The New York Times
OP-ED *MONDAY, 7 DECEMBER 1998*

The Wrong Hurricane Relief

By Stephen Hellinger

Officials of the International Monetary Fund, the World Bank and other institutions and donor governments will meet here this week to decide the economic fate of Honduras and Nicaragua, both of which were ravaged by Hurricane Mitch in October. If all goes according to script, the financial “rescue” package that will emerge will only deepen the two nations' problems.

The United States has committed $290 million to relief and has announced a two year suspension of payments on the two countries' enormous debt. Other governments and groups have called for the outright canceling of the debt, along with a huge aid program to help rebuild their economies.

But aid and debt relief have come with a hefty stipulation virtually everywhere they have been provided in recent years: the receiving countries have been required to adopt "structural adjustment" policies. Acting as a cartel, the global financial institutions, donor governments and commercial banks have made countries restructure their economies to benefit foreign investors rather than their own citizens. From Mexico to Thailand and from Zimbabwe to Russia, the results have included the destruction of local enterprises, rising unemployment, falling wages, greater income inequality, declining food production, cuts in essential public spending and a dangerous polarization of society.

Adjustment policies had already done damage in Nicaragua and Honduras long before the hurricane hit. Both nations, increasingly dependent on foreign aid, have lived under such strictures for much of this decade. Capital has flowed to shortterm deposits with high returns, at the expense of productive investments. More than threequarters of the people live in poverty.

Cuts and the privatization of government services have weakened rural health care, and inadequate environmental controls have led to deforestation. Hurricane Mitch made the consequences of such policies clear. The deforested landscapes helped make the flooding catastrophic. The insufficient health care has raised fears of cholera and malaria epidemics.

The adjustment programs also failed to reduce the countries’ foreign debts. That shouldn't surprise anyone most countries that have adopted policies prescribed by the World Bank and the I.M.F. are now far more heavily in debt than they were before.

Imposing more of the same on Nicaragua and Honduras now would only set their economies back further. If the I.M.F. and the World Bank use their leverage in this crisis, as they did in Asia, to open the door even wider to foreign competitors, recovery by local producers will be made all the more difficult. If wages are pushed even lower to attract investment, people won't have enough money to restimulate local economies.

Larger safety nets aren't enough. Fundamental changes that reflect local conditions are required. Small farmers must have access to productive land and to affordable credit. Wages must be high enough to support a family. A trade policy that enables local producers to compete with foreign goods and investors is critical.

Anything less will damage not only the people of Honduras and Nicaragua, but also the rapidly deteriorating reputations of the World Bank and the I.M.F.

Stephen Hellinger is president of The Development Group for Alternative Policies, which is coordinating with the World Bank a worldwide assessment of the Bank's policies.

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