Gambling with our lives: Global emergencies expose consequences of decades of IMF and World Bank policies

by Flora Sonkin, Society for International Development

December 2020

The current global health and climate emergencies expose the results of decades of hyper-globalisation and neoliberal policies pushed by the IMF and World Bank. These policies have progressively weakened public preparedness and social safety nets that have proven so essential to cope with crises. Now, market-led policy approaches increasingly used to deal with both climate and health emergencies are failing to protect those most vulnerable, gambling with our lives and deepening pre-existing inequalities.

Over the last four decades, donor-led international financial institutions (IFIs) – especially the IMF and the World Bank through their structural adjustment programmes and loan conditionalitiy – have strongly pushed for fiscal and other macroeconomic policies and approaches that support corporations and the financial sector as engines of economic growth. Neoliberal policy reforms enacted worldwide, including trade liberalisation, lowering corporate income taxes, financial sector deregulation and privatisation of public services aimed at attracting foreign investments have contributed to the failure of both health and climate emergency preparedness systems. While these reforms may have attracted more private investment flows to the Global South, they have also led many countries to restructure their financial systems and make cuts to social spending, thus exacerbating inequalities and leaving many of them more vulnerable to the current crises.

'Enabling environment' for whom?

Neoliberal policy prescriptions have been pushed for decades in the Global North and South as the only viable economic policy framework able to ensure social and economic 'development'. These measures have largely benefited transnational corporations (TNCs) and their executives, bankers, asset managers and private investors, allowing them to accumulate more wealth to the detriment of workers' wages and rights (see Figure 1). For instance, from the start of the Covid-19 pandemic to early June 2020, seven of the world's richest people saw their fortunes increase by over 50 per cent, while millions of people lost their jobs and countries faced record unemployment rates. As of January 2020, the world's 2,153 billionaires had more wealth than 4.6 billion people (60 per cent of the planet's population).

Race to the bottom on taxation

The IMF and World Bank's push for liberalisation of the global economy has led to a race to the bottom on corporate taxes among countries in order to attract foreign investment. To compete in this race, 'business-friendly' policy reforms and tax incentives enacted to create an 'enabling environment' for investors have undermined the fulfilment of states' human rights obligations.

To this day, a small number of tax havens receive disproportionately large volumes of profits extracted from

Flora Sonkin is a Policy Research Officer on Financing for Development at the Society for International Development (SID). Flora holds a Master of Science in International Development Studies with a specialisation in Rural Sociology from Wageningen University, the Netherlands.

Her areas of interest include democratisation of global economic governance, social and economic justice, agroecology, pastoralism, and human rights.

economic activities elsewhere or act as safe vaults to hold undeclared and untaxed wealth outside the reach of tax authorities. These include several Global North economies that host major financial centres, such as the UK and the US. Estimates show that illicit financial flows strip low- and middle-income countries (LMICs) of revenue to the tune of $427 billion per year. This happens through practices such as tax abuse and avoidance by TNCs and wealthy individuals, and tax losses due to tax evasion arising from companies that deliberately misprice goods and commodities to minimise tax liability.

While the World Bank and IMF speak against these practices, they continue to contribute to policies that facilitate them. They also refuse to support a well-resourced UN tax body capable of designing international policies that don't privilege companies of the Global North, and which would give an equal seat at the table to developing countries (see *Observer* Spring 2018).

Corporate tax rates have been consistently declining worldwide over the past four decades, but this decline has accelerated since the 2000s. Of 138 tax jurisdictions around the world from which data from 2000-2019 are available, 113 have decreased corporate income tax rates in recent years, and this trend is likely to continue as part of many governments' market-oriented responses to the economic slowdown triggered by Covid-19. This race to the bottom significantly undermines countries' efforts to mobilise domestic resources in order to meet the Sustainable Development Goals (SDGs) by 2030, having contributed to a systematic under-investment in public health, care and social protection systems, now proving so essential. Ironically, the fiscal constraints on domestic resource mobilisation and public investment are one of the main reasons the international community has been focusing on attracting private capital as the silver-bullet for delivering on the 2030 Agenda.

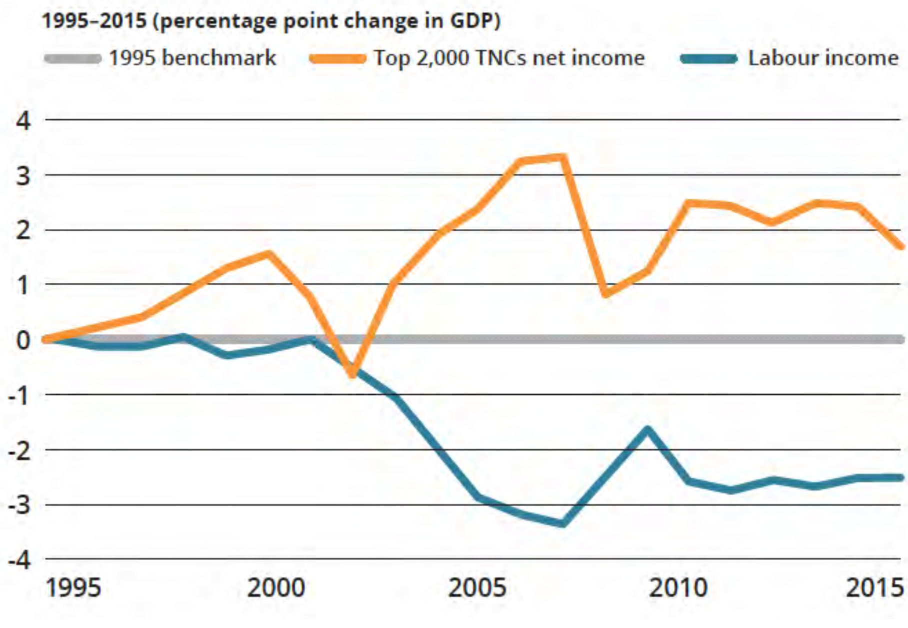

Figure 1: Top 2,000 transnational corporations' profit and the global labour income share, 1995–2015 (percentage point change in GDP). Source: K.P. Gallagher, R. Kozul-Wright, *A New Multilateralism for Shared Prosperity: Geneva Principles for a Global Green New Deal,* UNCTAD and GDP Center 2019.

Trapped in debt

The depth of inequalities within and between countries, made even more visible by the pandemic and climate emergencies, are not new. Many developing countries were already trapped in a cycle of indebtedness to multilateral (IFIs like the Bank and the Fund), bilateral (other governments) and private creditors (private banks, private bondholders, and other private financial institutions) before the pandemic and the resulting economic crisis.

Recent analyses by Eurodad and Jubilee Debt Campaign on the relationship between debt and health services in LMICs paints a sobering picture. They found public healthcare systems suffer from systematic under-investment, with countries spending less on healthcare than on servicing debt payments, thus negatively impacting their ability to meet the minimum requirements of the 2030 Agenda. Debt service was prioritised over public health services in 64 countries in 2018, where more resources as a percentage of GDP were spent servicing public debt than investing in their healthcare systems.

Research by ActionAid shows that the debt crisis in Africa, a result of decades of detrimental IMF loan conditionality and austerity measures, has left health systems highly underfunded and ill-prepared for the pandemic. For example, Ghana has one of the highest debt servicing costs in the world, at 59 per cent of GDP, spending $4.1 billion on foreign debt payments compared to $1.3 billion on health. Congo Brazzaville is spending five times as much ($1.4 billion) on foreign debt repayments as on health ($259 million).

Austerity yet again

The policy reforms promoted by the Bank and the Fund that led developing countries around the world to lift capital controls, cut corporate income taxes, and facilitate foreign financial actors' access to their economies, have actually made these states poorer. After the 2008 global financial crisis, the financial sector received trillions of dollars in support, while fiscal adjustment and austerity have been pushed upon populations in many countries, which had no option but to seek assistance from the IMF. In parallel, limited fiscal space and a narrative of the supposed inefficiency of public services have paved the way for an extensive trend of privatisation and public-private partnerships (PPPs), including in essential social services such as healthcare and education.

PPPs are heavily promoted by IFIs as an efficient and less costly mechanism to deliver services, especially for indebted countries (see *Observer* Summer 2017). However, they have proved to be opaque, undemocratic and ultimately more expensive for taxpayers. While IFIs guided countries towards fiscal consolidation and reduced public spending, governments shifted their role from public goods and services providers and human rights duty-bearers towards becoming enablers of corporations and guarantors of private-sector risks.

The unwillingness of private sector finance to participate in the G20's Debt Service Suspension Initiative during the worst health crises in a century vividly demonstrates the danger of relying on the private sector as a partner in development (see *Observer* Winter 2020).

We are not all in the same boat: Intersecting inequalities in the global climate and health crises

Both the climate and Covid-19 crises are global and unprecedented in their level of disruption, and both directly threaten lives and livelihoods around the world – with a staggering social divide. Despite the commonplace assertion that climate-related disasters and virus infections are 'great levellers', both crises magnify pre-existing inequalities, which have been rising under policy frameworks guided by the Bank and Fund. It is no coincidence that the frontline communities hardest hit by Covid-19 and the climate crisis are the same, that is, those most marginalised by the existing system.

In the case of the pandemic, the division of suffering and relief, as well as of profiteering and debt, have been highly skewed by intersecting dimensions of inequalities and structural discrimination such as class, gender, race, age, disability, migrant status and geographic location. Figures from the US, the global epicentre of the pandemic, show that black Americans have died from the disease at almost three times the rate of white people. In Brazil, the virus has been decimating low-income and indigenous populations. Around the world, women are the most exposed to multiple burdens, being unpaid or under-paid and over-represented in care, social, domestic, frontline health and food systems roles, as well as in the informal economy.

The World Bank and IMF must jettison their dogmatic austerity-based, private-sector first approach and join others in using the crises as a moment for overdue change.

These inequalities are exacerbated by failed policies promoted by the Bank and the Fund, which leave those most marginalised even more vulnerable to shocks.

As for the climate emergency, increasingly frequent and devastating climate-related disasters not only unequally affect already vulnerable communities the most, but also exacerbate pre-existing inequalities between the Global North and South. Across the Global South, those least responsible for greenhouse gas (GHG) emissions and extractive activities are also those most impacted by the climate emergency. The unmonetisable human suffering and the economic loss and damage from these disasters is also directly linked to citizens' health and countries' capacity to invest in public healthcare. In Mozambique, two deadly cyclones in 2019, Idai and Kenneth, tore through 1.7 million acres of farmland, washing away crops and destroying livelihoods. In response, the IMF approved a $118 loan to Mozambique, further indebting the country already experiencing an illegitimate debt crisis and major public spending cuts (see *Observer* Summer 2019).

The heavy human toll taken by the pandemic reveals the contradictions of the current economic model which underpins the World Bank and IMF's approach: hyper-globalised,

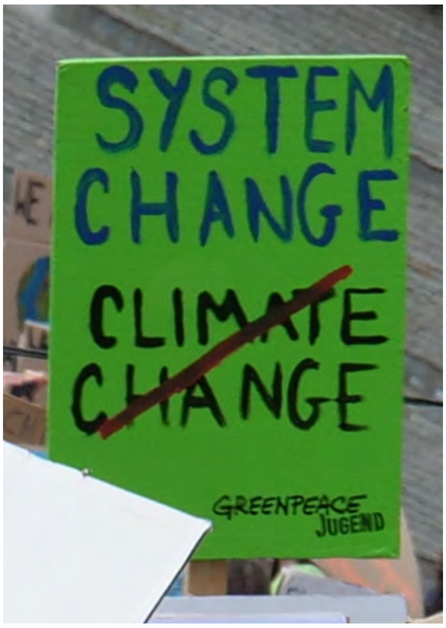

Photo: Leonhard Lenz

Fridays for our future demonstration, Berlin 2019.

financialised and highly consolidated economies, where millions of people go hungry, while farmers trapped in industrial food supply chains are forced to dump thousands of gallons of fresh milk and destroy millions of pounds of fresh food that they can no longer sell; where unregulated markets allow the richest countries to outbid and prevent others from accessing enough medical supplies to protect citizens from infections, while private manufacturers cash in; where billionaires and private equity investors pursue ways to profit off the crisis with no concern about the social impacts of their financial gambles. A model where countries and populations least responsible for driving climate change are disproportionately hit by more frequent extreme weather events and left to pay the bill, while fossil fuel corporations receive bailouts. Financialisation in fact makes the rich even richer by maintaining deep economic and political inequalities, unsustainable levels of debt, and dependence on self-destructive and ecologically unsustainable practices. This system is a legacy of the Bank and Fund's policy prescriptions over the past four decades.

Doubling down on market-led solutions can only fail to deliver public goods

The tried and failed policy prescriptions promoted by the Bank and the Fund over the past decades have evidently not led us any closer to delivering on the goals of the 2030 Agenda, and much less to being prepared to weather the impacts of our extractive economic system, such as Covid-19 and the climate emergency. Yet, lessons learned on the destructive consequences of debt and austerity, and on the risks of relying on private finance and deregulated markets to deliver public goods are yet to be acknowledged and implemented in a transformative way. Both climate and health risks have been increasingly dealt with by similar market-led responses pushed by private sector lobbying, donor countries and the IFIs' 'private-first' approach. These include private health and climate risk insurance schemes, as well as catastrophe and pandemic bonds. But economic models shaped by a focus on attracting private investors, the pursuit of economic growth at all costs and 'fiscal responsibility' are now proving deadly in times of crises and are unfit for purpose in the face of inevitable future challenges.

There should be no mistake – extreme wealth and poverty, racism, undervalued care work, and environmentally destructive behaviour are not natural, but result from political choices. Now we have the chance to build a new collective immunity, letting go of practices that have failed us – namely, the false mantra of market-led development as the preferred solution to global challenges. Instead, we can reroute development paths and redesign a global economic architecture based on equity, human rights and true wellbeing and shared prosperity. Picking up where we left off before the crises will not make us more resilient or prepared to deal with new pandemics and climate-related disasters. Doubling down on failed strategies such as the privatisation of essential public services or the deregulation of global finance will not help us better cope with and overcome present and future shocks. If the World Bank and IMF are truly committed to 'building back better', they must jettison their dogmatic austerity-based, private-sector first approach and join others in using the crises as a moment for overdue change.

December 2020

This At Issue is based on an in-depth report by Citizens for Financial Justice published in November 2020.

Bretton Woods project

Bretton Woods Project
33-39 Bowling Green Lane
London EC1R 0BJ
United Kingdom
Tel: +44 (0)20 3122 0610

The Bretton Woods Project is an ActionAid-hosted project, UK registered charity no. 2774467, England and Wales charity no. 274467, Scottish charity no. SC045476. This publication is supported by a network of UK NGOs, the C.S. Mott Foundation, the William and Flora Hewlett Foundation and the Rockefeller Brothers Fund.

@brettonwoodspr
facebook.com/BrettonWoodsProject
www.brettonwoodsproject.org

The views expressed in this publication by guest authors do not necessarily represent those of the Bretton Woods Project.