

## Chapter 10

# Reforming Global Economic Policies

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*The spirituality of life, which is basic to our Christian faith, is intrinsically at odds with prevailing political-economic arrangements and policies that are creating and exacerbating human suffering. Therefore, we believe that, eventually, nothing less than a fundamental shift in political-economic paradigms is necessary for humankind to become instruments of God in striving for the vision of just, participatory and sustainable communities.<sup>1</sup>*

I first became aware of these arrangements and policies when I participated in a United Nations Decade for Women conference in Nairobi, Kenya, in 1985. Over 15,000 women from around the world participated in the nongovernmental forum that ran parallel to the official conference. In plenary sessions and workshops I heard women from Africa, Asia, and Latin America report how structural adjustment programs imposed by the World Bank and International Monetary Fund (IMF) as conditions for loans were increasing the suffering of people in their countries. A typical program required countries to orient their agriculture and other production for export. This ensured that countries would earn foreign currency to repay their loans. But it also meant that land that had been used for domestic food consumption was now used to grow crops like coffee and cocoa for export. Countries also had to open their markets to international corporations and change trade policies that favored their own producers. This contributed to job loss as it was difficult for local producers to compete with large foreign corporations. Another requirement was the privatization of state-owned concerns, which meant that income from these industries now went to private corporations rather than the public budget.

Deregulation—removing worker and environmental protections—was also required. In addition, countries had to cut social spending on education and health care. These policies led to dramatic drops in living standards. Malnutrition and child mortality rates increased. Health care was unaffordable for many families. Children, particularly girls, left school, for their families could not afford the fees. Women's burdens increased as their hours of unpaid work lengthened to help their families survive.

These policies—forms of liberalization, privatization, and deregulation—are advocated by those who support what is called neoliberalism, the prevailing political-economic paradigm of the last two decades. Neoliberalism looks to private capital and "free markets" to allocate resources and promote growth. Margaret Thatcher and Ronald Reagan led the campaign for countries to adopt these policies, which would supposedly contribute to economic growth and development. Although some countries like India and China have experienced growth and development, many others have not. The World Bank and IMF continue to impose these measures, even though structural adjustment policies have been replaced with "poverty reduction strategy papers" as requirements for loans.<sup>2</sup> Overall, these policies have widened the gap between the wealthy and the poor, exploited the earth's resources at an unsustainable rate, and increased pollution and social exclusion. A sobering statistic is that the total income of the richest 1 percent of the global population is equal to that of the poorest 57 percent, and at least 24,000 people die every day from poverty and malnutrition.<sup>3</sup>

Since the countries of the global north are primarily responsible for shaping the policies of the World Bank and IMF, women from the global south at the conference challenged the women from the global north to study and action. During the two decades since this event, I have learned more about the World Bank and IMF, and the role of the U.S. government in setting their policies. In the first part of this chapter, I sketch the story of these institutions and the impact of their policies. I then outline an alternative political-economic paradigm and strategies for transforming the current paradigm toward a more just and sustainable one. My discussion draws on my participation in recent encounters (2003–2004) between the World Council of Churches (WCC), the IMF, and the World Bank—encounters that were initiated by the IMF.<sup>4</sup>

Justice and care—two of the values inherent in a spirituality oriented toward life—are the ethical basis of my discussion. Economist William K. Tabb asserts: "We must always remember this central aspect of the nature of capitalism—it is always a process of redistributive growth."<sup>5</sup> Thus I am particularly concerned about distributive justice, which asks about the community's distribution of benefits and burdens. Who benefits from the process? Who suffers? Is the process equitable? The value of care emphasizes the importance of all the activities—unpaid and paid—that keep daily life functioning. This reminds us of a

broader understanding of economics, one that includes both production and social reproduction: the provisioning of life and care for the earth. This understanding of economics, grounded in Christian faith, was shared by Adam Smith in his groundbreaking work, *The Wealth of Nations*. The current paradigm I describe below looks to Smith but has narrowed his understanding of economics to market exchange.

### THE CURRENT PARADIGM OF ECONOMIC GLOBALIZATION

The World Bank and the IMF were established in 1944 to lead the postwar push to globalize the world's economies, with the stated aim of promoting peace and prosperity. The Bank was to provide the capital to reconstruct and develop war-torn nations. After this was accomplished, it focused on loans to developing countries. The IMF promoted cooperation on monetary policies, exchange rate stability, and the expansion of world trade. An International Trade Organization was also proposed. However, its creation was blocked by the U.S. Congress, who thought it would harm U.S. interests. (It was seen as too friendly to labor and "third world" countries.) The General Agreement on Tariffs and Trade (GATT) was organized in its place. GATT was a framework for ongoing negotiations on reduction in tariffs to expand trade. It evolved into the World Trade Organization (WTO), established in 1995, as the international institution responsible for setting and enforcing the rules of trade.

My participation in the encounters with the World Bank and IMF confirmed the charge that the U.S. government, particularly the Treasury Department, uses these institutions as instruments of domination. The U.S. government, in conjunction with the other countries in the G-7 (Canada, Germany, France, Great Britain, Italy, and Japan), plays a crucial role in setting trade and finance policy in these global institutions. Both the World Bank and the IMF have a voting system based mainly on the value of the shares held by its member countries. Because the United States owns the largest number of shares in the Bank and the IMF, it effectively has veto power in both institutions, which it uses to protect U.S. interests.<sup>6</sup> Although in theory the WTO is more democratic, as each country has one vote, a power analysis indicates otherwise. Critics charge that developed countries and transnational corporations skew the agenda. Corporations lobby their governments to press for trade rules that will benefit them. Representatives from developed countries meet outside plenary sessions to make decisions about trade rules, which they then pressure other representatives to accept.

As congressional blockage of the proposed trade organization suggests, there is a tension in the United States between protecting U.S. interests (identified to a large extent with business) and our commitment to global peace and

prosperity. A particularly illuminating example is the recommendation from U.S. State Department staff in 1948: "We have 50% of the world's wealth, but only 6.3% of its population. In this situation, our real job in the coming period is to maintain this position of disparity." They added that to do this, "we have to dispense with all sentimentality. We should cease thinking about human rights, the raising of living standards, and democratization."<sup>7</sup> In other words, there is to be *no redistribution of the world's wealth*, which arguably might be crucial to peace and prosperity. Ideals such as human rights, democracy, development—ideals held by many Americans—are dismissed as "sentimental."

The U.S. government has certainly not stopped talking about human rights, democratization, or raising living standards (development). However, an examination of our actual foreign policy suggests that maintaining a grossly disproportionate share of global wealth may continue to be a primary objective. This, I suspect, is often the aim behind more general talk about "national interest" or "the American way of life." It has shaped much of the foreign policy of both Democratic and Republican administrations in the postwar period.

#### A BRIEF HISTORICAL REVIEW

During the 1950s, '60s, and early '70s, the U.S. Central Intelligence Agency (CIA) overthrew democratically elected governments in countries such as Guatemala, Iran, the Congo, and Chile. Although the stated rationale was to stop the spread of communism, the historical record (including the CIA's own files) shows that the interests of U.S. transnational corporations were often a crucial factor in these interventions. In Guatemala, for instance, the United Fruit Company objected to proposed land reform policies. The plan of the Guatemalan government would have compensated the company for unused land taken from it at its declared taxable worth. United Fruit demanded 25 times more. Its main shareholders lobbied Alan Dulles, head of the CIA, to overthrow Guatemala's government. Despite the fact that the World Bank supported land reform in Guatemala, the CIA and the Eisenhower administration overthrew the government of President Arbenz and helped select his successor, who dismantled the land reform program.<sup>8</sup> The 1954 CIA coup there led to decades of repression and civil war, in which more than 200,000 civilians were killed by U.S.-government-supported troops and militia.

The U.S. National Security Agency developed other strategies during the 1970s to control countries without CIA intervention, according to John Perkins in his *Confessions of an Economic Hit Man*. The U.S. government pushed for large loans to developing countries, knowing they could not be repaid. Perkins's job, as chief economist for a private consulting firm, was to provide unrealistic projections of economic growth to justify the loans. A condition of these loans was that huge U.S. firms like Bechtel receive the contracts for projects financed

by the loans. The primary beneficiaries of these loans were powerful U.S. corporations and elites in both the United States and the borrowing country. Perkins calls this arrangement "corporatocracy."<sup>9</sup>

In the 1980s, when interest rates rose and prices for commodities like coffee and cocoa dropped, many countries were unable to pay off their loans. This came to be called "the third-world debt crisis." The World Bank and the IMF stepped in with new loans, conditioned on structural adjustment policies (SAPs), mentioned earlier. SAPs were imposed on over one hundred developing countries. These policies, which were intended to promote neoliberal reform of national economies, caused significant human suffering but did not reduce the debt burden.

### CONSEQUENCES OF THE DEBT CRISIS

According to the World Bank, the external debts of all developing countries have grown from \$554 billion in 1980 to \$2.4 trillion in 2003. This fourfold increase occurred even though these countries have made some \$5.2 trillion in debt payments over the intervening twenty-three years. In the period from 1997 to 2003, the average annual outflow of debt service (i.e., interest and principal payments in excess of new loans) has amounted to \$77 billion. This arrangement can be described as a redistribution of wealth from poor indebted countries to wealthy creditors. It is an unjust arrangement that violates principles of distributive justice based on equity, since the distribution of benefits and costs are grossly inequitable. Furthermore, since the well-being of both humans and the earth have suffered in the process, the debt crisis is also a violation of the value of care.

The amount of money paid by poor countries for debt service takes a huge toll. Jubilee U.S.A. points out that the poorest countries are siphoning off urgently needed resources for health care and education to pay the wealthiest countries and institutions interest on a debt that they have already paid three times over. This in a world where AIDS is claiming more than eight thousand lives a day and literacy rates are falling. Many African nations are of particular concern as they are at the center of both the debt and the AIDS crisis. Some of these countries are also suffering from drought and famine and just recovering from regional conflict. In spite of this reality, African nations pay more in debt service (interest) to the United States and other creditors than they receive in new loans, aid, or investment.<sup>10</sup>

Niger provides an example of the negative impact of debt. Zenithou is a three-year-old fighting a disease caused by common mouth bacteria. This disease, which can be treated with simple antibiotics and mouthwash, eats through facial muscles, tissue, and bones. Zenithou's family did not have the money to pay for treatment. Fees are attached to even basic health care as a condition for debt relief and new loans.<sup>11</sup>

## RESPONSE TO THE DEBT CRISIS

The debt cancellation movement has rightly contended that debt relief would provide funds to help countries reduce poverty and improve living standards. Although in 2005 the Bush administration spoke of 100 percent debt cancellation for the poorest countries, it used U.S. veto power to block a debt restructuring mechanism proposed by the IMF in 2003. This mechanism would have permitted debtor countries to make a case for the reduction or cancellation of their debts. However, it would not have permitted consideration of the question of "odious" or illegitimate debt. The United States argued that canceling such debt would violate the "sanctity of contracts."

Many of these debts were contracted by dictatorships and never used for the benefit of the people. Creditors often knew that the loan money would likely be stolen by the government, but lent it anyway. These are called "odious debts."<sup>12</sup> Interestingly the United States first invoked the doctrine of "odious debts" so that Cuba would not have to pay its debts after the Spanish-American War ended (1898). The Bush administration has invoked this doctrine again to ask for the cancellation of Iraq's debts. It seems that the U.S. government applies this doctrine selectively, to suit "our" interests rather than objective standards of justice.

The U.S. government also blocked creation of an international tax organization that was proposed as one measure to finance development. This organization would have developed a system of transfers from the richest to the poorest regions of the world. A small tax on currency transactions is one example. The United States continues to oppose any type of measures that institutionalize global redistribution of wealth from the rich to the poor. Instead, the United States advocates market expansion and foreign trade as the solution to poverty. This is the development model supported in the current round of WTO negotiations. The IMF and World Bank have been instructed by their boards to support this approach, in the interest of "policy coherence." In other words, their development policies must continue to stress market expansion and foreign trade so as to fit with the approach of the WTO.

During the encounters between the WCC, the World Bank and the IMF in which I participated, Bank and IMF staff presented studies that showed that market expansion and foreign trade enhanced economic development. They seemed not to be aware of a well-regarded study by a World Bank economist that demonstrated that openness to foreign trade had an especially negative impact on poor and middle-income groups in poor countries.<sup>13</sup> At times we experienced a degree of arrogance by some staff. For instance, when we cited Joseph Stiglitz's critique of IMF policies at a September 2003 encounter, an IMF director stated that "just because Joe Stiglitz won a Nobel Prize in economics does not mean that he understands the policies of the IMF." Interestingly, in March of 2003 the IMF had released a study by its

chief economist that confirmed Stiglitz's criticism of IMF recommendations for opening financial markets to foreign investment. "The empirical evidence has not established a definitive proof that financial integration has enhanced growth for developing countries." In addition, the study found that financial integration "may be associated with higher consumption vulnerability."<sup>14</sup> In other words, financial integration—opening one's economy to more foreign investment—may make it more difficult for poorer people to meet their basic needs.

This has certainly been the case with Mexico since its entry into the North American Free Trade Agreement (NAFTA). For example, many small farmers have been pushed off their land. Jose Magdaleno, a corn producer from the Chiapas region, reports that corn grown in the United States and sold cheaply in Mexico is squeezing out small producers like him. Communities in Chiapas that have successfully grown corn for thousands of years are unable to compete with the subsidized corn from the United States.<sup>15</sup> Some of these people see no option for supporting their families but to cross into the United States without proper immigration documents. Over three thousand people have died trying to cross the U.S.-Mexican border since NAFTA was implemented in 1994.

#### AN ALTERNATIVE PARADIGM

The negative impacts of neoliberal globalization are often literally a matter of life and death. Less deadly impacts, like increasing the difficulty poor people face in meeting their basic needs, violate the values of justice and care. Negative impacts on gender equality strategies, the environment, working conditions and labor laws, and overall economic development also violate these values. The building of democratic societies is threatened by corporate-led globalization, growing inequalities, and concentration of economic power. The neoliberal economic paradigm should be of particular concern to all of us who are committed to democracy, and to gender, social, and ecological justice. Christians are called to work in solidarity with others to transform structures and policies that cause suffering and death.

The biblical Sabbath-Jubilee vision is an inspiration to some who are looking for an alternative political economic paradigm to corporate-led globalization. Every seventh (Sabbath) year, the land is to rest and lie fallow, "so that the poor of your people may eat" (Exodus 23:10-12). During this year debts are to be released, so that "there will . . . be no one in need among you" (Deuteronomy 15:1-5). The Jubilee tradition (Leviticus 25:1-55; 27:16-24; Isaiah 61; Luke 4) adds a new feature to the Sabbath year. During the fiftieth year, the land is to be returned to the families who lost it because of poverty and debt. Thus the "Jubilee fully restores the access by the poor to the resources of production and well-being. It goes far beyond distributive justice to restitution of

people's capacity and means to provide for life."<sup>16</sup> In short, these traditions point to transformation of uneven and unjust relations.

The WCC, a fellowship of over three hundred Orthodox and Protestant denominations from over one hundred countries, has long been involved in economic issues and development programs. Economic globalization has been a particular focus since 1998, when delegates to the WCC Eighth Assembly called on the ecumenical community to address and remedy the suffering that globalization was causing their communities. Since then the WCC has held several regional consultations on economic globalization, in conjunction with the World Alliance of Reformed Churches and the Lutheran World Federation. This work resulted in a common critique of neoliberal globalization and the development of an alternative paradigm, called an "economy of life."

— An economy of life calls for a world of just, participatory, and sustainable communities. A full description of the vision can be found in "Alternative Globalization Addressing Peoples and Earth" (AGAPE), a background document for the Ninth Assembly of the WCC in February 2006. A crucial element of this alternative paradigm is to make "people's work, knowledge and creativity" the driving forces of economic activity, rather than capital owned and controlled by a small, extremely wealthy elite.<sup>17</sup> There is a place for markets in this alternative, but they are not the final arbiter of value. For example, water is a basic need and public good that should not be reduced to a commodity to be bought and sold for profit. An economy of life seeks to promote cooperation among individuals, communities, and nations, rather than competition. This paradigm gives greater material and moral value to care work, and addresses the gender imbalances associated with care work.<sup>18</sup>

Finance and trade are also addressed by this alternative paradigm. It claims that the purpose of an international financial system should be to enhance justice, eradicate poverty, and sustain the environment. Current policies and practices, such as liberalization and deregulation, encourage financial speculation. Over \$1.9 trillion is traded every day, most of it for speculative purposes. This speculation dominates trade in goods and services, which takes resources away from productive investment aimed at meeting human needs. One way to curb this speculation is to impose a tax on financial transactions or short-term investment. Moving the U.S. government to support this idea is an important long-term strategy. If the money raised from the tax is used by a democratically constituted international organization (not the World Bank or IMF), this could be a significant source of funds for sustainable social and economic development.<sup>19</sup>

Another way to make finance more just is to cancel the debt. In 2005, in response to pressure from the Jubilee movement, the G-8 countries agreed to the principle of 100 percent debt cancellation for eighteen countries. However, there are conditions for cancellation, such as privatization of pub-



lily owned enterprises. Although this plan is an important first step, we must remember that it came about because of the joint commitment and actions of nongovernmental organizations (NGOs), faith communities, and people from around the world. The aim of the Jubilee movement is 100 percent debt cancellation for fifty countries without requiring harmful policies. The JUBILEE Act, a bill Jubilee U.S.A. supports in the U.S. Congress, would do this. Still, the issue of illegitimate and odious debts remains. Here the strategy is to create an independent arbitration panel, under the auspices of the United Nations, to hear claims from nations and NGOs and to negotiate settlements.

A last strategy to promote just finance is to identify and quantify social and ecological debt. Peoples and countries of the global south have suffered immensely from a global economic system that primarily benefits the global north. This reality can be understood in terms of social and ecological debt, which is owed to the south. Examples of ecological debt are World Bank- and IMF-funded large dams, oil and gas pipelines, and other projects that severely damaged the environment of southern countries. A WCC consultation suggests that restitution and reparations should be made to those to whom ecological debt is owed, especially workers, farmers, and indigenous peoples communities. One way to make restitution is for the United States and other G-7 countries to make good on prior commitments of 0.7 percent of gross national income for development assistance, not as an act of charity but as an act of restitution.

This paradigm claims that trade should aim to serve just ends—"ethical, sustainable and equitable production, exchange and consumption of goods and services to meet the needs of all humankind and the earth."<sup>20</sup> It argues for trade that protects human rights and the earth through effective labor and environmental regulations. Developing countries should be able to protect their agricultural sector so as to ensure food security for their people. The campaign against the Free Trade Area of the Americas (FTAA) is a good example. Many religious, human rights, labor, and environmental groups have joined together to oppose this agreement in its current form. It is a form of free trade that encourages competition between unequal partners, a situation that permits more powerful countries to benefit inequitably. For instance, services such as education, health care, water, and electricity are currently included in FTAA negotiations. If these areas are privatized and opened to trade and investment, transnational corporations in the global north will likely be the ones to profit.

Inequities in the global trading system under the rules of the WTO are also a matter of concern. An example is the subsidies given to large corporate farms by the U.S. government that put small farms here and abroad at a competitive disadvantage. In the last decade, the focus of U.S. farm policy has shifted as the government abandoned historically market-stabilizing tools (such as payments to farmers to let some fields lie fallow to reduce overproduction) in favor of trade

liberalization (opening markets and reducing tariffs in other countries). This has had drastic consequences for farmers in the United States and around the world, such as a drop of more than 40 percent in world prices for four chief U.S. farm exports—corn, wheat, soybeans, and cotton. At the same time, government payments to farmers have increased, since direct payments are made to farmers whenever prices decline. Small farms are going under even with these payments, while corporate farms expand. "In their wake, farmers from the U.S. to Peru, from Haiti to Burkina Faso have harvested poorer incomes, hunger, desperation and migration."<sup>21</sup> Congressional action is needed here, too, to end unfair farm subsidies.

### CONCLUSION

Organizations such as the Jubilee movement for debt cancellation and the Oxfam "Make Trade Fair" program are working for more just policies and institutions. Most denominations have agencies that focus on economic justice issues as part of their work. These organizations and agencies are excellent sources of information and opportunities for challenging unjust economic policies, particularly in relation to the U.S. government. For instance, Jubilee U.S.A. has a Jubilee Congregation program. In addition, most denominations are part of transnational organizations like the World Alliance of Reformed Churches, the Lutheran World Federation, and the WCC that work cooperatively for ecological and economic justice. These are additional sources for information on global issues.

Individuals or congregations can sign up to receive newsletters and other publications from these organizations. Many also have e-mail action alerts to notify their constituencies of needed action, such as contacting Congress or the White House on legislation for debt cancellation or fair trade. Although it is unusual, delegations have changed the minds of congressional representatives. For example, a conservative congressperson became a leading advocate for debt relief for poor countries after a delegation from his district appealed to him on both religious and pragmatic grounds.

All the chapters in this book suggest strategies that are crucial to moving toward a world of just, sustainable communities. The challenges before us are deep and our efforts often halting. I take heart in those beginning to hear the cries of the suffering and becoming aware of its causes. There is hope in the many communities of resistance and transformation, communities that are themselves living alternatives to corporate-led globalization. Acting in solidarity with those resisting and transforming neoliberal globalization revives ideals of human rights, democracy, and improved living standards. Acting in solidarity gives us a deep sense of community with all peoples and creatures, allowing us to share more fully in a spirituality of life.