

IMF Conditionality and Political Dissent in Developing Nations

Jennifer L. Gardner

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Tim Luke, Chairman
Ira Reed, Co-Chair
Scott Nelson

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(ABSTRACT)

Conditionality refers to the program policies required by international institutions, such as the World Bank and International Monetary Fund (IMF), in order for countries to be eligible to receive access to resources provided by such institutions. In the case of the IMF these resources are available in the form of loans. The proper role of conditionality as a component of the Fund's financial arrangements with developing nations has been a topic of debate in both the political science and economic fields of study. On the political science side the argument has centered on whether or not austere and structural conditionality can in effect cause political dissent in the developing nations, and whether or not the process of conditionality violates the sovereign rights of nations. In this research study three Latin American countries (Brazil, Argentina, and Costa Rica) were utilized as case studies to try and determine whether or not there was a causal link between the implementation of IMF conditionality and instances of political dissent manifested as protests, riots, and strikes. Evidence of political dissent directly related to the implementation of IMF conditionality was found in all three case studies at varying levels. The instances of political dissent were then analyzed individually and as a group to try and determine specific cause, group dynamics, and the economic context in which they took place. The study concluded that as practiced in the 1990s and early 2000s conditionality can interfere with the democratic process in developing nations.

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Introduction

The International Monetary Fund (hereafter IMF or the Fund) was originally conceived in the mid-1940s as a global economic institution that would help coordinate the individual markets of member states (primarily developed nations). It was a part of the global economic changes that resulted from the Bretton Woods conference, which was held in response to the economic crisis of the 1930s. As a 'supra-national body' the 1940s Bretton Woods' version of the IMF was meant to help guarantee the smooth functioning of the international market by providing short-term loans to members experiencing problems with balance of payments, and ensuring 'exchange stability' by providing a structured way to determine exchange rates between members (IMF Article I, Peet 2003, 58-60, Pastor 1987, 10-11). The IMF has undergone many changes since its inception, and its focus has changed from helping primarily developed nations to working almost exclusively with developing nations (Peet, 56-57). It has broadened the role it plays in developing nations by becoming a lender of much longer-term 'emergency financing' and debt restructuring, while simultaneously narrowing its original role that included 'guaranteeing the liquidity' and functioning of the world financial system as a whole (Payne 2005, 107, Falk 2001).

While its economic role and influential power has shifted away from developed nations and towards developing nations, the IMF is still a very powerful institution (Peet, 56). The IMF has become an institution for debt restructuring when countries (almost exclusively developing

nations) are experiencing economic crisis and find they cannot meet their debt obligations. In the past few decades the IMF's role in shaping the economic policies, in those developing nations which come to it for financial assistance, has increased as the conditions required for loan disbursement/restructuring have increased (Bird 1996, 477, Payne, 151-153). It has thus become increasingly important to critically examine the policy choices of the IMF, and in particular the conditions it requires less-developed member states to adopt in order to have access to the Fund's financial resources.

As the primary 'non-state (governance) institution' in charge of debt and development problems in developing nations, the IMF's conditionality policies have become a topic of debate (Peet, 56, Amuzegar 1986, 98). The IMF's increased ability to influence the macro and micro economic policies¹ of developing nations has been tied to its ability to formulate its own specific economic policies that debtor countries must meet as a condition for lending and/or debt restructuring. To date, these policies are enforced through 'preconditions' and 'prior actions' that are required before arrangements can be reached, and performance criteria that is required during the duration of the agreement (Bird 1996, 483). Moreover, these policies (inherently political in nature) are not implemented within a political void, but are implemented within a sociopolitical space complete with its own sociopolitical history and culture. Thus it has become important to measure the effect, if any, that these policies have on such spaces.

¹ According to a 2005 report by the European Parliament, "the IMF has...extended its recommendations to matters outside the original macroeconomic field, into areas of structural policy, by means of recommendations whose wording impacts directly or indirectly on the conduct of policies on social protection, the right to work, health, the environment and education; notes that this development has clearly raised the issue of the boundaries between the competences of the various UN institutions and those of the World Bank..."(European Parliament Report 2005, 21).

The debate itself is also tied to a larger study of contemporary political science called ‘institutionalist’ political science; so termed because it studies, “the firm organizational structures [in the overall global world]...that shapes the behavior of actors.” Moreover, within this structure global institutions, like the IMF, tend to, “reflect the power relations prevailing at their point of origin and tend...to encourage collective images consistent with these power relations” (Payne, 103). Put another way, global institutions tend to represent the nations from which they originated, and thus their policies, views, and ideals tend also reflect the discourse dominant within those developed nations. This claim is not to repeat, however, the Cheryl Payer’s Marxist criticism of the Fund—namely that is it a tool of the core capitalist rich nations that is meant to open up the economies of periphery nations and keep them “underdeveloped” and poor—is correct (Pastor, 24-25). However, from this framework global institutions, like the IMF, can be seen as a vehicle through which a particular discourse can be forced onto less politically powerful nations. In respect to the power the IMF has come to wield over sovereign developing nations, it has thus become important to study the effect IMF policies have on the sociopolitical landscape of those developing nations in which its policies are implemented. This importance of this is not diminished regardless if the Fund and its policies are well intentioned, and *meant* only to improve and stabilize the economies of developing nations; which is the view of this paper. Specifically, this paper is concerned with that part of the overall debate which addresses the effect increasingly economically intrusive IMF policies—‘austere’ economic policies attached to debt

restructuring agreements with the aim of solving balance-of-payment problems—have on the political and social stability of developing nations (Bienen & Gersovitz 1985, 732).

Research work to determine whether or not there is a definitive connection between the implementation of Fund-supported policies and political instability has been somewhat limited. Although there have been some systematic and comprehensive quantitative research projects completed, most of the analyses were dated (18 + years) with the most recent being centering on data from the early 1990s. There has also been some thorough qualitative research, as well as studies that combined both qualitative and quantitative methods, but again most of the material found was centered on analysis of events occurring in the 1980s and early 1990s. The work done so far has offered useful insight and explanation into the complex connection between instances of political instability and the implementation of Fund-supported policy. However, new research into this area is needed. This is especially true given the fact that Fund policies have continued to evolve over the years.

Research Question

This paper presupposes that IMF policies on global development reflect a power structure that promotes the ideological preferences of the most developed nations. Less developed nations, struggling for a position in the global market, are thus regulated by these policies through global institutions like the IMF. From this framework, the paper then asks what effect those policies have on developing nations. Specifically, what are the sociopolitical effects of conditionality in less-developed nations, during the time in which formation and implementation of conditionality policies takes place. By conditionality this paper is referring to the economic and financial policies the IMF

requires member countries to implement in order to be able to use the resources of the IMF. The historical evolution of these conditions will be discussed in further detail in the following section.

The hypothesis of this study supposes that in those nations experiencing varying degrees of economic crises, the austere economic policies required by the IMF in the 1990s and early 2000s, as conditions for access to Fund resources, in effect have caused occurrences of political and social unrest (definitions and measures to be discussed in research design section). While this paper does not disregard internal factors (e.g. internal government actions and choices), it suggest that in situations of economic crisis (which in and of themselves are often destabilizing) conditionality policies required by the Fund exacerbate or are directly responsible for political instability. By political instability this paper is referring to the occurrence of political and social unrest in the form of various kinds of protests, and/or a more general decline or wavering of support of the people for the government. This paper does not suggest that regime change is necessarily an outcome, but it does suppose that the occurrence of protests make a government vulnerable to opposition groups. Those dissents can then be used as a means to make the government appear less legitimate (Bienen & Gersovitz, 1986, 26).

Research Design

The following research proposal will attempt to formulate a research design that will allow a clearer determination of the connections between the implementation of IMF conditionality attached to agreements between 1992 and 2002, and the occurrence of political and social unrest during that period. Again, it is important to note this research design has not been structured to necessarily be looking for instances of political

instability (e.g. explained above) leading to a change in regime type, or a change in the overall ideological structure of a society (although such occurrences if found will be recorded). Instead, it has been structured to investigate to what degree, if any, such policies have recently caused instances of ‘austerity protests’.

As mentioned above the literature found on this debate to date has not touched on the ramification of conditionality on political stability in developing nations in the last decade or so. This gap in research needs to be filled because of the changes and expansions in conditionality in more recent years. This paper will attempt to begin to fill this gap, although more extensive systematic research that will be offered by this paper is needed.

This research design proposes using a case study method to examine recent experiences in conditionality and ‘austerity protests’. It proposes to use three different cases, namely Costa Rica, Argentina, and Brazil to complete a case-study comparison. Although this paper does not suggest that these three choices necessarily offer a perfect representative sample, it does suggest that the choices offer cases that have experienced varying degree of economic crisis between 1992 and 2002; the time span selected for this study. This is important because to some extent it helps control for the effect economic crisis has on political instability. For example, if the study finds that a higher severity of economic crisis seems to correspond with higher number of protests, then, this will be taken into account before drawing any conclusions. However, the selection as it related to the degree of economic crisis will also be useful because it will give the study an opportunity to explore the connection between varying degrees of economic severity and the number and type of ‘austerity protests’. These three countries were also chosen

because they have all made stand-by arrangements with the Fund between 1992 and 2002, and in the case of Argentina an agreement using the Extended Fund Facility. It is important to note that because this study is interested specifically in ‘austerity protests’, and not a larger comparison of political protests overall (as was the case in Sidell’s study), countries that have not undergone stand-by arrangements were not included.

When recording and measuring ‘austerity protests’ this study will use the indicators of political protests listed and described by Taylor and Jodice (1983) (also used by Sidell). These definitions are useful for separating the various kinds of political protests. The indicators are listed and defined below as they apply to this study.

- (1) *Protest Demonstration*: A ‘nonviolent gathering’ of a group of people with the intent of protesting against a distinct political policy implemented or supported by the government, foreign government, or other foreign entity (namely the Fund); with the aim of changing either the policy or the government in some fashion.
- (2) *Political Strike*: A strike, or ‘work stoppage’, by a group of public employees or students that is instigated to protest against a policy that is political in nature, a ‘regime’, or an individual leader within a regime, with the intent of forcing a change.
- (3) *Riot*: A protest is considered nothing more than a political demonstration until it becomes violent, at which point it becomes a riot. On the whole riots are usually spontaneous in nature, and their violence usually stems from either ‘the initiative of the police or of the demonstrators’ (Taylor and Jodice, 29).
- (4) *Armed Attack*: Armed attacks comprise those events wherein a group organizes for the intent of using violent means (‘bloodshed, physical struggle, and destruction of property’) in an attempt to either weaken or eliminate ‘the power exercised by another organized group’ (e.g. in this study usually meaning the political regime in power) (Taylor and Jodice, 29, 37).
- (5) *Political Assassination*: The actual killing, or attempted killing, of a ‘national leader, a high government official, or a politician’ (Taylor and Jodice, 43).

This paper will also be investigating whether there were any instances of actual ‘irregular’ governmental change as a result of political protests or discontent. Again, the research study will utilize Taylor and Jodice’s assessment of governmental change. The research will be investigating whether ‘austerity protests’ result in either: (1) *successful irregular executive transfer*, or (2) *unsuccessful irregular transfer*. Both of these types of executive transfers involve a change in either a national leader or a ruling regime; they are changes that come about as a result of events ‘outside the conventional legal or customary procedures for transferring power’ (Taylor and Jodice, 88). Included in this type of executive transfer would be coups or attempted coups.

The methodology that has been chosen for this research proposal will combine newspaper and scholarly journal accounts, as well as some web searches, to find incidents of political protests related only to Fund supported policies, with IMF published papers and Letters of Intent that outline the conditions of arrangements. In order to provide at least one systematic and uniform search for all three case studies the research design will utilize the *New York Times* online archives. Three separate meticulous searches of all *New York Times* articles containing any information on all three countries for the years between 1992 and 2002 will be completed. The search will begin with the country name, and then the article briefs and titles will be used to look for any articles that suggest they contain evidence of austerity protests. To be more specific, article titles and briefs that include words such as protest, riot, crisis, unrest, austerity, debt, and the IMF (list not limited to these words) will be read in full text to consider whether or not they are relevant to this study. In addition, IMF and World Bank reports will also be used to compile the economic indicators necessary to assess the economic conditions

within which these conditionalities were implemented. Within the journal, newspaper, and web reports the research design proposes looking only for instances of protest against the government for implementing Fund supported policies, or protests against the IMF and its policies. To clarify, the research design will look for wording that makes a direct connection between the protests, comments, signs, or demands, and the IMF's policies, and/or the government's support/implementation of IMF conditionality policies. While instances where the protest, riot, strike, armed attack, or irregular governmental change is centered on cuts in social spending (or other conditions related to economic change) that can be traced to Fund supported policies will be included, instances where there is a general discontent with the overall economic position of the nation or a particular sector of its population will not be included. This methodological approach is optimal because (1) it utilizes the available primary sources of information, (2) it relies on instances of evidence which are quantitatively measurable and observable in the sense that they have been observed (e.g. the number and kind of protests), and (3) it relies on the protestors/opposition groups themselves making a direct connection between implemented policies and then formulating a perception that these policies are harmful.

This research proposal has not been designed to test the overall effectiveness of IMF programs. Nor is it meant to test whether or not countries who implement IMF programs seem to incur an increase in political protests overall. Rather it attempts to investigate only conditionality policies, and whether or not they cause instances of political protest. Also, it attempts to investigate what kind and how many protests occur as a result of these policies. The research design is an attempt to narrow the research study in order to more clearly understand the direct cause/effect relationship between

IMF conditionality and instances of political protests. In the long run it is hoped this paper will shed light on the degree to which IMF conditionality policies are politically difficult, or politically costly, to implement. However, because this study has chosen to use case study method, instead of a more rigorous systematic study of all countries implementing Fund agreements, its findings will necessarily be limited in their general application.

To be sure the utility of this research design is not limited to the case studies chosen, but also could be applicable to any developing nation that has agreed to and implemented IMF policies as part of a loan restructuring agreement. However, due to research time restraints this study cannot be so broad. It is also important to note that in choosing case studies this research proposal only looked at nations that had experienced some sort of austerity protests following an agreement with the IMF, but it also did not choose countries that had experienced the largest number of protests. In some respects this involves choosing a case study through the dependent rather than the independent variable, which is not advisable. In defense of the design, it is hoped that this selection bias will help determine whether or not the degree of economic crisis is directly related to the number and type of protests. Yet, as Amuzegar aptly pointed out in the late 1980s, “of the 67 countries that carried a stabilization program between 1980 and 1983, only 10 experienced serious turmoil—not all of it Fund-related” (Amuzegar, 99). Therefore, research proposals such as this one, which choose to pick cases in part on the existence of political protests, are in danger of being criticized for a lack of generalizability and being bias towards pre-determined research findings.

On the other hand, even if there are only a limited number of cases where it can be proven that the IMF's policies are directly responsible for political protests or governmental change, these cases still deserve attention. This is especially true in light of the suggestion that IMF agreements with debtor nations often 'trample' on the democratic process of developing nations. On the normative side, if the Fund's policies are perceived as being harmful or a direct violation of the nation's right to develop its own macro and micro economic policies, then it seems there is a moral obligation to lay blame where blame is due. While citizens can punish their own governments for policy choices through electoral means, they have little means of punishing the IMF. Therefore, it seems rational to suggest that the IMF's policies and their effects should be closely scrutinized through research. Moreover, even if the cases are limited, it is necessary to try to evaluate to what degree economic crisis plays a part in increasing the number of protests

Brief History of Conditionality

While in theory developing nations are free to reject IMF loans and the policy requirements that accompany them, in practice developing nations have little choice. During the early 1970s developing nations had the option of detouring around the IMF by borrowing directly from private lenders. However, global economic problems beginning with the oil crisis in the 1970s curtailed this, as the IMF increasingly became the negotiator between developing nations and private finance institutions worried about the increasing amount of debt owed by developing nations (Babb and Buira 2005, 63-64). Woodrooff and Ellis-Jones, authors of "States of Unrest: Resistance to IMF Policies in

Poor Countries,” suggest that even now developing nations are still highly dependent on international financial institutions and donor governments (Woodroff and Ellis-Jones 2000, Bird, 485). This has been especially true in the case of developing nations experiencing an economic crisis and in need of immediate financial assistance to deal with deficits in their balance of payments (the Brookings Institution 2002, Bird, 487). To be more specific, balance of payment problems means a country is ‘spending (absorbing) more than the total of what it produces and can borrow from abroad’ (Bienen and Gersovits, 736). In their study of the crisis of the 1980s and its effects on African, Latin American and the Caribbean countries Ghai and Hewitt de Alcantara point out that crisis leaves developing nations especially vulnerable to the influence of lending institutions (i.e. IMF) and donors:

“So much so in fact that the study of economic policy-making was often framed in the decade of the 1980s in term of the “politics of conditionality.” The policy initiative, in this context, is likely to arise outside the national boundaries, although the ramification of policy (including the reactions of internal groups) are managed by and directed toward the state” (Ghai 1991, 37).

In its capacity as crisis lender and negotiator the IMF occupies a position of power as it acts as the ‘gatekeeper’ that either approves or denies a country’s request for loans, or a restructuring of existing loans (Falk 2000, Woodroff and Ellis-Jones 2000). Moreover, the power the IMF holds over developing nations experiencing economic crisis is not limited to its own lending capabilities. Its leverage is made greater because of its role as a ‘bankers’ guide to creditworthiness’. In the past few decades the IMF’s relationship with private financial institutions has only increased. The Fund’s surveillance and either approval or disapproval of a member states economic policies is now considered the guide to whether or not private financial institutions will offer financial assistance to developing nations (Peet 62-63, 77). However, the IMF has not always held this position

of power, nor has it always used conditionality as a means to influence the structure of macro and micro economic policies in member countries.

The term “conditionality” refers to the economic and financial policies the IMF require member countries to implement in order to be able to use the resources of the IMF. Article I of the Fund’s 1944 original charter states that the Fund may make its general resources temporarily available to members ‘under adequate safeguards’ (IMF Article I). Some draw upon this statement as proof of the Fund’s legal right to attach conditions to loans, while others argue that conditionality was not a part of the Fund’s original mandate (Humphreys 1999, 16, Babb and Buira, 61). However, as a tool to help ensure borrowing countries correctly use Fund resources and are able to repay loans within a set timeline, the IMF used conditionality since the 1950s, albeit in a more limited form (Peet, 65, Babb and Buira, 63). Due to a phenomenon Babb and Buira term ‘mission creep’ the use of conditionality has increased over the years markedly in both the scope and sheer number of conditions required by the Fund. By analyzing Letters of Intent, which outline the terms and conditions of loan agreements between the IMF and individual nations, Babb and Buira were able to identify three different phases of expansion. The following section takes a brief look at the three stages of ‘mission creep’ outlined by Babb and Buira (Babb and Buira, 59-77).

In the 1950s and 1960s conditions on access to IMF resources were limited in scope, and were aimed at promoting the Fund’s ‘monetary approach’² to balance of payment problems. According to Babb and Buira this time period was characterized by conditions that were ‘circumscribed and temporary’; conditions that most importantly

² “Developed over the course of the 1950s, this approach, “identified credit expansion- often the result of financing fiscal deficits through central bank emissions-as the primary cause of persistent external imbalances” (Babb and Buira, 63).

'left underlying institutions untouched' (Babb and Buira, 64). The Fund during this era was primarily interested in protecting the 'financial integrity of the Fund' through conditions that would help ensure the resources used (which were much more limited in this era) were replaced by borrowing countries (Babb and Buira, 35). The conditions that were devised by the IMF usually included devaluing currency, cutting excess government spending and the creation of spending targets, and finally reducing the money supply (Babb and Buira, 63, Peet, 73). Attached to stand-by arrangements, which generally were loan arrangements that lasted for a period of 12-18 months, these conditions were often part of program packages called stabilization programs that were designed to correct problems that the IMF saw as the root cause of balance of payments deficits (Hornbeck 2002, 7, Peet, 73). While such conditions could be severe in their immediate effects in such areas as fiscal spending on social programs, as Babb and Buira point out they are not 'structural changes' (i.e. did not change the actual structure of a government institutions), and are thus in theory easily reversible at a later date. The conditions were in line with the overall IMF mission at the time, which was to provide short-term lending (no more than one year in most cases) in order for countries to 'correct temporary deficits in [their] balance of payments' (Peet, 65). Moreover, the loans made by the IMF during this period were made primarily to developed nations. Finally, during the 1950s the IMF also developed a classification system of different levels of borrowing that correlated with the level of conditionality attached. With each amounting to 25 percent of a member's quota³, the different levels of borrowing were referred to as 'tranches' with an

³ "The IMF's resources come mainly from the quota, or capital, subscriptions which countries pay when they join: these have gone up from the equivalent of 21 billion Special Drawing Rights (SDRs), which are the IMF's own money form, in 1965 to 213 billion SDRs in the latest adjustment which took effect from January 1999" (Payne, 107).

increasing degree of conditionality (non-structural) applied to each level of borrowing⁴ (Peet, 66).

The 1970s saw many changes in the role of the IMF in global economic relations, as well as changes in the Fund's policies of conditionality. With the demise of the Bretton Woods exchange-rate system the Fund lost its pivotal role as the institution in charge of the system deciding the value of members' exchange rates (Humphreys, 9). The 1970s also saw the developed nations—previously the main clientele of the IMF—find the more economically intrusive conditions⁵ attached to stand by arrangements too 'politically costly and something to be avoided if at all possible' (Peet, 70). Yet, as a result of developments in the global economy, including the oil crisis, the IMF emerged from this era as a lender to developing 'Third World' countries⁶. However, with the industrialized nations no longer having to worry about the political costs of conditionality (as they no longer looked to the Fund for upper credit tranche loans), and the Fund's clientele lists consisting of higher risk loans to developing nations, the road was paved for the further expansion of conditionality (Babb and Buira, 37-38). The IMF introduced 'debt-related' conditions, as well the Extended Funds Facility, which allowed for extended loan periods (lasting several years instead of the original one-year stand-by arrangements) (Babb and Buira, 60, Peet, 71-72).

The Fund not only shifted its lending capacity to service the mounting 'Third World' debt, but also in the late 1970s and early 1980s the Fund began to develop a close

⁴ The tranches were; (1) the 'reserve tranche' could be drawn 'without challenge', (2) the 'first credit tranche' came with moderate conditions, (3) and 'upper credit tranches' consisting of the second, third, and fourth credit tranches which required higher degrees of conditionality (Humphreys, 16-17).

⁵ For example the conditions attached to British stand-by arrangements that required 'cuts in public expenditures, including many vital and popular social programmes', for a more complete discussion see Peet 68-70.

⁶ "The last substantial programme of the industrialized countries took place in 1976" (Buira, 37).

relationship to private financial institutions. This relationship was born out of the private institutions fears that developing nations would be unable to service their mounting debts⁷, and the Fund's ability to impose conditions on developing nations which it believed would ensure debt repayments (Peet, 72, Walton and Seddon, 13-16, Babb and Buira, 63-64). New conditions on *some* loan packages included the Fund's requirement that governments not fall behind in payments owed to private institutions, as well as putting limits on the amount of new debt governments could incur (Babb and Buira, 63-64). Finally, it is important to note two significant developments at the end of this period. First, the Fund published its first *Guidelines on Conditionality*, which more explicitly outlined the power the IMF had to 'encourage' members in need of the Fund's resources to 'adopt corrective measures...in accordance with the Fund's policies' (IMF 1979). The Fund also increased its 'surveillance of exchange practices' and 'training of officials in economic and financial management' through the adoption of the Second Amendment to the Articles of Agreement (Peet, 74).

The final stage of mission expansion identified by Babb and Buira's analysis takes place from the 1980s to the present. Within this time period Babb and Buira note two distinct changes in the 'fundamental' nature of conditionality:

(1) "Earlier generations of the IMF conditions tended to focus on transitory variables having a bearing on a nation's short-term balance-of-payments: price stabilization, the reduction of the fiscal deficit, net domestic credit, the level of external debt, ect. Structural conditionality, in contrast, was aimed at the fundamental transformation of the underlying institutions governing national economies" (Babb and Buira, 64).

(2) "Whereas the first period in the IMF's evolution was associated with the development of standardized rules, the latest stage is linked to the rise of 'discretionary conditionality': the increased dependence of disbursements and lending arrangements on the judgements of management and staff, rather than on clear and predetermined rules" (Babb and Buira, 61).

⁷ "From 1970 to 1984, the total external indebtedness of developing countries rose from \$64 billion to \$686 billion, with the proportion of that debt owing to private banks rising from one-third to over one-half..." (Walton & Seddon, 14).

With the new ‘structural conditions’ came a host of new ‘medium-term’⁸ programs for lending; the idea being that the structural changes needed to ensure financial stability and growth would take longer than the 12-18 months traditionally allowed for in stand by arrangements (Babb and Buira, 65-66). Structural conditions include a wide range of changes in economic governance including the ‘privatization of public enterprises, trade liberalization, tax and expenditure policies (including the so-called “unproductive” public expenditures, like high military spending), labor market policies, pricing and marketing/distribution policies, agricultural policies, the reform of banking and bankruptcy legislation, anti-poverty measures, and the prevention of money-laundering and terrorist financing’ (Babb and Buira, 60, 37). Conditionality has expanded not only in scope but also in the sheer number of conditions per agreement⁹. In addition to the expansion in conditionality, the 1980s also saw the creation of ‘enhanced surveillance’ that differed from surveillance typically done by the IMF in the past. Whereas the Fund’s original surveillance (originating in the 1970s) had always included some analysis of the member countries’ economic and financial conditions and policies, the new ‘enhanced surveillance’ in debtor countries is intended to determine whether or not countries are meeting the conditions. The surveillance is ‘coercive’ in nature because in some cases not meeting certain conditions threatens the continuation of loan rescheduling arrangements (Spraos 1986, 26, Humphreys, 12).

⁸ Refers to lending arrangements lasting 3-5 years (Buira, 65).

⁹ “Through 1982, less than 5 per cent of the Fund’s upper tranche arrangement contained eleven or more performance criteria...By the end of the 1980s, more than two-thirds of such arrangements had eleven or more criteria, and by 1999, 92 per cent of programmes sampled had eleven or more criteria...The increase is much larger for the latter period if conditionality is more loosely defined than performance criteria...[and include ‘pre-program’ criteria contained in ‘side-letters’]” (Buira, 35-36).

On a final note, Babb and Buira include the changes to conditionality in the 1990s as part of the third phase of mission creep. These changes include an increase in the discretionary power of the Fund's management and staff; who for the most part are responsible for the negotiation and development of agreements. The increase in discretionary power has increased the ability of staff to decide through surveillance and programs reviews (which have also increased in number and frequency) whether or not a country is successfully reaching their benchmarks, and if not whether or not the failure warrants a suspension of the agreement¹⁰. The increase in power to management and staff has shown a simultaneous increase in the number of prior actions required. Babb and Buira argue that in effect this has transformed Fund programs from a 'rules-based system' that governments could count on for consistency, to a system that allows much more room for discretionary decision making (Babb and Buira, 66-69).

Literature Review Chp. 1

The following section will provide an overview of the relationship between the IMF's high-conditionality stand-by arrangements and their effects with reference to the literature that surrounds the debate over the on political stability. This section will be divided into two subsections. The first will provide an overview of the literature that suggests that in many cases high-conditionality Fund-supported policies are at in part responsible for instability and protests within debtor nations. The second will cover literature that refutes this stance. Analyses outlined in the first subsection tend to look towards external factors when analyzing development policies and their effects, and in

¹⁰ The staff can issue waivers for non-compliance with conditionality if such conditions are found to be caused by external factors (Joyce 2006, 341).

some respects their analysis is in line with dependency theory school of thought¹¹. Often the literature suggests that conditionality policies of the IMF are inappropriately applied to developing nations, causing an increase in economic hardships that are often disproportionately felt by the poor and middle class. The result is discontent and protests within these sectors of society. The other side of the debate is addressed in subsection two. Viewing the austere economic policies as necessary steps on the road to economic stability, this side of the debate tends to believe the IMF is sufficiently flexible in respect to the manner and pace with which its policy recommendations are carried out. Furthermore, while isolated incidents of protests related to Fund supported policies can be found, these incidents are minor and in many cases reflect internal factors which are far more relevant to explaining the existence of political instability. The debate, in general, centers on internal factors when explaining both economic and political problems in developing nations. Although it would be a mistake to suggest that these analyses strictly adhere to the developmentalist school of thought¹², in *some* respects the research findings in this subsection appear to follow this particular framework.

It is important to note that in many cases (but not all) the literature refers to political instability/stability, rather than political and social unrest. Yet, as Bienen and Gersovits, authors of “Economic Stabilization, Conditionality, and Political Stability” published in the 1985 autumn issue of *International Organizations* point out, the term instability, “commonly refers both to a process and to an outcome (Bienen and Gersovits,

¹¹ Dependency theory looks toward already developed nations and to explain the plight of the underdeveloped, and they tend to view international institutions as instruments of developing nations. In this school of thought developing nations are often ‘victims of global forces’ outside of their control (Wiarda 1999, Pastor, 22-24).

¹² The developmentalist school of thought has a tendency to absolve international institutions, world market forces, and already developed countries of their role in inhibiting development (Wiarda 1999).

732). Stated differently, they argue that it is improper to equate protests, strikes, and riots to political instability unless such actions are part of a process which creates change in either government leadership, or changes in the ‘values, roles, and institutions’ governing a particular nation. Moreover, when discussing political instability the analysis should discuss both what kind of process of instability is taking place, and what specific kind of change is the result (Bienen and Gersovits, 732). This viewpoint conflicts directly with what Taylor and Jodice describe in their book “World Handbook of Political and Social Indicators.” They stress that ‘stability should not be confused with its effects’. Defining stability they suggest it is “both a property of a polity, albeit changing over time, and a set of perceptions or images in the minds of the domestic and foreign “attentive publics”.” Moreover, a nation can be perceived as being less stable in comparison to a neighboring nation, while consistently maintaining the same government leadership¹³. They warn that if analysts concentrate on the end result of protests- the absence or presence of change- then their analysis is only interested in the end result, and the ‘predictive’ value is lost. Taylor and Jodice’s work suggests that the concept of political instability, while including political and institutional change, can also be understood as comprising of different types of political behavior (Taylor and Jodice 1983, 16-18).

As a result of the controversy surrounding the term ‘political instability’, the proposed study that follows this literature review chooses to use the term ‘austerity protests’ when discussing political protests related to conditionality. This term is defined by Walton and Seddon in their book “Free Markets and Food Riots: The Politics of Global Adjustment,” as ‘large-scale collective actions including political demonstrations,

¹³ For an example they note that Mexico in the early 1980s was, “often perceived by foreign observers as unstable relative to Brazil...” However, Brazil underwent ‘numerous abrupt governmental changes’, while Mexico maintained a ‘continuity of leadership and substantive policies’ (Taylor & Jodice 1983, 18).

general strikes, and riots, which are animated by grievances over state policies of economic liberalization implemented in response to the debt crisis and market reforms...devised and implemented by the International Monetary Fund' (Walton and Seddon, 39). This term and its definition is believed to be most appropriate because it encompasses many of the indicators of political protests examined by Taylor and Jodice, while at the same time offering a more precise definition of the events this paper will be examining. However, the research design will take advantage of both the term 'austerity protests', as well as the indicators listed by Taylor and Jodice. The latter is useful for categorizing instances of 'austerity protests' into something more measurable. It is the view of this paper that noting that the discrepancy exists within the literature, and defining what this paper understands as political instability—namely this paper leans more towards Taylor and Jodice's understanding-- is sufficient to guard against any problems with definition; furthermore the discrepancy between the literature and the research proposal will not harm the overall analysis.

Conditionality and Instability 1.1

Some analysts of the Fund and its loan arrangements with developing nations argue that the high-conditionality required by the IMF in its economic stabilization programs effectively causes political destabilization. Their arguments suggest that the effects can vary from instances of non-violent protests to more serious cases leading to an actual change in regime (Peet, 90). It has been suggested that in creating conditionality policies the IMF has failed to consider the social and political ramifications of its requirements, and has unfairly singled out internal economic factors as being responsible for balance of payment deficits (Amuzegar, 103). Critics of conditionality also charge

that the IMF has failed to take into consideration the political feasibility of implementing its stabilization policies. In those developing nations already political vulnerable as a result of economic crises, they suggest the IMF has not considered whether a particular government has the ‘political space to impose new austerity measures’; thus the inflexibility of IMF programs and their conditions effectively cause political instability in those nations with authoritatively weak governments which are not politically capable of implementing austere economic policies (Bienen and Gersovits 1985, 735, Walton and Seddon, 42).

Tied to the above argument is the assertion that the policies supported by the Fund ‘undermine fair income distribution’, and in effect disproportionately harm the poor and middle-class—which then leads to acts of ‘austerity protests’ from these groups (Amuzegar, 107, Walton and Seddon, 41, Woodroffe and Ellis-Jones 2000).

Conditionality policies on the whole have tended to call for drastic cuts in fiscal domestic spending including cuts in social benefits aimed at redistributing wealth, healthcare cuts, and cuts in education programs (Kovach 2006, Amuzegar, 108). In some cases conditionality policies have also required a cut in consumer subsidies¹⁴, which can cause a sudden dramatic increase in the cost of formally subsidized goods. Such policies are meant to put developing nation back on the “right” economic track. However, Walton and Seddon argue they also have tended to cause, “...hardship on the majority of the population, albeit on classes with little political power...”(Walton and Seddon, 42). As a result of the distributional effects of conditionality, some analysts suggest that the degree

¹⁴ Development strategies in the 1960s and 1970s included the governments of developing nations subsidizing goods, such as food, fuel, and transport as a means of redistributing wealth and earning the politically loyalty of the urban working population (Bienen & Gersovitz 1986 740-41, Walton & Seddon, 48).

of political polarization, of which protests can be viewed as manifestations, between classes (urban and middle class versus elite) has increased (Falk 2000). This increase, they argue, is due specifically to a lack of flexibility in the application of conditionality. The high short-term costs of conditionality are difficult policies to sell to the poor and middle class of developing nation already experiencing economic crisis. Moreover, the effects are politically traceable to the governments who submit to IMF conditions leaving both the IMF and national governments open to criticism through various forms of political protests—and in fact this is exactly what many analyst suggest often does occur.

Walton and Seddon (1994) suggest that conditionality policies are responsible for what they term ‘austerity protests’ amongst the urban working poor and middle class, albeit employing a slightly more complex explanation. They argue that the distributional effects of conditionality are important in respect to instances of urban ‘austerity protests’ because of how they impact the developmental policies previously exercised in developing nations. They explain that prior to the economic crisis of the 1980s-- at a time when the private commercial banks were still lending considerably large sums of money to developing nations¹⁵-- the developmental policies of ‘Third World’ nations (especially Latin America) included the political ‘pacification’ of the rapidly expanding urban poor and middle class through government spending. In what they classify as ‘developmental populism’, the governments of developing nations implemented ‘policies designed to meet the employment and subsistence requirements of the new urban groups, both poor and middle class’. These policies included social benefits or ‘social wage guarantees’ operationalized through price subsidies and public services in the form of health and education programs. Walton and Seddon put forth that this developmental

¹⁵ See Peet pg 71 and Walton & Seddon pg 40 for further explanation

scheme represented the coalition of the export and industrial interests whose interest lay in keeping the ‘social peace’ through ‘concessions to the urban masses’ (Walton and Seddon, 46-47).

Walton & Seddon suggest that from this framework ‘austerity protests’ can be understood as a response to what the urban poor and middle class view as a violation of the political ‘bargain’, or what Richard Peet describes as an ‘implicit social contract’, between themselves and the government (Peet, 91, Walton and Seddon, 48). Their analysis examines the inherent tension between the policies implemented as part of this bargain, and the fact that the Fund views such policies as directly responsible for deficits and debt problems (Walton and Seddon, 41). According to Walton and Seddon instances of ‘austerity protests’ can be understood as being the direct result of these irreconcilable ideas of moral economy. As evidence to support their assertions they offer their examination of 146 developing nations that had implemented ‘austerity programs’ between 1976 and 1992. They found, “a wave of austerity protest [had] occurred in approximately 80 debtor countries.” During that period they also found a total of 146 incidents of protest had occurred, “reaching a peak from 1983 to 1985 and continuing to the present without attenuation” (Walton and Seddon, 42). According to their analysis protests against conditionality predominately occur in urban areas where the working poor and middle class are organized through various institutions (example unions and church groups) and ‘oriented to political action’¹⁶. Moreover, they suggest that both the rate and asperity of protests can be explained or predicted by; (1) the degree of

¹⁶ This phenomenon is due to the historical existence of a particular ‘moral economy’ that, “looks backward to rights guaranteed in the developmental pact, but also forward to the objectives promised in developmental ideology” (Walton and Seddon, 48).

overurbanization¹⁷, and (2) the degree to which international agencies can exert pressure on developing nations to enact socially regressive policies (Walton and Seddon, 42-44). While Walton & Seddon do not deny that other factors are in play-- such as inflation and level of debt burden-- they argue that such factors, “contribute little to the explanation of protests events beyond what is explained by IMF pressure and overurbanization” (Walton and Seddon, 44).

Richard Peet (2003) agrees with Walton and Seddon’s assessment about the causes and predictors of ‘austerity protests’. His analysis found that when ‘austerity protests’ themselves began to occur there was a corresponding rise in the severity of conditionality, or what he terms the “austerity” phase of conditionality. He suggests that this particular “phase” arose after the 1970s. Prior to existence of more economically intrusive (or structural) conditionality, Peet finds that expression of discontent over IMF conditions took place primarily between the governments of developing nations and the institution of the IMF (Peet, 87). However, with the implementation of more austere conditionality there was a rapid acceleration of ‘austerity protests’. Peet points to the occurrence of strikes, violent riots, and regime changes during the 1970s and 1980s in both Latin America and Indonesia in reaction to Fund-supported policies, as evidence of the relationship between the implementation of IMF supported conditionality policies and political instability (Peet, 88-91).

In their analysis of the 1980s economic crisis in Africa, Latin America, and the Caribbean, Dharam Ghai and Cynthia Hewitt de Alcantara have also found Fund supported adjustment policies to be a significant factor in causing austerity protests.

¹⁷ Overurbanization refers to, “urbanization rates beyond levels expected for the degree of conditionality” (Walton & Seddon, 44).

However, they posit that the recessions of the 1980s¹⁸, and the corresponding ‘drop in revenue’, are *equally* responsible for an increase in the ‘disaffection and protests’ within the urban working and middle-class population (38). Essentially their argument touches on many of the same points made by Walton and Seddon including: (1) the existence of a developmental policy (Ghai terms it “post-war development model”) in which the government implemented economic policies that benefited the urban population, and (2) the regressive social impact of adjustment policies (Hewitt de Alcantara and Ghai, 28-29, Ghai, 3). However, their analysis stresses the importance of the 1980s economic crisis, especially as it relates to a change in the economic and social structure of effected nations (Hewitt de Alcantara and Ghai, 26). Simply stated their argument purports that as a result of a dramatic drop in government spending (due to recession and IMF adjustments) in areas such as education and health, the overall economic structure, which the working and middle class had come to know and rely upon for their livelihood and opportunities for upward mobility, collapsed in the 1980s. As a result the affected classes organized and protested both against the national government and the Fund. They note that the ‘frustration’ felt by both the poor and middle class was ‘expressed in work stoppages, strikes and other forms of protests’ which assumed ‘increasingly (and often novel) political significance’ (Hewitt de Alcantara and Ghai, 28-29). In relation to the political ramification of such actions, their analysis found that the political results ranged from ‘retraction of policies to a change in regime’ (generally these changes involved massive strikes by trade union coalitions). However, they suggest such results have not been the

¹⁸ Ghai and Hewitt de Alcantara discuss the 1980s recession at length. Their quantitative analysis shows the recession was due to a ‘unfavorable developments in the world market’ including: ‘worsening terms of trade, increase in real interest rates, decline in external resource flows and capital flight’ (especially in Latin America & the Caribbean) (Hewitt de Alcantara and Ghai, 19-24).

norm. In many cases organized workers accepted ‘serious cuts in welfare’, rather than risk further action that might result in a loss of their jobs—especially in areas where workers’ bargaining position is negatively impacted due to high unemployment rates (Hewitt de Alcantara and Ghai, 36).

Finally, it has been argued that one of the larger issues surrounding the IMF and its conditionality policies has been the potential they have for violating the sovereign rights of developing nations, which has the potential for causing political protests (European Parliament Report, 13, Kovach 2006). Essentially this argument suggests that in many cases negotiated agreements, expressed in Letters of Intent, between the Fund and debtor nations have been reached without the policies first going through the parliamentary process. In effect this has left the public of developing nations without a democratic voice, and has severely restricted the economic autonomy of governments of developing nations (Woodroff and Ellis-Jones 2000, Kovach 2006, Peet, 92). Left without political means to effect change, some analysts suggest the public of developing nations has been forced to make itself heard through various form of political protests. States are put into a political pressure pot when threatened with the loss of political legitimacy and stability on one side, and the loss of much needed economic assistance on the other. Walton and Seddon suggest that developing nations have had little choice other than sacrifice their ‘political sovereignty to foreign banks, agencies, and governments’ (Walton and Seddon, 131). Moreover, Ghai and Hewitt de Alcantara argue that a combination of international pressure operationalized through IMF conditionality, and the occurrence of political protest actions, resulted in a change in the political makeup of many Latin American governments between 1980 and 1990. In order to

prevent a ‘total collapse of public authority’, many governments ‘opt[ed] for an authoritarian and repressive solution’ to the problem (Hewitt de Alcantara and Ghai, 39). This would suggest that some section of Latin America did in fact experience Bienen and Gersovit’s definition of political instability; a process of political action operationalized through protests that leads to change, namely authoritarian governing.

Conditionality and Stability 1.2

The following section outlines arguments that suggest no casual relationship between IMF stand-by programs and political instability exists. Some of the literature in this section maintains that any connection between IMF conditionality and political instability is the result of mere chance. Other literature argues that while a few rare cases of political instability (which in this particular literature is referring to actual regime change) that can *in part* be related to conditionality can be found, such cases should be analyzed in respect to the long-term consequences of conditionality. In short, this argument suggests that economic instability itself is a cause of continuous political turmoil. Conditionality is meant to fix the very structural economic problems that inhibit economic stability. While harsh conditionality *might* in the short-run exacerbate political turmoil, in the long-term it is the very thing that helps bring about economic stability, thus enhancing the chance that political stability will result.

Scott R. Sidell has systematically studied the connection between IMF high-conditionality stand-by arrangements and political instability. The study collected and compiled information on countries (99 countries and 891 cases in one study, 60 countries and 540 cases in another) between 1969 and 1977. It used this data to complete both an OLS cross-national bivariate and multivariate regression test (static in nature), as

well as an error component cross-national time-series bivariate and multivariate regression test (dynamic, tested the difference within countries over time). It included countries that; (1) had experienced no stand-by arrangements or IMF supported programs, (2) countries that did implement IMF supported programs, and (3) countries which had ‘experienced either first or second, third to fifth, sixth to tenth, or eleventh or more IMF stand-by program (Sidell 1988, 41). Sidell utilized the protest indicators described and categorized by Taylor and Jodice¹⁹, as well as adding a third ‘dimension of political instability’ that was titled ‘illegitimate executive transfers’ as the dependent variables in the study (Sidell, 28). It is important to note that unlike Walton and Seddon’s study, Sidell’s research studied *all* political protests, and not just those instances of political protest aimed at the Fund and its policies. The study regressed the dependent variables on a set of explanatory variables that Sidell felt would be shown to ‘explain variance in each of the dependent variables’²⁰. They were also regressed with a set of control group ‘sociopolitical’ variables that Sidell had identified as being connected to political instability through reviewing previous literature on the causes of political instability (Sidell, 41).

Sidell’s study found no empirical evidence to suggest a positive connection between the introduction of IMF stand-by arrangements and political instability. This held true for all three of the dependent variables, including the political protests. Sidell suggests that any ‘apparent association’ between IMF stand-by arrangements and

¹⁹First category was collective protest that includes; riots, political strikes, anti-government demonstrations. Second category was internal war and included; armed attack events, assassinations, and deaths from political violence (Sidell, 28).

²⁰ Explanatory and control variables included; degree of state-sponsored repression, relative societal educational attainment, degree of urbanization, union density, population growth, relative size of the military, degree of political institutionalization, fund-supported economic intervention, and historical degree of Fund-supported economic intervention (Sidell, 32-34).

political instability is, “likely to be explained by the simultaneous existence of a variety of long-term structural economic problems, which, in and of themselves, tend to induce political instability” (Sidell, 71). In short, he stresses that any relationship is likely to be a spurious one. Sidell stresses that while the OLS cross-national static test found “countries that experience a minimum of just one IMF stand-by arrangement tend to be more likely to experience collective protests in general than...countries that have not experienced a stand-by program,” the dynamic error components test did not concur with this finding. While Sidell submit that this might suggest a problem with the time-series test, he argues it is more likely to be explained by the fact that the findings of the OLS cross-national test were incorrect because due to its static nature it was unable to pick up on differences within nations between years. He explains:

“A cursory examination of the data shows that most countries that experience Fund stand-by arrangements are more likely than other countries to have already experienced prior stand-by arrangement, or are more likely to experience a future stand-by. Hence, countries experiencing a Fund stand-by are more likely than other countries to have already experienced a greater amount of collective protests, or are more likely to experience a greater amount of collective protest in the future” (Sidell, 68).

While Sidell does not suggest that his findings are absolute, he does suggest they show that other analyst should further tests their assertion that the introduction of stand-by arrangements necessarily increases the likelihood that a country will experience political instability; an assertion his study found to be false (Sidell, 72). Scott Sidell, Ariel Buira, as well as Bienen and Gersovitz suggest that while there are cases in which IMF supported policies have induced political protests and political change, this is not the norm. They all assert those analyses that use ‘adverse selection’ or ‘worst-case’ examples, and assert a positive relationship exists, should not use such findings to make

broad generalizations. Buira even suggests that ‘adverse selection’—or choosing countries that are already experiencing economic crisis before coming to the Fund-- makes such studies inherently flawed because they cannot determine whether the political stability is being caused by the crisis or by conditionality (Babb and Buira, 41, Sidell, 71-72). Furthermore, Bienen and Gersovitz argue not only that some critical analyses of conditionality have biased their results by concentrating only on nations that have experienced political protests, but more importantly this is proven by the reality that the overall number of IMF programs far outweighs the number and instances of ‘serious instability’ (Bienen and Gersovitz 1985, 730).

Bienen and Gersovitz have extensively studied IMF conditions that require consumer subsidy cuts and their respective effect of political stability from 1976 to 1984. As mentioned above, Bienen and Gersovitz *do not* believe that protests, riots, or other instances of political action taken against governments in and of themselves represent political instability. In order to qualify as political instability they suggest the process of the political action must actually end in some measurable change; thus this particular concept of political instability must be understood when considering their findings. Essentially Bienen and Gersovitz argue that while there are examples of protests over subsidy cuts, and in some cases these protests have lead to riots (usually not the intention of the protest leaders), there are few instances where the end result was a regime change.²¹ They suggest that in most instances evidence suggests protestors are only interested in effecting a change in subsidy cuts, rather than wanting an actual change in

²¹ They do note regime change did occur in Liberia and Sudan, and that the Egyptian government was ‘weakened’ by protests and riots over subsidy cuts. However, they note that in the case of Liberia while the riots over subsidy cuts certainly was a factor, the regime change took place a full year later at a time when Liberia was not even under a stand-by arrangement (Bienen and Gersovitz 1986, 34, 1985, 733).

government. And while protests over subsidy cuts have often resulted in the removal or scaling back of such policies, in all instances (except Liberia) the government was able to regain control (Bienen and Gersovitz 1986, 32-33). In contrast they suggest that in some cases (example Jamaica) a government's failure to 'negotiate' and enter into an arrangement with the Fund results in an increase of instability (Bienen and Gersovitz 1985, 734). Finally, their analysis suggests that while subsidy cuts can cause protests and riots in the short-run, in the long-run conditionality policies have been 'more likely to generate economic success and avoid the political instability associated with economic chaos' (Bienen and Gersovitz 1985, 729). Moreover, like Sidell, they suggest that in cases where political protests have occurred, it is usually within nations that are already experiencing economic crisis. They stress that in many cases developing nations have not come to the IMF for help until their economic crisis has already put them into a position of dire need, thus leaving little room for incremental economic change. Therefore, rather than conditionality being the sole cause, it is the economic crisis itself that has pushed the nation to the brink of political instability (Bienen and Gersovitz 1985, 730).

Brief Overview of Economic Conditions and Conditionality in Latin America 2

The following section gives a very brief overview of the economic climate in the three case study countries. It contrasts some of the major economic changes that occurred in Costa Rica, Brazil, and Argentina between 1992 and 2000. It also offers some insight into the relationship between these three countries and the IMF, as well as highlighting some of the conditionalities the IMF has called for in the three cases. The

information is vital so that the reader may have a better understanding of the conditions surrounding the protests that are outlined in the next section.

Before getting to the economic specifics of the three case studies it is first important to review the history of conditionality in Latin America. Prior to the debt crisis of the 1980s, developing nations, including Latin America, had access to incredible amounts of foreign credit (much of the credit was excess petroleum profits that were ‘recycled’ by private banks in the form of loans to developing nations) (Walton and Seddon, 15). The development strategy of many Latin American countries in the pre-structural adjustment period (prior to 1980s) was to implement import substitution industrialization (ISI). Essentially this strategy consisted of ‘Third World’ governments implementing high tariffs on consumer goods produced domestically (consumer goods which had previously been imported); simultaneously the importation of raw materials was made cheaper though, “overvaluation, dual exchange rates, subsidies, and other devices” (Pastor, 21-22). The ISI strategy also included the state taking an active role in the development strategy by providing for infrastructure such as the construction and management of utilities. Moreover, the government spending for these projects was financed by borrowing abroad, and consequently running up the government deficit (Vera 2000, 1).

As discussed earlier in the paper changes in the global market starting in the 1970s (including the oil crisis) sparked debt crises in the 1980s in many developing nations—including Latin America. A complete explanation of the forces behind the debt crisis is complex and varied, but a good short explanation of it is offered by Leonardo Vera. As Vera explains, the deflationary policies of the industrialist countries (including

the United States) in effect caused ‘interest rates [to increase to] record levels’. In the case of Latin America, which had much of its debt in the form of floating interest rates, the increase in interest rates and the fall of inflation had drastic consequences in respect to the servicing of their debt (Vera, 1-2). Moreover, the beneficial trade environment that had helped spur development and growth, gave way to ‘declining terms of trade’ which further expanded the balance of trade deficits in Latin America. This made debt servicing more difficult and more expensive. As interest rates increased, and the earnings from exports decreased, the amount of total percentage of GDP it took to service the debt grew ever larger. Leonardo Vera notes that between 1982 and 1984 almost all third world countries “were forced to declare some form of moratorium [or suspension] on debt servicing” (Vera, 1). In short, these changes in the global economy (along with fiscal deficit spending)²² put enough pressure on Latin American and other third world economies that it became necessary to either (1) borrow more money to be able to service the debt, or (2) find a way to ‘bring demand for foreign exchange into better balance with decreased supply’ (Walton and Seddon, 14-16). The problem with the first scenario is that the private lending that had previously been so readily available had now dried up as private lenders and investors found the economic risks in Latin American too great. Whereas private banks formerly were willing to reschedule the debts of developing nations in return for more profitable lending arrangements, they were now apprehensive about any further lending or rescheduling. The result was that any further lending--

²² It is important to recognize that there are many different explanations for the causes of the 1980s debt crisis. Moreover, there are many different views on how the structure of the global economy and capitalism plays out. For a fuller understanding of the various arguments including the views of structural, orthodox (IMF view), and neo-Marxian see Manuel Pastor’s discussion in chapters two and three of his book *The International Monetary Fund and Latin America: economic stabilization and class conflict* (Pastor 1987).

either through private sources or emergency IMF (or other international organizations such as the World Bank) loan packages-- now became dependent on whether or not developing nations, including almost all of Latin America, were willing to adopt the stabilization programs of the IMF. An overwhelming concern of these programs was bringing down the balance of payment deficits through economic reforms. The reforms attempted to (1) decrease the current account deficits of Latin American countries (in other words change fiscal spending and increase earnings so that Latin American countries stopped spending more than they took in), (2) reduce external debt as well as the percentage of GDP it took to service the debt.

According to Walton and Seddon, the period of the 1980s marked a drastic change in the relationship between the developed and developing countries: “western banks now became less concerned with pouring capital into developing countries than with recovering their existing debts” (Walton and Seddon , 16). Moreover, the international organization and vehicle responsible for ensuring Latin America and other developing nations could repay their debt was the International Monetary Fund and its orthodox stabilization programs.

The power and influence of the IMF in Latin America increased dramatically as well, and this increase can be viewed as being the direct result of Latin American countries being in need of its resources and approval. The total number of Latin American countries engaged in programs with the fund increased from less than twenty-five percent in mid 1970s, to more than seventy-five percent by 1983, and slightly over ninety percent between 1990-1997 (Vera, 22-23). The power and influence of the IMF in Latin America has increased as conditionality has increased. Moreover, Leonardo Vera

has shown that over the life of the IMF the scope and severity of conditionality has been highly dependent upon the demand for IMF resources. So, as demand for IMF resources has increased in the face of global economic problems, the sheer number, scope, and severity of IMF conditionality has increased. Evidence of this can be viewed in the IMF's decision to add structural reforms to its agreements, a change that has had dramatic consequences for Latin America (Vera, 20, 27, 30).

The stabilization programs of the International Monetary Fund have traditionally centered on adherence to the orthodox economic view, and so conditionality (or demands for certain policy changes) in Latin America (as well as other developing nations) has been centered on orthodox prescriptions for economic success. As mentioned earlier in the paper, this view predominately associates balance of payment problems with 'excessive government spending and domestic credit' (Pastor, 42, Vera, 2). Whereas the structuralist would argue economic solutions calling for spending cuts and devaluation could cause inflation, recession, and decline of real wages, the orthodox view sees that such policies will bring growth, a possibility of minor inflation followed by inflation reduction in the long run, and 'significant' improvements in current accounts (Pastor, 44). Also, whereas the neo-Marxian critique of IMF prescriptions claims the orthodox capitalist structure causes a regressive redistribution of both power and income (the popularity of populist or socialist policies have little or no room in IMF programs), the orthodox IMF view sees the outcome of income distribution as being at the discretion of individual member countries. The IMF, during the 1980s, maintained that its deficit spending cuts did not specify which sections of the budget must be cut (Pastor, 57, 60). In short, the point of this discussion is that there is a particular economic view that the

IMF prescribes to, and this view does effect how and why stabilization programs (and conditionality) are structured. Moreover, this view has its critics.

Overview of Costa Rica 2.1

Costa Rica was one of the first Latin American countries to undergo a structural adjustment program under the IMF. It is also one of the only Central American countries to have managed to establish itself as a stable democracy free of problems stemming from either military coups (Costa Rica disbanded its military in 1948) or guerrilla movements. In addition to being a stable democracy Costa Rica has also offered its citizens various socialist economic benefits such as free health care and a free educational system, that were part of its ‘strong socialist economic framework’ designed to provide its citizens with some basic level of services (Hansen-Kuhn 1993, Amish, 11). Also, like many other Latin American countries (including Argentina and Brazil) Costa Rica undertook import substitution as its development strategy until such a program became unsustainable in the 1980s. Costa Rica had borrowed heavily from abroad after soaring oil prices and deteriorating terms of trade effected its trade balance. The problem Costa Rica faced was that following the Mexican debt crisis private lenders began refusing any further lending to Latin America as a whole, and Costa Rica had a \$4 billion dollar debt that needed to be rescheduled . Thus, Costa Rica had little choice but to turn to international organizations like the IMF for assistance in regaining market confidence.²³

Starting in the 1980s Costa Rica has undergone a series of Structural Adjustment Programs (SAPs) that have included the usual controlled devaluation, fiscal austerity,

²³ “Defending the State, Empowering the People: An interview with Otton Solis.” *Multinational Monitor*, 9 January 1998. <<http://www.hartford-hwp.com/archives/47/328.html>>

market liberalization, and privatization policies that dominate most IMF agreements (Amish, viii,). Many of these policies, however, contradicted the popular socialist structure that had come to be a part of Costa Rica. The government could not implement the fiscal cuts required by IMF conditionality, and simultaneously maintain the level of social spending and infrastructure investment it had in the past. Consequently, Costa Ricans lost many of the various ‘fee free’ social services. However, Costa Rica did not completely bend to the will of the IMF. While the Costa Rican government did agree to undergo fiscal austerity measures, as well as some privatization, there were some privatization projects (such as privatizing the banking sector, telecommunication, and electricity sectors) that Costa Rica did not implement (even as of the 2001 Article IV Consultation with Costa Rica had yet to privatize the telecommunication and electricity sectors) despite pressure to do so (Chaudhary, 15).

Costa Rica underwent three different stand-by arrangements with the Fund in the 1990s (1991-92, 1993-94, and 1995-97). During this time period Costa Rica was still having difficulties with inflation, its GDP had yet to rebound to pre-crisis levels, and it was still suffering from trade and fiscal deficits starting in 1993 (Hansen-Kuhn, 1993, International Monetary Fund 2002, No. 02/47). Despite political pressure to discontinue Fund austerity measures, Costa Rican President Rafael Angel Calderon (elected 1990) continued with conditionality in order to keep the support of both the IMF and World Bank (Chaudhary, 22). The 1991 agreement with the Fund required Costa Rica to implement a 30 percent increase in sales tax, and make a commitment to reduce the budget deficit. Costa Rica also introduced the ‘crawling peg’ in the 1990s, despite urging from the IMF that it adopt a floating exchange rate (Chaudhary, 17). However, like many

other Latin American countries Costa Rica preferred an exchange rate that was not completely determined by the open market, thus devaluation could be done in a more controlled manner.

The Costa Rican economy did fairly well in 1992, but starting in 1993 inflation began to rise as the public finances began to deteriorate (International Monetary Fund 1998, No. 98/34). Between 1992 and 1993 the government's revenue to expenditure totals were almost balanced; with the average overall deficit running at 1.9 percent of the GDP. However, between 1994 and 1996 the government was running a deficit that ranged from 4.5 to 5.3 percent of the GDP. According to an IMF report the increasing deficit was due, "almost entirely to increases in interest payments on the domestic debt" (International Monetary Fund 1998, No. 98/45, 11). Inflation also remained a large problem for Costa Rica's economy increasing from 9 percent at 1993 year end, to 19.9 percent in 1994, and 22.6 percent in 1995 (International Monetary Fund 1998, No. 98/45, 27, 63). By 1995 Costa Rica was experiencing a recession, and once again found it necessary to approach the IMF for additional funds.

According to a press release issued by the IMF in 1995, the corrective economic program approved by the Fund for 1995 and 1996 included micro and macro structural changes such as pension reform (e.g. raising minimum retirement age and increasing required contribution time), scaling down the public sector and opening it to foreign investment, reducing the external account deficit, further privatization (including the public bank *Banco de Costa*), and increasing international reserves. Costa Rica followed most of the IMF conditions, but failed to privatize a publicly owned liquor company 'due to lack of political support'. Economic conditions, however, had improved somewhat by

1997. Inflation had recovered to 1992 levels, and the budget deficit had improved (International Monetary Fund 1995, No. 95/59, 21, International Monetary Fund 1998, No. 98/45, 21).

Costa Rica was also undergoing political changes in 1994. The presidential election that year saw the victory of candidate Jose Maria Figueres of the social democratic National Liberation Party (PLN) over candidate Miguel Angel Rodriguez of the Social Christian Unity Party (PUSC). The PUSC was the outgoing ruling party. In an article written by Ian Williams and published in *New Statesman & Society* the election of Figueres was described as Costa Ricans “snubbing” the IMF. The “snubbing” description had to do with the fact that Figueres is the son of the president who won the 1948 election, and consequently the leader who initiated many of the popular socialist programs following the civil war.²⁴ Moreover, Figueres won the presidential election by running under the same party as his father (Don Pepe). Consequently it is perhaps no surprise that some Costa Ricans felt Figueres’ policies would help reestablish more socialist policies (or at least stop the halt) of the march towards market liberalization, privatization, and cuts in social spending. However, in an article written by Larry Rohter and published in the *New York Times*, after only two years it had become apparent that Figueres’ policies were quite the opposite of what many had expected. His policy decisions had included opening the banking system to privatization, shutting down the government owned railroad, reducing the government payroll, raising taxes, lowering tariffs, and reforming the pension system ‘once renowned for its generosity’. These policies were in line with the IMF conditionality described in the previous paragraph.

²⁴ Ian Williams. “Costa Rica Snubs IMF.” *New Statesman & Society*, 18 February 1994.
<<http://www.accessmylibrary.com>>

According to the Rohter article, the economic policies instituted by Figueres had made him the, “most unpopular President of modern times and led to accusations that [Figueres] is betraying the principles of his father and their party, which is a member of the Socialist International.”²⁵

In 1997 Costa Rica made its last debt repayment to the Fund, and has not chosen to enter into any more arrangements with the IMF. However, Costa Rica is still a member and still undergoes yearly Article IV Consultations. Costa Rica’s economy was still not completely back to pre-recession levels. Its decision to forgo any more arrangements might seem to signal an end to neoliberalism in Costa Rica, however, that was not to be the case. Costa Ricans elected to power in 1998 the opposition party to President Figueres, and his opponent in the 1994 presidential race, Miguel Angel Rodriguez. President Rodriguez, however, continued to push the same economic policies that had made Figueres unpopular including market liberalization, privatization, cutting social welfare programs, and trying to attract foreign investment. He pushed through legislation that would have privatized the public monopoly on electricity and telecommunications referred to as the Costa Rican Electricity Institute or ICE. This privatization was approved by both the United States and the IMF. However, as discussed below in the section on austerity protests, the move met with severe opposition from the public. Following the bill were the largest political protests that had occurred since the 1970s (Wikipedia 2007).

One explanation for the continuation of neoliberal economic policies despite the lack of IMF conditionality is Costa Rica’s need to attract foreign direct investment (FDI).

²⁵ Larry Rohter, “Costa Rica Chafes at New Austerity.” *New York Times*, 30 September 1996).

Because FDIs and private lenders prefer many of the same economic policies that are a part of IMF conditionality, developing nations are not necessarily free of neoliberalism even if they are not under a Structural Adjustment Program. Moreover, as a member of the IMF Costa Rica was still undergoing surveillance and scrutiny of its economic policies by the IMF; and that information can still be used by FDIs to determine whether or not to invest in a particular country.

Costa Rica was well aware that attracting foreign investment was critical to its economic well being. Prior to 1998, Costa Rica's economy relied predominantly on commodity products (namely coffee beans and bananas) for export earnings. Commodities, however, are extremely vulnerable to market fluctuation, and their price is determined by the global market. It was therefore vital for Costa Rica to both attract foreign investment in order to diversify its economy, as well as to provide export earnings other than commodities.

Costa Rica was successful in attracting foreign direct investment (FDI) in 1997 when Intel Corporation decided to open a plant in the Free-Trade Zone of Costa Rica. The decision, however, was a year long involved process. One of Intel's main concerns was Costa Rica's infrastructure. More specifically it was concerned with Costa Rica's publicly owned telecommunication and electric sectors controlled by ICE. However, Intel's misgivings were countered by other positive aspects of Costa Rica including (1) the tax exemptions available to firms in the Free-Trade Zone, (2) the high educational level of the Costa Rican labor force, and (3) the political stability of Costa Rica. In the end Intel did decide to locate in Costa Rica, and that had a dramatic impact on Costa

Rica's economy. In 1997 Costa Rica had a trade deficit of \$497.6 million, and by 1999 it had a \$632.1 million trade surplus (Larrain, Lopez-Calva, and Rodriguez-Clare, 3-6, 13).

In 2002 Costa Rica was still recovering from economic downturns in 2000-2001, and in response it implemented on its own some policies that were in line with usual IMF prescriptions. Throughout the 1990s (despite the small recession in 1995) the average growth rate for Costa Rica had been 5 percent, but this growth rate slowed considerably in 2000-2001 to a low of 2 percent, and rebounded only slightly to 2.8 percent in 2002. The public debt as ratio of GDP also increased from 40 percent in the late 1990s to 50 percent in 2001 (International Monetary Fund 2003, No. 03/82, 5). The increase put more pressure on the Costa Rican economy as more of its GDP was needed to meet debt repayment. While Costa Rica did not turn to the IMF for help, it did implement several policies at the end of 2002 that could be considered in line with IMF policy prescriptions. The policies implemented by President Abel Pacheco (PUSC party) included (1) an increase in personal and corporate income taxes for 2003, (2) the creation of spending ceilings in public discretionary expenditures (fiscal cuts), (3) wage increase limits and investment limits for ICE (still publicly owned), (4) an increase in the reserve requirement of banks, and (5) increase in the crawling peg rate which would increase the rate of depreciation of the colon (make exports more competitive). These changes show evidence that despite the lack of an IMF program (it had been program free for 5 years) Costa Rica was still implementing some market friendly fiscal and monetary policies (International Monetary Fund 2003, No. 03/82, 8). Moreover, it was still taking some advice from the IMF and agreeing to implement certain portions of the policy package

prescribed in the 2002 Article IV Consultation (International Monetary Fund 2003, No. 03/82, 4).

Table 2.1: Costa Rica Selected Economic Indicators 1992-2002

Year	GDP (US\$million)	Real GDP Growth (%)	Total External Debt (DOD, current US\$ million)	Current Account (US\$ million)	Foreign Direct Investment (BoP current US\$ million)
1992	8574	7.7	3934	-370	222
1993	9638	6.3	3863	-620	244
1994	10558	4.5	3909	-234	293
1995	11722	2.4	3802	-358	331
1996	11843	-0.6	3491	-264	421
1997	12829	3.7	3478	-481	404
1998	14096	6.2	3960	-521	608
1999	15797	8.2	4216	-667	614
2000	15946	1.8	4456	-707	404
2001	16403	1.1	4650	-603	451
2002	16844	3.9	4834	-857	625

World Bank/World Development Indicators

Overview of Argentina 2.2

Before Argentina undertook a series of structural changes in the early 1990s, it was experiencing problems with hyperinflations, ‘stagnant’ output, and an unstable economy (International Monetary Fund, 2003, No. 01/81). In 1991 Argentina instituted a new monetary system, the Convertibility Plan, which pegged the peso to the dollar at the exchange rate of 1 to 1 (Schuler 2002, 3, Shambaugh 2004, 281). The fixed exchange rate policy of the currency board had both its perks as well as its drawbacks. On the one hand, fixed rate exchanges (versus flexible exchange rates) are preferred by commercial bank lenders because of their ‘economic stability and credibility’. On the other hand, flexible exchange rates offer more flexibility for governments, and allow them to respond to external economic shocks by devaluing their currency (Shambaugh, 284). It is important to note, however, that Argentina’s currency board was not a true orthodox board. Kurt Schuler, author of “Fixing Argentina”, explains that while Argentina’s monetary system was a ‘currency board-like system’; it was an unorthodox currency board. This meant that while at times it had all the elements of a currency board there were also times when it lacked the criteria to be a ‘true’ currency board (Schuler, 5).

In an address given to the 1997 National Banks Convention in Argentina, Michel Camdessus, Managing Director of the International Monetary Fund, gave high praise to Argentina for its implementation of the Convertibility Plan and its ‘rigid’²⁶ economic requirements²⁷. Claiming that the plan was in large part responsible for Argentina’s

²⁶ The Convertibility Plan officially prohibited currency devaluation. This meant, “it would literally take an act of Argentina’s Congress to change the peso’s value,” even if it was highly overvalued when compared with the U.S. dollar (Pastor & Wise, 2001).

²⁷ During the 1990s the Convertibility Plan prevented the Central Bank from providing domestic credit beyond certain limits, eliminated indexation, and implemented structural reforms in fiscal, monetary, and trade areas (International Monetary Fund 1995).

economic stability and economic credibility (necessary to attract foreign investment) in the 1990s, he referred to the plan as ‘crucial’ to Argentina’s economic (Camdessus 1997). To be sure, the IMF in the early to mid 1990s did have points of concern related to Argentina’s financial sector, fiscal reform, and labor market reform, but overall the Fund seemed pleased with the progress of Argentina’s structural reforms.

Argentina also embarked on several other ‘market-oriented’ structural reforms which were to give it the title ‘Poster Child’ of the IMF. Generally the IMF’s policy recommendations have been viewed as following the ‘neoliberal economic doctrine’ of the United States. Thus Argentina, which followed the IMF’s policy recommendations closely, had structural economic changes that included (1) opening its economy to competition (trade and capital accounts have been liberalized), (2) deregulation, and the (3) privatization of formally government owned industries/municipalities (International Monetary Fund 1995, No. 95/18, Payne, 25-56, Fischer 2001). Once Argentina opened up its economy, foreign investment in the country’s infrastructure quickly ensued²⁸. According to the International Monetary Fund, these structural changes were responsible for the, “real economic growth [average] of more than 7 percent a year between 1991 and 1994...and [the drop of inflation] from very high levels to less than 4 percent in 1994” (International Monetary Fund, 1995, No. 95/18). Continued economic stability gave Argentina’s economy an average growth rate of 6 percent between 1991 and 1997. Although the economy did suffer a short recession in 1995, due to the Mexican economic crisis, it rebounded well and was again praised by the IMF for its ability to do so

²⁸ “Argentina followed the IMF model more faithfully than almost any other nations. Its economy was opened wide...For a few years this sparked an investment boom as foreigners bought most of the countries patrimony-its banks, phone companies, gas, water, electricity, railroads, airlines, airports, postal services, even its subways” (Kuttner 2002).

(International Monetary Fund 2003, No. 01/81). Perhaps a fair indicator of the IMF's satisfaction with Argentina's economic structural progression was its approval to extend and increase Argentina's Extended Fund Facility (EFF) credit for an additional year. The extended loan also came with additional economic planning recommendations for 1995 which included, "further steps in the areas of privatization, labor market reform, and bankruptcy law that would build on the reforms undertaken over the past four years" (International Monetary Fund 1995, No. 95/18).

In the second-half of 1998, Argentina started to show signs of economic slowdown, and by 2001 its economic problems were serious. After an economic consultation with Argentina in 1999, the IMF reported that the economic slowdown and decline of Argentina's GDP, as well as the rise in interest rates, were due to 'global market turbulence' taking a toll on Argentina's economy (International Monetary Fund 1999, No. 99/24). Despite the economic slowdown, Argentina agreed to institute various fiscal spending cuts, to deepen the structural reforms, to set limits on federal government indebtedness through the passage of a "Fiscal Responsibility Law," to further privatization of publicly owned banks and utilities, and to institute labor market reforms (including restructuring formally union-run health plans) (Argentina Policy Memorandum 1999).

Despite the fiscal tightening and market reforms Argentina's economy did not rebound. From 1998 to 2002 Argentina experienced a 'downward slide' to economic crisis. Its GDP declined 3.4 percent in 1999, 0.8 percent in 2000, 3.7 percent in 2001, and finally, the most drastic drop occurred in 2002 with a loss estimated between 10 and 15 percent. During this same period consumer prices modestly increased from 1999 to

2001, but in 2002 they jumped 25 to 30 percent (Schuelke 2000). According to an evaluation by the Independent Evaluation Office (IEO), as early as 1999, there were fears over whether or not Argentina would be able to fulfill its obligations to its public debt, “concerns which eventually became self-fulfilling” (International Monetary Fund July 2003). The International Monetary Fund, however, did not cease its financial support (lending more debt). In March of 2000 it approved US\$7.2 billion as part of Argentina’s three-year stand-by credit agreement with the Fund. The Fund cited the current economic problems in Argentina as resulting from (1) external shocks in the aftermath of the Russian and Brazilian crisis, (2) a reduced access to financing (capital flight) (3) an economic downturn in the region as a whole, and (4) a ‘significant’ terms-of trade loss (International Monetary Fund 2000). In return for access to IMF funds Argentina agreed to continuing fiscal austerity measures including a zero-deficit law which was passed in July. The zero-deficit law required the government to reduce government wages and pensions by 13 percent (Argentina Letter of Intent, Memorandum of Economic Policies, Technical Memorandum of Understanding 2001). The IMF continued providing more loans to Argentina up until 2001. However, when the Argentine President Fernando de la Rue made the decision to partially freeze bank deposits in Argentina out of fear that the states declining economic position would lead to more capital flight, the Fund suspended its next loan disbursement²⁹. According to the IEO the decision by the president in effect took Argentina out of compliance with the ‘conditions of the expanded IMF-support program’, thus giving the IMF reason to cut its funding (International Monetary Fund

²⁹ On December 1, 2001 President De la Rue imposed a freeze on bank deposits, “in response to large withdrawals on November 30...Argentines remembered how high inflation during similar freezes in 1982 (engineered by Cavallo) had robbed them of the real value of their savings. Cavallo and De la Rue resigned in the face of widespread protests” (Schuler, 9).

July 2003, Schuler, 9, U.S. House 2002). During this crisis the newly appointed Minister of Economy, Domingo Cavallo, announced his plan for a drastic change in Argentina's monetary policies. His plan included a change in the anchor for the peso from all dollars (since 1991), to half dollar and half euro. The plan was approved by Congress in June to be implemented, "if and when the euro ever appreciated to 1 per dollar" (Schuler, 8). This, however, led to an increased loss of confidence in the peso, which caused economic problems as investors prefer economic environments which are stable.

In December of 2001, after the IMF refused further lending³⁰, Argentina defaulted on 'roughly' \$80 billion (other estimates put it around \$140 billion) in debt to private investors (Cibilis 2000). This, however, did not occur until after the government tried to remedy its debt problem by implementing three different 'operations', all of which failed.³¹ After default, there was a collapse of convertibility, which had originally pegged the peso to the dollar. Devaluation of the peso was severe as its value dropped to 'a quarter of its pre-crisis value'. In response the Argentine government took all public and private domestic-law debt and converted it from dollars to pesos. The government then, "proceeded to issue over \$20 billion in dollar-and peso-dominated domestic-law debt (primarily Boden bonds)" (Gelpern 2005). The Boden bonds were considered by Argentina to be 'performing debt', "[referring to debt] issued to overcome the [2001]

³⁰ "[In] March 2000, the IMF agreed to a 3-year, \$7.2 billion arrangement with Argentina. Moreover, in January 2000, the IMF augmented its early agreement by pledging another \$7 billion for as part of a larger \$40 billion assistance package which involve[ed] the Inter-American Development Bank, the World Bank, Spain, and private lenders. However, due to the fiscal instability in Argentina, the IMF withheld its \$1.24 billion loan installments on December 5 [2001]" (U.S. House 2002).

³¹ "In February [Argentina] swapped about \$4 billion in external bonds, extending near-term maturities [bonds about to be worth their full value]. The famous mega-exchange in June pushed off maturities on over \$30 billion at the cost of increasing Argentina's foreign currency, foreign-law debt stock and raising the spreads to levels that undermined market confidence...In November 2001, Argentina offered to swap about \$42 billion in foreign bonds for loan governed by Argentine law and secured by dedicated tax revenues" (Gelpern 2005).

crisis, [and thus] **part of the solution of the Argentina crisis and...not part of the problem.**” Argentina considered the debt to be separate from defaulted debt primarily because it was debt incurred in the mist of crisis, “and it was debt placed to keep the banking system in operating conditions and to be swapped for frozen rescheduled deposits” (Nielsen 2003, 15, bold added by source). Some of the bonds issued by the government were traded on the foreign market where they were bought up by foreign investors who banked on the notion that the government would not default on debts which constituted the bulk of capital that the Argentine banking system functioned with; a decision they would later regret. As Gilpern explains:

“The net result [of debt/bond swapping] was a radical transformation of Argentina’s debt stock. Before the November 2001 exchange, December 2001 default, and February 2002 “pesification,” almost 70 percent (nearly all the debt owed to private creditors) was in performing foreign-currency, foreign-law bonds [which in in-line with an orthodox currency board]. A year later, these bonds represented just over a third of the total and were mostly in default, trading at some 20 cents on the dollar...The identity of Argentina’s creditors also changed over time, most dramatically [between 2003 to 2005]. In the mid-1990s, Argentina borrowed chiefly from foreign institutional investors [IFIs]. As the recession wore on and institutional interests wore thin, Argentine tapped unprecedented numbers of European, and to a lesser extent Asian, retail investors...Meanwhile, speculative investors...[which some refer to as ‘vulture’ investors] began to buy performing domestic debt and soon defaulted foreign bonds” (Gipern 2005).

By 2001 Argentina’s debt was between US\$140-167 billion (depending on different IMF reports); more than double its debt in 1991. The debt was 52.2 percent of Argentina’s GDP in 2001, and in 2002 it jumped to 132.6 percent of its GDP. Its international reserves, which in an orthodox currency board should equal 100 percent of debt (never actually achieved), had dropped to US\$14.9 billion in 2001. Its reserves dropped even further in 2002, to US\$10.5 billion, returning Argentina to only one half billion away from its 1991 reserves (International Monetary Fund July 2003, 2005). Argentina remained in default throughout 2001 and 2002.

In 2003 Argentina's economy began to rebound from its recession, and it was again under a stand-by arrangement with the Fund. Gross international reserves were up 3.5 billion from 2002, the GDP had experienced a 9 percent increase, and the federal budget ended the year with a 3 percent surplus (1/2 percentage about IMF targets) (Argentina Letter of Intent 2003, Francis 2004). The government had also started to reverse some of the economic policy decisions it had enacted during the crisis. These changes included (1) lifting restrictions on bank deposits, and (2) "easing" some of the major foreign exchange controls, as well as beginning the, "process toward monetary reunification with the redemption of quasi-monies." The structural changes, coupled with a better external environment, seemed to be working as Argentina's economy continued to improve in 2004-2006. The government also began the implementation of several 'ambitious' economic policy reforms, including a complete restructuring of its foreign debt (Argentina Letter of Intent 2003).

Table 2.2: Argentina Selected Economic Indicators 1992-2000

Year	GDP (US\$million)	Real GDP Growth (%)	Total External Debt (DOD, current US\$ million)	Current Account (US\$ million)	Foreign Direct Investment (BoP current US\$ million)
1992	228779	8.7	68339	-5548	3265
1993	236754	6.0	64460	-8206	2088
1994	257440	7.4	74846	-10979	2622
1995	258032	-4.6	98482	-5118	4112
1996	272150	4.4	111085	-6770	5348
1997	292859	8.1	128156	-12138	5507

1998	298948	3.8	141411	-14482	4965
1999	283523	-3.4	145657	-11943	2257
2000	284240	-0.8	147403	-8981	9517
2001	268697	-4.4	154050	-3780	2005
2002	102040	-10.9	150813	8720	2776

World Bank/World Development Indicators

Overview of Brazil 2.3

Brazil, like almost all of Latin America, has been under various IMF stabilization programs starting in 1984. During the early years of development Brazil's plan was also centered on an ISI strategy, however, it was even more dependent than some other Latin American countries on oil imports to sustain its economic growth. Thus, it is no surprise that the oil price shocks of the 1970s hit Brazil especially hard. Faced with high oil prices Brazil was forced to borrow large amounts from abroad in order to maintain its growth. Like the rest of Latin America Brazil found itself faced with extremely high foreign debt burden in the early 1980s and a 'sluggish' global economy that affected its export earnings. It also found itself faced with the problem of private lenders that were no longer willing to lend any more credit. Even a bailout by the United States and some European countries in 1982 could not stop the eventual deal that had to be struck with the IMF (Oliveri 1992, 120-123). As a result of the IMF's stabilization programs Brazil transformed its economic strategy from import substitution based economy to an economy which had opened its doors to foreign investment, and had seen some dramatic economic growth as a result (Pastor, 2, 95).

In the 1990s Brazil's economy began to show signs of slowing. Between 1990 and 1992 per capital GDP was falling, but the real problem was soaring inflation. Brazil was going to enter into an agreement with the IMF as early 1990, but the agreement was blocked by the industrialized countries who claimed Brazil must first pay its debt interest arrears that it owed to private commercial banks as a result of previous loans.³² With the help of the IMF Brazil did finally negotiate an agreement with the commercial banks in 1992. The IMF then arranged a \$2.1 billion loan package, of which 127.5 million was from the IMF's Extended Fund Facility (EFF). Following the agreement, Brazil underwent a series of structural reforms that helped to revive domestic and foreign investment (IMF Survey 1998, 389).

In 1994 after almost four years of continuously rising inflation Brazil introduced a new plan to deal with the problem. The Real Plan (named after the new currency that was introduced) offered a new approach to determining the worth of the Brazilian currency in the global market.³³ The Real Plan was based on a crawling peg, which meant that the real was tied closely to the dollar. The plan appeared to be very effective as inflation dramatically dropped from 50 per cent per month to an annual rate of 2.5 percent in 1998; meanwhile Brazil's GDP per capita continued to grow (Brazil Letter of Intent 1998, Bulmer-Thomas 1999, 729). The IMF hailed the Real Plan as being "instrumental in promoting a remarkable and sustained reduction of inflation, in combination with significant growth of real GDP per capital." (IMF Survey 1998, 389). However, Brazil was still plagued with high domestic interest rates, a large budget

³² Rueters, "Brazil Loans Are Blocked." *New York Times*, 16 November 1990.

³³ For a complete explanation of how the Real Plan worked see Rudiger Dornbusch's article "Brazil's Incomplete Stabilization and Reform," published in the *Brookings Paper on Economic Activity* (Dornbusch 1997, 374).

deficit, as well as large external debt that represented 33.3 percent of the GDP in 1996. Moreover, while the Real Plan may have been partly responsible for the increase in domestic interest rates that plagued Brazilians. The interest rate hikes, however, were viewed as a plus for international investors eager to earn more profit from lending (Dornbusch 1997, 368, IMF Survey 1998, 389). It is also important to note, however, that the economic changes that were perhaps most noticeable to the average Brazilian were the changes in real wages. These changes, including an increase in the minimum wage, were responsible for bringing a 'significant' portion of the poverty above the poverty line. The overall change was really noticeable in the total decrease of poverty that occurred between 1990 and 1995, which saw almost 12 million people go from living below the poverty line to living above it (Dornbusch, 376-378). This change was important because Brazil, like many other Latin American countries, has struggled with skewed income distributions that favor the richest portion of the population.

Brazil's economic growth hit a snag in 1997 as the Asian crisis began to affect the global economy. As noted in the IMF Staff Country Report of Brazil in 1998, the Asian crisis led, "to a change in the perception of risk in international markets and raised concerns that a more balanced mix of economic policies was needed in the face of the deteriorating external environment" (International Monetary Fund, 1998, No. 98/24, 10). In other words, faced with a 'deteriorating' global market, international investors were more inclined to closely scrutinize the economic policies of developing economies to see in their opinion whether or not government's economic policies were capable of handling global economic downturns. Any perceived weaknesses, then, would be seen as

increasing the risk of investment. Thus, the increase in risk would in turn increase the interest rates at which foreign investors would be willing to lend.

For Brazil the Asian crisis brought a sharp increase in its foreign debt interest rates spreads; showing the market was losing confidence in Brazil's economic positions (International Monetary Fund, 1998, No. 98/24, 20). The economic problems that hit Brazil during this period are complex, but in simple terms Brazil was struggling with an over-valued currency, trade deficit, and extremely high domestic interest rates. The once helpful Real Plan, and its crawling peg, was hurting Brazil because the real was not allowed to fluctuate freely (and find its real value to the dollar). In 1997 Brazil was also taking in more imports than it was exporting—creating a trade imbalance. However, the trade imbalance was in part a result of the over-valued real which had made Brazilian export products and domestic products more expensive, and had made imports from the United States cheaper. In order to fill the trade deficit (or imbalance) the Brazilian government had to borrow from abroad, which was hard to do when the market had started to lose confidence in the Brazilian economy.³⁴

Brazil's initial response was to try and attract foreign investment without the aid of the IMF and to weather the 'currency storm' on its own. According to Rodger Cohen of the *New York Times*, Brazilian authorities did not initially seek a deal with the IMF because, "officials [in Brazil] equate[d] such a deal with a loss of sovereignty." In order to attract foreign investment on its own Brazil drastically increased its domestic interest rates, which in turn made the economy even more sluggish and hurt Brazilian borrowers. It also implemented several market-friendly reforms such as selling off its publicly

³⁴ David E. Sanger, "US Plans to Send Billions to Shield Brazil's Economy." *New York Times*, 25 October 1998.

owned telecommunications company (Telebras), and speeding the pace of its pension reforms.³⁵ The effort was an attempt to regain the confidence of the market by showing Brazil was on the “right” economic track. During this period Brazil was also propping up its over-valued currency by dipping into its foreign reserves. By September of 1998 Brazil was spending more than \$2 billion a day in order to keep the real pegged to the dollar and avoid drastic devaluation.³⁶

Brazil’s effort to weather the storm without the aid of the IMF came to an end in 1998. In a speech given on September 24, 1998 Brazilian President Cardoso announced that, “it was in the country’s best interest to carve out a bailout package.” A series of events that occurred in September are probably to blame for the change. These incidents included (1) a dramatic drop in the Brazilian stock market of 16 points in a single day, (2) the withdrawal of \$4 billion from Brazilian banks, and (3) a loss of almost \$24 billion in dollar reserves in September alone (e.g. reserve total went from \$75 billion to \$51 billion). The government panicked when faced with significant capital flight (e.g. vulnerability to capital flight is something that has consistently plagued developing nations), and doubled interest rates in order to try put a stop to the drain. However, the rate of capital flight *did not* slow until the IMF and United States pledged to support Brazil.³⁷

In 1998 Brazil received a \$30 billion ‘bailout’ package that included \$15 billion from the IMF in the form of a 3 year stand-by arrangement. The IMF package, however,

³⁵ Rodger Cohen, “Brazil Pays to Shield Currency, and the Poor See the True Cost.” *New York Times*, 5 February 1998.

³⁶ Clifford Krauss, “Brazil Makes Fast Recovery from Brink of Economic Collapse.” *New York Times*, 24 September 1998.

³⁷ Clifford Krauss, “Brazil Makes Fast Recover from Brink of Economic Collapse.” *New York Times*, 24 September 1998.

was not given out in one lump sum. Only 5.3 billion was made available immediately; with the remaining to be dispersed quarterly starting after the 1999 presidential elections (IMF Survey, 389). The disbursement of the rest of the package depended on whether or not the incoming leadership was willing to implement the necessary austerity measures; which included cutting the fiscal deficit through unpopular cuts in social spending. According to Stanley Fischer, who had met with Brazil to reach an agreement, the delay was done in an effort to avoid the appearance that the IMF was ‘dictating conditions to Brazil’.³⁸ The timing of the agreement, however, put the 1999 candidates in a tough spot politically; Brazilian voters who had not yet gone to the polls began to question the candidates on whether or not they would implement an austerity program if elected.

In 1999 Brazil’s new government did implement the structural changes required under the 1998 agreement. The conditions included the privatization of telecommunication, mining, and electricity sectors, as well as the privatization of Brazilian ports (International Monetary Fund No. 98/24, 62). The program also included fiscal spending cuts including cuts in federal payrolls, a reduction in employee benefits, and the elimination of 70,000 unfilled public posts. Brazil was also required to cut investment spending, increase public sector tariffs, reduce state financing limits, and speed up the reform of its social security program. Finally, the agreement also required that the individual Brazilian states restructure their debts with the federal government (International Monetary Fund No. 98/24, 28, 10). As part of the agreement the IMF also wanted Brazil to move to a floating exchange rate. Under pressure from the Brazilian government the crawling peg was initially allowed to stand with the understanding that

³⁸ David E. Sanger, “Turmoil in Brazil: The U.S. Role; As an Economy Sinks, U.S. Sees Painful Choices.” *New York Times*, 15 January 1999.

Brazil would not be allowed to use unlimited amounts of its resources to keep the real afloat. In the end the fixed exchange rate could not be sustained, and Brazil was forced to move to a floating exchange in 1999 (Subcommittee on International Trade and Finance 2002, 55).

In 2001 Brazil again found itself in need of assistance from the IMF to meet foreign-account obligations, only this time its economic problems were related to problems in a general decline in the global market (weak prices for commodities and diminishing inflows of FDIs) (Subcommittee on International Trade and Finance, 53). Over the years Brazil's economy had become more and more dependent on FDIs as part of its overall budget. On August 8, 2001 Brazil renewed an agreement with the IMF that was set to expire on December 1, and asked for an addition US\$15 billion in IMF funds. Like the previous agreement only \$4.6 billion of the loan would be available immediately, and the rest would be dispersed after the completions of scheduled staff reviews to ensure Brazil was meeting its economic targets. These targets included a public sector surplus equal to 3.35 percent of its 2001 GDP and 3.5 percent of its GDP in 2002.³⁹ (Flynn 2001).

An addition \$30 billion in support was also granted to Brazil August of 2002. Conditions on these additional resources included meeting certain fiscal primary surpluses, inflation targeting (e.g. which could include monetary restraint), the continuation of a floating exchange regime, as well as the stipulation that Brazil honor its foreign contracts and debts (de Mello 2005, xiii). In the period preceding the additional loan the Brazilian economy had suffered addition setbacks for many complex reasons, but two are important to mention. The first was the 'spillover' of Argentina's economic

³⁹ Public sector surplus is equal to revenues minus expenditures excluding debt payments (Flynn 2001).

crisis, and the second way the markets' response to the uncertain outcome of the presidential elections that were scheduled for October. The market responded negatively to the possibility, which ended up a reality, that the left of center party candidate—Luis Ignacio Lula da Silva (Lula) of the Worker's Party—would win the election (Subcommittee on International Trade and Finance, 53, 57-58). In response to fears over the potential possibility that a left-wing government would fail to implement the policies necessary to avoid debt default, the market increased Brazil's risk premium, and interest rate spreads correspondingly rose (e.g. interestingly Brazil under Lula's left-wing government did not default, while Argentina under a right-wing government did default). Brazil, therefore, was being "punished" for events that had not even occurred, and ironically fears that did not materialize. Under President Lula in 2002 Brazil continued to implement 'market-friendly' reforms in line with IMF loan conditions (de Mello, 244-250). When faced with an economic slowdown in the first-half of 2003, and declining revenues, Lula responded with additional fiscal cuts in order to meet and even exceed by half a percent of GDP Brazil's primary surplus targets. He also maintained the inflation targets, and keep up on debt repayment. The market responded by reducing Brazil's risk premium and by the end of 2003 Brazil's economic condition had improved significantly.

Table 2.3: Brazil Selected Economic Indicators 1992-2002

Year	GDP (US\$million)	Real GDP Growth (%)	Total External Debt (DOD, current US\$ million)	Current Account (US\$ million)	Foreign Direct Investment (BoP current US\$ million)
1992	228779	7.7	129060	6089	1924
1993	235754	6.3	144104	20	801
1994	257440	4.5	152403	-1153	2035
1995	258032	2.5	160515	-18136	3475
1996	272150	2.8	181338	-23248	11667
1997	292859	3.2	198491	-30491	18608
1998	298948	-0.1	2419547	-33829	29192
1999	283523	0.8	245469	-25400	26886
2000	284204	4.3	243669	-24225	30498
2001	268697	1.3	231085	-23215	24715
2002	102040	1.9	233107	-7637	14108

World Bank/World Development Indicators

Austerity Protests: A collection of incidents in the three case studies. 3

The following section provides an overview of the austerity protests in the three case studies for the period between 1992 and 2002. The information is given in chronological order. Any large gaps in dates are due to a simply due to a lack of protests related to conditionality. The sources for the protests are listed in either the text, or listed in the footnotes if derived from a newspaper source.

Costa Rica: Austerity Protest Overview 3.1

When this research project began Costa Rica looked like a good choice for a case study. Economically the problems faced by Costa Rica were not as drastic as those faced by Brazil and Argentina (helping to balance out the case studies), and this conclusion appeared to be backed up by the fewer number of times Costa Rica made stand-by arrangements with the Fund. However, upon close examination Costa Rica becomes a much more complicated case. As previously discussed the relationship between Costa Rica and the IMF has been somewhat problematic due to differences in economic ideology. Two of the predominate problems have been Costa Rica's refusal to privatize its publicly owned infrastructure and banks, as well as its unwillingness to free float its currency (Chaudhary, 16-17). In the early 1980s the ideological difference led to Costa Rica's noncompliance with an IMF agreement, and the subsequent cancellation of that agreement (Hansen-Kuhn 1993). As of 1997, while Costa Rica has continued to be a member of the IMF, and as part of that membership has continued to have annual consultations with the IMF⁴⁰, it has not chosen to sign another agreement with the IMF

⁴⁰ "Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information,

despite a declining economy in 2000. Where this causes problems for this particular study when faced with *some* evidence (discussed below) that suggests some protests (and the only austerity protests found for this time-period) were related to IMF involvement in the creation of economic policy, while simultaneously recognizing that during the time in question Costa Rica was not obligated under any written financial agreement to follow IMF prescriptions. Thus, it becomes problematic to label the following protests “austerity protests” that are a result of conditionality.

Before moving on to the questionable incidents of conditionality protests, it is important to first discuss the one incident that can be traced to IMF conditionality. As mentioned in the overview Costa Rica has chosen in many instances to open up its publicly owned infrastructure to private investment, rather than to privatize it outright, in order to appease the IMF. In August of 1996, however, such economic decisions brought on political riots. The protests began after the government announced plans to open up the country’s ports, airports, and railroads to private investment. In response a violent riot began and resulted in 78 people being injured, and the death of three people.⁴¹

The riots and protests that struck Costa Rica in April and March of 2000 were related to the privatization of the publicly owned Costa Rican Electricity Institute (ICE) which has provided Costa Rican’s with relatively (in relation to other Central American countries) low electricity prices since its inception after the civil war (Alphandary 2000). The protests and riots began on March 16, 2000 after the privatization bill was passed through Congress. The protesters (public institution unions and universities) were

and discusses with officials the country’s economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board” (International Monetary Fund 2001, PIN No. 02/47).

⁴¹ Larry Rohter, “Costa Rica Chafes at New Austerity.” *New York Times*, 30 September 1996.

concerned that as a result of the privatization the cost of electricity would dramatically increase, and there would be no corresponding increase in wages to offset the increases. Part of their fear stemmed from the fact that price increases were a result of Chile's recent privatization of telecommunication industries (Amish 2005, 16). According to two sources one person was killed during the course of the riots by a car, and five other people were shot by police. The riots also caused injuries to 30 police officers. The following day students from the University of Costa Rica also protested the privatization, and that protest also ended in violence. The protest turned riot saw 50 students arrested, as well as televised broadcasts of students being beaten with batons by anti-riot police. The TV images sparked a massive response from Costa Ricans with an estimated half million people marching in peaceful demonstrations around the country. According to one source⁴² an estimated 10,000 Costa Ricans marched on the presidential residence on March 21 demanding that the privatization bill be withdrawn from Congress. The protests continued for three weeks during which time an estimated 40 different protests occurred. The protests included blockades, traffic stoppages, marches, a general strike of ICE workers, and the shutting down of two ports which lead to a stoppage in fuel distribution. In the end President Rodriguez agreed to withdraw the bill, and to instead set up a commission to investigate the pros and cons of privatizing ICE (Woodroffe & Ellis Jones 2001, Alphantary 2000).

According to the World Development Movement report "States of Unrest" compiled by Jessica Woodroffe and Mark Ellis-Jones, the privatization bill sent through Congress by the then Costa Rican President Miguel Angel Rodriguez, was in fact a bill

⁴² Woodroffe & Ellis-Jones World Development Report available at <http://www.wdm.org/uk/campaigns/cambriefs/debt/unrest.htm>

created at the behest of the IMF. They point to privatization requirements listed in the IMF's announcement of a stand-by credit in 1995, as well as statements made in the IMF's Article IV consultation with Costa Rica in 1999. In the latter statements the IMF recommended the "prompt approval of the draft legislation to open up electricity generation, telecommunications, and the insurance sector to private sector participation as essential" (Woodroffe & Ellis-Jones, 2001). Some might argue that while Costa Rica was not under any stand-by arrangement at the time, there still existed a political and economic pressure to follow IMF prescribed programs in order to keep a good relationship with the Fund. Furthermore, a positive relationship is needed because the Fund's approval or disapproval of the country's economic plan influences the market decisions regarding financial risks which influence interest rate spreads on external debt, as well as foreign investors' decisions on whether or not to invest in a particular country. Both of these are critical to the economic well being of developing nations. However, the problem thus posed for this study whether or not to actually consider the political protests surrounding the bill as austerity protests, and whether or not the austerity protests can actually be tied to conditionality as discussed in this paper. One must conclude that they cannot be considered as a direct result of conditionality. However, instead of completely leaving out the protests this analysis has chosen to include them in the research paper for consideration. If there has been no mention of the International Monetary Fund in relation to the bill the protests would have not been considered relevant to the paper at all, but that was not the case. Moreover, it is difficult to deny that the Fund does not exert pressure on governments to enact certain policies regardless of whether or not a program exists due to the fact that it has such close ties with international lenders and foreign investors.

Brazil: Austerity Protest Overview 3.2

The first documented austerity protests between 1992 and 2002 in Brazil that could be directly traced to the International Monetary Fund occurred in 2000. There were various incidents of political turmoil between 1996 and 1998 that were related to economic decisions were responses to economic problems stemming from the Asian economic crisis. As a result of economic decisions that could be categorized as being in-line with the neo-liberal ideology, the protests at first glance appear to possibly be associated with the IMF. The problem, however, is the same one faced with Costa Rica in that Brazil did not enter into an agreement with the Fund until December of 1998 (More specifically, Brazil did have previous agreements with the Fund, but there was no agreement in place during this period). Moreover, the information on such political protests, which were associated with a pro-socialism movement organized by the rural workers movement in opposition to Brazil's opening of its economy, did not specifically mention the International Monetary Fund. The movement instead mentions problems of globalization, free-market reforms, and neo-liberal ideology in general—which would obviously include adverse opinions about the IMF (Cohen, 1998). The difficulty with including the protests and violence of this time period is that the economic changes undertaken by the Brazilian government (including public employee layoffs, and drastic increases in domestic interest rates) were done without any evidence that they were pushed by the IMF. Instead the economic program appears to be the Brazilian government's own attempt to attract foreign investment (upon which the economy has

become heavily reliant) and maintaining the Brazilian currency in the face of continuing economic pressure spilling over from the Asian crisis.

The first political movement that was aimed directly against the IMF and conditionality occurred in 2000 in response to “harsh restriction on public spending” associated with IMF. In September of 2000 the Brazilian National Bishops’ Council helped to organize a nationwide “informal referendum.” The referendum asked Brazilians to vote on whether or not Brazil should continue to ‘take loans’ from the IMF. According to an article published in *Dollars and Sense* 5.5 million people voted on the referendum, and of that 5.1 million voted against Brazil undergoing any loan agreements with the IMF (Dollars & Sense 2000). The voting culminated in a demonstration on September 7 in which a reported 100,000 people gathered in Sao Paulo. Woodroffe and Ellis-Jones reported that the, “Government had previously called the referendum “stupid” and an isolated project undertaken by “minorities”” (Woodroffe & Ellis-Jones 2001). The incident in September was coded as two separate incidents, one incident coded for the referendum and one incident for the demonstration.

There is also evidence that a second incident in 2001 sparked a political protest against the IMF, and in particular against IMF conditionality requiring the privatization of previously state-owned Brazilian oil company Petrobras (Brazil Oil). On March 22, 2001 a leaflet was distributed by the “Class Struggle Caucus” that called for oil workers to go on strike. The leaflet explained that the organizers of the strike viewed the privatization of the Petrobras as being responsible for the declining safety of oil workers (the death of eleven oil workers helped spark the protests), as well as the laying off of thousands of Brazilian oil workers. According to the leaflet, since privatization the oil

company had gone from employing 70,000 people to employing 33,000. The organizers blamed the regime of President Cardoso (who “backed the imperialists”) as well as the IMF for the loss of lives and work. The leaflet referred to IMF programs as “starvation plans,” and the privatizations of state-owned companies as an attempt to, “[hand] over industries and wealth to Brazilian big business and its partners, the imperialist bankers” (The Internationalist 2001).

Argentina: Overview of Austerity Protests 3.3

Argentina was the only country out of the three case studies that offered evidence of protests in the systematic review of the New York Times archives between January 1, 1992 and December 31, 2002. In the case of the other two the evidence of any protests was only found through other sources. Mainly this included taking the incidents reported by Woodroffe and Ellis-Jones in their report posted online by the World Development Movement (<http://www.wdm.org>), as well as incidents listed by Anup Shah in a report posted by the website Free Trade and Globalization (<http://www.globalissues.org>). The information on incidents detailed in these reports was then used to complete another web search to corroborate the incidents, as well as fill in the particulars of the incidents. In the case of Argentina, however, evidence of incidents of protests was found in both the web sources as well as the New York Times archives search (also completed online).

The first evidence of riots related to IMF conditionality in Argentina was found in New York Times articles dating back to 1993. On December 17, 1993 an article published in the New York Times reported that at least four people were killed, and 50 more were wounded in the Argentine province of Santiago del Estero when government employees rioted, burning public buildings and looting government officials’ homes.

According to the article the riot occurred in response to the recent ‘fiscal reforms and cuts in public service jobs’.⁴³ Another riot of a much larger scale also occurred in December of 1993 in another Argentine province; yet it is important to mention the protesters’ grievances were over economic reforms as well as what they viewed as corrupt government officials. The protest turned riot involved an estimated 4,000 demonstrators, of which 50 were reportedly injured. Like the earlier riot the protesters burned cars and government buildings, and ‘invaded’ the homes of government officials.⁴⁴ In both cases it was a lack of payment apparently owed to civil service employees, combined with a perceived notion that fiscal reforms were responsible for cuts in government employment that led to the riots. It is important to note that while this research project has found evidence of IMF conditionality calling for cuts in government expenditures (such as the size of government employment, or the freezing of government wages), there was no evidence that suggests the IMF would support or force non-payment of wages owed to civil servants.

A peaceful demonstration ‘against government economic policies’, particularly neo-liberal policies, occurred on July 7, 1994. The complaints amongst the protesters included (1) a lack of adequate payment for civil service jobs and pensions, (2) a perception that the economic policies of the 1990s had only furthered the gap between the rich and poor, (3) a lack of government spending on various social programs, and (4) complaints over privatization. Included in the third grievance were complaints that the

⁴³ “4 Die as Unpaid Argentine Workers Riot.” *New York Times*, 17 December 1993.

⁴⁴ Nathaniel C. Nash, “With Fire and Fury, Argentine Poor Make a Point.” *New York Times*, 22 December 1993.

government had failed to provide any money to retrain civil service employees who were unemployed as a result of cuts in government spending.⁴⁵

In an article published by the *New York Times* and written by Nathaniel C. Nash (author of two of the previous articles as well), Nash reports that the protests and riots of 1993 and 1994 were due to several factors. The first is a failure to distribute the economic growth in Latin America evenly. Nash reports that the governments effort to attract foreign investment, and replace lost jobs, has mainly taken place in large metropolitan areas; leaving many unemployed and without any prospects of new jobs. The second problem, according to Nash, has been a failure to provide job training and job opportunities to the former middle-class sector civil service employees who have lost their jobs (or now have temporary government jobs with low pay) due to government spending cuts and privatization. Finally, he found that a general decline in government spending for social programs in areas such as health and education has led to widespread disapproval of the government's economic plan; a plan which can also be traced back IMF loan conditionality.⁴⁶

Argentina also underwent several large scale protests in 1996. In both cases union-led strikes were organized in opposition to the government's economic program which included (1) a raise in taxes, (2) cuts in government spending, and (3) a reduction in benefits; all done in an effort to 'meet heavy debt payment'.⁴⁷ In the first strike that occurred in July of 1996 the incident that sparked the protests (besides the grievances already listed) was the government's decision to, "cut family allowances for workers who

⁴⁵ Nathaniel C. Nash. "In Argentina, the Poor Seem to Get Poorer." *New York Times*, 7 July 1994.

⁴⁶ Nathaniel C. Nash, "Boom, for the Few—A special report; Latin Economic Speedup Leaves Poor in the Dust." 7 September 1994.

⁴⁷ Calvin Sims, "Argentina Stops for a Day as Millions Strike." 28 September 1996.

earn more than \$1,000 a month and to tax the food vouchers that are a central part of pay packages for millions of Argentines.”⁴⁸ According to a *New York Times* article the one day strike included an estimated 30,000 Argentines. The second strike, however, (which occurred two months later on September 27) was even larger and included workers from banks, public schools, buses, subways, and airlines. The strike included an estimated 70,000 workers and lasted for 36 hours.⁴⁹ It is important to note, however, that it was reported the motivation behind the unions organizing the strikes was the government’s plan to allow workers to opt for private health care plans instead of union programs; which the government claimed were inefficient.⁵⁰ The IMF, however, had listed labor law reform as part of its loan conditionality. The new labor laws including a health care law would in effect diminish the power of the unions. There were no reported incidents of violence or injured protesters in either case.

In 1997 a wave of protests hit Argentina and was reported in an article by Calvin Sims and published in the May 22 issue of the *New York Times*. The article was titled “Unrest Erupts in Argentina over Austerity.” A total of eight different protests occurred all over Argentina (including Buenos Aires, Jujuy, and Salta) and involved ‘tens of thousands of people’. The protests were violent (which codes as riots) in nature and included rubber bullets and tear gas being used on protesters in Buenos Aires and 50 people being injured in Jujuy. In all eight cases the riots included protesters claiming privatization had caused the high unemployment problem in Argentina, and the protesters were demanding jobs from the government.⁵¹

⁴⁸ Calvin Sims, “Hard Times for Millions as Argentina Slims Down.” 29 July 1996.

⁴⁹ Calvin Sims, “Argentina Stops for a Day as Millions Strike.” 28 September 1996.

⁵⁰ Calvin Sims, “Argentine Unions Threaten Strike on Labor Law Changes.” 7 October 1996.

⁵¹ Calvin Sims, “Unrest erupts in Argentina over Austerity.” 22 May 1997.

There was also another protest that occurred in 1997 (specific date not given) but which reported in an article published in 1998. This time the protests took place in the Argentine province of Jujuy whose work force previously included large numbers of state workers, a ‘massively subsidized state-owned steel company’, as well as a sugar, tobacco, and fruit farms. In the excerpt below Rodger Cohen describes the events that lead up to the protests.

“Then, in the 1990s, the free-market revolution arrived. The provincial bank was privatized. The power utility was privatized. The postal service was privatized. The steel company was sold to Citicorp Equity Investments S.A., an Argentine group 40 percent owned by Citicorp. The phones were bought by Telecom, a private international group. Agriculture was transformed by imported American machines, began to work better; workers began losing jobs. Unemployment soared, to about 17 percent”⁵².

According to the article written by Roger Cohen and published in the *New York Times* on February 6, 1998 the ‘resentment’ of the unemployed grew until finally bursting in the form of road blockages and hunger strikes (coded as one event for lack of information). Cohen reported that the protests ended only when the provincial government agreed to provide “six-month “work contracts” for several hundred, who agreed to do menial jobs for \$200 a month.”

The same article by Cohen also provides evidence of a strike which took place in February of 1998 and was organized by municipal workers in Jujuy. According to the organizer of the strike, who was interviewed by Cohen in the article, the strikers were unhappy with the progress Argentina had made under the ‘service of the International Monetary Fund’. In their view the IMF’s road to Argentina joining the first world global market has cost workers, “rights they fought for over a century.”⁵³ The article goes on to explain that the workers were aggrieved over lost government wages that have occurred

⁵² Roger Cohen, “Argentine Economy Reborn but Still Ailing.” 6 February 1998.

⁵³ Roger Cohen, “Argentine Economy Reborn but Still Ailing.” *New York Times*, 6 February 1998.

while simultaneously they have been hit with electric and phone bills from now-privatized utility companies.

In Argentina it has not only been workers that have protested over cuts in government spending; students too have used protests as a way to vent their anger. The first protest took place on May 7, 1999 at the University of Buenos Aires, and reportedly also included students from 35 other state universities. The students engaged in peaceful sit-ins to protest against upcoming cuts in the Education Ministry's budget (\$280 million) that were part of the government's overall plan to pare \$1.4 billion from the government budget. The article noted that the budget cuts were part of an agreement made with the International Monetary Fund.⁵⁴ The wave of student protests occurred lasted one week. The protests were all aimed at the same spending cuts and included 'several thousand' students demonstrating at 25 different universities, as well as a 'national school strike' (coded as two separate incidents a strike and a protest). The protests resulted in the government partially reversing the cuts in educational spending from \$280 million to \$150 million.⁵⁵

There were more protests in December of 1999. This time the protests were in response to the newly elected government's⁵⁶ attempt to institute reforms in Argentina's labor laws at the request of the IMF (reforms came after discussions with the IMF). The required reforms were listed in the January 11, 1999 "Argentina Policy Memorandum" that outlined policies the Argentine government needed to implement in order to qualify for IMF loans (Argentina Policy Memorandum January 11, 1999). Reforms included a

⁵⁴ Terence Neilan, "World Briefing Report." *New York Times*, 7 May 1999.

⁵⁵ Clifford Krauss, "Argentine Congress Rebuffs Leader on Budget." *New York Times*, 14 May 1999.

⁵⁶ In 1999 President de la Rúa was elected into office through the alliance of the Union Civica Radical (UCR) party and the FrePaSo party (Wikipedia 2001).

required replacement of ‘special labor statutes’ with ‘collective bargaining agreements’ that would effectively diminish the power of unions. The strikes were listed in the report given by Woodroffe and Ellis-Jones and published online by the World Development Movement. The report did not list exactly how many strikes took place and further investigation did not find any additional information so the strikes were coded as two incidents because of the plural. According to the report, labor unions view the reforms as a threat to the ‘trade-union movement’ as well as to the rights of Argentine workers (Woodroffe & Ellis-Jones 2001).

An additional protest occurred in 2000, also in response to labor law reforms that were passed by the Senate in accordance with IMF conditionality. The protest was a result of labor law reforms and was found in the report “States of Unrest” written by Woodroffe and Ellis-Jones (Woodroffe and Ellis-Jones 2001). The report listed the protest (coded as a riot due to injuries) as taking place on April 27 when reportedly ‘thousands’ of demonstrators picketed Congress in response to the newly passed laws. The first riot resulted in the arrest of 50 people, and the injuring of 30 people.

Several austerity protests occurred in May and June of 2000. In May both a riot and peaceful protest occurred in reaction to two different aspects of the austerity plan instituted by the government at the behest of the IMF. The first was in response to cuts in the social security system, and involved the burning of public buildings by protesters. The ‘peaceful protests’ which turned into a riot was put down by riot police (Woodroffe and Ellis-Jones 2001). Later that same month an additional (May 31) protest involving an estimated 80,000 people took place. It was organized by, “the three largest trade unions, the Catholic Church...and politicians, from the governing Alianza coalition and

opposition parties.” The protesters in this instance referred to the IMF and its policies as amounting to a ‘financial dictatorship’. The protesters threatened to refuse to pay their taxes in retaliation for the recent tax hikes, reduction in social spending and public salaries, as well as the persistent unemployment problem; all of which they felt were the responsibility of IMF policies (implemented by the current government) (Woodroffe and Ellis-Jones 2001).

A large strike also took place in Argentina on June 9 of 2000. The strike included an estimated ‘several million workers’ (7.2 million according to Woodroffe and Ellis-Jones, several millions according to the *New York Times*) and was organized by a collaboration of various public labor unions. The ‘national strike’ was in reaction to what the workers and unions viewed as ‘austerity policies’ implemented by President Fernando de la Rúa’s UCR government. In an article by Clifford Krauss and published in the *New York Times* on June 10, 2000 the specific policies the strikers were protesting included a \$938 million cut in public spending. Krauss reports that the cuts were, “intended to meet International Fund guidelines [so that Argentina]...could retain access to a \$7.2 billion emergency credit line from the [F]und.” According to Woodroffe and Ellis-Jones the President’s response was basically that the government did not have a choice but to follow the prescribed policies of the IMF. This, however, did not suppress the resentment of the strikers in Argentina. Further strikes occurred on August 29, 2000 that were also related to government spending cuts. In this case the strikes included teachers and scientists responding to wage cuts of 12 percent, which were part of the required cuts listed in the Argentina Policy Memorandum outlining the agreement between the IMF and Argentina (Woodroffe and Ellis-Jones 2001, Argentina Policy Memorandum 1999).

Finally, on November 29, 2000 political austerity protests again plagued the government of the UCR, this time in response to additional cuts instituted earlier in the month. The cuts included ‘a package of fiscal, pension and tax reforms’ which sparked another national strike that ended in violence. In this case workers blocked highways and burned cars. The strike resulted in the death of one person.⁵⁷

Political protests against austerity measures continued in 2001 and 2002. With no end to the economic crisis in sight, many Argentines continued to struggle with problems of underemployment and unemployment. On March 22, 2001 unions again called for a 24 hour national strike to protest the government’s ‘austerity policies’.⁵⁸ This was followed by a two day strike that occurred on August 7th and 8th in response to new austerity measures passed by the Senate that month. According to an article published August 8, 2001 on the BBC News’ website, “The massive 48-hour strike was called to protest President Fernando De la Rúa’s decision to cut government salaries and pensions by 13%.” The government, however, was responding to the possibility of defaulting on its debt, and was looking for additional emergency cash from the IMF to stave off default. However, according to the article the protesters did not view the new austerity plan (which they call “ajuste”) as the answer to the problem of unemployment (2001 level 16%) and underemployment they suffered from.⁵⁹

The end of 2001 was a period of severe economic and political turmoil in Argentina. As discussed earlier in the paper the IMF refused any further lending to

⁵⁷ Kirk Kraeutler, “World Briefing.” *New York Times*, 25 November 2000.

⁵⁸ “World Briefing: Argentina Union Strike” *New York Times*, 22 March 2001.

⁵⁹ “Argentines protests against pay cuts.” *BBC News online*, 8 August 2001.

<<http://news.bbc.co.uk/2/hi/americas/1481313.stm>>

Argentina, and the government defaulted on its debt payments. Also, the continuing political unrest led to the resignation of President De La Rúa—whose party was replaced by the opposition Peronist party led by interim President Eduardo Duhalde⁶⁰. There were several deadly riots that occurred during this period, however, it is difficult to pin them directly to the IMF austerity measure. The problem is that many of the riots were the result of a combination of continuing economic crisis, and the decision (not prescribed by the IMF) of Economic Minister Domingo Cavallo to freeze bank accounts in order to prevent any further capital flight.⁶¹

The interim president and the Peronist party were thus placed in a precarious position in 2002. Argentina was still in default on its debts (\$141 billion in public debt in default), and the economy was still experiencing a deep recession. Furthermore, the new government was continuing to try to regain the support of the IMF and its credit line with the Fund. On June 27, 2002 the political and economic pressure again came to a head when demonstrators rallied in Buenos Aires to protest both the government and the IMF. Protesters carried banners and chanted slogans ‘criticizing the government and the International Monetary Fund’. The protest reportedly blocked a bridge and turned violent when the police and national guardsmen tried to disperse the crowd. According to an article by Larry Rohter and published in the *New York Times* on June 27, 2002 the protesters, “some armed with slingshots and gasoline bombs, fled, smashing shop windows, overturning cars and burning a bus.” Two people died as a result of gunshot

⁶⁰ Larry Rohter, “2 Argentines Killed in Protests on Economy.” *New York Times*, 27 June 2002.

⁶¹ Joseph Kahn, “Turmoil in Argentina: International Finance; Argentina’s Chaos Raises New Doubts on Monetary Fund.” *New York Times*, 22 December 2001.

wounds that were reportedly fired by police officers.⁶² The following day in response to the death of the two protesters labor unions and ‘leftist parties’ organized a strike and protest march on the presidential palace. The demonstrators (mostly unemployed workers) demanded ‘jobs, food, and medicine’ from the government.⁶³

In an article by Evan Henshaw-Plath and published on ZNet, the online version of Latin American magazine, there is evidence of continuing political instability within Argentina. However, the article neglects to give specific places, dates, or details surrounding the protests it mentions. Due to the lack of information the protests in this article were not included in the protest totals for this research project, however, they do deserve mentioning. Henshaw-Plath gives a good description of political climate in Argentina in 2002. Specifically he discusses what he terms the “Assembly Movement” which consists of local protest groups that get together to discuss their grievances; often the assemblies take their discussions to the street in impromptu protests, or formally organize protests. In some cases these protests become violent and involve public destruction of property (including smashing bank windows). According to Henshaw-Plath there are an estimated 80 different ‘people’s assemblies’ in Argentina. The assemblies oppose both the government and the IMF which they view as the one of the most powerful political forces in Argentina. The assemblies protest in support of the piqueteros (name for unemployed Argentines), and to denounce the neo-liberalism (Henshaw-Plath 2002).

⁶² Larry Rohter, “2 Argentines Killed in Protests on Economy.” *New York Times*, 27 June, 2002.

⁶³ Larry Rohter, “World Briefing: Americas: Argentina: Strike After Death of Protesters.” *New York Times*, 28 June 2002.

A Comparison of Austerity Protests Past and Present 4

The following section will compare the austerity protests detailed in this research to the analysis of austerity protests offered by Walton and Seddon. It will also offer some additional analysis beyond Walton and Seddon's conclusions in order to try and explain the data collected by this research project. The section will begin by offering two tables that list the total number of austerity protests for the two different periods of research.

Table 4.1: Austerity Protests 1992-2002

Country	Protests/Demonstrations	Strikes	Riots	Total #
Costa Rica	0	0	1	1
Brazil	2	1	0	3
Argentina	5	12	13	30

*Table 4.1: There were no incidences of either armed attacks or assassinations, so these categories were excluded from the table.

Table 4.2: Austerity Protests 1982-1992

Country	Total # of Austerity Protests
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Costa Rica	2
Brazil	11
Argentina	11

Table 4.2 Walton and Seddon 1994, 39-40 (Note: Walton and Seddon's austerity protests list was compiled for the period between January 1975 and October 1992. However, none of the three countries listed experienced their first protest until 1982. Therefore, for comparison reasons the table only list the period of 1982-1992.)

According to Walton and Seddon's analysis the occurrence and severity of austerity protests is determined by the level of overurbanization⁶⁴ and the 'extent of international involvement in the national economy.' They posit that other potential predictors "such as the debt burden, inflation, level of economic development, and export dependency contribute little to the explanation of protest events beyond what is explained by IMF pressure and overurbanization" (Walton and Seddon, 44). Latin America in general has struggled with the rapid urbanization growth. Urbanization has impacted income distribution negatively, expanding the gap between the rich and poor. The trend toward urbanization can be viewed as the result of market liberalization and the resulting concentration of both domestic and foreign investment centered overwhelmingly in urban areas. This trend is followed by a rapid influx of rural unemployed workers moving to cities to find work. In many areas of Latin America the urbanization rate matches that of Europe, while their industrial development level falls short of industrialized Europe. In

⁶⁴ Overurbanization is defined as urbanization rates beyond levels expected for the degree of industrialization (Walton and Seddon, 44).

Argentina, for example, the percentage of the population living in urban areas in 1996 was 88 percent. Of the 41 cities within Latin America that contain more than 1 million people 14 are located in Brazil alone. Costa Rica has also struggled with rapid urbanization with two-thirds of its population living in and around the area surrounding the capital city of San Jose (e.g. living on only 20 percent of Costa Rica's total landmass). In 1999 the total percentage of population living in urban areas was 90 percent for Argentina, 84 percent for Brazil, and 64 percent for Costa Rica (Holman 1998). These percentages are significantly higher than many industrialized nations. Rapid urbanization poses problems for any nation. However, it is especially difficult for developing nations as overurbanization is related to poverty, as well as infrastructure problems (e.g. water and sewage) that go along with an unsustainable urban growth rate.

Walton and Seddon's analysis also found that austerity protests occur predominantly in urban areas, and usually follow the announcement of some part of an austerity package. Urban areas offer what protesters feel are 'appropriate targets' for demonstrations including government buildings and targets that appear to be tied to foreign markets (Walton and Seddon, 42-43). The concentration of people in urban areas also offers greater opportunity to organize along lines such as occupation, religion, and political party preference (Walton and Seddon, 45). The more current evidence of austerity protests seems to suggest that the predominance of urban protests still persists. It also suggests that protesters continue to target government buildings during their demonstrations. In Costa Rica the protest against the privatization of ICE took place at residence of the president. In a protest in Argentina the protesters chose to picket in front of the Congressional building. In other cases protesters have chosen to ransack or burn

government or other publicly owned buildings, and in some cases they have chosen to burn the private residences of government officials. While the protests recorded for 1992 through 2002 did not always choose to target government buildings, the protests did occur overwhelmingly in urban areas.

Like Walton and Seddon this analysis also found that protests in many cases took place directly following the announcement of austerity policies. In 12 of the 34 total cases-- plus the Costa Rican protests that were not counted in the totals-- the protests or riots were a direct response to an announcement of policy change. These included changes such as an announcement of privatization plans, the decision to cut some popular social program, or an announcement to cut spending in education. Not unlike Walton and Seddon's account of austerity policy protests, these protests often demanded the restoration of spending levels, or the halting of privatization (Walton and Seddon, 43).

The economic and social makeup of protests participants in the 1992-2002 are also similar to Walton and Seddon's description of protests occurring in 1982-1992. Participants included poor or formally middle class unemployed urban workers either acting on their own, or in *many* cases they were organized by unions. In some cases unions worked together in order to increase the size and impact of a strike or protests. Also, in some cases Church organizations participated in organizing protests. For example, in Brazil the Brazilian National Bishops' Council helped to organize a national referendum and demonstration to signal Brazilian discontent with IMF programs.

In relation to Walton and Seddon's assertion that both the occurrence and severity of protests are directly related the degree of involvement of international organizations in

the national economies the case studies offer mixed results. On the one hand one could argue that the level of involvement by the IMF in Brazil, Argentina, and Costa Rica appears to correlate somewhat with the level (or total number) austerity protests. This correlation is found if 'level of involvement' is measured by considering the total number of Fund arrangements (see table 4.3). Looking at the raw scores for the 1992 and 2000 data there is evidence that suggest an increase in the level of involvement correlates to an increase in the level of austerity protests. In comparing the data within countries and between decades the results are more mixed. The totals for the two decades show that Costa Rica's level of austerity protest decreased slightly, while its total number of transactions with the Fund increased slightly (e.g. Costa Rica had an additional agreement with the Fund in the 1997, but decided not to draw from it). However, it is again important to note that Costa Rica had severe occurrences of protests in 2000 and were related to the IMF, but not recorded in the totals. The table also shows that Brazil's level of austerity protests decreased by 27 percent; while its total number of transactions with the Fund increased from two to four. In the case of Argentina the level of austerity protests increased by 37 percent, and there was a corresponding increase in the level of Fund activity of 9 percent. Thus, the changes between years are mixed. On the one hand Brazil had an increase in the level of Fund activity, while it experienced a decrease in the level of austerity protests. On the other hand Argentina experienced an increase in both the level of Fund involvement, and the level of austerity protests.

It is more difficult, however, to assert from these case studies that the level of IMF involvement is responsible for the level of severity of austerity protests. For example, in the case of Argentina, which was consistently under an arrangement with the

Fund between 1992 and 2002, the severity of austerity protests varied with the highest recorded levels of riots (8) and strikes (4) occurring between 1998-1999. Argentina was at that time under a stand-by arrangement with the Fund that included measures related to fiscal deficit reduction, privatization, reforming the health system, and labor market reforms (International Monetary Fund 1998, No. 98/1). However, these conditionalities seem no more intrusive than those required in the 1995 arrangement; a year in which no austerity protests were recorded. The data on individual protests collected during the course of this study suggests that the level of severity is often determined by the incidents that occur within the protests themselves. In many cases the articles or reports suggests that the protests began as peaceful demonstrations, and then the protests escalated into a riot. Often the riots involved some confrontation between police officers and protesters that got out of hand. In the case of strikes the evidence suggests that strikes were usually related to reforms which hurt unions, or public employees. Thus, it is not necessarily the level of Fund involvement, but more precisely the type of conditionality that sparked strikes. For example the one strike that occurred in Brazil in 2001, was in direct response to privatization policies that were viewed as having a negligible effect on public employees working for a publicly owned oil company. Other evidence that suggests that the level of Fund intervention is not related to the level of austerity protests can be found by examining the case of Brazil. In Brazil there were no austerity protests recorded for 1998 and 1999 despite the fact that Brazil was under heavy Fund conditionality.

Table 4.3: A Comparison of Austerity Levels and Fund Transactions

Country	Total transactions with the IMF 1992-2002	Total # of austerity protests	Total transactions with the IMF 1982-1992	Total # of austerity protests
Costa Rica	3	2	7	2
Brazil	4	3	2	11
Argentina	9	30	7	11

This study also analyzed the evidence to try and determine whether either the severity of economic crisis, or the level of debt burden could be connected to the probability of austerity protests occurring. Examining first the level of debt burden there appears to be no correlation between higher debt burdens and an increased occurrence of austerity protests. Argentina, which overwhelmingly had the highest total number of austerity protests, also had the lowest total external debt burden for the years between 1992 and 2000 (see graphs in section 2). Finally, in analyzing the connection between the severity of economic crisis and the level of austerity protest this study again examined the Argentina case study. In 2001 Argentina's economy was experiencing a severe economic crisis, however, the evidence does not show a corresponding hike in the total

number of austerity protests for year. The level and severity of austerity protests were much higher in 1998 and 1999 when Argentina was beginning its downward economic slide, but had not yet hit rock bottom. Similarly, in Brazil the economy was suffering problems both following the Asian crisis in 1998, as well as following a global economic slowdown in 2000. Yet, the only recorded austerity protests were for the year 2000. Examining the evidence between countries is more complex, and the evidence is contradictory depending on the time period. Both Brazil and Argentina have been plagued by periods of economic lows, yet only Argentina experienced large numbers of protests between 1993 and 1999. This would seem to suggest a lack of correlation between economic crisis and the occurrence of austerity protests. However, it has been argued that the economic crisis of 2001-2002 hit Argentina harder than Brazil,⁶⁵ and while both countries experienced austerity protests during that period the level was much higher for Argentina (e.g. two occurrences in Brazil, ten in Argentina). This contradicts the first conclusions of the first comparison. The conclusion this study reached was that that the level of economic crisis was not necessarily a determining factor.

Analyzing the protests details it was found that in a many cases (especially in Argentina) the demonstrators were protesting unemployment caused by either privatization or cuts in public payrolls. The next step, then, was to try and determine whether or not unemployment rates could help explain the difference in the levels of austerity protests between the three countries. The expectation was that low unemployment would correlate with low levels of austerity protests. The expectation held true for Costa Rica, which like most of Central America experienced low and steady

⁶⁵ For a full discussion on the 2000-2002 Latin American crises see the meeting report (Hrg. 107-1017) on the discussions held by the Subcommittee on International Trade and Finance in 2002.

unemployment throughout the 1990s (e.g. 4.22 percent Central American average for 1990s). The expectation held partially true for Brazil. In the first half of the 1990s Brazil also experienced low and stable unemployment rates, and this fits the expectation since no austerity protests were recorded for this period. However, starting in the mid-1990s unemployment jumped from 6.6 percent to a high of 10.3 percent in 2000. Despite the steady increase in unemployment Brazil did not experience an austerity protest until its unemployment reached its highest level in 2000. In the case of Argentina the expectation held true. Argentina did not experience any austerity protests in 1992, and in 1990 its unemployment rate was only 7.5 percent. However, that rate jumped to 17.5 percent in 1995 and remained high in 2000 at 15.4 percent. Therefore, Argentina not only experienced higher levels of austerity protests, but also significantly higher levels of unemployment (Duryea, Jaramillo, Pages 2001, 6).

Conclusion

An analysis of the case study evidence shows that IMF conditionality has been responsible for austerity protests in Costa Rica, Brazil, and Argentina. What has been more difficult to determine is to what degree the protests have actually affected political change. There is some evidence that suggests Costa Ricans in 1994 elected President Figueres of the social democratic PLN party, over Miguel Angel Rodriguez (PUSC party) because they were embittered over the PUSC's adherence to IMF austerity policies. Ironically, however, Figueres continued along the same economic path and Rodriguez was elected in the next presidential race. Another example of IMF conditionality causing

political protests, and subsequently causing political change, can be examined in the case of Argentina in 2001. There were many protests directly related to President De la Rue's implementation of IMF austerity policies, and that dissatisfaction can at least in part help to explain his resignation in December of 2001. However, a fair examination of the resignation of De la Rue must also take into consideration his choice (e.g. more exactly his Economic Minister's choice) to freeze bank deposits in order to stop the tremendous outflow of capital. This decision incurred mass protests, and his resignation followed the event. The decision, however, was done without the approval of the IMF. Thus, the resignation of De la Rue and his Economic Minister Domingo Cavallo must be viewed as the result of a combination of factors.

In looking at the recent protests related to the global market it becomes clear that IMF conditionality is often only part of the overall force that drives the citizens of developing nations to act out in political dissatisfaction. This study posits that the reason for this can be found in the development trends of the last two decades. In the 1980s conditionality brought on the total transformation of the development strategy of developing nations. The IMF, along with other international organizations such as the World Bank, transformed the closed economies of Latin America into open markets highly dependent on foreign direct investment and capital inflows. In the 1990s the reform process continued. One of the most significant changes was the decision by the IMF to amend its Articles of Agreement so that it could regulate capital flows in order to "promote the 'orderly liberalization of capital movement'." Essentially this meant that IMF member countries would be required to remove "all restraints on the free international movement of capital and all kinds of financial instruments and transactions"

(Peet, 80). Thus, by the end of the century the process of completely opening and liberalizing the markets of developing nations had dramatic results. If one examines the economic experience of the three cases studies it becomes apparent that developing nations are now completely vulnerable to fluctuations in the market, and more importantly they must bend to the will of the market in order to survive. Stated differently, if the IMF dissipated tomorrow developing nations would still most likely continue to implement market-friendly reforms and policies.

The effects of IMF reforms on the populations of Argentina, Brazil, and Costa Rica can also be assessed from the evidence of austerity protests. In the austerity protests reviewed by this research the participants were either poor citizens, citizens who were formerly middle class citizens but lost their jobs due to fiscal spending cuts, or students. None of evidence suggested that the participants in the various austerity protests were higher income individuals, or the elite of society. While this does not necessarily prove that IMF conditionalities have regressive distributional results, it does at the very least suggest that the reforms must cause some economic harm to the poor and those seeking social services such as educational opportunities.

In a sense IMF conditionality is no longer than driving force of change in Latin America, or at least it is no longer the only force which demands certain economic policies regardless of a countries political ideology. There are several examples in the three case studies where the market demanded changes, and these changes were implemented without the force of IMF conditionality. One must keep in mind that IMF conditionalities are in essence market-friendly policies with the force of an agreement behind them. As developing nations become more and more immersed in the global

economy, however, the drive to implement market-friendly reforms need not necessarily stem from the political and economic power of the IMF. Moreover, the implementing of market-friendly reforms becomes necessary not only for access to private lending and international aid, but also for access and survival in the global market itself. In essence the power and influence of the market supersedes the power of international organizations. This is not to say that the IMF is not still a very powerful institution, but merely to state that the data collected suggests the pressure towards market-friendly policies exists regardless. In Costa Rica, for example, (which has been described as the “Switzerland of the Americas” due to its strong democratic socialist leanings) the government has tried to implement privatization of its infrastructure in the absence of IMF conditionality. The need and pressure for Costa Rica to implement market-friendly reforms, such as privatization, has stemmed not only from the IMF, but also from foreign investors like Intel Corporation (a FDI).

In relation to austerity protests the trend towards market pressured reform is apparent. While researching instances of protests within Brazil, Argentina, and Costa Rica there were many times where the protests centered on reforms, fiscal cuts, market liberalization, and privatization, but the actions leading to the protests occurred in the *absence* of conditionality. The protests were often the result of policies the government of developing nations implemented on their own. The difference being that because Argentina, Brazil, and Costa Rica are democratic societies they have political recourse if they are dissatisfied with the current government. As argued earlier in the paper, part of this trend toward reform without conditionality can be explained by the pressure the IMF exerts even in the absence of stand-by arrangements. Member countries continue to

undergo surveillance by the Fund even in periods where Fund resources are not being used, moreover, the IMF staff reports can still act as a signal to the market of either approval or disapproval of member countries economic policies. However, it should be noted that the market itself is the driving force behind change. In the absence of IMF conditionality it is not the threat of losing access to IMF resources that dictates policy, but the threat of losing access to market resources (e.g. such as FDI's).

In respect to the market conforming policies of IMF conditionality, or even IMF pressure absent conditionality, the policies of the IMF can be viewed as more than simply borrowing requirements. They are in effect conditions that cause developing nations to conform to a certain economic mold, a mold which has been determined by developed nations. If developing nations were only required to meet certain economic benchmarks then such a bold statement could not be made, however, structural conditionality goes way beyond fiscal and monetary benchmarks. It seeks to dictate the whole economic structure by which a country operates in the global market, to conform it to a certain model. Moreover, the IMF does request that these reforms and conditions be met without the consideration that they also be politically acceptable to either a nation's government or citizens. Recognizing that the IMF is not always inflexible, it is apparent that there are certain structural reforms that are required in order to maintain access to IMF resources, as well as the IMF approval which is vital for the economic survival of developing nations. Moreover, the IMF's success is pushing the opening up developing nations' markets, and enforcing a certain capitalist model, can be viewed in the willingness of regimes to enact unpopular economic reforms even in the absence of conditionality. The model pushed through IMF conditionality fits the dominant economic discourse of the

most developed countries, or stated more bluntly the core's consensus that a certain capitalist model is the most beneficial. In this respect IMF conditionality is a tool by which the political regimes of developing nations can be trained to follow a capitalist model that conforms to the economic consensus of the capitalist class of the core. This is *not* to suggest that IMF officials themselves have alternative motives, or that they do not have the best interest of developing nations at heart, but instead it suggests that a critical review of conditionality is needed. More research is needed to determine whether or not the regimes of developing nations have the political space to construct economic policies that are best for the people of their nations. The evidence of this research paper suggests that such regimes have little political space because they must first consider whether their decision conform to a predetermined economic model. While out of the scope of this paper, the next question to address is to whom is this model most beneficial?

The IMF maintains that conditionality is a necessary part of the lending process. Like other international financial institutions (IFIs) it views conditionality as “as instrument of mutual accountability” (Killick 2005, 93). However, faced with pressure to implement changes in the way conditionality policies are formed, as well as the number and type of conditionalities, the IMF has undertaken a review of its use of conditionality. The general attitude of IMF officials also seems to support the trend toward the streamlining of conditionality (Killick 2005, 95). The trend towards streamlining can be viewed in the IMF's recent programs in Brazil which did not include “structural conditionality to impose a predetermined reform agenda,” but rather focused on fiscal and inflation targets instead. Brazil has successfully met and exceeded the

targets set by the program, but more importantly the government has felt it had more control and ownership of its own program (Levy 2005, 118).

The trend toward streamlining and fewer conditions based on structural reforms could have a positive effect on the level of austerity protests. When countries are given fiscal targets, rather than structural programs, they are more able to decide how to meet those targets. Specifically, it is the country that decides what particular reforms or cuts to implement in order to meet the required goals. Moreover, the decision making process can be more democratic in nature. Thus the sovereignty of the developing nation is somewhat protected, while the need for some type of loan conditionality is still satisfied. In programs of the past the IMF staff and the executive branch of the member country met and developed a program that many times included laws and policies that the legislative branch was then obligated to pass. The obligation and pressure to pass a particular piece of legislation existed even if political support for that legislative bill was low or nonexistent. The probability of this occurring would be less if conditionality was based more on fiscal targets. Streamlined conditionality would allow countries to “own” their policy decisions, which is something the IMF has advocated but not always produced.

A combination of fewer total numbers of conditions, as well as fewer conditionalities based on prefabricated structural reforms, could also help improve the level of austerity protests. Some criticism of the IMF is aimed at the perception that the IMF is out of touch with the political climate in member countries. The IMF usually visits a member country a few times per year, and only once if a country is not under an agreement. The visits usually last only a few weeks. In that time critical reform

packages are created and those reform often times carry reforms with far reaching effects. Critics argue that more dialogue is needed in order for the IMF staff to have a clear understanding of the political and economic climate in a particular country implementing an IMF program (Killick, 98-99). However, if conditionality was based more on targeting, and less on structural reforms, this would allow the member country—who has much more knowledge of the political climate and feasibility of certain reforms—to construct structural reforms that are more apt to have the necessary political support. Moreover, member countries themselves are more aware of the politically appropriate speed at which to implement reforms. This would help alleviate the problem of programs that contain reform paces that are politically infeasible, such as was the case in Costa Rica.

Political protests are a sign of public objection to the government policies. On the other hand, they are also a sign that Argentina, Brazil, and Latin America are functioning democracies. A fair assessment must also note that public discontent stifled by the government would suggest a dysfunctional democratic process, thus austerity protests can be viewed as a positive in this light. In democratic societies, however, austerity protests must be taken seriously. What is troubling about austerity protests is that they involve public objection to policies which the government often has no control over. While conditionality in some form is necessary for “mutual accountability” it is also necessary to consider what the political ramifications of those conditions are. In the case of Brazil, Costa Rica, and especially Argentina, the result has at times been public dissent without political recourse—and that is not democracy.

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Vita

Jennifer L. Gardner graduated Summa Cum Laude from Eastern Oregon University in 2004 with a Bachelor of Science degree in Liberal Studies. During her Master's studies at Virginia Tech she also was given the opportunity to intern for a year at her local community college, College of the Redwoods, as an assistant to the political science instructor Professor Tom Owen. In the future she hopes to find a job teaching at a junior college. Her college experience has been shared by her loving and supporting family that includes her husband of ten year, Byron Gardner, and two young boys Corey (age 8) and Eric (age 6). This thesis was defended on April 27, 2007.