The IMF and Latin America: A Comparative Case Study Analysis of Mexico, Argentina, and Venezuela

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Abstract

The fundamental framework and neoliberal ideals of the International Monetary Fund weaken developing nations rather than encourage economic independence. I plan to show that the neoliberal efforts and ideals of the IMF are not linked to the development of México, Argentina, and Venezuela, but are linked to increased levels of dependency. This study will thoroughly examine the impact of the IMF and analyze these countries’ responses to the IMF. México pursued the most conservative course by embracing neoliberalism, Argentina displayed a moderate approach, and Venezuela pursued the most radical advance. This article documents these responses and analyzes the best approach.

Globalization is the growing interconnectedness of countries through trade, communication, culture, and the rapid exchange of ideas. While globalization and free trade idealism has largely benefited the global elite, there have negative effects on underdeveloped countries. It has created a stagnating inequality within countries all over the world including those of Latin America. While few benefit from the cheap labor and constant expansion of multi-national corporations, it is always at the cost of many. Many are currently living in poverty, in particular those of underdeveloped countries. Meanwhile, those in support of free trade liberalism fail to consider the millions living in poverty. Due to the fact that globalization is such an overarching world phenomena, many argue that no one conclusion can be drawn to pinpoint the negative effects the current state of the economy has on the poor. I hypothesize that it is possible to draw conclusions concerning the International Monetary Fund, as a primary actor in the current state of globalization, and its negative effects on developing countries such as those of Latin America. The International Monetary Fund attempts to maintain global stability, and this is impeded through the implementation of neoliberal conditionalities and reforms.

While many argue in defense of globalization, many are against the neoliberal ideals of globalization, and this has created an ongoing debate in past literature. Joseph Stiglitz is an American economist who examines globalization and free trade critically. In his book *Globalization and its Discontents* he argues that those living in poverty have gained little to nothing, and that many are worse off (Stiglitz 2003, 2002). On the other hand, those such as Friedman and Bhagwati argue such theories as globalization having positive effects on the global economy and also that the globalization debate is
exaggerated. In an interview, Bhagwati suggests that developing countries can use “globalization as part of a reform agenda that would advance prosperity, increase skill formation and be a force in reducing poverty and distress among the poor” (Bhagwati 2006). In his book *The Lexus and the Olive Tree*, Friedman argues for globalization and states that conflict arises due to the tension between the globalization system “the lexus” and ancient forces of culture, geography, tradition, and community “the olive tree” (Friedman 2000).

The globalization debate is not exaggerated. It may be a “buzzword” but in spite of this it explains an entire economic phenomenon that is currently taking place in the global economy. I argue that globalization solely benefits the elitist of the current global economy, and agree that Stiglitz is correct in stating that there is no world government to oversee the profit-making institutions such as the IMF (Stiglitz 2003, 2002). The IMF promotes an economic strategy that encourages capitalistic ideals and supports the idea of “comparative advantage.” Odious debt, and continuing loans from the IMF with numerous conditionalities inhibit a true system of comparative advantage because developed countries will always have an advantage over poorer countries. However countries of Latin America have responded distinctly, and this is how I have chosen the three units of analysis. Mexico has demonstrated a conservative approach by accepting the free trade ideals of the IMF. Venezuela, on the other hand has completely severed all relations with the IMF while arguing for an alternative institution in which developing countries first unite on a regional level before establishing more free trade agreements with developed countries. Meanwhile, Argentina has shown a more moderate approach between the two countries, agreeing that globalization is acceptable but that there is a need for reform in the current state of the economy.

In the sections that follow I will first review previous literature on this research, and provide my argument in response. Secondly, I will explain the methodology of this study, and how I plan to prove my argument. Next, I will explain the history and functioning of the International Monetary Fund as a global governing institution. I will explain the lending process of the International Monetary Fund, and the many factors that contribute to this process. I will show why these relations and loans have created a dependency throughout Latin America. Subsequently, I will explain the conditionalities of these loans distributed by the IMF. Then, I will analyze the outcomes of these various loans distributed throughout Mexico, Argentina, and Venezuela. Lastly, I will analyze the three responses to globalization and make the argument that greater integration and unity among developing countries is the best approach.

**The Globalization Debate**

Many have contributed to the globalization debate, including Stiglitz, Castells, Bhagwati, Friedman, and Harvey who argue against globalization. Manuel Castells is against the modern state of globalization, and explains the current situation of the economy to be that of a network society in which there are “spaces of places” and “spaces of flows” (Castells 2000). He explains that due to this new globalized world, people are in turn entrapped in these “spaces of flows” or global cities because they do not possess the means to acclimate to the global elites. Entrapped people are defined as working class and poor individuals (Castells 2000). Castells explains that while the
global elites profit from these global cities the working class citizens remain entrapped. This is because while elites possess the means to constantly travel and expand, the poor are constantly being subjugated to exploitation. This enforces the idea that globalization has negative effects on underdeveloped countries.

In addition to Castells, Harvey argues against globalization. In “Spaces of Global Capitalism: Towards a Theory of Uneven Development” Zieleniec reviews various works that debate the current issue of globalization. He describes that while some believe the term globalization is hackneyed, others continue the debate as they believe it is the only productive solution to solving the current matters of the economy (Zieleniec 2007). Harvey’s “New Imperialism” provides a basis for understanding and analyzing current debates on globalization(Harvey 2005). David Harvey’s ideals on the New Imperialism, include “accumulation by dispossession”, and also the idea of “spatio-temporal fixes”(Zieleniec 2007). Accumulation by dispossession defines the idea that in the current global economy capitalism forces the corporate world to seek outside of itself in order to expand beyond their nation-states. In order to expand they must accumulate goods by dispossessing others of their land and goods. Spatio-temporal fixes are these areas in which businesses seek to expand, when their current economic situation is enduring stagnation. This current system benefits the elite, while exploiting the many.

Jagdish Bhagwati and Thomas Freidman among others argue for globalization and against the argument of its negative effects on poorer countries. In his book In Defense of Globalization, Baghwati argues that the various social causes that we all embrace, such as gender equality and reduction of poverty, are advanced, not set back by globalization (Bhagwati 2004). He does not agree that globalization has caused higher levels of poverty but that it has improved the standard of living throughout impoverished nations.

In his book, The World is Flat, Friedman argues that globalization has created a level playing field, and that developing nations are now being able to compete for global knowledge. He states it is an irrefutable fact that more open and competitive markets are the only sustainable vehicle for growing a nation out of poverty, because they are the only guarantee that new ideas, technologies, and best practices are easily flowing into your country (Bhagwati 2004). Furthermore, he suggests that “countries which fall off the development wagon are a bit like drunks; to get back on they have to learn to see themselves as they really are” (Friedman 2005). In addition he states that there should be a club for developing countries to internally inspect failed attempts at developing and they should admit for example, My name is Argentina and I am underachieving. I have not lived up to my potential. In his opinion development is a voluntary process. Leaders need a positive decision to make the right steps, but it starts with individual countries’ self-evaluation.

The IMF Debate

Many have also contributed to the International Monetary Fund debate including those against the IMF. In his article Causes of the Debt Crisis, Anup Shah argues that many poor countries today have started their independent status with heavy debt burdens imposed by the former colonial occupiers(Shah 2007). This idea of debt inherited from the past is referred to as odious debt, and while it may be accrued from military
dictatorships the IMF. In addition, Shah argues against the IMF in his article Causes of the Debt Crisis. He states that the IMF and World Bank are dominated by Western perspectives and Western interests, and the decisions in Washington often do not correspond to actual situations in developing countries. (Shah 2007).

Nnedu also argues against the IMF. He states that unlike the majority of organizations, the IMF, the World Bank and the IDB are profit-making entities. They are neither charities nor aid agencies – they are profit-making behemoths operating under laws meant to protect nonprofit bodies (Nnedu 2004). In other words there is no world government to oversee these global governing institutions because they operate under laws that support non-profit organizations which are less strictured.

There are also those who argue in favor of the IMF. In his working paper, Guissé argues that the IMF plays a key role in the debt strategy employed by the Paris Club, which relies on the Fund’s macroeconomic expertise and judgement to implement one of the Club’s basic principles: conditionality. In return, the actions of the Paris Club preserve the status of IMF as a preferential creditor and safeguard the application of its adjustment strategies in developing countries. (Guissé 2004). In other words, he argues that these two institutions create a balanced international monetary system. In addition, he defends the idea of attaching conditionality to IMF loans, and lastly he agrees that the IMF’s judgement on policies are most effective in the developing world.

Garrett argues in favor of the IMF by focusing on privatization, one of the IMF’s general conditionality requirements. In his paper “The International Monetary Fund and the Global Spread of Privatization, Garrett states that economists argue that privatization increases efficiency by placing decisions in the hands of markets rather than public officials” (Garrett 2003). This is possible through free trade ideals that argue for the invisible hand that will guide the market, and that this has positive effects on the global economy.

The IMF and Dependency

I agree with theorists who argue against globalization. It has negative effects on the poor and the entire global economy as a whole. Of a group of 83 poor countries that received substantial IMF financing between 1978 and 1997, most experienced increased unemployment, a fall in real wages, a more unequal distribution of income, a rise in poverty, a decline in food production per capita, growth in the external debt, and cuts in social expenditures over the time period (Nnedu 2004). IMF loan conditionalities tend to decrease government spending on social programs which increases poverty (and impairs health and education) and leads to lower economic growth. Because of the contractionary monetary and fiscal policies of the IMF there is a result of less government expenditure on social programs. Because of this there is an increase in poverty, and lastly this leads to a decrease in Gross Domestic Product Growth.

Furthermore, I hypothesize that The IMF creates dependency throughout developing nations, and that the most effective way to pursue development is to disentangle relations with these institutions and construct alternative institutions where developing countries have more influence in policymaking.

Past literature on the globalization and also the IMF debate has provided mostly theoretical information, and limited statistical data in explanation for the current phenomenon of globalization. Theorists have taken either a liberal stance against
globalization or a conservative approach in defense of globalization but lack a specific
data analysis to prove either case. In this study, I will conduct a comparative case study
analysis of three specific Latin American countries and their relations to the IMF. This
will be done in efforts to contribute the informative data previous studies have lacked. I
plan to argue against those in favor of globalization by showing that the IMF does not
foster nation independence, and that it does not encourage development. Conversely, in
the long run, a dependency on IMF loans and IMF conditionality tends to increase, and
levels of poverty and unemployment across the globe that stagnate their attempts to
global stability. To be precise, it is not simply that the IMF ignores poverty; its policies
help create poverty. The poor, those living on less than a dollar a day, still remain poor
regardless of IMF loans. The long-term effect of the IMF’s primary goal to provide loans
in the event of economic crisis is not an effective solution but a band-aid to the larger
issue of dependency.

I will also argue that in Latin America there have been three dominant responses
to globalization and the IMF. The first response is presented by Mexico, which is
conservative. The second response is Argentina which has proved a more moderate
approach to the IMF. The third is Venezuela which has expedited a radical response to
the strictures of the IMF by not only severing its relations to with the IMF, but also by
developing an alternative monetary institution to the IMF for developing countries of
Latin America. I argue that the response of Venezuela is the most appropriate case
because the conditionalities along with the loans of the IMF impede the development of
poorer countries, and alternative institutions are needed.

Methods

I conduct this study through a mixed-methodological approach. The quantitative
study will be analyzed using time-series data. These dates are mostly from the 1980’s to
the present measuring and comparing use of IMF credit, public health expenditure, public
education expenditure, national poverty rate, and also Gross Domestic Product Growth.
This data will be collected from Mexico, Argentina, and Venezuela individually and will
then be compared collectively. For data on IMF loans, I rely on the IMF dataset from the
website IMF.org. For data on GDP growth, debt ratio to gross national income, central
government debt, and public health expenditure I will be using the World Development
indicators found on WorldBank.org. The main sources I am using for this data are
IMF.org, World Development Indicators, Economic Commission for Latin America and
The Caribbean. In this study I will analyze whether IMF loans have an effect on growth,
and poverty. My independent variables in this study are IMF loans, and the dependent
variables are debt ratio to national income according to the nation’s budget, GDP growth,
inequality, health care expenditure, education expenditure, and poverty rates.

Past Research has lacked empirical evidence displaying a direct effect of the IMF
on developing countries. This study will contribute to past research by providing an
analysis of how three specific Latin American countries have responded to the IMF and
globalization.
The qualitative study will be a comparative case study analysis including Mexico,
Argentina, and Venezuela because they have responded to globalization and the IMF in
three particular ways:
Firstly, Mexico has displayed a pro-trade or conservative response to the U.S. and also to the IMF. We see this through the North American Free Trade Agreement that was signed in 1994 with Mexico, Canada, and the U.S. Secondly, Argentina has displayed a moderate or a globalization with reform approach to the U.S. and also the IMF. The country has maintained a consistent relationship with the IMF in the past and also been referred to as the “poster child for reform” in regards to the IMF. Lastly, Venezuela has displayed a progressive approach arguing for Latin American regionalization before complete liberalization with more developed and powerful countries in terms of voting power and GDP.

The IMF

The IMF, formally known as the International Monetary Fund, is a central institution of the current International Monetary System and also a central institution of globalization. It was established in 1944, and it currently has 185 member states that represent individual nations. Its current loans outstanding (as of 5/31/08) are $19.4 billion to 65 countries(IMF). These IMF loans include conditionality statements which may include privatization, market liberalization, and reduction of government expenditures. “Latin American and Caribbean countries are struggling with very high levels of poverty and income inequality. Millions of people across the hemisphere do not have access to safe water, adequate housing, education and basic health care services. Yet many Latin American and Caribbean countries are burdened by high levels of foreign debt, which severely limits the resources available to their governments to invest in clean water, schools, health care, and the prevention and treatment of HIV/AIDS”(Network).

The IMF Decision Making Process

Voting Power in the IMF’s Board of Governors is determined by each country’s individual IMF financial contribution (IMF quota), which is determined by a country’s economic output. Argentina’s current voting power is a mere 0.97%, Mexico’s 1.43%, and Venezuela- 1.21%. The U.S. has the largest IMF quota which is 17% (IMF). In addition to further illustrate the current condition of voting power, the highest IMF quotas (U.S.17%, Japan 6%, Germany 6%, France 5%, Italy 3.2%) total 35% of 185 member countries(IMF). In the voting system of the IMF representatives of the member countries vote, members on The Board of Governors vote when loans are requested. These loans are requested due to many factors including as a result of financial crises, and also balance of payment problems. Many developing nations have to take out additional IMF loans to pay for initial loans to assist in balance of payment problems. “Structural adjustment advice in the past from the IMF and others, has led to the cut back on important spending such as health, education, in order to help repay loans. This has implied a downward spiral and further poverty (Shah 2007). The loans of the IMF may affect countries negatively due to the fact that loan debt and also conditionalities may urge a reduction of government expenditure on social programs.
Preliminary Findings
Quantitative- The first three graphs will analyze individual countries use of IMF credit, GDP growth, and National Poverty.

Mexico and the IMF

*some avgs. were calculated

Argentina and the IMF

*some avgs. were calculated
Discussion Section

Through the quantitative methodology of collecting time series data for the three countries I was able to find numbers for several variables. Predominately these figures included use of IMF credit, public health expenditure, public education expenditure, national poverty rate, and also Gross Domestic Product Growth. From these three graphs, I found that there is a negative correlation concerning IMF loans, GDP growth, and also the rate of poverty.

In Mexico, I found that in 1984 when International Monetary Fund credit was the lowest, Gross Domestic Product was at its highest. As IMF loans increase, there is a sharp decrease in GDP growth. In addition IMF loans did little to eradicate poverty, as there is no decrease in poverty rates. In 1995, I found that as there was an evident increase in IMF loans, and in turn a steep decrease in GDP growth, as well as in increase in the rate of poverty. This phenomenon occurred after NAFTA which promised economic growth. From this graph we also see that poverty finally decreases, and also GDP growth commences after IMF conditions are discontinued.

In Argentina, I found that in 1991 GDP was at its highest when IMF loans were at their lowest. As loans increased, GDP decreased. In addition, poverty rates were at their highest when IMF loans increased. On the other hand poverty rates decreased, as IMF loans increased. In this graph, I found a constant relationship with the IMF and its loans to the country. Even though there is a constant relationship to the IMF it is not beneficial to the development of the country as GDP growth is the same as it was in 1986 as it is in 2005 onward. We see a dependence on IMF loans, but GDP growth constantly
fluctuating. In 2001 we see that the country experiences an economic crisis, and even though there was a constant relationship with the IMF, the IMF did little to nothing to prevent this crisis. In Venezuela I found similar effects of IMF loans. As IMF loans increase, poverty is at its highest. As IMF loans are discontinued poverty rates continue to decrease and GDP is at its highest. When IMF loans are discontinued it takes a few years for the country to improve its conditions, and after 2004 I found that the country’s growth soared and poverty rates continue to decrease dramatically.

**Quantitative Continued**
The following graphs analyze the use of IMF credit, Public Expenditure on Health, and Public Expenditure on Education.

**Mexico and the IMF**

*some avgs. were calculated*
Argentina and the IMF

Venezuela and the IMF

Discussion Section

From these three graphs I found that there is a negative correlation between IMF loans and public health expenditure on health as a percentage of Gross Domestic Product, and also public expenditure on Education as a percentage of Gross National Product. In Mexico, I found that as IMF loans increase from 1984 to 1992 public expenditure on
education as a percentage of gross national product decreases. As IMF loans decrease from 1992 to 1994 public expenditure on health and education increases. When IMF loans are at their highest in 1996 there is a sharp decline in public expenditure on health as % of GDP, and also a decline in education expenditure. When IMF loans are discontinued, there is a clear increase in education expenditure, and health expenditure slowly rises. [good findings and good analysis!]

In Argentina, there is a constant relationship with the IMF as shown in the earlier graph. However, IMF loans do little to nothing to improve public expenditure on health as it remains at an average of 4-5% from the years of 1985 through 2004. In 1991 public expenditure on education rises increasingly as IMF loans decrease. As loans decrease in 1999 health and education expenditure continue to rise until 2001 when IMF loans increase remarkably. Soon after, there is a sharp decline in health and education expenditure. In 2003, when IMF loans increase to their highest, health and education expenditure decreases. [yes-

In Venezuela in 1990, IMF loans are at their highest and there is a sharp decrease in public expenditure on education. While loans decrease in 1992 there is an increase in health and education expenditure. In 1994 loans decrease again and education expenditure increases. The latest data do not allow for a more recent analysis of the impact of IMF loans on education expenditures. When IMF loans are severed in 2000, health expenditure steadily rises, although the rise does not appear to be immediate. Nonetheless, as we see with Argentina, it is clear that IMF loans did not result in an increase in education expenditures.

Qualitative

In my qualitative findings I was able to find the differentiating politics within the three countries. Through the North American Free Trade Agreement, and the conservative politics of its leaders throughout the years of 1980-2006, Mexico has accepted the ideals of the IMF and also the U.S. Through its continuing relationship with the IMF, and being seen as the “poster child for reform”, Argentina has displayed what I would refer to as a moderate response to the IMF. Furthermore, the leaders of the country have supported globalization, but argue for reform in the current system of global interconnection. Lastly, in efforts to create an alternative institution to the IMF, Venezuela has demonstrated the idea of regional “globalization” within Latin America as a primary effort before globalization with the entire world in which there is an unequal distribution of power which we see concerning IMF quota and voting power. In the following sections I will further demonstrate the individual politics of these three countries.

The North American Free Trade Agreement has impeded public health care expenditure as the agreement does not seek out for the betterment of the poor but the benefit of the elite and also multinational corporations who support the agreement. The journal article The North American Free Trade Agreement and Public Health at the US-Mexico Border written by Waterman and Stolp seeks to analyze the agreement and its effects on public health care in Mexico. “The argument that we make is that NAFTA has not facilitated the erasing of the constraints that impede collaboration between health workers. Our conclusion is that globalization, as exemplified by NAFTA, benefits not
the health of the people, but that of transnational corporations” (Stolp 2004). While free trade has affected those living in utter poverty negatively, policies are consistently encouraged by the current president of the country. The current president Felipe Calderón is affiliated with the National Action Party which is a mostly conservative organization with a tendency towards neoliberal economic ideas. His proposed economic policies are liberal; he supports balanced fiscal policies, flat taxes, lower taxes, and free trade. He also argues for privatization, liberalization, market control of the economy, and political freedom. While many in the country live in poverty and work in sweat shops as encouraged by globalization, free trade continues to be implemented by the country’s elite and is also seen as the best approach to effective development.

There are clear benefits for Latin American countries to separate relations with the IMF. Whatever the economics involved, severing relations with the IMF is always good politics, in Latin America in particular (Economist 2008). After Brazil’s finance ministry announced that it would repay early its entire debt of $15.5 billion owed to the IMF over the next two years, the government immediately urged Nestor Kirchner, Argentina’s president, into an identical declaration. He said his government would repay $9.8 billion to the Fund, before the end of the month. Both governments claimed they would make financial gains from the move. Brazil saved over $900m in interest payments, and Argentina saved $842m (Economist 2008). Through this it is shown that individual countries profit from disentangling from IMF loans and the debt they subsequently cause.

In Venezuela, leaders of several South American nations have signed a founding document to create a new body, the Bank of the South. This institution is proposed as an alternative to multilateral credit organizations such as the International Monetary Fund and World Bank. The idea was first put forward by Venezuelan President Hugo Chavez. “The model we are pursuing is not, I insist, anti-globalization but globalization with a conscience -for human development, equity and democracy; globalization from the bottom up, that doesn't leave the poor behind.” Hugo Chavez (Interview w/ New Perspectives Quarterly.) While Chavez has been mistakenly accused of Anti-Americanism and also Anti-globalization, he argues firstly for a regional globalization that is fairer to underdeveloped countries as they are not given an equal voting power in the current IMF decision making process. Once countries are given the opportunity to trade and cooperate on a regional level there is a greater prospect for development to compete on a global level.

Conclusions

In the quantitative methods of my study I found that IMF loans are correlated with lower GDP growth and higher rates of poverty. In years IMF loans increased, I saw that poverty rates also increased, and GDP growth either declined or remained stagnant. In the qualitative respect I found three distinct responses to the IMF and globalization varying from a conservative neoliberal approach to one that favored greater economic equality in the international monetary system. Since my research suggests that the processes of the IMF are linked to an extreme imbalance of power, the idea of greater Latin American unification and specifically a Bank of the South as proposed by President
Hugo Chavez seems the most effective approach. I would also hypothesize regional unification across the globe would be most effective.

**Sources Cited**


