"Free market" program boosts world poverty

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World poverty is on the increase as a result of the global financial crisis and the free market “structural adjustment” measures dictated by the International Monetary Fund. This is the inescapable conclusion of the latest report on global poverty issued by the World Bank last week.

The Bank found that the number of people forced to live on less than $1 a day was increasing and could reach 1.5 billion by the end of this year. As many as 200 million people have joined the ranks of those in abject poverty since the last estimate in 1993.

Presenting the report, World Bank president James Wolfensohn declared: “The financial turmoil of the last two years has dealt a blow to the expectations we had for reducing poverty. Just a short time ago we had confidence that the international development goal of halving poverty would be met in the next 20 years in most areas of the world. Today, countries that until recently believed they were turning the tide in the fight against poverty are witnessing its re-emergence along with hunger and the human suffering it brings.”

The World Bank report implied that some of the increase in poverty occurred as a result of measures imposed by the IMF, but was careful not to mention its sister organization by name, saying only that these measures bore down most heavily on the least well-off sections of the population and should be more carefully designed in the future.

But even by its own calculations, the report showed that “free market” program which forms the basis for the policies of the World Bank and IMF has created a social disaster for hundreds of millions of people.

It found that Indonesia, Thailand and South Korea had experienced “significant increases in poverty”. In Indonesia alone, the proportion of people forced to live on less than $1 per day increased from 11 percent in 1997 to 19.9 percent in 1998, implying an increase of 20 million in the ranks of the “newly poor”—equivalent to a medium-sized nation such as Australia. In Korea, the incidence of urban poverty went from 8.6 percent in 1997 to 19.2 percent last year.

The rise in poverty is not confined to those countries most directly affected by the global financial turmoil. The report found that the number of people below the $1 per day level in India had increased to 340 million, from an estimated 300 million in the late 1980s. Recent data on the stagnation in rural wages suggested a further increase in poverty rates in that country.

The report described the prospects for Africa as “worrisome” as a result of falling prices for many commodities, slower world trade growth and the prospect of increasing competition from countries with depreciated exchange rates.

“The combined effect of lower commodity prices, conflict, and in some cases, bad weather has been to cut growth in Sub-Saharan Africa; GDP growth in 1998 appears to have been below the rate of population growth, implying a decline in per capita income.”

Sharp declines in growth and increases in poverty were anticipated in Russia, the Ukraine and Romania. Despite growth in some areas of Eastern Europe, the growth in per capita GDP for the region as a whole was expected to be zero. In the Middle East and North Africa, per capita GDP growth was expected to be negative.

Summing up the situation, World Bank Director of Poverty Reduction and Economic Management, Michael Walton said: “The global picture that emerges at the end of the 1990s is one of stalled progress as a result of the East Asian crisis, rising numbers of poor people in India, continued rises in Sub-Saharan Africa, and a sharp worsening in Europe and Central Asia.”

Another recent study has presented a devastating indictment of the IMF's so-called “structural adjustment” measures.

Relying largely on IMF data, the report by Robert Naiman and Neil Watkins (http://www.preamble.org/IMFinAfrica.htm) showed how the Enhanced Structural Adjustment Facility (ESAF) regime has led to declining growth rates and reduced spending on health and education, while at the same time increasing international indebtedness.

The report's main findings were:

* Developing countries worldwide operating under ESAF programs experienced lower economic growth than those which did not, with African countries the worst hit. It would

be years before their populations returned to the per capita incomes they had prior to structural adjustment.

* While African countries urgently need to increase spending on health care, education, and sanitation, IMF structural adjustment measures have forced them to cut such spending—with per capita spending on education actually declining between 1986 and 1996.

The basis of the IMF ESAF program is to open the way for the increased penetration of international capital and the reduction of government regulation through cuts in spending, the elimination of subsidies on food and other items of popular consumption, the privatization of government-owned enterprises and the reduction in barriers to trade and investment with the stated objective of fostering "sustainable economic growth."

But as the study noted, annual per capita growth for countries under the ESAF regime was zero for 1991-95, whereas as non-ESAF poor countries recorded a 1 per cent per capita growth rate. Sub-Saharan African countries operating under ESAF policies experienced an average decline of 0.3 percent in per capita incomes over the same period.

The report noted that according to World Bank projections the decline in real income in African countries means they will take years to reach the same levels of per capita income that were achieved in the early 1980s.

"The World Bank forecasts that per capita incomes will grow by 1.2 percent annually for the next decade in Sub-Saharan Africa. Given the past record of achievement under IMF/World Bank adjustment, such projections may be overly optimistic. But even under these projections, it will take until 2006 merely to return to 1982 (pre-structural adjustment) levels of per capita income in Sub-Saharan Africa."

The proponents of structural adjustment claim that it is aimed at reducing external debt. But here too the IMF's own figures show that the debt burden of ESAF countries has increased significantly.

The total external debt as a share of gross national product for all ESAF countries increased from 71.1 percent to 87.8 percent between 1985 and 1995, with the proportion of debt for Sub-Saharan Africa rising from 58 percent in 1988 to 70 percent in 1996. The total amount of debt outstanding for the region rose from $150.5 billion in 1988 to $227.1 billion in 1996.

The study found there was a net transfer of payments of more than $1 billion from African governments to the IMF in 1997 and 1998. However, despite these increased repayments, total African debt continued to increase, rising by 3 per cent.

The social impact of these measures is graphically demonstrated by the case of Zimbabwe. After experiencing real growth of about 4 percent per annum in the 1980s, Zimbabwe entered an ESAF program in 1991 supposedly to "jump start economic growth".

The arrangements required the government to cut the fiscal deficit, reduce tax rates and deregulate financial markets. Protection for the manufacturing sector was dismantled and labour markets were "deregulated". The results were disastrous.

Between 1991 and 1996 manufacturing output contracted by 14 percent, real GDP per capita fell by 5.8 percent. Real GDP fell by 1 percent between 1991 and 1995, in contrast to IMF forecasts of an 18 percent increase over the same period. Private per capita consumption dropped by 37 percent between 1991 and 1996.

"The combination of reduced protection of the manufacturing sector, the reduction in public spending, and labour market deregulation led to higher unemployment and lower real wages. Between 1991-96, formal sector employment in manufacturing fell 9 percent and real wages declined by 26 percent. Meanwhile, food prices rose much faster than other consumer prices; this disproportionately affected the rural poor who spend a larger proportion of their income on food."

Expenditure on health care declined from 3.1 percent of GDP to 2.1 percent during a period of increasing need resulting from the spread of AIDS. Consequently between 1988 and 1994 wasting in children, a phenomenon linked to AIDS, quadrupled and the number of tuberculosis cases also increased four-fold between 1986 and 1995.

Government spending on education also declined rapidly, with primary and secondary education experiencing per capita declines of 36 percent and 25 percent respectively between 1991 and 1994.

The study concluded by noting that while there has been increasing criticism of IMF programs, particularly in the aftermath of the Asian financial crisis, no reforms have been forthcoming. In fact IMF managing director Michel Camdessus specifically referred to the Asian crisis as "a blessing in disguise."