Foundation and the Moriah Fund, have engaged partners in Mexico, Nicaragua, Hungary, Senegal and Tanzania to assess IMF performance through short case studies. The cases paint a consistent picture of an institution bent on fully opening economies to foreign investors on advantageous terms at almost any cost -- the destruction of local demand and domestic productive capacity, growing poverty and inequality, the deterioration of education and health-care systems, the increased degradation of the environment, and, as has been seen, a dangerously expanding vulnerability of these economies themselves to external forces beyond their governments' control.

These countries were chosen because they are representative of trends in different regions and because, through our partnerships with the authors and their organizations, The Development GAP and Friends of the Earth were confident that the resulting studies would reflect a combination of economic analysis and grassroots perspectives. Both of our organizations continue to carry out additional studies across a broad range of countries and issues.

One such study, in which researchers affiliated with The Development GAP looked at 23 countries that had adopted structural adjustment programs, shows very similar trends in Latin America, Africa, Asia and Eastern Europe. Most everywhere, strict monetary polices, trade liberalization and an emphasis on export promotion and on attracting foreign investment have devastated local businesses. In rural areas, cheap food imports have undermined domestic food producers, causing a decline in per-capita food production. Small farmers have also been hard hit by cuts in public spending on extension and credit programs, contributing to a rise in rural poverty levels above and beyond the increases in overall poverty experienced by most of the countries studied. Labor-market reforms have compounded this expanding poverty by suppressing wages, undercutting permanent employment with temporary hires and undermining the ability of unions to organize and bargain collectively. Women and children, in particular, have suffered from the decline in safe and remunerative employment and in social services. With a growing poverty and inequality accompanied by a rise in street crime, an ever greater number of privatizations accompanied by corruption and a concentration of wealth, and financial deregulation and rising interest rates accompanied by a diversion of lending from productive to speculative ventures, the study reflects the distressing failings that have marked IMF interventions during the past two decades.

Development in most countries in the South has been made even more difficult by the increase in foreign debt that they have experienced while the IMF has involved itself in the management of their economies. A Development GAP study of 71 countries that have adopted structural adjustment programs prescribed by the World Bank and IMF in part to reduce the debt reveals a positive correlation between the number of years that a country has an adjustment program in place and an increase in debt as a percentage of GDP. The average (mean) increase in the debt/GDP ratio among those countries studied was 49 percent.

Friends of the Earth research has found that in the recent bailouts in Asia, Russia, and now Brazil, environmental spending has been drastically curtailed, while at the same time pressure on natural resources is increasing. The results in these countries are accelerated environmental destruction, the degradation of the country's resource base and the undermining of long-term prosperity. Additional research by Friends of the Earth also shows that, in most countries undergoing structural adjustment, opportunities to pursue "win win" solutions that both promote economic gain and protect the environment are being squandered.

Despite the failings of its policies, the IMF wants its structural adjustment loan program for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), to be self-financing, putting the Fund permanently in the business of running these countries' economies and further weakening the ability of citizens and their representatives to hold the IMF accountable. At the same time, it is virtually certain that Brazil will not be the last country to receive a "rescue" package from the IMF to bail out foreign creditors and investors upon which an increasing number of countries have become alarmingly dependent. What is needed is not only more democratically shaped economic policies, but also a more democratically managed and publicly responsive and accountable IMF. In the meantime, based on recent events and on the findings of studies such as those that follow, one thing is crystal clear: the less power and influence that the IMF has over national economies, the better.

MEXICO

THE MICRO-ECONOMIC IMPACT OF IMF STRUCTURAL ADJUSTMENT POLICIES IN MEXICO

EXECUTIVE SUMMARY

As a result of a series of agreements reached between the Mexican government and the IMF since the mid-1980s, a set of policies aimed at trade liberalization, large-scale privatization and general economic deregulation was implemented. As a result, the Mexican economy became increasingly dependent on capital inflows (particularly short-term portfolio investments) to finance its growing current-account deficit. These inflows contributed to the overvaluation of the peso in the early 1990s, and, when the international community judged that deficit to be unsustainable, US$5 billion in capital fled the country. The value of the peso plummeted, interest rates soared, and by early 1995 the Mexican economy was plunged into its worst economic depression in 60 years, the effects of which are still being felt by the large majority of Mexicans -- despite claims of recovery by the IMF and U.S. and Mexican policymakers. Furthermore, Mexico's financial infrastructure remains precariously unstable.

As a result of the conditionalities in its 1982, 1986 and 1989 agreements with the Fund, the Mexican government implemented a program of rapid trade liberalization and a deregulation of its capital account (including direct and portfolio investment, as well as the removal of controls on the repatriation of profits), which led to rapid capital inflows. These policies, however, were not accompanied by any long-term strategy to develop the country's competitiveness, so they simply opened the door to increased financial vulnerability. In fact, just as these open-economy policies were launched, investments in education, research and development and infrastructure were cut.

A key element of the adjustment program carried out in Mexico was the establishment of "Pactos" among representatives of government, businesses and the official labor federation, through which incomes policies were imposed on the economy. The IMF demands for wage restraint were effected through the Pactos, as wage increases were indexed to "expected" levels of inflation. Between the implementation of the first Pacto in December 1987 and May 1994, the minimum wage increased by 136 percent, while the cost of a basic basket of consumer goods rose by 371 percent. The hourly wage in the manufacturing sector decreased from US$2.10 in 1993 to US$1.45 in 1997.

Mexican agricultural producers were expected to respond to new economic signals coming from the liberalized agricultural markets. The same adjustment program that liberalized trade, however, required cuts in credit, technical assistance and subsidized inputs. Particularly hard hit have been corn producers, as imports from the United States have brought the retail price down, turning commercial production into an unprofitable venture. As a result, millions of farmers, particularly poor farmers producing food for the local economy, have been pushed out of agriculture altogether.

The 1995 adjustment program imposed by the IMF and the U.S. Treasury as a condition of the bailout of those who had invested in Mexico, required, among other things, the maintenance of high interest rates. Large interest payments, along with cheap imports, the economic slowdown and a severe drop in demand resulting from the cuts in real wages, forced over 12,000 of Mexico's businesses to file for bankruptcy that year. As economic activity came to a standstill and demand was cut, orders were canceled and plants operated at less than minimum levels. Idle capacity in many branches of the manufacturing sector increased to 70 percent; to date, the large majority of these companies have not recovered.

Open unemployment doubled in the wake of the crash, increasing from 3.7 percent to 6.3 percent of the labor force, but, if one adds people who ceased actively searching for a job, the percentage actually increased to 8.6 percent. Unemployment is not receding, and half of the Mexican population now lives in poverty. And in almost every social sector -- health, nutrition, housing, education -- virtually all of the key indicators show serious deterioration over the past 15 years.

This state of affairs has rocked Mexico's financial sector. The ratio of past-due loans to the total loan portfolio has increased steadily from 16.4 percent in 1995 to 21.4 percent in 1996 and 29.8 percent in 1997. With the banking sector teetering, the government, with the help of the international financial institutions, has implemented a massive bank bailout that has reached 55 billion dollars as of 1998. The government's intervention was tantamount to a direct handout to the bankers that is equivalent to nearly five times the amount paid by the banks' owners when the institutions were privatized in 1990-1992.

The Fund's diagnosis of Mexico's economic ailments -- which has only addressed macroeconomic imbalances -- has been wrong from the beginning. So it is not surprising that the medicine prescribed has not worked. The IMF's short-term obsessions -- controlling inflation and fiscal and current-account deficits -- as well as the standard policy response of market liberalization, privatization and a reduced role for the state, have only exacerbated the situation through the years.

SENEGAL

GENDER AND SOCIAL DIMENSIONS OF IMF POLICIES IN SENEGAL

EXECUTIVE SUMMARY

An IMF stabilization program began in Senegal in 1980 and a longer-term structural adjustment program in 1986. While the Fund has touted Senegal as a success story because of its increased growth rate, lower inflation and smaller budget deficit, in fact the country has failed to achieve a stable, sustainable growth that effectively reaches the poor. Unemployment and hunger have increased and are widespread. The quality of social services, such as education and health, including infant and maternity care, has declined, hitting women, who make up the vast majority of the poor, particularly hard.

The IMF pushed for a major devaluation of the Franc CFA for nearly ten years and ultimately made the devaluation a condition for any further assistance to the CFA countries, including Senegal. In January 1994, the Franc CFA was devalued by 50 percent. In theory, imports, which thus became more expensive, would lose out in the domestic market to locally produced goods. In practice, however, the prices of local goods have increased faster than those of imports, as many locally made products consist in good part of imported inputs. Also, the prices of basic services such as water, electricity, transportation and telecommunications have increased under the adjustment program.

While the IMF has cited lowered inflation as an achievement of the adjustment program, official statistics do not adequately capture increases in the prices of basic goods. The consumption basket used to calculate inflation was established in 1967 and has never been revised to reflect changing spending patterns. For example, under the adjustment program families bear a greater share of the costs of health, education, housing and transportation than in the past, but the official inflation figures give those costs very little weight.

As a result of the devaluation and the elimination of key government programs, few farmers are able to afford agricultural inputs, such as seeds and fertilizers. The support that is provided has been directed to the cultivation of groundnut and other export crops to the detriment of production of such basic food crops as vegetables, corn and millet. In 1990, 33 percent of the population was classified as hungry. By 1992, this figure had increased to 40 percent. In 1996, the Senegalese Ministry of Planning estimated that 22 percent of children suffered from chronic malnutrition.

It is highly unlikely that the government will be able to carry out its announced plans to reduce illiteracy and to lessen the differences in education and literacy rates between men and women given the budgetary constraints of the adjustment program. In 1995, 67 percent of all Senegalese adults and 77 percent of women were illiterate. Within the eligible age group for elementary schools, only 55 percent of girls and 64 percent of boys are enrolled. Just 23.8 percent of the students in technical training schools are girls. Under the adjustment program,

however, the government has cut education expenditures. The average number of students per elementary class has increased from 55 in 1985 to 62 in 1993. Teachers' unions have denounced the declining quality of education, as school equipment, tables, chairs, teaching materials and buildings are in short supply.

Health-care expenditures have also been falling under the adjustment program. In 1990, the government spent just 2.3 percent of GDP on health care, far below the nine-percent minimum level recommended by the World Health Organization (WHO). The number of people per hospital increased from 404,818 in 1988 to 494,000 in 1995, more than three times the WHO norm. Women have suffered disproportionately from these cuts. By 1988, 52.2 percent of women were receiving no prenatal care, and maternal mortality stood at 750 per 100,000 live births. By 1993, this figure had risen to 1,200 per 100,000.

In addition, unemployment has grown during the adjustment period. In Dakar, joblessness has increased from 25 percent in 1991 to 44 percent in 1996. The use of child labor has intensified, as parents, laid off in the name of budget equilibrium, have attempted to supplement reduced family incomes. According to the ILO, ten percent of Senegalese children are providing paid labor. A survey by the Senegalese Office of Forecasts and Statistics found that 82 percent of girls work in agriculture or domestic tasks. More and more little girls are deprived of their right to education and are sent to work in families as housekeepers, working long hours under very stressful conditions, often exposed to sexual or other physical abuses.

TANZANIA

THE IMPACT OF IMF STRUCTURAL ADJUSTMENT POLICIES ON TANZANIAN AGRICULTURE

EXECUTIVE SUMMARY

The IMF structural adjustment program in Tanzania began in 1986, with additional agreements signed in 1987, 1991 and 1996. As agriculture is by far the most important sector in terms of employment (over 80 percent), contribution to GDP (over 60 percent) and foreign-exchange earnings (75 percent), much of the Fund's policy interventions have focused on that sector. While agricultural production and exports have increased since the adjustment program began, so have rural poverty, income inequality, food insecurity, malnutrition and environmental degradation. As a result, Tanzania has become ever more dependent on foreign aid.

The key elements of the adjustment program in Tanzania have been devaluation, cuts in subsidies, and trade liberalization. These measures have dramatically increased the prices of inputs for the production of both food and export crops. Between 1989 and 1992, for example, the price of fertilizer increased between 183 and 412 percent, depending on the type. At the same time, producer prices for food crops decreased. Between 1985 and 1991, these prices fell for maize (30 percent), paddy (11 percent), cassava (32 percent), sorghum and millet (40 percent) and beans (6 percent). Although there have been increases in nominal producer prices for a number of crops during the decade of the '90s, devaluation and persistent inflation have more than wiped out these gains. Since state marketing and pan-territorial pricing programs were ended, small farmers in remote areas have found it especially difficult to market their crops. The World Bank reports that, while "...rich farmers negotiate selling prices with private traders, the poor sell in smaller quantities and at lower prices." Despite these problems, the IMF's Policy Framework Paper for 1995/96 to 1997/98 focuses on improving "marketing efficiency" rather than on fairness.

Consistent with the demand of the IMF for a tight monetary policy, the government has sought to lower inflation and increase the domestic-savings rate by raising interest rates. This has greatly increased the budget deficit, since a large portion of domestic debt is owed by government-owned parastatals. It has also contributed to raising informal-sector interest rates as high as 100 percent. The high interest rates, coupled with the privatization of the Co-operative and Rural Development Bank, has meant that credit for small-scale agriculture has virtually disappeared. According to the Fund, the private (mostly foreign) banks now operating have restricted their activities "...mostly to trade financing in Dar es Salaam, avoiding for the most part domestic lending activities."

Under the IMF program, food security in Tanzania has diminished considerably. While this problem can be linked to the impact of drought on the already vulnerable agricultural sector, the acute food shortages over recent years are also attributed by analysts to the removal of subsidies on fertilizers. The World Bank's 1996 Country Economic Memorandum reported

that food intake levels have stagnated due to the "...limited accessibility to food and the rising cost of living." Currently, over 40 percent of all Tanzanian children under five years of age have stunted growth and 90 out of 1,000 children born in the country die before their first birthday. Despite modest gains in real GDP growth, the World Bank reports that such basic human-welfare indicators as infant mortality, nutrition, housing conditions and primary-school enrollment "...appear to be stagnant or worse, compared to the level of the 1970s or early 1980s."

The problem of food insecurity has been exacerbated by the high and worsening degree of income inequality in Tanzania. The IMF's program has failed to benefit those who most need an increase in income and in fact has worsened the economic situation for Tanzania's poor. Between 1983 and 1991, the better-off saw their incomes from agriculture rise by 279 percent, while the poor and very poor experienced income decreases of 42 and 60 percent, respectively. In 1983, the average adult equivalent of income for the richest income group was 24 times greater than that for the poorest group. By 1991, that figure was 1,454 times greater due to the large proportion of the population with zero or even negative incomes. Those living in households with income below the "hard core" poverty line (over eight million people in 1991, or 42 percent of the population) had lower incomes in 1991 than in 1983.

Environmental degradation has also increased since the adjustment program began, as people become more desperate to produce on any lands available. Between 1980 and 1993, one-quarter of the country's forest area was lost, exposing even greater areas of land to wind and water erosion. Deforestation is currently occurring at a rate of two percent a year. Forty percent of this loss is a result of land clearing for cultivation. Another cause of deforestation is the cutting of wood to cure tobacco. Tobacco cultivation has been encouraged under adjustment in order to increase foreign-exchange earnings.

HUNGARY

THE IMPACTS OF IMF STRUCTURAL ADJUSTMENT POLICIES THE CASE OF HUNGARY

EXECUTIVE SUMMARY

Hungary became a member of the IMF in 1982 and has since implemented a series of structural adjustment agreements. Over time, neoliberal economists came to occupy key positions in the National Planning Ministry, the Finance Ministry and the National Bank, establishing the so-called "financial government". The goals of the IMF and the government during the 1980s were to establish a controlled market economy and to open the country to foreign investors. In the 1990s, price controls have been lifted, trade has been liberalized and the National Bank has gained broad autonomy in implementing monetary policy. In this decade, wages, employment and services have declined for the population generally and have fallen markedly for a number of major sectors, while the economy has contracted and stagnated.

The economy shrank 14 percent between 1989 and 1996, and the current-account balance and fiscal deficits deteriorated significantly. The current-account deficit was financed mainly through the sale of state property. With that property for the most part now sold off, Hungary's current account has been brought into balance through the attraction of both foreign portfolio investment (by offering high interest rates) and direct investment by multinational firms in Hungary's duty-free zones, creating considerable financial uncertainty.

The main goal of fiscal policy under the IMF program has been to reduce the budget deficit, but this has created a vicious circle. That deficit originated from rapidly growing interest payments on government debt and has increased from between 2.0 and 2.5 percent of GDP in the late 1980s to 10 percent by 1997, of which interest payments constitute one third. This has contributed to inflation and to reductions in demand and production. Subsidies and social programs were also cut (although unemployment benefits have increased). Therefore, an increasing portion of public resources is being redirected away from investments in human capital and infrastructure formation to unemployment benefits and payments to wealthy bondholders.

The main goals of the IMF-promoted monetary policy have been to curb inflation and improve the current-account balance. Beginning in 1992, this policy was tightened considerably, pushing interest rates well above profit rates in industry, thus discouraging productive investment and preventing any consistent economic growth. This problem has been exacerbated by the privatization process, in which many firms were artificially "damaged" on the books so they could be sold at lower prices. Some were purchased by Western European competitors and dismantled so as to open a market for the former under the newly liberalized trade regime. Industrial output fell by 34 percent between 1992 and 1996 and then rebounded slightly on the back of export sales from Hungary's duty-free zones, which have few linkages to the Hungarian economy as a whole.

Real wages fell by 24 percent between 1989 and 1996. They did increase five percent in 1997, but this recovery was not enough to stem the drop in living standards for the majority of the population or the growing disparities among sectors. The average net wage in 1996 was US$200 per month. The highest wages are found in the financial-intermediary sector (US$320), while the lowest are found in the textile and building industries and in health care (US$150). Meanwhile, unemployment increased from zero percent in 1989 to 13 percent by 1993 and currently hovers around ten percent. Poverty has increased, as well, to the degree that child malnutrition, which was previously unknown in Hungary, has become a new and growing phenomenon.

The adjustment program has had a particularly deleterious effect on certain population groups. Young people, for example, have decreased access to higher education, not only because of the introduction of tuition fees, but also because their parents are now unable to cover the costs of food, lodging, textbooks and other items. At least 20 percent of those completing school are unable to find employment in urban areas; in rural areas the rate is much higher. The high unemployment rate has also hit gypsies especially hard, as the majority live in the northeast region of the country, where they were formerly employed as unskilled laborers in heavy industry or in the construction trades. Many have also lost access to public housing as a result of the adjustment program.

Retired people have suffered, as well. The real value of pensions has decreased even more than wages. Furthermore, the IMF has insisted on pension reforms that include a flat rate for all elderly people, an earnings-related mandatory retirement savings program, and a voluntary pension plan. Unions and retired peoples' organizations maintain that this will result in further decreases in pensions for all except those with more than 40 years of permanent employment. At the same time, changes in the health-care system mandated under the adjustment program have resulted in increasing costs of medicines. Increases in heating costs have meant that many old people cannot pay for heat.

NICARAGUA

THE IMF AND FINANCIAL SECTOR REFORM IN NICARAGUA

EXECUTIVE SUMMARY

In the 1990s, in the wake of a devastating war, Nicaragua was compelled to restructure its financial system, re-establish links with sources of multilateral finance, and operate under precarious conditions of political and social turmoil. The economic stabilization and adjustment programs implemented by President Violeta Barrios de Chamorro in the early 1990s, and more recently by President Arnoldo Aleman, is a version of the standard prescription applied by the IMF in over 60 countries in the South.

Nicaragua began program of a stabilization and adjustment program in 1990. Initially financed by USAID, the IMF took the lead in designing and implementing the program with a Stand-by Agreement in 1991. Two agreements under the Enhanced Structural Adjustment Facility have been signed, the first in 1994 and the second in 1998.

Although in theory the IMF prescriptions are intended to achieve stabilization and restart growth in indebted countries with serious structural problems, in practice these programs serve mainly to ensure that the countries under "treatment" comply with their foreign-debt obligations. Hence, much of the foreign aid upon which Nicaragua remained highly dependent -- between 1991 and 1995, foreign assistance represented an annual average of 29.9 percent of GDP -- "leaked" abroad as interest payments and amortization of foreign debt. While the trade balance has shown some signs of improvement in recent years, the deficit has actually grown since 1990. More foreign assistance has translated into more imports without economic recovery, so that the trade deficit reached 35 percent of GDP in 1997, thus contributing to the debt burden.

After several years of economic depression, the economy began to grow again in 1994, but there has been no noticeable improvement in the standard of living of the Nicaraguan people. As of late 1996, 71 percent of Nicaraguans lived in poverty, infant mortality stood at 58 per 1,000 live births, and 26 percent of children under five years of age suffered from malnutrition. As of 1997, 14 percent of the population was unemployed, with an additional 13 percent underemployed.

The financial-reform process carried out under the adjustment program has been especially controversial. Interest rates have risen to very high levels, and the new institutional structure favors short-term credit for speculative purposes rather than longer-term investments for productive purposes. Agricultural and industrial-production groups that have been displaced by or subordinated to financial groups do not have many opportunities, especially medium-sized and small-scale producers. In Nicaragua, the large industrialists linked to the governing elite enjoy sufficient tariff protection and fiscal support to make their operations extremely profitable. The remaining sectors simply do not receive benefits or are in a disadvantaged situation.

As a result, the boom that took place in private finance and in certain extractive activities -- with high short-term profitability and minimal investment -- contrast with the stagnation of domestic production and the generalized deterioration in the conditions of that production.

While the money supply has slowly grown since 1991, the amount of money in circulation has decreased. The composition of the money supply has changed significantly, so that much more of it is now concentrated in short-term deposits at high interest rates, particularly dollar-denominated deposits. Private banks now control 66 percent of the assets in the financial system. While deposits grew at an annual rate of 41.8 percent between 1992 and 1995, gross investment as a percentage of GDP increased at an average rate of just 10.8 percent. Even that limited growth occurred primarily in the public sector and was mainly financed by foreign assistance.

Not only was the process of financial deregulation in Nicaragua not linked to a development strategy, it also failed to establish a competitive financial structure. Many barriers to the establishment of new financial institutions continue to exist. Under these circumstances, interest rates have remained high not just because of perceived business risks, but also because of the oligopolistic structure of the banking system. This has further limited productive investment.

SUMMARY AND CONCLUSIONS

What is clear from these studies, and from IMF intervention across the board, is that the Fund's loan conditions -- which have gone beyond tight monetary and fiscal policies and other stabilization measures to include the liberalization of trade, direct investment and financial capital flows, as well as the dismantling of labor protections and economic infrastructure that supports small producers -- have been imposed without linkage to a long-term development strategy aimed at sustainable and equitable growth and economic competitiveness.

In Mexico, a program of rapid trade liberalization, economic and financial-sector deregulation and large-scale privatization, accompanied by policies that undercut local demand and production, had created a growing current-account deficit well before the December 1994 collapse of the peso. The increasing dependency on foreign capital inflows required to finance the deficit eventually led to massive capital flight and the crisis. Subsequent IMF conditions attached to the bailout of foreign investors, which in essence deepened the reform program while ignoring its underlying weaknesses, caused an economic depression, pushing millions of farmers out of agriculture, bankrupting thousands of small businesses, and drastically slashing jobs and wages.

Likewise, in Nicaragua, financial-sector deregulation, narrowly focused and without adequate prior institutional reform, has directed capital toward short-term, high-interest deposits and away from productive investment, particularly the activities of small-scale producers in both the agricultural and manufacturing sectors. Ironically, the IMF is currently seeking to amend its Articles of Agreement to give itself power over countries' capital accounts. This amendment would allow the Fund to force countries to open up their financial sectors and remove capital controls. Given the IMF's track record of premature liberalization, and given the disastrous impacts of volatile capital flows on the Asian, Russian, and Latin American economies, pursuit of this capital-account liberalization amendment is unwise and should be stopped.

In Africa, the IMF record has been even worse than in Latin America. Tanzania, forced to adopt a program of trade liberalization, devaluation, tight monetary policy and the dismantling of state financing and marketing mechanisms for small farmers, has experienced expanding rural poverty, income inequality and environmental degradation amidst growing agricultural export trade. Food security, housing conditions and primary-school enrollment have fallen while malnutrition and infant mortality have been on the rise. The country, under Fund supervision, is today more dependent than ever on foreign aid.

Across the continent, Senegal, an IMF pupil for 18 years, has experienced declining quality in its education and health-care systems and a growth in maternal mortality, unemployment and the use and abuse of child labor. Official IMF statistics underestimate the real inflation rate faced by most of the population, while economic growth has not effectively reached the poor. As women constitute the vast majority of the poor and depend more on social services, experience lower education and literacy rates, and are less likely to receive support for their agricultural (food-crop) activities than are men, they have suffered disproportionately under the adjustment program.

With the IMF as its guide, Hungary has led the reform process in Eastern Europe, similarly liberalizing its trade regime, tightening its money supply and selling off assets (on questionable terms) to foreign interests with little concern for the productive contributions of workers and domestic producers in the "real" economy. As a result, an increasing portion of resources are being directed away from investment in human capital and infrastructure formation toward unemployment benefits and payments to wealthy bondholders. A more fragmented and troubled society has emerged in which other big losers include: the elderly, who often cannot afford the cost of medicines or home heating; pensioners, whose stipends will further decrease; gypsies, who are losing access to jobs and public housing; youth, who face decreased access to education and employment, particularly in rural areas; and children, who, for the first time, are experiencing malnutrition as poverty expands in Hungary.

The IMF claims that it is not a development assistance agency and its track record proves its point. Yet, while destroying the basis for sustainable, equitable and stable development around the globe with the imposition of both stabilization and adjustment measures, the Fund has also greatly increased the economic vulnerability of nation after nation. By opening the door prematurely to fickle and unregulated foreign capital flows, by liberalizing trade and investment regimes and pushing up interest rates to attract bondholders without adequate support for local production, by developing cheap production bases for foreigners and export at the expense of underpaid and undereducated work forces, domestic demand and the natural environment, and by rewarding speculators instead of financing critical social investments and equilibrium, the IMF has demonstrated both its biases and its ignorance of local conditions. It should be neither a guide for the market nor a dictator of national development programs. Its role in prescribing economic policies for vulnerable nations should be greatly diminished. Instead, new solutions for these complex problems must emerge from serious dialogues in each country among all sectors of society to determine economic-policy programs that are designed not just to resolve macroeconomic imbalances or to calm nervous investors, but to put countries on a path to equitable and sustainable development.