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*Part I*

The argument

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# 1 Structural adjustment programs undermine human rights

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## Introduction

In 1981, the Reagan administration in the US, the Thatcher administration in the UK, and their allies compelled the International Monetary Fund (IMF) and World Bank Group (known as the “International Financial Institutions” [IFIs]) to launch an ideological assault against the state and promote a shift in power from the state to the market.<sup>1</sup> From 1981 to the present, the IFIs have financed structural adjustment agreements (SAAs) in developing and transition countries to achieve that goal.<sup>2</sup> Structural adjustment agreements call upon recipient governments to liberalize and privatize economies in the context of strict budget discipline. Adjustment lending facilitates economic integration – the hallmark of globalization – on terms that are advantageous to corporate and finance capital. The policy conditions associated with adjustment loans have accelerated transnational corporate penetration and expansion of markets in developing countries and lowered risks of portfolio investment and foreign direct investment. The role of the state has been reshaped to serve market liberalization, as governments have downsized, decentralized, and privatized (or “contracted out”) their functions. Such measures were intended to jump-start economic growth and free up resources for debt service. However, in most countries, public investment in critical areas (health care, education, infrastructure) foundered, growth rates were disappointing, and debts mounted to unsustainable levels (Pettifor 2001).

This volume explores the relationship between adjustment and respect for human rights. Importantly, as governments in developing

<sup>1</sup> At that time, the UK and New Zealand were implementing the model that they proposed for developing countries. This model, called “New Public Management,” contains the basic elements of public sector reform, as understood by the IFIs. These include: decentralization, privatization or commercialization of services, improved efficiency, and results-oriented approaches.

<sup>2</sup> For simplicity, this text uses the term “developing countries” to include low- and middle-income countries including the transition economies of the former Soviet Bloc.

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countries implemented World Bank and IMF-financed structural adjustment programs (SAPs), respect for human rights diminished. World Bank and IMF structural adjustment programs usually cause increased hardship for the poor, greater civil conflict, and more repression of human rights, resulting in a lower rate of economic development. Based on an analysis of outcomes in 131 developing countries between 1981–2003, we show that, on average, structural adjustment has led to less respect for economic and social rights, and worker rights. The poor, organized labor, and other civil society groups protest these outcomes. Governments respond to challenges to their authority by murdering, imprisoning, torturing, and disappearing more of their citizens. Paradoxically, long exposure to structural adjustment conditionality is also associated with some democratic reforms. This work is one of the few global, comparative studies to focus on the manner in which SAPs have affected human rights.

Previous research by others has shown that respect for some human rights is necessary for, or at least facilitates, rapid and robust economic development. Thus, to the extent that structural adjustment programs diminish respect for human rights, robust economic development is less likely to occur. For now, we use the term “equitable” economic development to refer to a pattern of economic growth which improves the living conditions of the poorest people in society.

Based on previous research – especially case studies and small-scale comparisons – we expected to find that long-standing relationships between the governments of developing countries, on the one hand, and the World Bank or the International Monetary Fund, on the other, had worsened all types of human rights practices of the governments of developing countries. Our findings confirm that the implementation of structural adjustment agreements leads to less respect for most but not all human rights we examined. More specifically, we show that governments undergoing structural adjustment for the longest periods of time have murdered, tortured, politically imprisoned, and disappeared more of their citizens. In addition, the execution of structural adjustment programs has caused governments to reduce their levels of respect for economic and social rights, created higher levels of civil conflict, and more abuse of internationally recognized worker rights.

Our main argument linking structural adjustment policies to worsened human rights protection is that the policy changes implicitly or explicitly required in most structural adjustment agreements have hurt the poorest off in developing societies the most. Compliance with structural adjustment conditions causes governments to lessen respect for the economic and social rights of their citizens, including the rights to decent jobs,

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education, health care, and housing. This problem is compounded, because pressures from the World Bank and IMF to create a more business-friendly climate have encouraged the leaders of developing countries to reduce protections of workers from exploitation by employers.

Such protections include the internationally recognized core worker rights to freedom of association at the workplace, collective bargaining, and protection of children from exploitation.<sup>3</sup> Greater hardships for workers and the poor have led to increased civil conflict, itself an impediment to economic growth. The need to implement unpopular policies and the need to counter increased civil conflict, in turn, cause the governments of developing countries to reduce their respect for other human rights.

However, the results of our study show that structural adjustment has not led to a worsening of protections of all human rights in developing countries. We did not examine the effects of structural adjustment on all internationally recognized human rights, but we did examine the impact of structural adjustment on the degree of respect for a variety of procedural democratic rights in developing countries. We found that longer exposure to structural adjustment conditions was associated with more democracy in developing countries – one of the human rights also found to be associated with rapid economic growth (Kaufmann 2005; Isham, Kaufmann, and Pritchett 1977). Governments involved with structural adjustment the longest have better-developed democratic institutions. They have elections that are freer and fairer. Their citizens have more freedom to form and join organizations, and they have more freedom of speech and press.

We present the findings regarding the positive impacts of structural adjustment agreements on democratic institutions and respect for civil liberties in Chapter 10. For now, let us simply say that these findings are very important. First, they contradict the prevailing view in the case study literature. Second, they illustrate that our mostly negative findings do not result from our choice of methods. Finally, they demonstrate that the World Bank and the IMF can have a positive effect on the human rights practices of developing countries. Future research may show that greater involvement in structural adjustment is also associated with stronger protections of the human rights to private property including intellectual property, to adjudication of their rights through an independent judiciary,

<sup>3</sup> More precisely, our study shows that protections of worker rights in developing countries with long-standing involvement in structural adjustment of their economies are not as strong as they would have been had there been less involvement with the IMF and World Bank.

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to stronger protection of women's economic rights, and to stronger protections of people's freedom to travel domestically and internationally.

### Important previous research

Amartya Sen (1999), in *Development as Freedom*, made two major arguments. The ability for citizens to exercise their full range of internationally recognized human rights according to Sen is the litmus test for determining the level of economic development. Second, respect for human rights also facilitates economic development. He argued that traditional economic indicators used to measure development such as GDP per capita are incomplete and inadequate. Rather, development occurs when economic growth generates the freedoms associated with human rights.<sup>4</sup> Further, he contended that increasing people's ability to exercise their fundamental human rights was also critical, in an instrumental way, to the promotion of economic growth.

At the time Sen wrote his book, there already were suspicions that structural adjustment policies were not producing economic growth in most developing countries. Moreover, in the few cases where economic growth had occurred, it was not at the same time alleviating poverty. Perhaps the most influential book on this subject was Joseph Stiglitz's *Globalization and its Discontents* (2002). Stiglitz won the Nobel Prize in Economics in 2001. He had served as Chairman of President Clinton's Council of Economic Advisers and as Chief Economist for the World Bank. The main problem with structural adjustment policies, Stiglitz felt, was that they relied too heavily on the power of an unregulated free market to produce efficient outcomes. They did not allow for government interventions that could guide economic growth, especially economic policies that ensured a more equitable distribution of the benefits of growth.

In addition to the comprehensive critiques of structural adjustment such as the one offered by Stiglitz (2002), there have been many studies of one, two, or a few countries that have described the consequences of structural adjustment programs on those countries (e.g., SAPRIN 2004). Not many of these case studies focus explicitly on the human rights effects of structural adjustment, but most of them describe hardships that structural adjustment conditions caused for the poorest people. There are many websites maintained by human rights nongovernmental organizations that also detail the harmful effects of structural adjustment policies

<sup>4</sup> The United Nations Committee on Economic, Social, and Cultural Rights (2001) has echoed this view arguing for a better integration of human rights in development strategies.

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on the least well off in developing countries. We cite the scholarly literature and activist arguments throughout the book, but especially in Chapter 6. Work by David Pion-Berlin (1983; 1984; 1989; 1997; 2001) explains the linkages between structural adjustment programs and repression of human rights in Argentina and Peru. His work led us to expect that governments seeking to make major economic changes that hurt the poorest members of society would be likely to resort to coercion. Thus, we hypothesized that governments implementing structural adjustment programs the longest would be more willing to torture, politically imprison, disappear, and murder their citizens.

To us, James Vreeland's book, *The IMF and Economic Development* (2003), developed the most persuasive scientific case showing the negative economic impacts of structural adjustment. He concluded that structural adjustment programs produced less growth in developing countries than would have occurred without any IMF intervention. Further, he noted that structural adjustment did the most damage to the least well off in society. It usually reduced the size of the "economic pie" to be distributed, and resulted in a more unequal distribution of the pie itself.

Vreeland's work is also important because he noted that few previous studies of the effects of structural adjustment policies had controlled for the effects of selection. Perhaps, he reasoned, the countries the IMF had worked with had failed because they were intrinsically difficult cases. We needed to determine the counterfactual – namely, what would have happened to developing countries if the IMF had never intervened. In his own study, Vreeland (2003) used estimation methods that corrected for the effects of selection. His 2003 book and his earlier work with Adam Przeworski (Przeworski and Vreeland 2000) convinced us to use two-stage selection models to establish the consequences of structural adjustment programs.

The few previous scientific studies of the impacts of structural adjustment programs on human rights used different research designs, but all agreed that the imposition of structural adjustment conditions on less developed countries had worsened the human rights practices of governments (Franklin 1997; Keith and Poe 2000; McLaren 1998). However, those studies that explicitly addressed the effects of structural adjustment on human rights practices only examined impacts on a government's willingness to murder, disappear, torture, and politically imprison its citizens. These types of rights are generally referred to as "personal integrity" or "physical integrity" rights.<sup>5</sup> The case study literature suggested that

<sup>5</sup> Physical integrity rights are sometimes called "life rights," "civil rights," or "personal integrity rights."

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structural adjustment programs had worsened other types of human rights practices such as respect for economic and social rights, worker rights, and procedural democratic rights as well. In addition, no previous study of the human rights impacts of structural adjustment had controlled for the effects of selection.

Sen (1999) had made his case for a human rights-based development strategy using many good examples and some systematic analysis of evidence. However, he left some questions unanswered. What human rights protections are necessary for equitable economic growth to occur? In Chapter 2, we suggest that respect for some human rights is necessary if equitable economic development is to occur. There may even be a third category of human rights where the level of respect is not relevant to equitable economic growth.<sup>6</sup> The research program to investigate these issues is in its early stages.

Daniel Kaufmann (2005), an economist who heads the Governance Project at the World Bank, made an important contribution to this research program in his paper titled “Human Rights and Governance.” His global, comparative, scientific study showed that respect for physical integrity rights and procedural democratic rights led to faster economic growth and more respect for economic and social rights of citizens. These are important findings, because, as noted, this combination of growth and increased respect for economic and social rights is the proper goal of economic development strategies.

We began this study, then, accepting the following premises. First, the World Bank and International Monetary Fund, as specialized agencies of the United Nations, have a responsibility to promote respect for human rights by governments around the world (Chapter 2). Second, the structural adjustment programs that have been jointly promulgated by the International Monetary Fund and the World Bank since about 1980 have not been successful in stimulating economic growth in most developing countries. Third, a relatively high level of respect for some human rights is a necessary precondition for equitable economic development (Chapter 2).

### Measuring human rights

Measuring human rights practices is the first step towards *building theories to explain the causes and consequences of government respect for human rights*. It is also necessary for the *development and implementation*

<sup>6</sup> For example, the human right to travel internationally without any constraints may fuel a “brain drain” in developing countries that actually impedes equitable economic growth.

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*of evidence-based policies.* Both types of research are necessary steps in the effort to attain human dignity for all persons worldwide. This research would not have been possible without the availability of a new data set measuring government respect for a broad array of human rights in every country in the world annually from 1981 to the present. Now covering 24 years, 13 separate human rights practices, and 195 countries, the CIRI Human Rights Data Set is the largest human rights data set in the world. It contains standards-based measures of the human rights practices of governments around the world (Cingranelli and Richards 2006). The CIRI Human Rights Data Set includes measures of many human rights recognized in the 1948 Universal Declaration of Human Rights. Activists, scholars, and policy-makers need a human rights profile for countries around the world that better reflects the range of human rights recognized in the Universal Declaration.

### **The critique of structural adjustment in a nutshell**

This volume focuses on the mostly negative impact of structural adjustment agreements on a wide variety of human rights, but there are many other criticisms of structural adjustment in the policy community.<sup>7</sup> In many instances, the staff of the Bank and the Fund have made public statements or issued research papers refuting their critics.<sup>8</sup> We address the main points of their defense as they relate to human rights impacts later in this chapter and in several other chapters of this volume where the arguments are most relevant. Here, we briefly review their main points.

As already noted, there are mounting research results showing that, although SAPs were intended to jump-start economic growth, growth rates were negative or disappointingly low in most countries which implemented SAPs. The Center for Economic Policy Research (Weisbrot *et al.* 2001) has documented how growth rates in the 1960 to 1980 time frame exceeded growth rates when SAPs were prevalent – the 1980 to 2000 time frame. With the collapse of the USSR in 1989, laissez-faire capitalism was triumphant. Western governments and Western-led creditor institutions, particularly the IMF and World Bank, sought to make state ownership and “command and control” economies of the former Soviet Union things of the past. They

<sup>7</sup> See, for example, Alexander (2001; 2006a; 2006b) and SAPRIN (2004).

<sup>8</sup> For example, the Bank was very critical of the conclusions of the SAPRIN (2004) study of the impacts of structural adjustment. Kapil Kapoor (2001), Lead Economist, Poverty Reduction and Economic Management, World Bank IBRD and IDA, wrote a critical report titled “Comments on the Draft Synthesis Report on the Bangladesh SAPRI Research.”



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orchestrated “big bang” liberalization and privatization in the former Soviet Union, which led to a concentration of wealth and power among the oligarchs, high levels of poverty, and dramatically lowered life expectancy. Lawrence King (2002) analyzed policies of twelve countries in Eastern Europe using an index that measures the intensity with which each country has embraced neoliberal policies. He found an inverse relationship between the intensity with which these policies were embraced and economic performance. In other words, one finds a correlation between the fervor with which a country embraces neoliberalism and its declining economic performance.

Thus, it is not surprising that, after decades of SALs, there is deeper debt for developing countries. The required policies did not produce the returns – otherwise known as sustained economic growth – necessary to repay. This occurred uniformly across almost all borrowing countries and not in just a few. The repayment of SALs has funneled scarce resources from developing country governments to their creditors, including the IMF and World Bank. As is well documented, soaring levels of interest payments have crowded out public investment in basic services and infrastructure, among other things.

One of the reasons why the SALs may have been ineffective is that, over the years, structural adjustment programs have been invitations to corruption. Some leaders of developing countries have enriched themselves and left their citizens to pay the bills. In 1992 the President of Brazil was impeached for massive corruption and the thirty-eighth President, Cardoso, narrowly avoided a broad Congressional probe into central bank insider trading. The primary defense against corruption is openness in the borrowing and the repayment process. Any loan operation should provide factual, quantitative, and qualitative information to the public throughout the loan cycle. How much is to be borrowed? What does it pay for? What is the interest rate? From whom is it borrowed? How much is owed? To whom is it owed? The answers to these questions allow the representatives of the public to determine whether it is reasonable to conclude that borrowed funds will be effectively used and that investments using borrowed funds can produce the returns necessary for a sound repayment program. Structural adjustment (or “policy-based lending”) evades these basic considerations (Alexander 2006c).

Structural adjustment lending breaks the link between the loan and its repayment. It makes the most relevant question about any loan – What does it pay for? – a moot point. Through structural adjustment lending, the banks simply require that certain policies be implemented as a condition for budget support in hard currency. No one is responsible for

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producing any proof that the policies implemented have produced the returns necessary to repay the loan. Nor do adjustment loans need to generate hard currency for debt repayment. For example, the World Bank claims that it is fighting poverty by requiring the protection of certain social programs as a condition of a structural adjustment loan (SAL), but the social programs are financed with local currency. In addition, the funds lent as structural adjustment programs become “pork barrel” spending because they are not tied to concrete objectives. Funds can disappear in bogus contracts and consultancies, or corrupt privatization schemes. To reduce corruption and politically motivated legal spending on activities that do nothing to stimulate development, the banks should eliminate the grace period attached to borrowing. With a grace period on repayment of three to five years, the administration that negotiates the loan is almost never responsible for repaying it. In the terminology of the Bank, this is a “perverse incentive” (Alexander 2006c).

Many groups argue that SAPs impose harsh economic measures that deepen poverty, undermine food security and self-reliance, and lead to unsustainable resource exploitation, environmental destruction, and population dislocation and displacement. These groups, which include nongovernmental organizations (NGOs), grassroots organizations, economists, social scientists and United Nations agencies, have rejected the narrow conception of economic growth as the means to achieve social and environmental objectives. They believe SAP policies have increased the gap between rich and poor in both local and global terms.

Structural adjustment policies generally have a negative impact on poor and marginalized people as, among other things, 1) Variants of privatization of public services – health care, education, and water – raise the fees that people must pay for them (sometimes to unaffordable levels) while at the same time resulting in significant layoffs; 2) Subsidies for farming, education, health care, and water are often cut or eliminated; 3) Trade liberalization subjects domestic businesses, industries, and agricultural production to stiff international competition. If liberalization opens markets too rapidly, domestic enterprises wither, particularly if international competitors are subsidized. For instance, West African cotton farmers cannot successfully compete against subsidized US cotton farmers; 4) With trade liberalization, trade taxes (which constituted a third to a half of national revenue in many countries) are cut; 5) “Flexible” labor policies cause deterioration of worker rights and working conditions; 6) Programs that subsidize credit and direct credit to particular groups (often needy groups) are ended; 7) Under some circumstances, liberalization of financial and