International financial institutions
and their impacts on human rights

Current and prospective research

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Introduction

Recent protests in Seattle, Washington DC, Prague, Tunis, and Buenos Aires have delayed meetings of the World Trade Organization (WTO), International Monetary Fund (IMF), and the World Bank, as well as the summits of the Group of 8 (G8) industrialized countries and Summit of the Americas. The common theme across all three processes was the protestors' conviction that those institutions have negative effects in the developing world. Protesters have questioned the motives and criticized the impacts of these institutions on the economies and societies of the developing countries. The popular press has reported upon the activities of these institutions extensively. There has been considerable criticism of the austerity measures used by the IMF and the World Bank, especially their key tools, structural adjustment agreements, and the harsh human rights consequences of these agreements in developing countries.

Stepping back and taking a deep breath we might want to ask, is all this criticism warranted? How can we be sure that the effects of World Bank and IMF structural adjustment worsen the human rights of citizens in developing countries? Another way of asking this question might be: would these countries have worsened their human rights record even if the World Bank and IMF had not become involved? Similar critical questions might be: don't these institutions help countries in crisis, which may also be those countries most likely to have a bad human rights record anyway? All these questions indicate that there may be something particular about the countries that go under these programs in the first place, what has been described as a 'suffering state' in the literature. Indeed, it may be that these countries already had bad human rights records and that one should not blame the World Bank and IMF for helping countries most in need. Defenders of these institutions and the structural adjustment process (Rogoff 2003) make a number of compelling arguments. Most important is the argument that these institutions assist those countries that are in economic difficulties. In fact, they argue that if these international financial institutions had not entered the fray, the consequences would have been much worse. Thus, any negative human rights consequences are not because of the IMF or World Bank but rather the underlying difficult situation that these countries faced in the first place. Moreover, why should structural adjustment programs (SAPs) have any consequences for...
The likelihood of repression increases if they believe that the strength of domestic threats or international threats or both combined is equal or greater than the strength of the regime they wish to protect. They may use repression of human rights as one of the strategies to reduce an undesirable imbalance in the strength-threat ratio (Poe 2004). To be sure, testing the theory is complicated, because the regime has multiple strategies or tools available to reach a more desirable ratio of strength to threat. Still, research has shown that domestic threats, especially violent domestic threats, are associated with subsequent increases in the level of repression of civil and political rights (Davenport 1995, 1996; Gur 1996; Poe 2004; Poe and Tate 1994; Poe et al. 1999). The findings have not been quite as strong and consistent, but many studies also have shown that involvement in international war is associated with increased repression (Poe 2004; Poe and Tate 1994; Poe et al. 1999). The theory of Most and Starr has not yet been explicitly tested, however, because no one has measured the ratio of strength to threat and connected that ratio to repression of various types.

The first route I have described as the “IFI implementation effects,” which link IFIs to worsened human rights outcomes and stems from the impact of implementing SAPs that often lower levels of economic growth. The IFI implementation effects argument links the negative economic consequences of SAPs to increased levels of threat regimes face. This increased level of threat is followed by greater repression. This route emphasizes the fact that these programs have worsened an already bad situation. Most of the qualitative research examining the impacts of SAPs has demonstrated the deleterious consequences for many groups within society. In general, structural adjustment agreements (SAAs) require loan recipient states to reduce government spending for social programs (Chipeta 1993; Field 2003; Honda and King 1997; Sowa 1992; World Bank 1990a; Zack-Williams 2000). Some studies have emphasized the disproportionate negative economic human rights consequences for women (Buchmann 1996; Comparative Secretariat 1989; Elson 1990; Saidaivan 1997), for public sector employees, and for low-wage workers (Daddieh 1995b; Saporini 2004). The poor and those in the public sector have seen their wages fall in real terms (Daddieh 1995; Munck 1994; Saporini 2004; Vreeland 2002), while at the same time they have faced increased living costs due to the removal of price controls and subsidies for essential commodities (Zack-Williams 2000). The implementation of SAAs also has worsened the relative position of the poorest by increasing income inequalities to make their economies more business friendly and have resulted in the adoption of policies hostile to workers (Saporini 2004). Examples demonstrating how the common provisions in SAAs often lead to worsened economic and social outcomes for a broad spectrum of society are numerous and compelling. Recent quantitative research has also found that countries under SAPs have lower rates of economic growth and higher levels of income inequality than those which never went under these programs in the first place, even controlling for issues of selection (Przeworski and Vreeland 2000; Vreeland 2002).

The consequences of these agreements have lowered levels of economic growth (Przeworski and Vreeland 2000; Vreeland 2003); worsened the human rights situation in many countries (Aboulkhe and Cingranelli 2007; Franklin 1997; Keith and Poe 2000; Pica-Berlin 1984; McLaren 2002); political entrepreneurs persuade groups that have lost out to demand a redistribution of power and wealth for their group’s benefit. Indeed, one important variant of the threat-repression linkage emphasizes the ways the main source of domestic conflict within developing countries is the hardship experienced by some segments of their populations. Hardships may be the basis for social movements that threaten elites, who respond with increased repression (Arat 1991;
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Approaches taken to assess the consequences of structural adjustment programs

Previous research has utilized a variety of approaches to assess the macroeconomic consequences of these programs. Understanding the weaknesses of the various approaches is important for those who wish to assess the impacts of SAPs on other areas including human rights. What has become important in the debate about whether these programs have been beneficial or detrimental in the countries that have undertaken them is how one actually assesses their consequences. This discussion is relevant to the broader topic of how one wishes to assess the consequences of any public policy (Collier 1991). The application of a social science framework is critical to understanding the consequences of any policy choice that is made. As our understanding and application of social science frameworks to the topic of public policy outcomes becomes more sophisticated, it is important to examine the validity of previous research given our new knowledge of best practice in these situations. The approaches taken by previous research examining the consequences of structural adjustment fell into four broad categories: planned target method, before and after, with and without, and controlling for selection.

Planned target method

This method was an early approach used by the World Bank and IMF to assess the effectiveness of their programs. The “planned target” method compares what was expected to happen during the period and what actually happened (Mosley et al. 1991, p. 189). This method, however, suffers from a number of limitations. Some have argued that World Bank targets are “optimistic guesses...and cannot predict exogenous events bearing on the economic outcomes” (Mosley et al. 1991, p. 189). Thus, if a country under-performs economically this may be erroneously attributed to a flaw in the design of the program or in its implementation. In fact an under-performing economy may have nothing to do with the design of the program or its implementation. It may be that the indicators examined do not reflect the effects of the program but instead some exogenous factor (Mosley et al. 1991, p. 189).

Before and after approach

This approach compares the situation in a loan recipient state before and after they entered into an agreement. Any change in outcome of interest is attributed to the loan agreement. Much of the previous research, both qualitative and quantitative, that has examined the consequences of structural adjustment programs has taken this approach (e.g., Chibuta 1993; Commonwealth Secretariat 1989; Hanada and King 1997; Kane 1993; Pastor 1987a, 1987b; Sadasivam 1997; Sklavenitis 1993; Sowa 1993; Vreeland 1991). The findings across these approaches have been uniformly negative, indicating that the consequences of structural adjustment have had a variety of negative economic effects: lowering economic growth, lowering government spending in areas of health and education, lowering personal income, increasing income inequality, reducing protections for workers, and having detrimental economic and social effects on women.

While this approach is intuitive it cannot control for the counterfactual, what would have happened if the country had not gone under a program? A number of authors have noted that a key problem with this approach is that other factors outside of the program that also affect, for example, economic growth, may change over the period under examination (Vreeland 2003; Mosley et al. 1991). Thus, if the situation has improved or worsened in comparison to the time...
before the countries implemented these programs then one may conclude (incorrectly) that the change in situation is simply due to the imposition of structural adjustment agreements (Moynihan et al. 1995). However, this is an inappropriate conclusion because there may well be a myriad of other factors that affect this change (Harrigan and Mosley 1991). Each of these critiques calls for an approach that includes a counterfactual, a counterfactual of what would have happened had a country not undertaken a structural adjustment agreement from these institutions.

The “with and without” approach

A third approach that is also intuitive is to use a counterfactual method, which explicitly attempts to assess what would have happened in these countries had they not entered into structural adjustment agreements. A number of different procedures have been undertaken utilizing counterfactual econometric simulations and most similar system designs, which paired similar countries that did and did not enter into these agreements and then compared the levels of economic growth across them (Dornbusch et al. 1996; Frenkel and Sahn 1996; Gylfason 1987; Harrigan and Mosley 1991; Mosley et al. 1995; Sahn 1996). The findings of this approach have varied from indicating that structural adjustment programs have had no macroeconomic effects to marginal effects. In many cases, the findings are sensitive to small changes in the samples of cases used.

The most similar systems design has attracted concern (King et al. 1994; Przeworski and Teune 1970) because of the difficulty in being able to control for all the factors that may have a subsequent impact on economic growth or, in the case of this research, human rights. Nevertheless, the idea of controlling for other factors associated with economic growth as an attempt to tease out the impact of structural adjustment agreements by comparing cases where similar countries did and did not enter into these agreements may be systematic differences between countries that enter into these programs and those that do not. Many of the factors that make countries good candidates for structural adjustment such as economic difficulties are also likely to have an effect on the subsequent success of any agreement. For example, it is possible that a country’s economic growth would have declined regardless of a structural adjustment agreement because it was already in economic difficulty. Indeed, a structural adjustment package may actually have made that drop in growth smaller than it would have otherwise been. The problem of course is that without controlling for the factors that affect whether countries enter into these agreements it is difficult to conclude whether the consequences witnessed were a function of structural adjustment or would have taken place anyway.

Controlling for issues of selection

Most of the research that has tried to discern the consequences of SAPs controlling for issues of selection (Achen 1986; Heckman 1988; Przeworski and Vreeland 2000; Vreeland 2002, 2003) has been interested in the economic effects (e.g., Conway 1994; Khan et al. 1992; Przeworski and Vreeland 2000). More recently research has examined the effects on human rights (Vreeland 2002; AbouSharb and Cingranelli 2007). The concept of selection refers to the idea that the variety of factors that make countries candidates for structural adjustment agreements, such as being in economic difficulty, especially issues such as shortfalls in foreign currency reserves, are also important factors in affecting the macroeconomic conditions conducive to economic growth. The findings of this research have described the consequences of these programs on economic growth as negative. There is also good reason to believe that a number of issues that make countries more likely to need SAPs also make them more likely to violate the human rights of their citizens.

In the context of the present research, one must be able to distinguish whether the negative effects on the human rights practices of governments found by previous research (Franklin 1997; Keith and Poe 2000; Klaaren 1988) were the result of the economic difficulties that made the loan recipient country a good candidate for a structural adjustment agreement in the first place or were the consequence of the SAI itself. Single-stage models cannot provide an answer to that question.

Research exists about when countries enter into agreements with the World Bank and IMF (AbouSharb and Cingranelli 2004, 2005, 2006, 2007; Joyce 1992; Stone 2004; Przeworski and Vreeland 2000; Vreeland 2003). This literature has found that poor countries, those in economic difficulties, and those with little trade, tend to enter into these programs. Since only certain types of countries enter into these agreements, there may be a “selection effects” bias. Empirical tests that do not account for these selection effects may erroneously blame the World Bank and IMF for making things worse when they were simply trying to help countries in difficulty. The important question here is whether these factors mean that the World Bank and IMF tend to become involved with governments that have lower levels of respect for human rights. If so, then one needs to account for these issues in any subsequent analysis. Empirically one can resolve the selection effects issue by modeling the factors that increase the probability of countries entering into structural adjustment agreements. Inverse Mills ratio from the equation describing which countries enter into structural adjustment agreements can then be included in subsequent models estimating the dependent variable of interest. In this research, inclusion of these ratios allows one to test the effects of SAPs controlling for the effects of selection on human rights. Existing work has sought to account for these underlying selection effects when estimating the impact of World Bank and IMF structural adjustment agreements on government respect for physical integrity rights (AbouSharb and Cingranelli 2006, 2007) and the impact of the IMF on economic growth (Przeworski and Vreeland 2000; Vreeland 2003). To be sure, using ratios would also require the use of a bootstrapping procedure to make sure that standard errors produced are correct (Moonney and Duval 1993). The second point is that while I argue that most of the effects on human rights take place because of the economic consequences of these SAPs, there are additional routes, already noted, that do not rely upon implementation of SAPs to worsen human rights outcomes.

Conclusions: assessing the effects of IFIs on human rights, avoiding the pitfalls

This chapter has indicated the state of best practice for those wishing to conduct theory-driven, empirical work assessing the human rights effects of international financial institutions. Two recommendations are offered: the first stresses the importance of using approaches that allow the researcher to understand the effect of a policy change. The second examines the joint effects of these institutions.

The first recommendation concerns trying to understand the effect of any policy change. When trying to understand the consequences of any policy prescription it is critical to be able to distinguish between what would have happened if the policy had not changed. In most empirical work the first step in this process is by collecting data where the structural adjustment was and was not undertaken. The underlying assumption in the first step is that when collected this data will provide a representative sample of the potential range of cases. As we have seen, this approach is not sufficient when governments as well as IFIs have choices about whether or not
to undertake these agreements. Thus, one needs to account for the fact that the group of countries undertaking these agreements may constitute a non-random sample of all the countries that could have potentially undertaken these structural adjustment programs. In order to assess the effects of these SAPs one needs to account for the underlying criteria that led governments and institutions to agree to them in the first place in order to assess the effects of these policies on government respect for human rights.

The second recommendation is to emphasize the study of the joint effects of these programs. If one is interested in the consequences of structural adjustment, then one should study the agreement rather than the institutions themselves, since the aims of both the World Bank and IMF are very similar with respect to the purposes of structural adjustment agreements. While this may seem obvious almost all the research to date (with the exception of Abouharb and Cingranelli 2007) has concentrated on one institution or the other rather than on the programs themselves. The focus on either institution, I argue, leads one to underestimate the effects of SAPs.

Areas of future research

There are a variety of areas for future research. Our understanding of what constitutes best practice means that many of the areas examined by earlier research should be revisited. Furthermore, the availability of new datasets, such as the Cingranelli and Richards (2004) human rights dataset that examines governments' respect for a wide variety of human rights including physical integrity, economic and social, workers', and women's rights, has also made large sample cross-national time series work examining the consequences of IFIs over a variety of human rights much easier. Many questions remain to be answered, including the effects of IFIs on many economic rights and the rights of children and women. Other issues remain very much in their infancy, such as questions examining the effects of IFIs on democratic rights. There is also much to be done for a better understanding of how the effects of IFIs on government respect may change overtime. All these possibilities mean there is a broad and exciting future research agenda that will not only provide rich theoretical knowledge about how transnational organizations can have significant effects on government respect for human rights, but also provide important policy-relevant information concerning one of the most hotly contested current issues: the impacts of international financial institutions on human thriving.

References


