THE BANK, THE FUND AND THE REST OF US

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In the last week of November, the Parliament of Sri Lanka was debating the annual Budget proposals. Opposition MPs and the press sought to embarrass the government by accusing it of capitulating to World Bank and IMF pressure. The Prime Minster's denial, in response to opposition allegations, that the two state banks and the railway would not be privatised indicated that the Premadasa regime was facing some difficulties in executing the structural adjustment package, agreed upon with the World Bank and the International Monetary Fund; labour unrest in the state sector over the issue of privatisation was mounting.

Meanwhile, in Bangladesh and India, the last days of November marked the beginning of social resistance movements against the proposed economic restructuring. A Dhaka datelined report, published in the local press on November 29, spoke of a "two-day countrywide strike by more than a million factory workers." The strike-cum-blockade was called "to denounce" plans by the government of Prime Minster Khalida Zia to privatise state-owned factories. Another report from New Delhi, appearing the same day, described preparations for a major strike by the country's powerful trade unions, precipitated by the government's proposals to reform its industrial sector. Reform in this particular instance meant the pruning of `unprofitable state-run enterprises' ultimately to pave the way for privatisation.

Privatisation and economic reforms. These are two key words in the economic policy agenda, being implemented in many parts of the world - in South Asia, in Africa, in Latin America and in former Eastern Europe. The two 'Sisters in the Wood', as the London *Economist* recently called the World Bank and the IMF, have probably never had a stronger grip over the world economy. Arguably, the rest of this decade is likely to be the era of stabilisation, structural adjustments and wholesale privatisation on a global scale.

What are the meanings of these magic words, stabilisation and structural adjustment? What do they promise to that part of the world which had, historically, not been closely integrated with the world market but is now being forced to do so? What are the prospects for the success of these vigorously pursued economic reforms? What are their implications, in the short and long runs, on the people in the countries whose economies are being, in terms of the WB-IMF world agenda, structurally adjusted?

STABILISATION AND ADJUSTMENT

What does stabilisation mean in economic policy terms? As a text book on the subject defines it, "economic stabilization in developing countries concerns attempts to correct excessive unsustainable balance-of-payments deficits, reduce the rate of domestic inflation, or both." Frequently, stabilisation efforts also involve exchange rate reforms, changes in the systems of tariff protection and export incentives. "A country may make these efforts on its own, in conjunction with a supporting financial program from the International Monetary Fund (for example, a standby loan with policy performance conditions), or with financial support from other international or bilateral financial resources."

The real controversy concerning stabilisation is not about its definition, but about how it is implemented and with what possible results. Policy conditionality is one of the major issues of contention. In the early stabilisation loans, before the 1970s, IMF loans were granted for projects. They were not necessarily tied to promises of macro-economic policy reforms in the recipient countries. But the IMF-World Bank thinking changed in the seventies; there evolved the argument that even a good project in a bad economy was likely to be a bad project. It followed then that loan conditions had to look beyond specific projects to the economy as a whole.

In the early eighties, meanwhile, aid conditionality took a new form: a country would receive loans on the undertaking that economic reforms within a particular sector (for instance, trade liberalisation, financial deregulation, agricultural price reform) would be carried out. These loans were known as 'Structural Adjustment Loans' (SALS) and 'Sector Adjustment Loans' (SECALS). The 1980s was indeed a decade of policy-based loans. Macro-economic stabilisation thus became the basis of World Bank-IMF financial support to developing countries. Gradually, a package of conditions, drawn up in accordance with prescriptive measures proposed by Bank-Fund experts in Washington and designed to effect a thorough going reform of the macro-economy, came to be imposed on debtor countries.

In the World Bank-IMF language, this package is described as Macro Economic Stabilisation. It is a fixed menu which has four main ingredients:

i. Devaluation and unification of the exchange rate, and the elimination of exchange controls and multiple exchange rates.

ii. Curtailment of government expenditure in order to reduce the budget deficit. Contraction of public sector employment and social sector programmes are the usual mechanisms for deficit reduction.

iii. Market liberalisation within the national economy, implying the elimination of subsidies and price controls.

iv. Compression of real earnings of workers through the deindexation of wages and the liberalisation of the labour market.

Meanwhile, another new concept, Structural Adjustment, entered the Bank-Fund policy discourse in the late-eighties. The context was the debt crisis in the

developing world. Africa and Latin America were two regions where the debt crisis had risen to alarming proportions. By the late 1980s, debt-to-export ratios in Latin America had reached nearly 300% while in Africa it was as high as 500%. The collapse of commodity prices since the world recession of 1981-82 had led to a severe debt-cum-economic crisis in many Third World countries. In Sub-Saharan Africa, export earnings declined by 50%. Meanwhile, the accumulated Third World debt stood at 1.3 trillion dollars in 1990. This represented approximately 44 per cent of the combined gross national product of all developing countries.

The problem then was not just how to repay the debt, but how to service it, that is to pay the interest so that debtor countries would remain creditworthy.

Most economic debate in the eighties centred on the debt crisis. The debtor countries in the developing world even demanded outright cancellations of debt. But the Fund had other plans. It also had its own diagnosis of the debt crisis. The Fund argued that the debt crisis was not the result of the workings of the world economy. Many countries, the Fund asserted, had failed to meet the performance criteria established for the loans, and therefore instead of growing, their economies had stagnated. Yet, the loans could not be cancelled, they had to be repaid, said the Fund to the debtor countries. And the Fund could also make arrangements for the repayment. So in 1986 the Fund created a new loan window: the Structural Adjustment Facility (SAF). Unlike the Stabilisation Loans of the World Bank, the Fund's SAFs were restricted to the poorest countries. The money was now available in support of three-year adjustment programmes, repayable over five-to-ten years.

Within two years, the Fund itself ran into difficulties because the debtor countries were drawing heavily from SAF. In 1988 the $ 3 billion SAF fund was running dry and a new facility had to be created. This new loan window was named the 'Enhanced Structural Adjustment Facility' (ESAF) with funds raised through contributions from rich countries. Borrowers could receive twice as much as they had been able to obtain under the SAF, but the conditionality was stricter. Frequent testing by the Fund of economic performance of the debtor country became a necessary condition. As *The Economist* recently noted, "cash was paid out in smaller chunks, subject to more frequent tests of performance."

In the new world context, stabilisation and adjustment have acquired a wider political-economy meaning. They are mechanisms in the process of globalising market relations. More fundamentally, the marketisation thrust is taking place in economies that have hitherto remained conditionally linked to the world market. Take the case of India, for example. Indian capitalism had for decades been characterised by state-regulated ties with the world market; foreign capital or commodities had no free access to the domestic market of India. So was it in Pakistan where an autarkic model of capitalist development, in relative isolation form private international capital, had been experimented with.

The most graphic example, perhaps, is Eastern Europe. There, with the collapse of a variety of statist socialisms, market economies are being established. Transition to a market economy means the rapid privatisation of the entire state sector, invitations to private foreign capital and accelerated integration with the world market. All these countries are now members of the IMF, the World Bank and the GATT. The sheer numbers of state ventures that are available for private ownership are staggering. According to *The Economist* of September 21, Hungary has for sale about 2,300 state-owned firms, Poland 7,500, Czechoslovakia 4,800, Bulgaria 5,000 and Rumania 40,000.

Comparative figures may tell us the magnitude of privatisation that is taking place globally. According to the World Bank, between 1980 and 1987, a period in which privatisation became the economic norm in the First and the Third Worlds alike, fewer than 1,000 firms were privatised throughout the world. In 1991, Romania alone offers to private capital 40,000 firms.

For countries like Sri Lanka and India, stabilisation and structural adjustment reforms have yet another dimension. In these economies, a public sector has existed for about 4 decades side by side with the private sector. Relations with international capital and the world market were governed by regulatory policy regimes. What stabilisation reforms have sought to achieve is the relaxation of state control of the domestic market and specifically the linking up of the domestic economy with the world market. The structural adjustment package completes the process by dismantling almost all the restrictions on the domestic market. The adjustment is then market adjustment, or letting the economy re-adjust itself in response to vigorously unleashed market forces.

Aid Conditionality

Conditions are always attached to development aid, and international monetary institutions do not attempt to hide this fact. Only our national governments would want us believe otherwise. Traditionally, aid conditionality was primarily economic. A new feature has now entered the global aid regime: political conditionality. This is the most current development in the relationship between the West and the rest of us. It simply means that the aid donors now attach economic and political conditions to development assistance.

What is aid conditionality, anyway? In a recent study, *Conditionality: Facts, Theory and Practice*, published by WIDER, D. Avramovic presents a four-fold typology of loan conditionality in the economic policy sphere.

(i) **Demand conditionality**: The focus is on the reduction of government spending, currency devaluation, raising of interest rates and trade liberalisation. The demand conditionality was pioneered by the IMF through its monetarist approach to balance of payment problems.

(ii) **Supply conditionality**: Initiated by the World Bank, this focused on project formulation and implementation. After the introduction of Structural Adjustment Loans, the supply conditionality has been extended to the whole economy. Its centre of attention

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is the investment program, system of investor incentives, pricing, financial liberalisation and trade liberalisation.

(iii) **Growth conditionality**: The idea here is to strengthen, by means of incentives, the private sector of the economy. The growth project involves privatisation of government-owned enterprises, the promotion of direct foreign investment and trade liberalisation.

(iv) **Cross conditionality**: In this, the acceptance by the borrowing country of the conditionality of one financial agency is made a pre-condition for financial support by the others. Informal cross-conditionality exists particularly between the World Bank and the IMF.

Sri Lanka

In current policy debates in Sri Lanka, the main focus of discussion is the privatisation of state sector ventures and the promotion of the private sector. The government is hoping to privatise 33 state enterprises before the end of the year. In the plantation sector, the management component is being handed over to private companies. Very soon, the management of the two state banks too will be in the hands of the private sector. Local and foreign private capital is thus expected to play the leading role in the production and management sectors of the economy. What would then be the economic role of the state? Would the state move away from the sphere of direct economic activity?

A fairly comprehensive answer to this question is provided by the Ministry of Policy Planning and Implementation. In the 'Introduction' to its publication, *Public Investment 1990-1994*, the Ministry tells us about the objectives of the public investment programme in the coming years. It is a "supportive role" aimed at releasing "the potential and dynamism of the private sector." The government, as this document claims, "is strictly following the principle of not investing in any activity which is directly production oriented.... Public investment will concentrate almost entirely on building the economic and social infrastructure that is vital for an expanding private sector."

Since 1977, Sri Lanka has been implementing a 'liberal' economic policy, within a general stabilisation package designed by the World Bank and the IMF and applied widely in more than 70 developing countries during the past decade.

India

The economic reforms now under way in India are perhaps much more significant. The economic autarky which characterised India's industrial development for the past 4 decades is coming to an end. Finance Minister Manmohan Singh's economic reform measures, almost totally congruent with IMF-inspired adjustment strategies, are aimed at binding the Indian economy tightly to the world market. The opening up of hitherto protected industrial sectors to private foreign capital, as is being done now, is almost blasphemous when one considers the power of the economic nationalist ideology that governed India's public policy until six months ago.

In post-independent India, the Nehruvian vision of a self-reliant economy, supported by the state and big private Indian capital, was sought to be realised by developing a fairly strong industrial base. India remained until at least early 1991 a Third World model of inward-looking development strategy; it posited that relative isolation from the world market and state protection of domestic industry could create and sustain a 'self-reliant' economy.

The Industrial Policy Resolution, issued by the Narasimha Rao Government in mid-July, this year, contains the new framework. It has three main elements suggesting a fundamental alteration in the course of Indian industrial development. First, to restrict the space exclusively reserved for the public sector to eight strategic sectors, to divest the public sector of its holdings and to close down eventually the 'sick' industries owned by the state. Second, to dismantle licensing in all but 18 industries and remove curbs on the expansion, growth and operation of large business groups. Third, to liberalise foreign investment and technical collaboration policies to ensure the unrestricted flow of foreign capital and technology.

A brief look at the Budget presented by Finance Minister Manmohan Singh on July 24 would indicate how an IMF-type adjustment package found a receptive hearing among Indian policy makers. Even before the budget, Manmohan Singh had devalued the rupee and issued the industrial policy statement. In the Budget proposals, he promised to reduce the fiscal deficit to the level of 6.5 per cent of GDP in order to de-regulate the credit market. Disinvestment in the public sector, a major deviation from the traditional policy of state participation in productive areas of the economy, was meant both to reduce the fiscal deficit and to encourage privatisation. The reduction of fertilizer subsidies and the elimination of the sugar subsidy are two other elements that fall squarely within what Professor Prabhat Patnaik calls "IMF dictates."

It is very clear that India is on the path of dismantling the state sector of its economy. During the World Bank-IMF annual conference in Bangkok in October 1991, Manmohan Singh is reported to have said at a press conference: "When we supported public enterprise in the past, we thought they would contribute to capital accumulation and industrialisation, growth and alleviation of poverty. But the public sector has served none of these purposes. We are considering the whole issue afresh. We do not think that the public enterprises should control the commanding heights of the economy."

Who should, then, control the commanding heights of the economy? Private capital, both domestic and foreign.

Why is it then India is moving away from economic nationalist orthodoxy? The answer, indeed, lies in the very same circumstances that have compelled many developing countries to succumb to World Bank-IMF policy mandates: a worsening balance of payment crisis and an external debt crisis. For instance, India's external debt now amounts to $ 70 billion. To overcome such difficulties, Finance Ministers in the developing world have no option but to go to the Bank and the Fund

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and to make the necessary assurances that the national economies would be radically altered. Mr. Manmohan Singh succeeded, in October, in persuading the Bank and the Fund to give India structural adjustment support of US $ 7 billion.

There is an interesting story behind the not so discreet charms of the Bank and the Fund for Mr. Singh. Soon after he was appointed Minister of Finance, Manmohan Singh went to Washington to meet World Bank and IMF officials. He explained to them the economic plight of India. They gave him a sympathetic hearing. Mr. Singh, a former Head of India's Central Bank and an economist well respected in Bank-Fund circles, knew the rules of the game very well; he knew what he had to do. On July 1 and 3, he devalued the rupee, in two steps, by 20 per cent; major reforms in India's trade and industrial policies soon followed. At the Paris Aid Consortium, Mr. Singh received the pledge that India would receive $ 7 billion adjustment support. The moral, then, is that you do not have to wait for the Bank-Fund bureaucrats to impose conditions on you; you impose them yourself and then go for negotiations. You might even get more than you asked for.

PAKISTAN

The aggressive economic reform programme being implemented in Pakistan, now in the third year of implementing its Structural Adjustment programme, is no less interesting. The Nawaz Sharif regime is so enthusiastically committed to its massive privatisation programme, endorsed by the IMF, that it ran a four-page advertisement in the *Newsweek* in November. Indeed, in September this year, the IMF endorsed the macro-economic policies of the Pakistan government and promised to allow it to draw funds from its Contingency Compensatory Financing Facility.

The Bank-Fund involvement in promoting privatisation is more visible in Pakistan than it is in Sri Lanka or in India. In mid-November, the government of Pakistan held an investment conference, in collaboration with the Multilateral Investment Guarantee Agency, a World Bank affiliate. Pakistan's long history of close association with the United States stands in sharp contrast to the mistrust and scepticism towards the IMF and the World Bank that many Indians and Sri Lankans share. A friend who was in Islamabad during this investment conference related to us an amusing, yet revealing, story. On the way to Islamabad from the Airport, he had noticed huge banners with slogans in English warmly welcoming the Bank-Fund delegates. **"Long live our friendship with the World Bank and the International Monetary Fund"** was one such slogan displayed prominently!

What does the macro-economic reform program in Pakistan entail? For a vivid account of it, let us turn to the advertisement in the *Newsweek*. The government of Nawaz Sharif is implementing, so goes the glossy ad, "an ambitious, multi-dimensional program of economic reform which rests on three pillars: Denationalization. Deregulation. Disinvestment." In plain English, total privatisation. It has all the promises required to pamper private capital: privatisation of public services and state-owned industry, abolition of foreign exchange controls, wide-ranging tax and tariff concessions and elimination of procedural delays and red tape.

Concessions that are being offered to private capital, particularly to foreign capital, are astonishing, if not alarming. Private investors can set up an industry wherever they wish and with 100% equity if they so desire; they can make use of tax holidays for eight years; they can repatriate dividends and other proceeds without Central Bank approval. There are absolutely no restrictions on the opening of foreign exchange accounts, in or out of Pakistan and investors can negotiate foreign loans without government approval.

Why this unprecedented Pakistani generosity towards private foreign capital? One plausible explanation is that Pakistan knows that it has to outsmart India in the race to attract foreign capital. Once Indian public ventures are put to sale, Pakistan will certainly find a formidable competitor just across the border. Act fast and decisively - and that is what the Nawaz Sharif government did. Soon after he came to power last year, Prime Minister Sharif appointed a Privatisation Commission. The Commission put 115 state ventures on sale, ranging from banks and insurance companies to fertilizer and automobile plants and the telecommunication network.

POLITICAL CONDITIONALITY

The foregoing account tells us about an important facet of the age in which we are living: this is the age of unchecked private capital. No policy maker, either in the West or in our own privatising world, appears to think seriously of the repercussions of what they are doing. The assumptions behind the new developmental strategy are accepted as being axiomatic. Or to put it in different words, the answer provided by world capitalism to development problems in the Third World is accepted without questioning. Problems beg answers; and unquestioned answers may beget calamity.

There is nevertheless a world-wide elite consensus that private capital and the market, the Prometheus Unbound, is certain to take the underdeveloped world to the promise land of growth and prosperity. However, this global elite consensus is not devoid of potential tension. A sure source of tension and discord is what the West has recently begun to realise: the need for democratic political reforms in the developing world in order to create public legitimacy for market capitalism.

Political conditionality, which demands democratic reforms as a pre-requisite for the successful execution of stabilisation and adjustment programmes, is a primary assumption in the "new thinking" of the World Bank and the Western governments. The *World Development Report 1991* published by the World Bank sets out the broad parameters and the specific agenda of the new global aid regime.

According to the Bank, the realignment of the roles of market and state can be best achieved through political reforms. These reforms, as argued in the Report, are two-fold: political and institutional. To quote two relevant paragraphs:

> Democracies ... could make reform more feasible in several ways: →

political checks and balances, a free press, an open debate on the costs and benefits of government policy can give a wider public stake in reform. The need to produce good results in order to be re-elected could help, rather than hinder, economic change: it increases governments' incentives to perform well and keeps predatory behaviour in check.

Reform must look at institutions. The establishment of a well-functioning legal system and judiciary, and of secure property rights, is an essential complement to economic reforms. Reform of the public sector is a priority in many countries. That includes civil service reform, rationalising public expenditure, reforming state-owned enterprises, and privatisation. Related economic reforms include better delivery of public goods, supervision of banks, and legislation for financial development. Strengthening these institutions will increase the quality of governance and the capacity of the state to implement development policy and enable society to establish checks and balances.

The seemingly democratic enlightenment that has dawned on the World Bank and the Western governments is not a sudden one. It has profoundly ideological origins. During the past few years, there had been a fairly extensive policy debate on the question of political forms of capitalist growth in the non-industrial world. The political model that the West preferred for the developing world during the previous decades suggested a strong state whose interventionist and repressive capacity, on behalf of the rule of international capital, was always buttressed by the United States. South Korea, the Philippines, Thailand, Indonesia, Brazil, Chile and many other Third World countries thus emerged as developmental states representing a range of authoritarian political systems. However, the end of the Cold War and the demise of Eastern European socialism in the late eighties created a new world situation whereby the transition of Eastern Europe to capitalism had to be **ideologically** posited in the language of liberal democracy. The triumph of the 'free market' had then to be equated with the fall of authoritarian states.

Interestingly, the policy debate concerning the politics of market-centered economic growth has focussed on the relative merits of authoritarian and democratic models. The argument that favors strong and authoritarian states has been that the 'strong medicine' of orthodox structural adjustment programmes was more likely to be adopted by authoritarian governments. This school of thought doubted whether democracies would be able to impose tough reforms in times of crisis. The 'democratic school', meanwhile, countered the 'authoritarianist' argument by pointing out that it was authoritarian and not democratic regimes that built enormous debts, triggering the debt crisis in the 1980s. John Sloan, an advocate of the democratic model, wrote in 1989 that "democratic regimes ha[d] the policy capabilities to achieve a variety of development goals without suffering the high levels of repression that often accompany bureaucratic-authoritarian rule." For the democracistas in this policy debate, democracy offers an increasingly rational choice in terms of achieving economic growth and distributive justice.

The linking of development assistance to political reforms in recipient countries is strongly articulated in a recent policy study prepared for the North-South Institute, Ottawa, Canada which asserts that "democratization and related concepts of good governance, human rights, and participation are now seen as essential components of sustainable development."

Internationalisation of the State

Political conditionality attached to development aid signifies many things. First of all it means that advanced capitalist countries are now setting the economic as well as political agenda for the developing world. Secondly, the kind of political reforms that are included in the aid agenda do not go beyond mere institutional reforms which are intended merely to facilitate in the Third World a politically feasible atmosphere for the new rule of international capital. Thirdly, international capital has quite smartly appropriated parts of the political language in which the human rights community has in the past formulated its critique of the Third World state.

More fundamentally, all the above significations are ultimately under-pinned by a new world-historical trend: the internationalisation of the state in an era of heightened internationalisation of capital. The traditional notions of nation-state and national sovereignty will most probably have no place in this era of internationalisation of the capitalist state. It would be extremely interesting to watch how Third World political elites will respond to this inexorable world trend.

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