Impacts of IMF Policies on National Education Budgets and Teachers

Exploring Possible Alternatives and Strategies for Advocacy

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Introduction

A 2010 background paper prepared for the Education for All Global Monitoring Report 2011 examined the impact of the global economic crisis on national education financing and found that many low-income countries (LICs) responded to the crisis by increasing their fiscal deficits in 2009 but began implementing harsh deficit-reductions in 2010 and projected even sharper reductions in 2011, with 60 percent of all LICs and 75 percent of African LICs targeted to cut deficits in 2010-11. The report concluded it will be vital that fiscal space is reopened and indeed expanded considerably, especially by setting higher deficit targets in International Monetary Fund (IMF) programs if countries are to reach Education for All (EFA) goals (Kyrili and Martin 2010).

According to UNICEF, low pay is a key factor behind teaching staff absenteeism, informal user fees being charged and the brain drain of qualified teachers from the teaching profession. In past economic crises, pay levels for teachers and health workers have fallen in real terms, adversely impacting children in high-poverty areas. Similarly, during the current crisis, UNICEF has reported that initial evidence suggests that real pay levels are falling. Comparing salaries of primary teachers and nurses in over twenty countries revealed that in 2009 many were already near the poverty line. Further, a desk review of recent IMF reports reveals that most countries were being advised by the IMF to cap or cut public sector wage bills in 2009-11 (UNICEF 2010).

The 2011 EFA Global Monitoring Report also found that about 40 percent of low-income countries with available data had cut education spending in 2009, and the global economic crisis has led to major threats to EFA goals and education. Among the threats identified are: greater stress on household budgets may be pushing children out of school; studies indicate that an additional 350,000 students could fail to complete primary school as a result of the crisis, with most likely to come from poor households; teacher motivation may have suffered as a result of real salary declines; and increased poverty and malnutrition will undermine learning and participation in school (EFA GMR 2011). Most troubling of all, however, the 2011 EFA Global Monitoring Report found that, “Fiscal adjustment is set to become the dominant theme in public finance,” and that future fiscal consolidation could threaten progress in education.

Whatever the future direction of the global economy, it appears certain that prospects for reaching the Education for All goals in many of the world’s poorest countries will remain less favorable for the five years to 2015 than they have been over the past decade. The report correctly warns about the unnecessarily harsh consequences for adopting IMF-type budget austerity at the wrong time: “The danger is that slower economic growth and fiscal adjustment will become self-reinforcing, with reduced spending undermining economic recovery, which in turn would limit revenue collection” (EFA GMR 2011). Education advocates should be aware that there are alternatives to adopting budget austerity during economic crises.

However, even before the global economic crisis struck in 2008, the controversial policies of the IMF had long been resulting in national budget austerity, cutbacks in education budgets, restrictions on increases to the public sector wage bills and teachers’ wages, increased use of contract teachers, and other adverse effects on education financing, teachers and the quality of education in many developing countries. The amount of annual aid for education offered by international donors is volatile from year to year and often inadequate for enabling countries to fully meet their education financing needs. The

2011 EFA Global Monitoring Report reminds education advocates that the EFA efforts around focusing so heavily on international aid sometimes deflects attention from the fact that government revenue is the main source of spending on education. Even in the poorest countries, the mobilization of domestic resources and decisions over the allocation of those resources through the national budget far outweigh development assistance in national budgets (EFA GMR 2011). The real questions for education advocates is why have the national budgets of so many countries remained so small and what has gone so wrong with the current development model that has undermined the ability of countries to more successfully increase their domestic tax bases? This report seeks to answer such questions.

This report suggests that education advocates must better understand the particular ideological approach of the current IMF policies and their impacts on national budgets and education budgets and learn more about viable possible alternative monetary and fiscal policy options which could enable higher levels of national and education public spending and increased long-term public investment in the underlying education infrastructure.

This report provides a critical review of how current IMF macroeconomic policy conditions and advice impact on the ability of borrowing countries to finance national education budgets, wages for public sector teachers, and how such policies affect the ability of governments to achieve the progressive realization of the Right to Education for their citizens. It then offers a review of other alternative more expansionary fiscal, monetary and financial policy options which could allow for greater mobilization of financial resources available for future education budgets. It examines three in-depth country case studies of current IMF loan programs in Jamaica, Uganda and Latvia. Finally, it offers a proposed advocacy strategy and framework for increasing public scrutiny of current IMF loan program conditions, widening the domestic national public debates about such policies, and enhancing public participation in discussions of possible alternative macroeconomic policy options for increasing financing for education.

Part 1 IMF CRITIQUE

1.1 Background: The Overall Development Model

The discourse around the Millennium Development Goals (MDGs) includes related aspects that are also worthy of attention, such as the notion of "country ownership" or letting the recipient governments themselves decide how, where and on what to spend donor aid. It also raises related issues of transparency, anti-corruption, accountability to citizens and participation with civil society regarding the prioritization, management and spending of the aid. Many donors also include reforms to streamline procedures and increase the efficiency of public financial management and tax collection. Yet, while all of the above are useful, none of this goes farther to ask more basic questions such as why the countries need so much aid to begin with, or what has gone wrong with the current development model that leaves so many countries still so incapable of financing their own needs themselves.

Indeed, rarely do aid advocates seem to step back and think about the broader issues of national economic development at all. Like advocates for health or small farmers, education advocates often tend to stay within their comfortable and familiar education sector "silo" and neglect what is going on in the rest of the domestic economy. Yet such a narrow focus can lead to an inordinate focus on outside solutions, such as more foreign aid and the discourse of the MDGs. The fragmentation of foreign aid into hundreds of thousands of individual projects and programs run by international and local non-governmental organizations (NGOs) across dozens of countries also facilitates this inability to see the forest for the trees, and can prevent advocates from asking the bigger questions which must be raised.

1.2 "Poverty Reduction" as Development

Part of the problem is that there are very few discussions about actual national economic development occurring anymore among education advocates or others in the foreign aid industry generally, as the recent couple of decades of "poverty reduction" discourse have replaced earlier notions of more conventional development economics. This has amounted to a profound shift in popular conceptions of "development" and our ability to gage whether aid is "working" or not over time. This shift has occurred partly as a result of the fact that the MDGs approach to focusing on poverty indicators coincided with the ascendancy of the free trade/free markets approach, which has informed the dominant development model in the last few decades. Such policies are embodied in a model known as the Washington Consensus, largely because the policies are enthusiastically supported by the international financial institutions, the World Bank and the IMF, based in Washington DC and their largest shareholder, the US Treasury Department.

These free market policy reforms of the Washington Consensus were introduced by the Reagan administration in the US and Margaret Thatcher's government in the UK in the 1980s, and are actually based on the earlier free trade theories of Adam Smith and David Ricardo, associated with the nineteenth-century school of classical economics, or liberal economics. When Reagan and Thatcher made these ideas popular again, they came to called neoclassical or "neoliberal" economic policies. During the 1970s there were two global economic recessions, a huge increase in imported energy prices following the creation of the OPEC cartel, and growing criticism of the heavily role of government in economic policies, which together facilitated Reagan and Thatcher bringing the neoliberal policies into political ascendancy in the 1980s. As the events of the 1970s led to a crisis of huge indebtedness for poor countries in the 1980s, Regan and Thatcher said that any restructuring of debts and new loans from the IMF would henceforth be conditioned on borrowing countries adopting a whole set of neoliberal economic reform policies. These were translated into a new neoliberal "development model" that militates against public expenditure increases, and has since come to be rigidly reinforced through the global foreign aid, finance and trade systems. Even though the policies were originally pushed by conservative governments backed by global financial investors, the basic policy thrust has gone largely unchanged by their predecessors, even by Democratic and Labor parties in the US and UK.

This policy approach was based on the claims that developing countries could achieve better and faster development through adopting rapid trade liberalization, financial liberalization, deregulation and privatization, and by governments taking a hands-off approach towards using industrial policies to build up their domestic industries.

Since the 1980s, such a policy thrust has become so established and entrenched in official aid circles that access to further donor aid and debt cancellation has continued to be conditioned on the satisfactory implementation of such policy reforms. Going even further than aid conditions, today the policies are also being enshrined into legal trade agreements at the World Trade Organization (WTO) negotiations and increasingly through the proliferation of bilateral and regional free trade agreements (FTAs) and bilateral investment treaties (BITs) among rich and poor nations.

As a new development model for poor countries introduced in the 1980s, the Washington Consensus policies replaced earlier more successful approaches that had included industrialization and the Keynesian full-employment agenda of the 1950s, 1960s and 1970s, which had involved a much more pro-active role for "developmental states" that provided the kinds of industrial policies which had historically been used by most of the rich countries to build the productive capacities of their domestic industries over the last few centuries (Chang 2002; Reinert 2007; Robinson 2009). Central to this historical approach to economic "development" was the idea of industrialization, or that process by which countries make profound transitions in their productive capacities, moving away from producing only primary agricultural commodities and extracting natural resources towards building manufacturing and services industries with increasingly higher technological sophistication and value-added over time. The idea was to create increased levels of productive employment as a way out of poverty, to avoid dependence on just a few low-level commodities by diversifying the economy and building up the domestic tax base over time so countries could increasingly finance their education and other needs by themselves. After all, the rich countries in the Organization for Economic Cooperation and Development (OECD) are regularly referred to as the "industrialized countries" for a reason, and yet these basic notions have been all but eliminated from the "poverty reduction" discussion of today.

The idea of industrialization, along with its corollary of Keynesian full employment goals and large public investments in agriculture and the health and education infrastructure, was jettisoned from the official aid agenda in the 1980s with the onset of the Washington Consensus approach, which in contrast calls for minimal government intervention and maximum freedom for market forces. By the 1990s, the idea that states should play a pro-active role in supporting the development of domestic industry had become decidedly unfashionable in capitals of the major foreign aid donor countries. Rather than focus on "national" economic development, the new mantra became "integration with the global economy" as the route to development. Micro-credit to enable individual villagers to become entrepreneurs in the free market had become acceptable and trendy, but full-blown industrial policies by governments to create employment, support technological advancement and new industries and build up the tax base had been taken off the radar. The terms associated with essential policy tools such as "trade protection", "subsidies", "capital controls," "technology policy" and other forms of "industrial policies" by governments came to be met with derision and disdain, thus even today few in the aid industry will mention them.

By the early 1990s, the Washington Consensus approach had totally replaced such earlier pathways to development, with its overriding idea that if poor countries simply cut their budget deficits and keep them under control, raised interest rates if necessary to get inflation down and keep it down, privatized, deregulated and opened their trade and financial accounts to the global economy, they would be rewarded with higher economic growth and spontaneous development. Because of this belief that the "unfettered market" would solve everything automatically, the aid industry had only to concern itself with temporarily ameliorating the suffering and focusing on basic human needs. This reduction of the purpose and role of foreign aid led to the more narrow focus on social indicators and the logic of the MDGs. It came to be presumed that the "magic of the marketplace" would take care of everything else. In the realm of education, this included a shift from public education systems to private providers at market prices. Today these ideas have become so widely accepted they are ubiquitous, like the air one breathes or the ground on which one walks, they are not even thought about in the conscious mind. They have become the backdrop in the current MDGs discussions, and the education-related MDGs.

For the younger generation of aid advocates, this is the only world and the only discourse they have ever known, making it exceptionally difficult to juxtapose the Washington Consensus approach against earlier understandings of "development".

The only catch is that such successful economic development has not happened the way it was promised by proponents of free trade and free markets. Instead, the record has shown that by themselves, markets cannot determine the direction of development, and cannot deliver growth and redistribution, job creation or social protection. By 2003, the failure of the Washington Consensus approach to create jobs, diversify economies, facilitate the shift from primary agriculture into manufacturing and services industries and build the domestic tax bases was becoming increasingly evident, leading Mark Malloch-Brown, then-administrator of the United Nations Development Program, to call for a reaffirmation of the role of the state in development policy: "Market reforms are not enough. You can't just liberalize; you need an interventionist strategy" (UNDP 2004). But such insights fell on deaf ears in the official donor aid community, where a nearly religious belief in free trade and free markets still goes largely unchallenged.

However, an increasing number of important studies over recent years, such as UNCTAD's 2006 Least Developed Countries Report, have called for a "paradigm shift" away from the Washington Consensus approach and a reconsideration of the usefulness of industrial policies for building the domestic tax base, facilitating industrialization and increasing public investment (UNCTAD 2006; see also UNDP 2005; UNIDO 2009; UNDESA 2009).

The use of industrial policies, in which the government temporarily supports the emergence of new industries with publicly-financed research and development (R&D), in acquiring new technologies, with subsidies, trade protection, subsidized credit, and other mechanisms, sometimes for decades at a time until they become competitive in international markets, had long been part of mainstream development economics until it came under sustained attack from advocates of free trade and free markets in the late 1970s and 1980s. Critics of industrial policies argued that they had not worked and indeed could not work because government failures were always worse than market failure. They advocated that we should forget about industrial policy or for that matter any other policy interventions by governments to solve problems of development, and instead focus on creating free markets and greatly reducing the role of the state to that of a light regulator, if at all.

These critics were certainly correct in pointing to some very unsuccessful instances of industry policy in developing countries. But they were selective in their criticisms and ignored successful cases (Robinson 2009; Naude 2010). Furthermore, the critics did not account for why industrial policies had worked so well in the US, Europe and East Asia but failed so badly in Africa and elsewhere. Instead, they just tossed out the baby with the bathwater and took the whole discussion of industrialization off the table.

The rise of the doctrine of free markets and free trade was partially enabled by some of the high-profile failures of previous attempts at industrialization in developing countries from the 1950s through the 1970s. Particularly in Africa and Latin America, many industrial policies used by governments to support and protect infant industries failed because they were used inappropriately, with poor sequencing, and were often driven by political considerations, nepotism or corruption, and not by economic analyses or strict efficiency grounds. In the cases of Latin America, often the industrial policies were kept in place too long, and were too inwardly focused on small domestic markets, neglecting the need to develop international competitiveness. In contrast, the structures of the political economy in several East Asian countries included institutions that tended to enforce stricter rules for which industries got subsidies and trade protection, and which got cut-off from them when they failed to meet performance targets (Chang 2005; Robinson 2009; Naude 2010). Yet, crucially, this history says more about how industrial policies should be done, not if they should be done.

This ideological shift from the pro-active use of government policies to support industrialization towards a greatly reduced role for governments since the 1980s was equally dramatic in the universities. Important foundations, research institutes, think tanks and corporate textbook publishers began to reflect the new ideology of free markets, which eventually had a profound effect on the university curricula. Many economics departments and development studies programs largely eliminated over time the history of the extensive use of industrial policies by the rich countries over the last few centuries, from the time of Henry VII in England in 1485 through the successful East Asian industrialization of the last 50 years, because it conflicted with the precepts of the new ideology. Instead, many students of economics and development in the last few decades have only been taught neoclassical free trade theory and the efficient market hypothesis. Increasingly, students of economics only get taught mathematical models in the pursuit of elegant equations that are entirely devoid of the messiness of real-world contexts or “externalities” such as politics and the facts of history. Indeed, many of today’s central bankers and finance ministry officials throughout the developing world, who have gone to school at elite universities in the US and Europe, have tended to only learn neoclassical economic theory and returned home to try to implement it, even though such theory stands in stark contrast to what the rich countries actually did to industrialize successfully.

As the Norwegian historian of economic policies, Erik Reinert (2007), has lamented, there is no discipline called the History of Economic Policies; instead, students learn quite well what Adam Smith said England should do, but they learn virtually nothing about what England actually did. Others, such as MIT’s Alice Amsden (2001) and Cambridge’s Ha-Joon Chang (2002), have attempted to resurrect this forgotten historical record, but today they are up against two or three generations who have only learned neoclassical free trade theory. Nobel Laureate Joseph Stiglitz (2003) has advised developing country officials to similarly go back and learn this forgotten history: “Don’t do as the US tells you, do as the US did.” The loss of this history and the removal of these fundamentals of development economics—transforming economies from primary agriculture into manufacturing and services—from the questions of foreign aid today presents the major challenge for education advocates. If today’s students actually learned the history of industrial policies used successfully by the industrialized countries, perhaps education advocates and others would have a different view of development and how to enable countries to finance more of their own education needs themselves.

The subsequent record has shown that countries such as China, to some extent, India, and regions such as East and South-East Asia, which did not adopt or fully adopt the Washington Consensus approach, have successfully diversified their economies with manufacturing and services industries during the last few decades and have built up their domestic tax bases and managed to significantly reduce poverty levels, particularly in urban areas, by adopting pro-active strategies towards employment creation and industrialization. While these successes have driven the aggregate global poverty levels down; not every region or country has recorded such progress, and there has generally been less poverty reduction and economic development in many other countries which that did adopt Washington Consensus policies. By 2000, some 45 developing countries had per capita incomes below those of ten to 25 years earlier, as did more than 20 transition countries (UNDP 2002). The 1980s and 1990s for developing countries were characterized by declining economic growth rates as compared to 1960-1980 (CEPR 2005). In fact, according to United Nations and World Bank data, the absolute number of poor people has gone up in several countries in sub-Saharan Africa, Latin America, the Middle East and Northern Africa, as well as in

Central Asia which adopted the Washington Consensus approach. Although some of these countries have registered high economic growth rates, this alone has not translate into successful development: Where some economic growth has occurred in developing countries, particularly the least developed countries, it has often been tied to price increases in global markets for their commodity exports—but has rarely translated into poverty reduction or national economic diversification into manufacturing and services that create bigger tax bases. This has been especially the case when higher growth rates have been concentrated in extractive industries (mining, logging, fisheries), which has not resulted in much job growth or structural change in productive capacities. Additionally, high or rising inequality within countries has undermined the potential poverty-reducing effects of growth where it has occurred (UNDESA 2009; Chen and Martin 2008; Mekay 2004).

1.3 "Poverty Reduction" is not Development

If education advocates ask what the basic indicators of economic "development" had been a few decades earlier, and for much of the few preceding centuries, common understandings would have looked to employment and diversification and technological upgrading of production. The kinds of key questions asked were: Are there more jobs and domestic companies in the formal sector (contributing to the tax base) than there used to be? Is the level of public investment as a percent of GDP in health, education and transportation infrastructure by the government increasing or not? Is the level of workers' wages as a percent of GDP increasing or not? Are there core labor rights of unions and minimum wages being enforced or not? Is the economy diversifying and moving from primary agriculture and extractives into new manufacturing and services industries or not? However, not only are these kinds of questions no longer being considered in many foreign aid circles, but if asked, the track record of many countries shows that the answers in many cases would be "no" (NLGS 2010; ILO 2008).

Today's "poverty reduction" discourse and the high-profile focus on getting more foreign aid for achieving the MDGs has created a great amount of confusion. For over a decade the IMF and World Bank have claimed they have moved away from their "structural adjustment programs" that had characterized the early Washington Consensus policies, and indeed, the institutions changed the names of their structural adjustment loans to now include the words "poverty reduction" in the new titles. So much of the rhetoric shifted away from "Washington Consensus" and "post-Washington Consensus" that even many critical NGOs started to accept this. However, an examination of the current policy advice and loan conditions coming out of the IMF and World Bank show that the same Washington Consensus policies remain intact (Rowden 2010). But the really important shift in the official discourse that has occurred over the years is from "development" to "poverty reduction", and it is incumbent upon education advocates to question this. For those engaged in such rhetoric, it is almost as if "poverty reduction" has come to mean the same thing as "development". If we do not have a working definition of development that includes the transformative process of industrialization over time, then what is "development"? Is a country with improved human development indicators or that achieves the MDGs therefore "developed"? Here the dominant "poverty reduction" discourse presents an important dilemma. Some countries have scored some improvements on their poverty indicators, but can we say that countries are "developing" successfully if they are not also increasing their levels of formal sector employment, if workers are not earning higher wages, if there are not more domestically-owned companies engaged in increasingly diverse and productive activities, and if the tax bases are not growing? Arguably not. But then again, the problem is that so few education advocates and others in the aid community are even asking (Rowden 2011).

There are, however, some interesting new cracks in the sanctity of the Washington Consensus policies, not least of which was offered by former Chairman of the US Federal Reserve, Alan Greenspan, who in 2008 conceded, “I was wrong” about the efficient market hypothesis, which suggests that banks and financial institutions would not engage in excessively risky over-leveraging out of a sense of self-interest, thus there was no need for government regulation of the financial sector (Andrews 2008).

In the wake of the recent financial upheavals, research has shown that those countries which went against IMF admonitions and used some type of capital controls actually weathered the crisis much better than those which had adopted the Washington Consensus doctrine of liberalized open capital accounts. To its credit, even the IMF has conceded such in recent staff papers that have found there may be some efficacy to such state intervention after all, something which would have been dismissed as pure heresy just a few years ago (Ostrey 2010; Subramanian and Williamson 2009).

Equally compelling was former US President Bill Clinton’s recent remorseful apology about having pushed premature trade liberalization on Haiti. Decades of inexpensive imports, especially rice from the US, have destroyed local agriculture as domestic companies could not compete against the floods of cheaper imports. As too many poor people opt to buy the cheaper imports, domestic companies go out of business. Such pre-mature trade liberalization policies have left impoverished countries such as Haiti unable to feed themselves and shifted many former food exporting countries into net food importers today. While those policies have been criticized for years in certain circles, it is becoming clear in places like Haiti and elsewhere that lowering trade barriers too much only exacerbated hunger and actually set back economic development.

In March 2010, Clinton, now UN special envoy to Haiti, publicly apologized for having championed the free trade policies that destroyed Haiti's rice production. In the mid-1990s, his administration along with the World Bank conditioned access to foreign aid on Haiti dramatically cut its trade tariffs on imported US rice. "It may have been good for some of my farmers in Arkansas, but it has not worked. It was a mistake," Clinton told the US Senate Foreign Relations Committee. "I had to live everyday with the consequences of the loss of capacity to produce a rice crop in Haiti to feed those people because of what I did; nobody else" (Katz 2010). Unfortunately, while these fundamental lessons obviously extend far beyond Haiti, and far beyond agriculture, the idea that industrial policies such as trade protection may actually be useful for promoting jobs, domestic companies and economic development still remains lost on many official donor agencies, and among many of those currently engaged in debates about how to improve domestic education financing.

As with the whole set of Washington Consensus policies, the simple idea that rapid trade liberalization at all times and in all places is good has taken on a life of its own and become enthroned as an end in itself, and unqualified free trade theory has come to deeply influence foreign aid development policy. Yet such rapid, across-the-board, premature trade liberalization in Africa, Latin America and elsewhere since the 1980s has in fact led to the destruction of many existing industries, particularly of those that were at their early stages of development, entailing massive job losses without necessarily leading to the emergence of new ones. The free trade mantra dictated that if early-stage manufacturing industries in developing countries needed trade protection or subsidy support from their governments, then they were inefficient and not cost-effective, and amounted to a drag on public expenditure. The free trade rule of the day had become: if an industry cannot survive global market competition on its own without government support, it deserved to go out of business. This is what students are still being taught today. And it is entirely ahistorical. The crucial fundamentals of 500 years of development economics history have been lost. As Reinert (2007) reminds us, today's free markets doctrine wholly neglects the simple idea that economic development is a transformative process over time, which involves essentially learning by doing over time, and there is a stage in that process when it is better to have an inefficient industrial sector than no industrial sector at all. Government policies should facilitate that learning process. If a sector is inefficient, the thing to do is to help it become more efficient, not wipe it out.

According to some estimates by the United Nations Conference of Trade and Development (UNCTAD 2005), total income losses for sub-Saharan Africa from premature trade liberalization amounted to US$270 billion over the past two decades – more than the total foreign aid received by the region. In striking contrast, the newly-industrializing economies in China, India and East Asia have taken a much more gradual and selective path to trade liberalization, much like Europe, Japan and the US did in previous centuries, as part of a long-term industrial policy in which trade protection is lowered for certain industries –only after they had reached a certain level of industrialization and development when firms were in a position to compete internationally (Jomo and Reinert 2005; Stigltiz 2003; Chang 2002; Amsden 2001).

The UNCTAD report echoed the findings of many of other major United Nations and academic studies in raising concern about the failure of the Washington Consensus policy approach to achieve successful development outcomes in terms of increasing employment, increasing the numbers and diversity of domestically-own firms in the formal sector (that pay taxes), increasing the size of the tax base, or the levels of long-term public investment as a percent of GDP (Ibid.).

Rather than diversifying their economies, industrializing and growing their tax bases, the current free trade model encourages poor countries to stick to exporting a few primary commodities and raw materials, but this has tended to trap countries into low levels of development and constantly prioritizing the use of their domestic productive resources (including labor) for producing exports and generating an external surplus to be used for repaying foreign creditors, while reducing the left over resources that could otherwise be directed towards building domestic demand and domestic productive capacities (Kregel 2009). Consequently, many developing countries have been characterized by lingering high levels of high unemployment and under-employment, high illiteracy rates, a lack of economic diversification and development, and insufficiently small tax bases which cannot adequately finance public education or other needs. The result has been worsening education outcomes amidst dilapidated public education infrastructure. Simply calling on donors to give more aid to supplement the education budgets does not fix this overarching problem.

Under these conditions, countries will clearly remain incapable of financing their own education needs. Therefore, global education advocates should see that they have much more than just an "education sector financing problem", they have an entire "development model" problem.

1.4 How IMF fiscal and monetary policies undermine education systems

In recent years, education advocates and donors alike have increasingly recognized this need for greater education financing, and launched donor-led initiatives such as the Education for All (EFA) and Fast-Track Initiative (FTI) efforts. Additionally, the aid recipients are also expected to devote greater share of their domestic resources towards such efforts, which will require scaled-up levels of public investment as a percent of GDP. There is reason for concern, however, that countries will be unable to do this now for the same reasons they have chronically underfunded public investment for much of the last 30 years:

to stay in compliance with the conservative policy orthodoxy of the IMF, which has been based on strict notions of fiscal balance (low budget deficits) and price stability (low inflation). These two policies relate to an important subset of the Washington Consensus policies, and are often set as binding conditions on loans from the IMF. In turn, aid from other donors is often tied to compliance with these IMF policies.

Although the IMF was originally designed to assist countries in the post World War II-era with managing their fixed exchange rates by providing funds and technical advice to countries with trade deficits, its role changed when developed nations moved away from fixed exchange rates in the 1970s. With the inception of the "Third World debt crisis" in 1982, the IMF was charged with a new mission of crisis management in developing countries, and in conducting the surveillance, financial and technical assistance. That assistance with policies, however, was informed by the Reagan and Thatcher governments in the early 1980s and their strong belief in the school of monetarism within neoclassical economics, which believes low deficits and low inflation are the most important goals. Like other Washington Consensus policies, these "tight" fiscal and monetary policies came into ascendency during the 1980s and today go largely unchallenged, particularly among other rich donor countries which first look to IMF approval before giving aid each year. This "signal effect", in which other donors defer to the assessments of the IMF, give the institution tremendous leverage and power over aid-dependent borrowing countries. Central to the IMF's policy approach is to condition access to future aid and debt-relief on achieving key fiscal policy (balanced budgets or very low budget deficits) and monetary policy targets (low inflation or so called "price stability").

Since these conditions were first implemented in many developing countries in the 1980s, the IMF loan requirement for fiscal balance compelled governments to cut public expenditures, often with little regard for the composition of government expenditure. In most cases, the budget was brought to a balance or even surplus by cutting long-term public investment rather than by raising taxes. Consequently, there were precipitous declines in public investment in the early 1980s in both Latin America and Africa, the two regions which experienced growth slowdowns. Public investments have generally declined in Latin America since the debt crisis starting from around 1982, while the collapse in sub-Saharan Africa during the early and mid-1980s was reversed slightly before the decline continued, more gradually, in the 1990s (IMF 2004). The situation was made worse by the fact that declines in public investment were not matched by increases in private investment, as had been promised, largely because of the other IMF policy seeking price stability (low inflation).

Focusing on price stability was supposed to have created favorable conditions for private investment, capital inflows and exports, which should have spurred growth. However, both public and private investment has been adversely affected by the orthodox macroeconomic policy framework of the past three decades, which has been focused on achieving low single-digit inflation rates (about 5 percent), financial sector deregulation and the opening of the capital account, all of which usually involved raising real interest rates (UNCTAD 2006). This can undermine the education goals of education advocates because high interest rates slow everything else down: They make credit less affordable for domestic industries, which are then less able to generate higher levels of productive capacity, employment and GDP output, and thus, tax revenues, than otherwise could be the case under more expansionary fiscal and monetary policy options. This deprives governments of higher levels of tax revenues for both recurrent expenditures and crucially, for long-term public investment as a percent of GDP. As this continues over time, the chronic lack of public investment generally, and in education systems in particular, can cause serious deterioration in education outcomes. In many cases this has been going on for 20 or 30 years, so by today the cumulative effect has been disastrous for public education financing.

Consequently, recent decades have been characterized by fiscal and monetary policies that have prioritized fiscal balance and low inflation in the constant short-term to the neglect or subordination of the public investment necessary for longer-term developmental goals such as increased employment, tax-revenue generation and investments in the underlying infrastructure, including the education infrastructure. The IMF has indeed succeeded in lowering fiscal deficits and inflation, but at the cost of a long-term trend of low-growth, low-employment and low-public investment that has been characterized by chronically insufficient education budgets and dilapidated education infrastructure.

This situation continues because the ideology of monetarism has become entrenched in the field of economics. Therefore, even in countries without strict IMF loan programs, it is common to see these policies constraining otherwise higher public investment because of the ideological biases that underpin conventional monetary policies. Many current finance ministry and central bank officials who have gone to school in the last 20-30 years have largely been taught one thing—and one thing only – that the only "prudent" and "sound" option for fiscal and monetary policies is the very conservative one favored by the Reagan and Thatcher governments, which were steeped in the school of monetarism within neoclassical economics. All other actually viable options that would allow for higher public investment have subsequently been dismissed as "imprudent" and "unsound". So the problem is much bigger than just the IMF: even if a country does not currently have an IMF loan program, its fiscal and monetary policies are still likely subject to the same sharp right-wing turn taken in the economics profession 30 years ago, from which it has yet to recover.

The real problem for global education advocates is that this ideology tosses their sacred education goals into the rubbish bin in terms of subordinating the things they need for better education financing (higher GDP growth, employment, tax-revenue generation and public investment) to the priorities of extreme fiscal austerity and price stability. While the goals of strict fiscal austerity and price stability have been largely achieved in most places, global education advocates are left wondering why the public education infrastructure in many developing countries is today crumbling due to a chronic lack of public investment (Roy, et al 2006) for much of the last 30 years. Or, as UNICEF (2010) put it recently, "macroeconomic and expenditure decisions are often taken without an adequate analysis of their potential impacts in terms of employment, social development and inclusive and resilient growth."

This concern had been clearly articulated by a 2001 US Government Accountability Office (GAO) report on IMF loans when it cautioned: "Policies that are overly concerned with macroeconomic stability may turn out to be too austere, lowering economic growth from its optimal level and impeding progress on poverty reduction" (GAO 2001). This concern was also raised in a major 2005 World Bank retrospective on economic growth which concluded the IMF's effort to lower inflation may well have come at the cost of unnecessarily lower growth and tax revenue generation, and then multiplied over many years (World Bank 2005).

The monetarist approach that has been taught uncritically in the economics profession for nearly 30 years actually has little empirical evidence in the economics literature to justify pushing inflation down to the 5–7 per cent level, with the consequences of lower growth, lower taxes and lower spending that result. In fact, there is considerable countervailing research. While everyone agrees that high inflation is harmful and must be brought down, there has developed a false, black-or-white dichotomy in which it is believed a country has either very low inflation or out-of-control hyperinflation, with a near total disregard for other reasonable rates of moderate inflation that have historically (before the 1980s) coexisted with higher GDP growth rates in developing countries. The key problem is that interest rates are jacked up so high in order to get inflation down so low that domestic companies cannot afford commercial loans they need to expand production and employment, nor can governments afford higher levels of deficit financing, both of which then have devastating effects for growth, employment and public investment (Thornton 1996; Ball 1994; Cecchetti 1994).

Rather than worrying about how high inflation may go, far more relevant questions are how low must inflation be brought down and at what level must it be maintained. There have been several major studies which have tried to find this ‘kink’ in the inflation–growth relationship, or at what level inflation begins to hurt a country’s long-term GDP growth rates, yet the estimates range across the board. These include Pollin and Zhu (2005) who found the danger point at between 14-16 percent for developing countries; Fischer (1993) at between 15-30 percent; Bruno (1995) at below 20 percent; Barro (1996) was non-conclusive; Sarel (1996) at 8 percent; Bruno and Easterly (1998) as high as 40 percent; Ghosh and Phillips (1998) was non-conclusive; Khan and Senhadji (2001) at between 11 percent-12 percent for developing countries and 1-3 percent for rich countries; Gylfason and Herbertsson (2001) at between 10-20 percent; and the GAO (2009) at between 7 -12 percent.

As can be seen, some studies find the danger point for inflation is between 15 and 30 per cent, as high as 40 per cent or as low as 7 per cent, and with several in between. Education advocates should know that what these major studies collectively show is that not only are the estimates all over the place and further research is still needed, but, as Pollin and Zhu (2005) note, "There is no justification for inflation-targeting policies as they are currently being practiced throughout the middle- and low-income countries”—whether a country has an IMF program or not.

Such was also the conclusion of the high-level 2008 Spence Commission on Growth and Development when it explained: "…Very high inflation is clearly damaging to investment and growth. Bringing inflation down is also very costly in terms of lost output and employment. But how high is very high? Some countries have grown for long periods with persistent inflation of 15–30 percent” (Spence 2008). Commission member Montek Singh Ahluwalia added, "The international financial institutions, the IMF in particular, have tended to see public investment as a short-term stabilization issue, and failed to grasp its long-term growth consequences. If low-income countries are stuck in a low-level equilibrium, then putting constraints on their infrastructure spending may ensure they never take off" (Ibid, p. 36).

This same literature was also reviewed in the 2007 study by the Center for Global Development, which similarly concluded: "Empirical evidence does not justify pushing inflation to these levels in low-income countries,” (CGD 2007) and by the House Financial Services Committee of the US Congress, which wrote to the IMF in 2007, "We are concerned by the IMF’s adherence to overly-rigid macroeconomic targets" and "It is particularly troubling to us that the IMF’s policy positions do not reflect any consensus view among economists on appropriate inflation targets” (Financial Services 2007). Further, the CGD report found that “The IMF has not done enough to explore more expansionary, but still feasible, options for greater fiscal space.” But the real problem for education advocates is that those “more expansionary, but still feasible, options for greater fiscal space,” are precisely the ones often derided as “imprudent” and “unsound” by our major university economics departments that have so effectively trained many of the world’s finance and central bank officials, including in developing countries.

This is why such “tight” fiscal and monetary policies are often applied even in those countries which may not currently have active IMF loan programs: it is the underlying ideology which has been singularly taught in economics programs in an unquestioned way for nearly 30 years and informs the general thinking in central banks and finance ministries generally. But the IMF remains the largest symbolic and actual purveyor of such an approach. As UNDESA (2009) explained recently about the current popular macroeconomic framework that subordinates higher growth, employment and public investment (in education) to price stability and fiscal austerity: "Focusing on inflation and fiscal deficits alone reflects too narrow a view of stabilization. Therefore, stabilization needs to be defined more broadly to include stability of the real economy, with smoothened business cycles and reduced fluctuations of output, investment, employment and incomes. Achieving such stability of the real economy may require larger fiscal deficits and higher rates of inflation than prescribed by the conventional macroeconomic policy mix, especially in the face of economic shocks or natural calamities." This view is exactly correct, but it has not yet made its way into the official discourse, or the donor agencies, who continue to defer to the IMF on such matters. Even those in the donor agencies who suspect something is amiss are too timid to stick their necks out at the risk of being labeled "imprudent" or "unsound" by the more orthodox economists. This is perhaps the major political and psychological hurdle that confronts education advocates today.

As long as the IMF remains the major enforcer of policies that block meaningful public investment in education systems or the hiring of the necessary numbers of well trained and well paid teachers and administrators, then education advocates can be counted on to continue criticizing the IMF for undermining domestic capacities for education financing (ActionAid 2005; Oxfam 2003; UNATU 2010). This is why it is imperative for global education advocates who are interested in increasing the overall size of the domestic tax base –whether for education financing or anything else—to not only question the overall development model generally, but also to question this current IMF orthodoxy that keeps governments from generating higher degrees of taxation and public investment. They should explore and support the adoption of alternative and more expansionary fiscal and monetary policy options, such as those advocated by UNDESA (2010), Epstein (2009), and many others discussed below.

1.5 Advocates for education must become advocates for a new development model

As these changes with the development model unfolded in the last few decades towards using foreign aid to narrowly focus on alleviating the symptoms of poverty, global public education advocates have largely tended to view education financing problems within the confines of the education sector alone, separated from other ongoing economic issues within developing countries, and have regularly called for more foreign aid for education while largely neglecting ways to mobilize more resources domestically. Health advocates and many others have tended to do the same.

However, while supporting calls to achieve the MDGs, education advocates must also consider calling for much more pro-active national economic development strategies that would enable countries to effectively focus on increasing employment, building domestically-owned firms, advancing and diversifying domestic productive capacities and increasing public investment to the degrees necessary to increase the domestic tax base over time and truly foster economic development. While foreign aid will continue to be important for many countries, it is not likely to be sufficient for enabling countries to make their own long-term public investments that will be needed to adequately and equitably meet education and other human development needs over the long-run.

It is time for a serious re-think of the current development model, particularly as the global economic crisis leads to new cutbacks in foreign aid budgets, and this rethinking must include global education advocates.

Although the theoretical basis for the free trade/free market policies of the Washington Consensus continues to be uncritically accepted by many foreign aid and donor agencies, influential think tanks, corporate media outlets, and university economics departments, its failure to achieve broader economic development successes in much of the developing world under such policies, combined with failure of the financial liberalization model so evident in the recent global financial crisis, has helped to inspire new thinking.

Along these lines, education advocates should consider following the lead of the 2008 report of the World Health Organization's Commission on the Social Determinants of Health, which rather than only staying focused on its own sector of health, examined a much broader set of economic policies and called on advocates to take a more comprehensive view of development issues as they impact on health and health financing. Among its many recommendations, the report called for: reduced dependence on external capital through effective financial sector regulation; the appropriate use of capital controls, and measures to mobilize and retain domestic capital; greater use of trade protection to avoid the "dumping" of foreign products in low- and middle-income country markets at prices below their cost of production; an improvement in labor standards and upward convergence with other countries over time; reduced reliance on export markets through promotion of the production of goods for the domestic market; greatly increased emphasis on Special and Differential Treatment for low- and middle-income countries in future WTO Agreements and other trade agreements; and stronger safeguard provisions in WTO Agreements (and bilateral and regional trade agreements) with respect to public health. It concluded that, "most of these measures require action at the international level – either discretionary changes by individual governments (in the case of increases in, or changes in the conditions attached to, donor support) or collective action mediated by international institutions" (CSDH 2008).

Education advocates must take a similarly holistic approach to begin analyzing the whole development model and it currently impacts the ability of countries to build their tax bases and finance their education needs themselves.

Calling on donor governments to increase their foreign aid levels is absolutely essential. But education advocates in the rich countries must also call on their representatives at the IMF and World Bank executive boards to modify the Washington Consensus-type policy reforms that are attached as loan conditions or advice and call on their trade ministries to modify the trade and investment agreements being negotiated with developing countries that lock such policies into place. Industrial policies must be encouraged and supported, not outlawed by IMF loans or trade treaties. Monetary policies must increase employment, growth and public investment, not constrain them.

Perhaps nowhere is such advocacy work more important than in the United states, where citizens must call on the US Treasury Department and the Congressional committees which oversee it, to take steps to get such policy prescriptions changed at the IMF and World Bank, and on the Office of the United States Trade Representative to stop including such policies in the many bilateral and regional trade and investment treaties it is negotiating with developing countries. But it important to undertake such advocacy work everywhere, and this report will lay out ways citizens and advocates can step up the political pressure for such changes in every country and in internationally coordinated ways (below).

Several good ideas on alternative development policies were explained clearly for advocates in a special report by the United Nations Non-Governmental Liaison Service (NGLS) to the UN Secretary General in advance of the major review of the MDGs summit in New York in September 2010. The report makes the case for why it is imperative to move rapidly away from the Washington Consensus policies. The NGLS report calls for supporting policy makers in developing countries with greater leeway to experiment with a broader range of policy alternatives, or what is called “policy space”, and build their capacities to pursue “forward-looking macroeconomic policies” to foster a more “employment-centered growth and development model” that can generate more tax revenues and increase public investment (NGLS 2010). Global education advocates interested in realizing increased domestic financing for the education-related MDGs and other education goals should take notice and support such new approaches as well.

1.6 The Role of the IMF in the Recent Global Economic Crisis

When the unprecedented housing bubble which had driven global finance from 2002-2007 finally burst and sparked a global financial crisis, most of the governments of the wealthy countries stepped in and used public funds to bail out their teetering banks. This global financial crisis of led to the global economic recession beginning in 2008, and has constituted the worst global recession since the Great Depression of the 1930s. Despite the dominance of free trade and free markets rhetoric in the recent decades, most governments around the world quickly abandoned these principles and responded to this crisis with the government bailouts for banks and the use of classic Keynesian fiscal stimulus spending policies and expansionary monetary policies (lowering interest rates to make borrowing easier and cheaper for businesses and consumers). The logic behind Keynesian policies is that during economic recessions, private sector activity by companies and individuals slows down, so a large new increase in government spending and purchases helps to pick up the slack in the economy, creating new jobs and getting the economy moving again. This is referred to as counter-cyclical policy.

To its credit, and for the first time, even the IMF supported more expansionary policies during the height of the crisis in 2008-2009, which was an important policy shift in its long-standing public positions. However, despite its high-profile public support of Keynesian stimulus, upon closer examination, studies showed that the IMF’s public support for expansionary policies was in fact limited to the major economies of the US, Europe and Japan, and some larger middle-income countries. In fact, research by UNICEF (2010), UNCTAD (2009), and several NGOs showed that the IMF had been still prescribing its traditional heavily pro-cyclical tight fiscal and monetary policies (cutbacks on public spending and raising interest rates) in many developing countries and in the new loans for some European economies (TWN 2010; Eurodad and TWN 2010; CEPR 2009; Eurodad 2009; SOLIDAR, et al 2009).

Despite high profile pledges to address the crisis in flexible and innovative ways, the IMF’s key objective in crisis loans has remained “macroeconomic stability” through the pro-cyclical tightening of fiscal and monetary policies. Research on the recent IMF loans has shown that generally, “there has been very little fundamental change,” from its traditional approach and that “policy space has not substantially been expanded” for borrowing countries (Eurodad and TWN 2010). Although many IMF programs did allow for marginally higher deficits during the height of the crisis in 2008-2009, the degree of relaxation of deficit targets (fiscal policy) and interest rates (monetary policy) has not only been marginal in size but also it has proved to be short lived, as the IMF has already begun programming tighter fiscal policies starting in 2010 and into 2011.

Unfortunately, the effort by rich countries to use Keynesian stimulus policies for their own economies proved to be short-lived. Although some economists complained during 2008-09 that the amount of fiscal stimulus spending was not high enough to offset the drop in private sector demand, the mounting deficits from the bank bailouts, slowed economic growth and few tax collections all began to spook traditional conservative forces. Once they were clearly passed the frightening days during height of the global financial breakdown, conservative political forces opposed to the Keynesian spending approach regained political ground in the US, UK and Europe. Starting in 2010 and continuing today, the advocates of pro-cyclical policies and budget austerity (cutting public spending and raising interest rates) have dominated the public debates and influenced domestic economic policies. As some European economies needed large bank bailouts, such as Iceland, Greece, Ireland, and Portugal, the IMF stepped in along with the European Central Bank (ECB) and together provided loan programs similar to the conventional pro-cyclical approach of the IMF in developing countries. There is a deep concern that, similar to circumstances prevailing in the late 1930s, such an approach to deep budget austerity during an economic slowdown with already high unemployment may likely make a bad situation much worse (Krugman 2011).

However, to its credit, there have been some important signs of positive new changes coming out of the IMF in the wake of the crisis. For the first time ever, during the world recession of 2009, the IMF made available some US $283 billion worth of reserves (SDRs) for all member countries, with no policy conditions attached. Unfortunately, due to IMF rules, the SDRs were disbursed according to voting weight in the IMF, resulting in most SDRs being given to the biggest and wealthiest countries which needed them the least. Nevertheless, the process did open the box to new thinking and several new proposals have been generated about how reforms to IMF rules could enable future issuances of SDRs to occur more regularly. The IMF also made some limited credit available to crisis-stricken developing countries without conditions, although these only went to a "pre-approved" few countries.

The most notable and important policy change by the IMF was the modification its long-standing opposition to the use of capital controls on inflows (Grabel 2010). Some recent staff papers at the IMF suggest this new thinking on allowing capital controls (on inflows), which is a dramatic change is in its historic opposition to the use of capital controls by developing countries. The issue of capital controls is fundamentally important for enabling countries to control the flow of money coming into and out of their economies, and particularly for preventing the large and sudden speculative inflows caused by currency speculators and disastrous rapid outflows during economic crises.

In a dramatic turn of events, policymakers in several countries have been quietly imposing a variety of capital controls. For example, Indonesia, South Korea, Argentina, Venezuela, Brazil, Taiwan and Iceland have adopted new types of capital controls. The "market's response" to these various controls has been a surprising silence and, in some cases, tacit approval. The response by economists at the IMF has been uncharacteristically muted (Grabel 2010).

In fact, several recent IMF staff research reports, papers and statements by IMF officials in 2010 have suggested the IMF is taking an important new position on the actual usefulness of capital controls, at least when it comes to controls on inflows (Ostry, et al., 2010; IMF 2010a; Chamon 2010; IMF 2010b). For example, in a June 2010 speech in Moscow, John Lipsky, IMF First Deputy Managing Director said that "maintaining a pragmatic and open-minded attitude is justified regarding a possible role for capital controls" (Lipsky 2010). In this way capital controls have quietly become another element of what Ilene Grabel calls "the new normal" created in the fallout of the financial crisis (Grabel 2010).

As a consequence of this policy shift, it is undeniable that policy space has been widened for policymakers across many countries which are deploying capital controls without waiting for IMF approval, or fear of retribution. However, the IMF must be pushed to go farther than simply accepting capital controls as a temporary, short-term, quick-fix solution to deal with volatile capital inflows during crises. Rather, capital controls should be seen as one of the standard policy instruments in the toolboxes of governments to pursue independent economic policy making and for goals such as growth and financial stability. Countries should be allowed to use them to prevent sudden outflows as well.

Another interesting development was the release of an unusually critical report of the IMF's internal watchdog, the Independent Evaluation Office (IEO), which examined the IMF's work in 2004-07 to determine whether it did enough to identify circumstances that led to the global crisis. The report's authors conclude that the institution failed on many levels, among them, "ideological blinders" that glorified liberalized financial markets, a tendency toward "group think" in the institution, weak internal governance, a lack of coordination and follow up across its units, political constraints that came from powerful countries on its Executive Board, unevenness in the institution's surveillance across countries and in the quality of staff recommendations, and the use of economic models that were not up to the task at hand (IEO 2011). These criticisms echo many of those identified by long-time IMF critics since at least the late 1970s (yet this was not acknowledged in the report).

However, the reform recommendations of the IEO report stand in sharp contrast to its hard-hitting documentation of IMF failures. The recommendations are weak and will do nothing to meaningfully make the necessary changes to deal with the problems listed. For example, having indicted the IMF for its tendency toward dangerous "group think", the report does not call for a fundamental rethink of the IMF's own hiring practices, such as hiring qualified economists who possess more diverse theoretical commitments and training.

And also quite interesting was that the IMF held a major conference devoted to re-examining macroeconomics in the wake of the economic crisis. This conference was attended by most of the world's major economists and was evidence of an honest rethinking about assumptions in IMF policy that would have been unimaginable a decade ago. The conference included several speakers who were quite critical of the economic policies pushed by the IMF in recent years, and important questions were being asked. However, in spite of the increased openness of the discussion at the IMF it is not clear that its policies have undergone a similar adjustment. In particular, the IMF continues to openly promote its conventional budget austerity and pro-cyclical policies, particularly in the European crisis countries.

Despite the recent rhetoric about reconsidering some of its policies, the IMF remains committed to the general policy framework that has inspired IMF programs over many years prior to the crisis. At the March 2011 conference, one of the main things "reconsidered" is the admission that policymakers should monitor multiple targets, rather than be solely preoccupied with the inflation rate, and that multiple instruments should be deployed, including fiscal and exchange-rate policies, rather than just relying on monetary policy (Blanchard, et al 2010). It remains to be seen if this will be put into practice in actual new policy advice and IMF loan programs. Yet, the fundamental assumption has not been changed -- that macroeconomic policies are suited only to deal with issues of short-term stability, and that once macroeconomic stability is achieved, the private sector alone will lead the development process and by itself undertake the necessary investments for growth. Such an assessment remains grossly inadequate for promoting development in many developing countries in which substantial public investments in basic infrastructure will be necessary to accelerate and sustain growth.

Part 2 Alternative Macroeconomic Policies

2.1 Some Basic Differences between Economies of Developing countries and Industrialized Countries

The first thing to understand about the problems with the neoliberal policy approach is that it ignores the significant and systematic differences between industrialized and developing countries, and the differences among various kinds of developing countries. Nayyar (2007) notes that the nature of relationships and the direction of causation in macroeconomics, which shape analysis, diagnosis and prescriptions, depend upon the institutional setting, which differs greatly across countries. Although the differences vary among countries and features are changing over time, Nayyar (2007) identifies several key differences between the macroeconomic features of industrialized and developing countries that neoliberal policies fail to take into consideration:

- Many industrialized countries normally operate at near full employment, most economic activity occurs within large formal sectors (registered companies that pay taxes), and they have populations that are heavily urbanized, whereas most developing countries operate with high unemployment and underemployment, much economic activity occurs in the informal sector (not taxed) and half or more of the population is in rural areas.

- Rich countries are often troubled by a limited supply of labor (most are already working) along with an unlimited supply of investment capital, as compared with developing countries, which often have an unlimited supply of labor but a very limited supply of investment capital.

- Sources of GDP growth are also very different, as growth in industrialized economies is driven by productivity increases, which, in turn, are a function of the level of investment and the pace of technological progress, whereas in developing economies growth is (or at least should be) driven by labor absorption through employment creation in the non-agricultural sector and, in part, through a shifting of labor from low-productivity employment to higher-productivity employment in the manufacturing sector or the services sector.

- In the industrialized countries, financial markets, institutions and instruments are far more developed than in the developing countries. Developing-country firms rely more on self-financing than their counterparts in industrialized economies, in part because equity markets are underdeveloped as a source of finance for new investments. Because industrialized countries have deeper financial markets with supporting institutions, companies have been moving away from bank lending and increasingly using securitization offered in financial markets to transfer and absorb risk, which enables them to better withstand economic shocks. Developing companies lack deep financial markets, however, and are less able to absorb shocks.

- Governments in industrialized countries have little trouble in financing their deficits, whereas governments in developing countries typically face greater financial constraints. Because of the perception of higher risk, governments often have to sell bonds or borrow at high rates of interest to finance deficit spending, which can quickly lead to unsustainable debt burdens.

- Developing countries have much smaller but more open economies than do industrialized nations. Although this is a broad generalization, most developing countries are more open in so far as exports constitute a larger proportion of their GDP growth and foreign capital inflows finance a larger proportion of domestic investment. This combination of greater openness and smaller size means that the economies of developing countries are not only more prone but also more vulnerable to external shocks.

- In developing countries, tax revenues are based less on direct taxes and more on indirect taxes as compared with industrialized economies. Most developing countries have much smaller tax bases and the tax compliance is significantly lower (attributable to easier tax avoidance and tax evasion). Therefore, many governments find it very difficult to increase their income through tax revenues. Consequently, tax–GDP ratios in developing countries are much lower than in industrialized economies.

- In terms of the composition of government expenditure, developing countries tend to devote much higher proportions of total public expenditure to investment than do industrialized economies, because private investment in infrastructure is not always forthcoming. In difficult times, it is investment expenditure which is cut first because governments find it very difficult to cut consumption expenditure. This means that excessive fiscal stringency imposes a higher cost in terms of lost growth than it does when budgets are cut in industrialized countries (i.e. when education budgets are cut in rich countries it may result in more crowded classrooms and a decrease in quality, but when education budgets are cut in poorer countries, it may result in some children not getting educated at all, with implications for lower long-term productivity growth rates).

Despite these types of fundamental differences between industrialized and developing countries, neoliberal theory does not acknowledge such differences. It makes an assumption about the universality, as if their economic policies should work the same everywhere in all times and places.

2.2 Degree of Progressivity in the Tax Structure

This can be used as an indicator to assess whether governments are doing enough to maximize available resources. The former Special Rapporteur on the Realization of Economic, Social and Cultural Rights, Danilo Türk, noted that “Progressive (as opposed to regressive) measures of taxation can, if supported by adequate administrative machinery and enforcement mechanisms, lead to gentle and gradual forms of income redistribution within countries without threatening economic stability or patterns of growth, thereby creating conditions that enable a larger proportion of society to enjoy economic, social and cultural rights.” There are important arguments for more progressive tax structures (Lakeoff and Budner 2007) and steps have been proposed for national and international advocacy strategies to call for such changes to national tax systems (TJN 2005).

2.3 Expanding the Tax Base

A recent study has shown that many of the low-income countries in sub-Saharan Africa, South/Southeast Asia and Central Asia that have mobilized substantial revenue in recent years have done so on the basis of taxation of natural resources, such as oil, copper, gold and fishing resources, rather than by building domestic productive capacities in manufacturing or services; furthermore, unfortunately, conventional advice by IMF and others on tax policies attaches the most importance to domestic indirect taxation, and to value added taxation (VAT) in particular (Mckinley and Kyrilii 2009).

But this component represents only one of three potential engines of revenue mobilization. Moreover, taxes on domestic goods and services can often be regressive in their impact, disproportionately hurting the poorest citizens. Placing greater emphasis on them is part of the conventional wisdom that has become increasingly willing to sacrifice equity in favor of the objective of supposedly enhancing tax efficiency. Both corporate income taxes and trade taxes also tend to be easier to administer than many other forms of taxation. Hence, the weakening of these two tax handles under the conventional approach has placed unrealistically heavy burdens on the rest of the tax structure of low-income countries to generate any substantial increases in revenue. Because of the push for free trade and trade liberalization, the stagnation or loss of revenue from trade taxes has acted as a dead weight on efforts to substantially boost domestic revenue in low-income countries (Baunsgaard and Keen 2004). As a consequence, efforts to increase total revenue have had to rely on major compensating achievements by both of the other two major tax components, that is, direct taxes or domestic indirect taxes (Mckinley and Kyrilii 2009).

Alternative approaches to the tax structure include: lowering the minimum threshold for the payment of personal income taxes, which could help in many countries since the base of taxpayers is usually small; instituting some forms of taxation of wealth; introducing land or real estate taxes (though these revenues often accrue to local governments); and examining why domestic indirect taxes, such as the VAT, have had generally lackluster success in low-income countries in sub-Saharan Africa and South/Southeast Asia. It would also be useful to examine how improvements could be made in the VAT's coverage of domestic goods and services, especially those provided by informal-sector enterprises (the VAT's coverage of domestic goods and services is effectively limited to what is marketed in the formal sector).

2.4 Efforts to bring in the informal sector firms into the tax-paying formal sector

See Alternative Financial Policies section (below); such methods include providing a set of incentives for informal sector firms to register and begin paying taxes, including the provision of subsidized credit, greater access to affordable banking services, transport access, marketing information and establishing new institutions to provide these services, such as public development banks. These and other alternative policies have been articulated in several recent important reports, including in UNCTAD's annual LDC Report from 2006 that focused on building domestic productive capacities (UNCTAD 2006) and UNCTAD's annual Africa Report for 2007 that focused on steps to mobilize domestic sources of financing (UNCTAD 2007), which had an excellent follow-up policy handbook (UNCTAD 2009) laying out such alternative financial policies.

2.5 Justification for Short-Term Deficit Spending in Crises and Recessions

Government expenditures can be used to compensate for falls in private spending during economic downturns. It is through this function of deficit-financed public investment that economy-wide labor productivity can be boosted and private investment stimulated to increase GDP growth rates. Once higher GDP rates are restored, the generation of higher tax revenues can be used to pay down the deficit. This is the standard Keynesian rationale for boosting aggregate demand in order to support economic recovery. In contrast, insisting on the containment of fiscal deficits during recessionary periods will make fiscal policy "pro-cyclical". In other words, it would require government spending to fall as private incomes drop because government revenues would be adversely affected. The current debate going on in rich, industrialized economies, such as in the US, UK and Europe, is centering on this issue as fiscal conservatives lobby for an exit from counter-cyclical policies and are demanding budget cuts now, even as the recession and high unemployment continue. Progressives have criticized such efforts by fiscal conservatives as unnecessarily harmful, and likely to make the recessions longer, deeper and more painful (Stiglitz 2010a, 2010b; Krugman 2010a, 2010b, 2010c) and have clearly described the flaws in the logic of fiscal conservatives (Palley 2009).

2.6 Justification for Long-Term Deficit Financing for Development

Apart from the shorter-term purposes during crises and economic recessions, running deficits is fully justified, even in normal times, if these are used to support public investment (Weeks and McKinley 2007; Roy, et al 2006; Spiegel 2007). For low-income countries, this could be called the "development rationale". Using deficits to finance long-term public investments such as roads, electrical grids, dams, irrigation works, and building an educated, skilled and healthy workforce, is legitimate because the additional future revenues expected from the investments should (more than) pay off the debt over time that the government initially incurred. For the purposes of long-term growth, the "development rationale" is paramount. It is through this function that public investment can stimulate private investment and boost economy-wide labor productivity over the long-term. This is based on building up essential economic and social infrastructure, on which private investment inevitably relies. (Although neoliberal theory calls for separating the public and private sectors and diminishing the role of the public sector, actually such public investments in the social and economic infrastructure represent one of the many ways in which the public and private sectors have historically been iterative, intertwined and interdependent). One of the standard critiques of MDG-oriented public investment—with which the IMF has sympathized—has been that it would not have a net beneficial impact on economic activity because it would "crowd-out" private investment. This is highly unlikely, however, in the context of low-income countries because there is a widespread underutilization of resources. As a consequence, there is usually ample "economic space" for increasing public investment (Weeks and Patel 2007; Roy, et al 2006). Furthermore, deficit spending for long-term public investment should be separated from recurrent budget spending in new accounting procedures.

2.7 Need for Reorganizing Budget Accounting

There is a big difference between spending for current consumption, and spending to invest in assets that will produce greater income or benefits in the future. Standardized international corporate accounting has long recognized this distinction by categorizing capitalizing assets acquired, and depreciating them over their estimated useful lives. The cash outlay to purchase them does not factor in assessments of corporations' current profitability. A few years ago, New Zealand uniquely attempted to introduce similar – logical – accounting practices on a country basis (now largely abandoned), but generally governments continue to focus on "cash" rather than accrual accounting, lumping long-term investments for future generations together with recurrent operational spending. Until governments adopt new alternative accounting policies recognizing these distinctions, IMF deficit-reduction policies, as well as investors will continue to focus on overall debt levels, rather than differentiating what the debt is being used for (Raghbendra 2001; Hermes and Lensink 2000; Gemmell 2000).

2.8 When absolutely necessary, deficit-reduction must be undertaken with utmost care

Magdalena Sepulveda, the UN Independent Expert on the question of human rights and extreme poverty, has stated that governments which introduce regressive measures, such as cuts in expenditure in education and other social areas, must show that they have used the "maximum of available resources" (discussed below) to avoid taking such a step. A recent study by UNICEF examined expenditure projections for 126 low and middle income countries, finding that nearly half of the sample (44 percent) are expected to reduce aggregate government spending in 2010-11 when compared to 2008-09, and considered the potential implications for children and poor households. About 25 percent of the sampled countries are expected to make reductions of an average of 6.9 percent of expenditures. The study discussed the three main risks of pro-poor social spending being curtailed during 2009-2010, including through 1) wage bill cuts or caps; 2) limiting subsidies; and 3) further targeting of social protection expenditures, and highlighted the potential risks to children and poor households. The UNICEF study questions if the projected fiscal adjustment trajectory in a number of countries—in terms of timing, scope and pace—is conducive to the objective of adequately protecting vulnerable households and the achievement of development goals such as the MDGs. Financing options for pro-poor social spending are also explored (UNICEF 2010). It advised governments to fully examine the long-term social and economic consequences of reducing social expenditures, and to fully explore and exhaust all options before embarking on such cuts. The study also suggested that tests similar to financial sector "stress tests" be devised for proposed social expenditure cuts (and other macroeconomic policies) to better assess the potential social consequences, as well as social protection system capacity to address them (Kanbur 2010).

There are precedents in distributional analysis, poverty and social impact analysis (PSIAs), despite their flaws (BWP 2010a), and studies and evaluations of equitable policies, which expanded from the late 1990s (Ortiz 2008). In addition, UNICEF called for more and better data and analysis in terms of collecting real-time accurate information, which has also been recognized by the United Nations Global Pulse reporting system, as well as the need to better assess alternative macroeconomic policy scenarios to simulate impacts on social and labor market indicators both with and without policy responses (Islam and Chowdhury 2010). If properly designed and carried out, such analyses could alert policymakers and citizens on the potential distributional impacts of different policy options. Importantly, the study also recommends: "In the immediate term, in particular, an accommodative macroeconomic policy framework which is not exclusively focused on controlling inflation and fiscal deficits, but also on real output, incomes and employment, may be feasible without jeopardizing the policy framework that earned countries low inflation" (UNICEF 2010).

2.9 The Main Problem with IMF Monetary Policy

As described above, the main problem with the IMF's tight monetary policies is that it raises interest rates in order to slow down the economy and keep inflation at extremely low levels. This has the immediate effect of making credit less affordable for domestic industries, which are then less able to generate higher levels of productive capacity, employment and GDP output, and thus, tax revenues, than otherwise could be the case under more expansionary fiscal and monetary policy options. This deprives governments of higher levels of tax revenues for both recurrent expenditures and crucially, for long-term public investment as a percent of GDP. The high interest rates also make any deficit financing by the government more difficult to afford, so slows down the levels of essential long-term public investment as a percent of GDP, which undermines the ability of long-term GDP growth and development of the whole economy. The IMF has succeeded in lowering fiscal deficits and inflation, but at the cost of using very high interest rates that have resulted in a long-term trend of low-growth, low-employment and low-public investment that has consequently been characterized by chronically insufficient social expenditure.

2.10 Alternatives to IMF Monetary Policy

There is a clear need for an alternative approach to the IMF's monetary policies. Recent calls for alternatives have come, for example, from UN DESA (2009), particularly in Chapter 5 of UN DESA's Report on the World Social Situation 2010, which states: "Focusing on inflation and fiscal deficits alone reflects too narrow a view of stabilization. Therefore, stabilization needs to be defined more broadly to include stability of the real economy, with smoothened business cycles and reduced fluctuations of output, investment, employment and incomes. Achieving such stability of the real economy may require larger fiscal deficits and higher rates of inflation than prescribed by the conventional macroeconomic policy mix, especially in the face of economic shocks or natural calamities."

Similar points were made by the Stiglitz Commission report, especially paragraph 36, which states: "There are asymmetries in global economic policies—countercyclical policies are pursued by developed countries, while most developing countries are encouraged or induced to pursue pro-cyclical policies. While this is partly due to the lack of resources to pursue countercyclical policies, it is also due to misguided policy recommendations from international financial institutions. Conditionality attached to official lending and support for international financial institutions has often required developing countries to adopt the kinds of monetary and regulatory policies which contributed to the current crisis. In addition, these conditionalities contribute to global asymmetries, disadvantage developing countries relative to the developed, and undermine incentives for developing countries to seek support funding, contributing to global economic weakness. While the IMF initiatives to reduce conditionalities are to be commended, they might be insufficient, while in many cases countries are still required to introduce pro-cyclical policies" (UN Commission 2009).

And the official Outcome Document of the June 2009 United Nations Conference on the World Financial and Economic Crisis and its Impact on Development, especially paragraph 21, similarly states: "Countries must be afforded the necessary policy space to enact the types of tailored and targeted responses to the crisis that have been established in developed States. We call for a reformed lending paradigm and the prompt end to unwarranted conditionalities, which curtail the individualized options available to developing countries and needlessly exacerbate the financial, economic and developmental challenges faced by these countries. In this context we note the recent improvement of the IMF's lending framework, through modernizing conditionality, as a welcome step. However, many new and ongoing programs still contain unwarranted pro-cyclical conditionalities" (UN Summit 2009). See also the G77 communique that came out of a year–later review summit of the UN conference, especially paragraphs 76 and 77 which called on the IMF to not use pro-cyclical policies (raising interest rates and cutting public deficit spending) at this time of economic recession, and especially paragraph 26, which called for a "re-examining the current economic parameters on which it bases its economic analysis and policy advice" (G77 2010).

Regarding alternatives, one major alternative is to simply not implement the IMF's approach of tight monetary policies and instead actively lower interest rates. This would allow for domestic companies to more easily access affordable credit for expanding production and employment and this could generate much higher levels of employment, generate higher levels of tax revenues and spur higher GDP growth rates, all of which would enable the tax base to grow. Lower interest rates would also enable the government to engage in more affordable deficit spending, and, as Nayyar noted above, if that deficit spending was targeted on infrastructure and other future productive investments, these could create new investment opportunities for private sector companies, thus “crowding in” the private sector, further enhance job creation and tax revenues. This was the standard approach from the 1950s until the 1980s. However the financial sector would be opposed to such lower interest rates because they would not be able to make as much profit from lending. Therefore, in a political sense, this policy dispute is higher growth, employment, tax revenue generation and increased public investment that benefits the whole society vs. the lower profits of the powerful finance industry. Economics is inherently political and about choices.

Beyond this basic expansionary monetary policy option, which is the opposite of the IMF’s tight monetary policy, there are also a host of other interesting possible innovations. Other more employment friendly monetary policies that can be tailored to the particular circumstances and needs of different countries have been elaborated by Epstein (2009). These were developed by a team of researchers working on a Political Economy Research Institute (PERI)/Bilkent University project on alternatives to inflation targeting, as well as a United Nations Development Project (UNDP) sponsored study of employment targeting economic policy for South Africa. The countries covered in PERI/Bilkent project are Argentina, Brazil, Mexico, India, The Philippines, South Africa, Turkey, and Viet Nam. These studies show that when it comes to monetary policies, one size does not fit all. A range of alternatives were developed in these papers, from modest changes in the inflation targeting framework to allow for more focus on exchange rates and a change in the index of inflation used, to a much broader change in the overall mandate of the central bank towards employment targeting, rather than inflation targeting (Epstein 2009).

Some of the alternative policies proposed in the project focus exclusively on changes in central bank policy, while for other countries, changes in the broad policy framework and in the interactions of monetary, financial and fiscal policy were proposed. Some incorporate explicit goals and targets, while others prefer more flexibility and somewhat less transparency. But all of the studies agreed that the responsibilities of central banks, particularly in developing countries, while including maintaining a moderate rate of inflation, must be broader than only focused on such financial sector variables like inflation, and should include other crucial "real sector" variables that have a direct impact on employment, poverty and economic growth, such as the real exchange rate, employment, or investment. They also agree that in many cases, central banks must broaden their available policy tools to allow them to reach multiple goals, including, if necessary, the implementation of capital management techniques, i.e. capital controls to create incentives and disincentives that can direct finance capital towards employ-generating activities or towards other key industrial sectors (Ocampo, 2003; Epstein, Grabel and Jomo, 2005).

The employment-targeting approach is an example of a “real targeting” framework, as opposed to the IMF policy framework of the central bank targeting only financial variables such as inflation. A “real targeting” framework for monetary policy adds one or more important real variables, such as real GDP growth, or a stable and competitive real exchange rate (SCRER), or "full employment", to nominal variables, such as the rate of inflation, as a goal of monetary policy. The so-called Humphrey-Hawkins law in the United States, which commits the US Federal Reserve to maintaining both "price stability" and "high levels of employment" is an example of a real targeting framework, though, admittedly a fairly weak one in that it does not specify exactly the meaning of "price stability" or "high employment" (Epstein 2009). However, this is just one of the many examples that are possible.

Other possible options for alternatives to the IMF approach include those discussed by Frenkel and Ros (2005) and Frenkel and Rapetti (2008), who argue that central banks should maintain a moderate inflation rate AND should maintain a competitive and stable real exchange rate. They note that the real exchange rate can affect employment, and the economy more generally, through a number of channels: (1) by affecting the level of aggregate demand (the macroeconomic channel) (2) by affecting the cost of labor relative to other goods and thereby affecting the amount of labor hired per unit of output (the labor intensity channel) and by affecting employment through its impact on investment and economic growth (the development channel).) While the size and even direction of these effects might differ from country to country, in many countries, including countries in Latin America, maintaining a competitive and stable real exchange rate is likely to have a positive employment impact overall (Frenkel and Rapetti, 2008). From the point of view of monetary policy, the challenge is how to design a policy to maintain a stable and competitive real exchange rate (SCRER) so that it does not get undermined by massive speculative capital flows. The danger is that if the markets sees the central bank trying to manipulate the exchange rate, then the exchange rate will be subject to attacks that will undermine the ability of the central bank to prevent the currency from excessively appreciating or depreciating (Frenkel and Rapetti, 2008). However, to protect against this, central banks can adopt various types of capital controls and other types of capital management techniques to help manage exchange rates in the face of speculative capital flows (Epstein, Grabel, Jomo, 2006). As discussed above, admitting the usefulness of such capital controls was a major concession in the IMF's new thinking in the wake of the financial crisis.

More generally, using such techniques as real targeting and that proposed by Frenkel, et al., would require that central banks expand their number of policy tools in order to try to achieve multiple targets. However, this was also a major concession as it relates to some of the reconsiderations and "new thinking" that was expressed at the important March 2011 conference the IMF. However, it remains to be seen if any of this new think at IMF will translate into actual changes in IMF loan conditions or its policy advice.

2.11 Financial Sector Regulation

The global financial and economic crisis has cast serious doubts about the paradigm of market deregulation that dominated the last three decades. Although many developing countries, especially in Asia, became cautious following the Asian financial crisis, international financial institutions continued to advise developing countries to deregulate, albeit at a slower pace. However, Chowdhury (2010) argues for re-regulating the financial sector with a view to preventing system-wide failures and fulfilling development needs. He highlights the importance of segregating different parts of the financial sector as well as controls over both deposit and lending rates, and the role of government-owned banks, especially for agriculture and small and medium-sized enterprises (SMEs). Success of development banking initiations in low-income countries depends on: integration of development finance institutions into the national development agenda; appropriate governance; efficient operating procedures; minimizing non-interest barriers to accessing credit; and innovative strategies for the mobilization of stable long-term funds (Ndikumana 2007).

Even without establishing explicit development banks, many countries can use their central banks to play similar roles, including expanding their official mandates to include monetary policy targets such as GDP growth goals and/or employment level goals in addition to price stability (low inflation) goals. In such cases, cenral banks can create their own financing for development-oriented investments and/or create incentives and disincentives to steer finance capital towards particular sectors. Indeed, Pollin et al. (2006) developed an elaborate alternative policy proposal for replacing the IMF's harmful low-inflation targeting policies with new central bank targets for employment in South Africa, and did the same for Kenya (Pollin et al 2008). Pollin, Epstein and Heintz from the Political Economy Research Institute (PERI) and others also offer several important innovative approaches to alternative monetary policies that African and other policy makers ought to consider (Heintz, 2008; Atieno, 2001; Aryeetey, 2003; Pollin, Githinji, and Heintz, 2008; Epstein 2009; Pollin, Epstein, Heintz, and Ndikumana, 2006; Epstein and Heintz, 2006; Epstein and Grabel, 2006).

2.12 UNDESA Policy Notes on Financial Policies

This series of policy notes provides advocates with a clear explanation of various alternative approaches to national financial policies geared to a developmental approach. It includes methods for financing higher growth through bringing back development banks; using targets for achieving credit-deposit ratios; creating long-term credit for domestic firms; ensuring desired sectoral distribution of credit in line with national development strategies; using capital requirements for banks to influence investment decisions and performance in line with national development strategies; explains the role for differential interest rates; explores financial policies to promote equity and human development, ensuring financial inclusion; increasing access to bank branching, preventing credit migration and credit concentration and using directed credit; makes the case for public ownership; and describes other policies for financial innovation, use of cooperatives and micro-finance institutions (Chandrasekhar 2007; UNCTAD 2007; UNCTAD 2009).

2.13 Industrial Policy

As mentioned above, the reduction of import/export taxes on trade can present a significant loss of revenues, thus a decline in public expenditure available for public investment and social areas (Baunsgaard and Keen 2004). However, this is a relatively short-term concern. Of far greater significance for longer-term expenditure levels and revenue generation capability is how trade policy and other industrial policies will be necessary for industrialization and transformative processes out of primary agriculture and extractive industries and into manufacturing and services industries with higher value-added over time. Beyond the short-term implications of import-export revenues, such industrial policies –and their dismantlement in IMF and World Bank loan conditions and ongoing multilateral and bilateral trade negotiations—are of utmost importance for securing future economic development generally, and in enabling states to finance social expenditures over the long-term (Shafaeddin 2006, 2008, 2010; Chang 2002, 2005; Gallagher 2010).

In summary, there are a host of other types of fiscal, monetary and financial policies which could be much more geared to pro-active growth, employment, production which would be much more useful for accelerating economic development than the IMF policies, which are focused on restrictive notion of short-term stabilization. Education advocates interested in realizing larger education budgets should be aware of such viable alternatives.

Part 3 CASE STUDIES

JAMAICA

3.1 Background on Economic Situation in Jamaica

Jamaica's economic and social development has been undermined by its massive domestic and international debt levels that have accumulated over the years and the very high interest rates associated with servicing these debts each year. Today Jamaica is counted as one of the most highly indebted countries in the world, with a gross public debt of 129 percent of GDP in fiscal year 2009/10. During the last five years the government's interest payments have averaged 13 percent of GDP or 49 percent of non-grant government revenue. In the fiscal year 2009/10, these were even higher, reaching 17 percent of GDP or 64 percent of non-grant revenue. This level of debt-servicing from the annual budgets each year has seriously hurt Jamaica's efforts to finance of crucial necessities such as public investment in education and infrastructure, which have stagnated over the last two decades and amounted to only about 3 percent of GDP during fiscal year 2009/10. Such underinvestment poses a severe problem for Jamaica's long-term development prospects, as evidenced by its very weak per capita GDP growth over the last two decades, which averaged less than 0.7 percent annually.

The government recently attempted to lesson this debt-servicing burden in 2010 with its Jamaica Debt Exchange (JDX) initiative designed to restructure its domestic debt. This involved negotiating a collective deal with bond holders to pay them over a longer period of time. However, although the JDX initiative was able to lower average interest rates on domestic debt, there was no reduction of the principal or in the time-frames when payments are due (nearly half of the debt is still coming due within one to five years) (UNDP 2010). Therefore, despite its good intentions, the terms of JDX debt restructuring were not ambitious enough to resolve the debt crisis for Jamaica.

Education advocates should be aware that Jamaica's debt problems are not the result of excessive government social spending or overly generous teacher's wages, as is often claimed by neoliberal economists and proponents of budget austerity. In fact, the origins of the current debt buildup occurred when the private sector banks and financial institutions needed to be bailed out by the government in the wake of Jamaica's major financial crisis during 1996-2003 (King and Richards 2008).

As is common with many IMF loans, the loan program for Jamaica signed in 1991 called for a series of financial liberalization reforms in which Jamaica was pressured to eliminate and loosen long-standing credit restrictions and interest rate ceilings, resulting in a rapid expansion of the financial sector. Also common to many countries was the poor sequencing, in which such major policy changes were adopted with first having the appropriate prudential regulatory structures in place. This situation led to widespread reckless over-leveraging by financial institutions in Jamaica and ultimately led to a major financial crisis and a series of major bankruptcies beginning in 1994. Not unlike recent events that struck the US, UK and Europe, the Jamaican government was forced to intervene through the creation of the Financial Sector Adjustment Company (FINSAC), which managed the breakup, nationalization and merging of troubled financial institutions that ultimately saddled the Jamaican government with huge debts that amounted to over 34 percent of GDP.

When the recent global financial crisis began to unfold in 2008-2009, Jamaica's already heavy debt load worried investors and this placed downward pressure on the value of the Jamaican Dollar on world currency markets. The Jamaican government responded by significantly tightening monetary policy to defend the currency and lower inflation, leading the Bank of Jamaica to increase interest rates from 14.7 percent to 21.5 percent and increased the reserve requirements for banks. Like many governments, Jamaica also increased public spending with a fiscal stimulus program in December 2008, spending between J$4.6 billion and J$5.3 billion (0.5 percent of GDP). Post-crisis analyses by the Caribbean Policy Research Institute suggest that at roughly half a percentage point of GDP, the government stimulus program was simply too small to counteract the large shocks to economy and the steep fall off in private sector and consumer demand (CaPRI 2010). As the global economic recession hit Jamaica as well in 2009, the fall off in tax revenues generated also began to add to Jamaica's growing budget deficit. The government responded with fiscal tightening measures equal to 1.9 percent of GDP.

The current economic situation in Jamaica has placed great strains on the social systems generally and on education in particular. While Jamaica has been able to make advances on MDGs goal relative to its 1990 baseline, the 2011 Global Monitoring Report has categorized Jamaica among those "Lagging countries within 10 percent of being on target to achieve the MDGs" for MDG 2.a on primary Education completion rates and MDG 3.a on gender parity in primary education (GMR 2011).

3.2 Current IMF Program for Jamaica

In the summer of 2009, the global economic recession led Jamaica to begin discussions with the IMF for a new loan program, and on February 4, 2010, the IMF approved a 27-month Stand-by-Arrangement (SBA) loan worth $1.27 billion, which allowed Jamaica to immediately draw on the first tranche of financing in the amount of US $640 million (IMF 2010c). The real intention of seeking the IMF loan was to reestablish confidence in global bond markets about Jamaica's creditworthiness, while also opening the doors to additional lending from the other multilateral agencies, including a US $450 million from the World Bank and US $600 million from the Inter-American Development Bank (IADB).

The new IMF loan program seeks to undertake a series of medium-term policy reforms to lower interest rates, deal with the large debt and further financial sector reforms. Unfortunately, its main priority is deep fiscal austerity. In the first year of the program, the overall fiscal deficit is programmed to go from 12.75 percent of GDP to 7.5 percent of GDP. Through the entire duration of the IMF program the aim is to reduce the overall fiscal deficit "from 12.75 percent of GDP in FY2009/10 to 0.5 percent in FY2013/14" (IMF 2010c). This degree of budget-cutting is expected to be realized both through increased taxes as well as cuts in expenditure. The tax increases will include a new fuel tax, a one percentage point increase in the general consumption tax, and an increase of the tax rate for high income earners.

In recent negotiations in April 2011, the IMF granted an extension of its current bailout agreement by two years, beyond the initial May 2012 end date. The extension comes after the government failed to meet the primary surplus target for 2010/2011 set by the IMF program. The primary surplus is the difference between government revenue and non-debt expenditure, and came in J$4.2 billion lower than target. The government now has an additional three years to achieve a balanced budget (Thame 2011).

But even with the extension, this amounts to a highly contractionary policy approach which is likely to deepen the economic recession in Jamaica. As with the current budget austerity approach being used in the US, UK and Europe, cutting public spending during a recession in the context of low growth and high unemployment is the same mistake made by the US during the 1930s depression (Krugman 2011). As Dennis Chung, a chartered accountant and the author of “Charting Jamaica's Economic and Social Development - A much needed paradigm shift” says of this approach: “This has been the failing of the IMF program and the previous budgets to this current one. This is also the reason why the economy went through 14 quarters of consecutive decline. The fact is that if an economy is in decline and all sectors retreat, including government (and government should be the savings account for the country), then obviously it will decline further unless some opposing force causes a sudden stop” (Chung 2011).

Such a pro-cyclical policy approach is contractionary and is likely to worsen unemployment, lower economic growth rates and lower tax revenues even more. The IADB sums up this trade-off associated with the IMF program: “While the IMF program remains broadly on track, it continues to demand high primary fiscal surpluses required to bring down [Jamaica’s] high debt ratios. This places a burden on the economy which also limits economic recovery. This poses risks on two fronts: either growth is lower than predicted and hence the debt to GDP ratio does not decline, or there is slippage in the tight fiscal program. In either case, if markets respond by demanding higher interest rates the debt dynamics will suffer. This tight fiscal situation will continue for several years to come, beyond the expiry date of the current [Stand-By Agreement] SBA, until its debt ratios have fallen substantially” (IADB 2010).

Additionally, the IMF loan program goal to reach a near balanced budget by 2013/14 is also unnecessary for the reasons discussed above, and such an austere approach to fiscal spending will also likely undermine future economic growth, employment and revenue generation. In this particular context, it would be far more appropriate for Jamaica to instead engage in much more counter-cyclical fiscal spending to address the immediate effects of the economic recession, and for reasons explained above, then maintain moderate deficit spending over the medium term for enabling strategic investments in “developmental spending”.

In fact, significantly increasing government spending now was proposed by Planning Institute of Jamaica in an April 2011 report, “A Growth-Inducement Strategy for Jamaica in the Short and Medium Term,” which proposed a slate of initiatives, including front-loading J$14 billion of government capital expenditure, pushing ICT sector growth and fast-tracking certain financial legislation in 2011/2012, while asking IMF for more "fiscal space". The PIOJ projected such spending could result in a 5.2 percent rise in GDP growth for the economy (PIOJ 2011). But the IMF mission chief for Jamaica, Trevor Alleyne, rejected the idea, saying "prioritization within the existing public expenditure envelope is key to adhering to the medium-term fiscal consolidation and debt reduction targets of the macroeconomic framework" (Observer 2011).

Although the IMF program puts an emphasis on controlling expenditure as a means to reduce the deficit, a look at recent history suggests that non-interest government spending has played only a minor role in increasing the deficit. The main reasons for Jamaica’s high budget deficits in recent years was lower than expected revenues, followed by higher than budgeted interest payments on the debt –not . excess non-interest government spending, which barely contributed to the deficits, and in some years was even lower than budgeted (CEPR 2011). Yet despite this, the IMF program still calls for reducing expenditure and punishing citizens with unnecessarily regressive budget cuts to education and other essential services.

Of particular concern for education advocates, the IMF loan program places a particular emphasis on containing the public sector wage bill, which can undermine the ability of the Education Ministry to increase wages for teachers or higher additional teachers. Under the program the wage bill was programmed to see just a 2.3 percent nominal increase in 2010/11, despite projected inflation of over 11 percent. Such constraints on the public sector wage bill can have negative consequences for developing countries like Jamaica that desperately need to increase spending on vital sectors such as health and education.

In 2008, there was a salary agreement between the government and the main public sector union that would have resulted in a 7 percent nominal salary increase for all public sector employees in FY2009/10 after a 15 percent increase in FY2008/09. However, due to intense fiscal pressures, this raise was never Implemented as promised. In August of 2010, the Supreme Court ruled that the agreement between the government and public sector employees constituted a binding contract, and awarded legal costs against the Government, and had to make retroactive payments. However, the IMF was opposed, and expressed concern that the ruling would lead to excessive budget expenditures and lead to Jamaica going off-track in its fiscal deficit reduction targets. In its second periodic review of the IMF program for Jamaica, the IMF wrote that “the FY2010/11 budget did not accommodate any retroactive payments for teachers” (IMF 2010d).

In August 2010, the US National Education Association wrote a letter to US Treasury Secretary Timothy Geithner protesting what they saw as “pressure” from the IMF that “is causing violations of fairly negotiated agreements between Jamaican Teachers Association and the Government of Jamaica.” (Naiman 2010). The head of the National Education Trust of Jamaica, Paul Matalo, also warned that the IMF agreement restricted the Government’s ability to build new schools (Luton 2010).

In April 2011, Finance Minister Audley Shaw said Government was in discussions with various public sector groups to fast forward a program of compensation. "Under the IMF Standby Agreement, the medium-term program called for a wage freeze through to the end of this fiscal year. However, I am having discussions with the public sector groups. We will have to take into consideration the 7 percent and the arrears," Shaw said, noting that already meetings have been held with the police and the Jamaica Confederation of Trade Unions looking at available options and exploring possibilities. "We are having discussions now to see if we can come up with a creative approach to possibly bring forward the program of compensation. There can be no immediate decisions at this point. We have to have discussions with the groups, and with the IMF," he added (Dunkley 2011).

In the meantime, Shaw said some J$30 billion was owed in all to public sector workers but said the administration could not at this time afford to make complete payoffs. "We have to look at it against the background of global conditions which have not improved to the point where our own resources in Jamaica can tolerate the full impact of three years of almost J$30 billion. This budget could not take that kind of pressure. If we were to attempt to do any of this then all of the macroeconomic fundamentals we have worked so hard to stabilize the economy would literally go up in smoke," (Dunkley 2011).

The administration, which had owed teachers some J$8 billion, paid over some J$500 million in the last fiscal year (2010/11). This year another J$2.59 billion is to be paid over, leaving another J$5 billion still outstanding.

Regarding monetary policy, the IMF program is uncharacteristically concerned with inflation in Jamaica. Its primary focus is on a contractionary fiscal policy of budget austerity. By the time of the third loan program review in January 2011, inflation had registered a small up-tick through the end of 2010. However, as noted by IMF staff, this slight increase in the inflation was driven by food and fuel prices, with core inflation continuing to fall throughout the period. Although the IMF notes that the primary goal of monetary policy is “containing inflation,” the IMF has remained supportive of the Jamaican central bank’s “cautious approach” to monetary loosening (lowering interest rates). After having raised interest rates significantly at the height of the global financial crisis in the fourth quarter of 2008, the Bank of Jamaica has begun slowly lowering the policy interest rates. The 30-day Open Market Instrument has declined from a high of 17 percent to its current rate of 6.75 percent, which should be an important step in the direction of enabling of domestic companies to generate new production and employment and improve tax revenues.

Regarding other public sector reforms, the IMF loan program is characterized by classic demands for Jamaica to sell off state-owned assets, including the sale of Air Jamaica to Caribbean Air, which is majority owned by the government of Trinidad & Tobago, the leasing or selling of factories belonging to the state owned Sugar Company of Jamaica, and the privatization of Clarendon Alumina Production, its majority holding of the Petrojam oil refinery, and all of its holdings in the Sugar Company of Jamaica.

UGANDA

3.3 Background of Economic Situation in Uganda

Uganda is regarded as the African country that has adopted the neoliberal reform package most extensively since 1987 (Wiegratz 2010). The Museveni government has adopted the full thrust of neoliberal reforms, including the belief that macroeconomic policy should focus on controlling inflation, leaving economic growth and employment matters to the private sector without government intervention, that government should intervene in monetary policy through interest rates to lower inflation by raising interest rates and/or reducing money supply in the economy. Apart from monetary policy, the rest of the economy should be directed by an invisible hand of market forces. Economic deregulation and privatization were stressed as the engine of growth and job creation while the share of public spending in GDP should be gradually reduced.

Uganda undertook a massive retrenchment exercise and introduced value added tax (VAT) to raise government revenue. The first economic recovery program adopted in 1987 emphasized export-oriented economic growth and liberalization of exchange rate and liberalized agriculture by abolishing price control and parastatal marketing monopolies.

The Ministry of Finance, Planning and Economic Development (MoFPED) and the Bank of Uganda (central bank) have primary responsibility for macroeconomic policy formulation and resource allocation, and have implemented these policies under the heavy guidance of UK officials. The reforms marked a major shift away from a mixed-economy model in which the private sector existed alongside state-supported sectors, particularly agriculture and agro-processing. The liberalization that followed drove economic growth, making Uganda at the time one of the fastest growing countries on the continent. However the economic growth did not translate into income growth, nor meaningful poverty reduction due to the fact that it was a recovery growth, hobbled by the fact that Uganda was continuously at war, with the significant agricultural northern region contributing very little to the economy (Kaiza 2011).

The neoliberal focus on rapid and premature trade liberalization wiped out several domestic industries in the 1990s and 2000s, leaving Uganda mainly an exporter of primary goods while it imports manufactured goods, leading to its currently huge trade deficits. Meanwhile, despite promises by the rich countries to open their markets to primary goods from countries like Uganda, most rich countries have maintained either formal trade barriers or informal policies to block such goods. The value of imports has increased (compared to 1990) over twice as much as the value of exports for each of the countries. In addition, Uganda's labor participation rate fell during the 1990s (suggesting an increase in poverty), implying the neoliberal free trade approach has not delivered on the developmental promises made by its proponents (Read and Parton 2009).

This left it to two sectors to drive most of the growth. Liberalization of the economy gave impetus to the service sector, as hotels, once under government management, expanded in private hands, tourism returning to the peaceful south and west, while the media and telecommunications sectors were virtually reinvented. But according to Dr. John Matovu, research fellow at the Economic Policy Research Centre in Kampala, there is a limit to what you can secure from services. Employment in the sector, he says, is limited to a skilled workforce "Telecommunications takes only people with degrees" (Kaiza 2011).

With the return of stability to the south, private investment started rising, particularly in property construction, something that has also begun to happen in northern Uganda. Currently, the IMF and others assess Uganda's economic performance on its macroeconomic status, getting inflation to single-digit figures, and maintaining the fiscal balance within 10 per cent of GDP. "The question people ask is if at the macroeconomic level the country is performing well, how come incomes have not improved?" Dr. Matovu partly attributes this to the widening gap between the rich and the poor -- the little the country achieved, has gone into the hands of a few. The Gini coefficient, which measures the degree of income inequality, is increasing by over 3.0 percent per year in Uganda, and the widening of this gap means that it will be harder to deliver on macroeconomic promises. The steadily worsening fortunes of those at the bottom of the pyramid will slow the improvement of health, education and social welfare even as the incomes for people at the top increase. There might be growth, but there will be no development as long as 31.0 per cent of the population lives in poverty (Madill 2010).

Although the government claims Uganda has made progress towards MDGs and already achieved MDG 1 on halving poverty (relative to 1990 levels), additional spending and public investment is still required to achieve the other goals. Some have questioned the official Ugandan government claims about the actual degree to which high GDP growth rates of recent years have actually translated into poverty reduction, particularly for the majority of people in the rural areas and the far north. Others have criticized the metrics used, such as consumption expenditure indicators, to adequately assess poverty reduction levels (Byekwaso 2010).

The sector that would make the most differences to most people is agriculture, yet this sector has been undermined by the lack of essential public investments such as a government-subsidized fertilizer policy, and other extension services and inputs, as these were eliminated under the IMF and World Bank neoliberal reforms. The key problem for the economy is that it is not making headway at two consequential extremes; agriculture has been in decline, but manufacturing has not picked up. In order for manufacturing to increase production and employment, a reduction in interest rates and other measures to facilitate affordable credit to small and medium-sized enterprises (SMEs) will be necessary, yet such a reduction in interest rates is directly at odds with the major IMF monetary policy of keeping interest rates high in order to get inflation down to the 5 percent target.

In addition to the growing income gap in Uganda, another trend has been increasing urbanization into Kampala and other cities. Although the history of urbanization in Uganda is relatively young compared to other East African countries, the rate of urban development is reported to be one of the highest in the world. However, little effort is being made to seize the opportunities and maximize the potential benefits of urban development, as well as reduce its potentially negative consequences (Mukwaya, et al 2010).

Like the case of Jamaica, Uganda is also burdened with a huge debt level. The debts that consist of both domestic and foreign loans have caused financial hardship, joblessness, and a decline in personal earnings. This has as a result pushed the debt sustainability indicator to dangerous levels. Currently the debt burden stands at US $4.3b (close to Shs10 trillion), up from US $1.4 billion (about Shs3.2 billion) in the 2006/07 financial year. Since then, the public debt has been increasing steadily, growing at an average of 17 percent per year and projected to increase by 20 percent in the medium term. The former Ugandan Finance Minister, Syda Bbumba, said, "Uganda's debt exposure has risen from $4.0 billion as of ending June 2009 to $4.3 billion as of June 2010 out of which $2.4 billion is debt outstanding and disbursed while $1.1 billion is committed but yet to be disbursed" (Mugerwa 2011).

In addition to the tight monetary policy that prioritizes achieving low inflation, the high debt levels have also contributed to pushing up domestic interest rates and the cost of debt servicing is going up by the day, leaving insufficient funds for basic services provision including for education, healthcare, safe drinking water and infrastructural and energy projects. According to the former shadow Finance minister Oduman Okello, "More resources will be committed to debt servicing rather than new public investment and the welfare of Ugandans." Despite this both the finance ministry and the IMF claim the debt levels are still manageable. According to the March 2011 debt sustainability analysis by the finance ministry, "Uganda's debt is still sustainable and shall remain sustainable both in medium and long-term horizons" (Mugerwa 2011).

Less discussed than outright political corruption, is the damaging impact that Ugandan politics has on the economy. To win and maintain presidential and parliamentary majority votes, the Museveni government has, over the past decade, created 60-plus new districts in Uganda, bringing the total to 112, in order to reward loyal constituencies and politicians; the Ugandan Cabinet was increased from the 42 allowed by the Constitution to 72 (Kaiza 2011). Coming at the cost of less service delivery, the money allotted for payment of administrators is threatening to overrun that set aside for what they are meant to administer. The 8th parliament, which is now giving way to the 9th, had 332 MPs, a figure that has now grown to 377 directly elected members, with
each of these MPs will be paid Ush14.5 million ($6,300). By 2009, Uganda had the fourth highest number of sub-national administrative units in the world, and the highest in Africa. A 2009 report by the public watchdog group, Action for Development (Acode), argued that as more administrators have been appointed, service delivery in such areas as health, education and agriculture, has stagnated.

Despite the high debt levels and bloated administrative costs of government, Ugandan officials are optimistic about the future. One reason is that Ugandan is set to become Africa's newest oil producer, with Tullow Oil Plc, the U.K.-based energy company, expected to start pumping crude and gas from the Lake Albert Basin in 2012. The country has an estimated 2.5 billion barrels of oil, with about 1 billion barrels in proven reserves, according to Tullow. Funds from oil flows will help finance the construction of electricity infrastructure, “unlocking one of the key major constraints to development and transformation of Uganda,” according to the Energy and Mineral Development Ministry, whose budget will be raised by 15 percent to 1.23 trillion shillings ($513 million) next year. Additionally, other new infrastructure projects include developing the 650-megawatt Karuma Hydropower project and the 100-megawatt Isimba Hydropower project on the Nile, an oil refinery and an interstate pipeline (Ojambo 2011).

The Ugandan economy weathered the first-round impact of the global financial crisis relatively well, perhaps due to its lack of integration in the global financial system. Despite the reversal of portfolio inflows and lower foreign direct investment (FDI), economic growth remained strong by international standards (7 percent) in 2008/2009, driven in part by strong exports and a recovery of private investment flows. However, economic activity decelerated in 2009/2010 due to a prolonged drought and increased global prices for oil imports, before increasing again to a projected 9 percent for the first half of 2011/2012.

3.4 The State of the Education System in Uganda

The 2011 Global Monitoring Report lists Uganda as having already achieved the MDG on gender parity in primary education, and as being on track to achieve the goal on access to safe drinking water (GMR 2011).

According to the Global Campaign for Education (GCE), a coalition of organizations in 100 countries, African nations lack the political will to provide access to primary education to all children. In fact, in its recent report, “Back to School? The worst places in the world to be a school child in 2010,” it ranked Uganda as having the worst education gaps for the East Africa region. This is despite the fact that Uganda passed an Education Act in 2008, which makes primary education compulsory, implementation remains a challenge. The report ranked Uganda as the 46th worst country in the world for a child to be in school out of the 60 countries whose education systems were surveyed, and ranked Uganda 55 out of the 60 countries surveyed in terms of political will to implement education policies. It also found that Uganda’s efforts to provide free education are being threatened by issues like lack of trained teachers. The GCE report found that 48 percent and 11 percent of secondary and primary teachers respectively are not properly trained. About 43 percent of the country’s children had not yet acquired primary education in 2008, while for 78 percent, secondary education remains an elusive dream. The report suggested that the poor outcomes were a reflection of the fact that Uganda had the lowest public expenditure on education in East Africa, according to the report. At the end of the 2009/2010 financial year, the education ministry had not spent about seven million dollars budgeted to recruit teachers (GCE 2010).

In 1986, there were only 2 million students accessing primary education in Uganda, but these numbers were greatly increased when the government launched its Universal Primary Education program in 1997, when the numbers increased from 2.5 million in 1997 to 7.5 million, or 82 per cent of the eligible students, in 2011. However, less than one-third of the students enrolled are completing school. Ministry of Education statistics show that only 30 per cent of the pupils who started primary one in 2003 sat for Primary Leaving Examinations in 2009. Very few go on to begin in secondary education.

Despite the UPE program’s success of getting more students enrolled in primary education, the system has been plagued with a number of serious shortcomings regarding the quality of education being received by students. According to a recent report by Uganda National NGO Forum, “Are our children learning? Annual Learning Assessment Report 2010,” children are not acquiring the necessary basic competencies at the appropriate level and there is a high inefficiency level and potential wastage throughout the primary school cycle (NGO Forum 2010). The report sampled 34,752 pupils aged six to 16 years from 27 districts in literacy and numeracy and found that about 19% of the children sampled in Primary Three (P3) surveyed could not read the alphabet and only 2% could read and understand a story text of P2 level. The report also found that four out of every five children sampled (79.9%) could not solve at least two numerical written division sums correctly. In contrast to the free public system, a stunning 94.8% of the pupils in private schools in P3 and P6 were proficient in numeracy and literacy compared to 70.2% of their counterparts in government-aided schools (NGO Forum 2010).

A February 2010 report by Transparency International titled, “Africa Education Watch: Good Governance Lessons for Primary Education,” found that managing the achievements of free public education remains a challenge for many African governments. Based on research in Uganda and other countries, the report notes that the perception that massive enrolment signals UPE success must be adjusted to take in the challenge of overcrowded classes, classrooms under trees, poor financial management, illegal fees, and lack of school inspections; the study also found embezzlement of UPE funds and abuse of authority by head-teachers who charge illegal fees, make students offer labor on teachers' projects, sexual harassment, and systematic teacher absenteeism. The report noted that 85% of schools surveyed had either deficient accounting systems or none at all. In most cases, financial records were either unavailable or incomplete. The survey found limited financial documentation at district education offices and at schools. Most people who handle school grants had no training in basic finance management. (TI 2010).

Critics say the surging UPE enrollment has been achieved at the expense of quality of education. They say the quality of education in UPE schools has been severely compromised by the overwhelming enrollment that is not supported by a corresponding expansion of teaching staff and other scholastic infrastructure like classroom space and textbooks (Habati 2010) or other deficiencies as documented in the Transparency International report.

The inability of the government to finance the costs hiring enough qualified and trained teachers and led to many schools hiring “para teachers” or those less than fully qualified in order to fill the void.

Education experts have called for an improvement of teachers’ wages and welfare if learning outcomes are to improved. Uganda National Teachers Union (UNATU) chairperson, Margaret Rwabushaija, says if teachers’ accommodations were improved so that they do not have to travel long distances and their salaries increased, it would create a big impact on their performance. “I don’t know why we have to keep complaining about teachers when we can’t give them what they deserve. These teachers have been frustrated. No one wants to teach other people’s children when theirs can’t join school. Teachers should have sound mind, eat and sleep well if they are going to serve,” Rwabushaija told Education Guide (Ahimbisibwe 2010).

The irony is that while thousands of teachers are trained each year, many remain unemployed, even as there is a shortage in government schools. For example, with the current teacher enrollment on government payroll at 131,000, the country still requires 239,400 more teachers to attain universal primary completion by 2015. The national teacher pupil ratio is quoted as 1:50. The average teacher pupil ratio for northern Uganda is meanwhile above 1:67.

According to John Arinaitwe of the Principals Association of Uganda, “The profession is not attractive. The pay of those employed is miserable. They can’t even afford keeping their own children in schools,” and when others see this, there are less incentives for becoming a teacher (Ahimbisibwe 2010). Concerns about low remuneration and declining social status of teachers in the country, contrasting their privileged and high esteem in the past, has forced bright students to shun the profession, observers say. Until this financial year, a primary teacher earned a monthly salary of Shs200,000 – without allowance – although that gross pay has now marginally increased to Shs260,000 (Ahimbisibwe 2011).

In 2010, the education ministry announced several changes in the education sector budget to deal with the criticisms of the UPE system, including increasing the teachers' wage bill from Shs582.3b to Shs587.9 billion. Most of the money has been allocated to paying teachers' salaries, with 2,398 of them in hard-to-reach areas also getting a "hardship stimulus" of 30 per cent of their basic pay. The ministry's total budget as allocated in the 2010/11 budget is Shs1.1 trillion. These primary school teachers in rural areas, who have been earning Shs200,000 a month, will now get an extra Shs60,000--mainly as an incentive to keep them in these areas characterized by poor infrastructure and shortage of amenities. The education ministry also announced in 2010 that 100 new housing units to accommodate 400 teachers would be built in 20 districts as a measure to retain the instructors, and it would allocate 8 percent of its non-wage recurrent budget of about (Shs276.4 b) for the provision of additional instructional materials to support the implementation of the thematic curriculum. And as a step to deal with misappropriation of UPE funds, the education ministry also planned to start piloting a system to transfer funds directly to school bank accounts as opposed to the current system of sending money to the districts the districts (Mugerwa 2010).

As the first generation of students to complete primary education under the UPE system is graduating, the Museveni government has announced as part of his recent re-election campaign that he will also create a new free Universal Secondary Education (USE) initiative, however there will be a one year gap until the funding is in place. Acoording to Godfrey Dhatemwa, the commissioner for education planning, the government has earmarked Shs58.8 billion in the next budget to kick-start the free A-Level education to begin in February 2012. However, once the new free A-Level education program begins, there will be need for more USE A-Level schools. Ministry of Education records show that of the 970 government-aided schools implementing USE, only 228 have A-Level, and can only accommodate 36,000 students per year (Ssenkabirwa 2011).

Margaret Rwabushaija of the Uganda National Teachers Union (UNATU) agrees there is need for the new free A-level education, but also wants an improvements like the provision of free lunches and encourages parents to pack food for their children (Mubangizi 2011).

In previous years, much attention has been brought to the tension between meeting an adequate education budget that can finance the needed school and teachers to achieve UPE and USE and the need to also maintain macroeconomic stability as defined by the government and the IMF. The finance ministry and central bank have often clashed with the education ministry and teachers over this tension.

The classic argument is that if the government spends too much on the wages of teachers and others social sector workers in the public sector wage bill, it would lead to higher inflation and macroeconomic instability; too much money in their pockets will put too much money into the money supply and lead to inflation. Critics counter that the wage bill is not just a recurrent budget item but actually constitutes a type long-term public investment in which improvements in the education and health of the future workforce will lay the groundwork for much higher economic growth in the future. Much evidence suggests that getting all children into school has a direct positive impact on future economic growth rates (Sylwester 2000; Temple 2001; Loening 2002: Petrakis and Stamatakis 2002; Harmon et al 2003; Schleicher 2006). Additionally, research suggests that ensuring that the education they receive is good quality multiplies the impact on future growth rates. For example, a recent study of 50 countries found that every extra year of schooling provided to the whole population can increase average annual GDP growth by 0.37 percent. And where the education is good quality, the improvement of cognitive skills increases the impact to a full 1 percent (Hanushek et al 2008). A similar study of 120 countries from between 1970-2000 found that education consistently and significantly affects economic development and is a necessary precondition for long-term economic growth (IIASA 2008). In other words, the more public education systems can adequately finance good quality of education, the bigger the impact on long-term growth rates (Hanushek and Kimko, 2000; Barro 2001; Bosworth and Collins, 2003; Lutz et al 2008; Hanushek and Woessmann, 2007). But despite these facts, when it comes down to a disagreement on budgets between education ministries and finance ministries, the latter almost always win. This has long been the case in Uganda.

According to James Tweheyo, the National Vice Chairperson of UNATU, "The Government of Uganda must try alternative education and financing policies other than following the IMF/ World Bank" (UNATU 2010).

3.5 The Current IMF Program for Uganda

The current IMF program for Uganda is not a traditional IMF "loan" but a Policy Support Instrument (PSI), which is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. Having a PSI still provides countries with the same "signal affect" to other multilateral donors and private international creditors as does a traditional IMF loan. The IMF approved the new three-year program on May 12, 2010. The PSI for Uganda aims at maintaining macroeconomic stability and alleviating constraints to growth through a scaling up of public investment spending and structural reforms to enhance the country's absorptive capacity. It will also support the strengthening of institutions ahead of expected oil production and Uganda's participation in the future East African Monetary Union (IMF 2010e).

The key policy priorities of the program are to maintain macroeconomic stability in terms of getting inflation down to 5 percent and lowering to the budget deficit to 5 percent of GDP (IMF 2010f). The exchange rate will remain flexible as the government seeks to build up foreign exchange reserves in preparation for joining the forthcoming East African Monetary Union (IMF 2010e).

Unfortunately, the IMF program's overarching monetary policy is characterized by a single goal--to maintain low inflation – to be achieved single instrument—high interest rates, will undermine Uganda's efforts to increase public investment and achieve higher economic growth and transformation. This policy approach willfully sacrifice higher economic growth in order to get inflation lowered. This trade-off was described by the Bank of Uganda: "Looking ahead, inflation is likely to remain at moderate, benign levels because of monetary policy action but above the BOU's targeted levels. However, if BOU was to disregard inflation, it would eventually climb to levels where the impact on growth would be economically significant. BOU would then have to tighten policy a lot in order to curb inflation which could trigger a contraction in order to bring inflation under control. Rather than hurt growth so severely later, BOU should 'bruise' growth now to prevent inflation from ever getting out of hand" (BoU 2011).

The program's narrow "single goal/single instrument" approach to monetary policy shows that none of the refreshing new thinking exhibited in the IMF's Research Department (mentioned above) has yet been put into practice by the IMF team working on Uganda. Particularly absent in the IMF program is any reflection of the very important reconsideration that policymakers should monitor multiple targets, rather than be solely preoccupied with the inflation rate. The February 2010 IMF Staff Position Note authored by the IMF's Chief Economist, Olivier Blanchard, and others, titled "Rethinking Macroeconomic Policy," listed the areas where there have been some profound rethinking. Under a section titled, "What We Thought we Knew" it completely reconsiders longstanding cornerstones of IMF macroeconomic policies, including its long-held assumptions about the absolute need for low and stable inflation as the main goal of monetary policy; that there should be one main policy instrument for achieving that goal – the interest rate; that there is only a very limited role for fiscal policy, otherwise it should be restrained in order to support monetary policy goals; and that financial regulation is not relevant to macroeconomic policy making. Then under a section titled, "What we've learned from the Crisis," new lessons include that stable Inflation may be necessary, but it is not sufficient; low inflation limits the scope of monetary policy during deflationary recessions, financial intermediation does matter; countercyclical fiscal policy is an important tool; financial regulations are not macroeconomically neutral. The report even suggests certain conditions in which it may be appropriate to actually raise the inflation target (Blanchard, et al 2010). Sadly, little of this is new thinking seems to have yet translated into formal policy changes adopted by the IMF Executive Board nor in the country program officials drafting the Uganda PSI.

Even researchers at the African Development Bank have echoed the IMF Research Departments argued that for African central banks, the emphasis of macroeconomic policy needs to shift from the narrow objective of very low inflation towards higher economic growth (Brixiová and Ndikumana 2011).

In April 2011, concern by increasing inflation in Uganda which approached nearly 15 percent, the IMF reinforced the edicts in its program and publically advised the Ugandan Government to execute tight fiscal and monetary policies to bring down the inflation rate that had more than doubled the central bank's committed target of 5 percent. Inflation has risen due to both higher domestic and international food prices, rising fuel costs, exchange rate depreciation, and high rates of private sector credit growth. "Fiscal and monetary policies for 2011/12 will need to be relatively tight in order to support the Bank of Uganda's effort to bring down inflation. It will be particularly important to reinforce the government's expenditure commitment control system going forward, and to ensure that budgets are executed as approved, in order to prevent the accumulation of expenditure arrears," said Thomas Richardson, IMF mission chief and senior resident representative for Uganda (Oketch 2011a).

In February 2011, the IMF executive board declined to approve the first review Uganda's PSI, citing inconsistency in Uganda's macroeconomic policy. The IMF was disappointed that the Museveni government had breached its earlier budget deficit reduction target late in 2010 as it engaged in stepped up spending in advance of the January 2011 national elections (Oketch 2011b; Sebunya 2011).

It has long been acknowledged that Uganda's tax revenues--at about 12 percent of GDP--are low by regional standards and insufficient to permit the degree of infrastructure investment needed to boost growth. The IMF is pushing Uganda to take steps to broaden the tax base, particularly by eliminating exemptions, but this could prove politically difficult for Museveni, as such exemptions are a traditional form of securing political patronage for Museveni's ruling party.

In sharp contrast to the IMF program, a study done by economists at the Makerere Univerty-based Economic Policy Research Center recommends that Uganda needs to scale up it spending by an additional 10 percent of GDP per year in order to achieve Millennium Development Goals number 2, 5 and 7 on universal primary education, environmental sustainability and ensuring environmental sustainability, respectively. The report, “Assessing Development Strategies to Achieve the MDGs in Uganda,” argues for a considerable scaling up of government spending on education, health water and sanitation services through a combination of raising domestic taxes, increased domestic and foreign borrowing and mixed financing options (EPRC 2011).

However, to its credit, Uganda has adopted new and potentially important industrial policy strategy for over the medium term. The National Development Plan was launched in April 2010, and despite its austere budget deficit reduction target of 5 percent of GDP in the IMF program, within this budget Uganda is attempting to finance a bold scaling-up of energy and transportation infrastructure as part of the desperately needed increase in public investment, which is targeted to increase from 6.5 percent of GDP in 2008/2009 to 8 percent in 2011/2012.

Although the Museveni government has promoted ideas for industrialization over the last 10 years, expected new revenues from oil production gives this new plan a more serious tone. The investment priorities listed in the Shs.54 trillion plan include improved human resource development; improvement of infrastructure; promotion of science and technology; and facilitation of availability and access to critical production inputs as the investment priorities.

Core projects include development of Karuma, Ayago and Isimba hydropower plants; construction of a standard railway gauge and rehabilitation of existing railways; development of greater metropolitan Kampala and implementation of rapid transport systems; development of a pipeline and refinery for oil and gas; development of a national skills program; and development of an ICT park (Mufumba 2010).

However, such a far reaching plan will need to include a significant scaling up of education financing, including serious efforts to step up vocational education and training for the Ugandan workforce. The National Development Plan has a detailed section on skills development that says Uganda's worker productivity is low at 28 percent of that of Tanzania’s. Major investments in improving worker skills and productivity played a strong role in the industrialization of many East Asian and other emerging market economies. Late comers such as Mauritius and Tanzania have successfully increased their worker productivity in recent years through specific programs (Mahigigi 2011). It remains to be seen if Uganda will make the necessary scaled up investments in its workforce.

3.6 Citizen Activism in Uganda

In the wake of Museveni’s re-election in the February 2011 national election and steep rises in the prices of food and fuel that have hit Uganda during the first half of 2011, citizens have taken to the streets in unprecedented actions. Most notably, Uganda’s Walk to Work Campaign was a mass protest movement launched on April 11th by a group called Activists for Change, which is drawn from various opposition political parties. The protest against the rising prices of fuel and food –and the government’s inability or unwillingness to do anything about it –started as a simple call to walk to work. The mass movement inspired people to walk in major cities all over the country and the protests have continued, despite sporadic violence. Throughout May the protests paralyzed Kampala as the government attempted to stop the Walk to Work campaign (Gathigah 2011).

Despite increasing pressure to cut taxes on fuel and ban export of food, the government has stuck to its standard “no intervention” policy on prices. Most of the demonstrators have since April 11 demanded that the government cuts taxes on fuel and ban export of food. The government has rejected their demands. In turn, the government has been criticized for lacking an economic model and depending mainly on IMF and World Bank generated generic responses to the crisis (Sserunjogi 2011).

Oduman Okello, the outgoing shadow Finance Minister from the opposition Forum for Democratic Change (FDC) party, criticized the government for relying on "guesswork" for its macroeconomic policy, and said if the FDC had won the February election, it would be cutting taxes on fuel, restricting the export of essential food products like grain, rebuilding of the national fuel reserves and “ring fencing” the proceeds from Uganda's oil for the development of other energy sources like hydroelectric power. Additionally, he says the FDC would punish those implicated in corruption, and impose price ceilings for essential commodities (Sserunjogi 2011). Further, Oduman notes that the contribution of agriculture to Uganda's income has been declining steadily, from 53.9 percent in 1985/86 to 22.8 percent in 2009/10, while industry and services grew from 9.9 percent and 36.1 percent to 23.2% and 47.8 percent respectively over the same period. The government says this does not show that agriculture is declining but that industry is growing at a faster rate, but Oduman says that the declining contribution of agriculture to national income which has not been matched by the movement of people from agriculture to the other sectors; this means the people involved in the agricultural sector, who are the majority, have become relatively worse off. Therefore, he suggests the government should be scaling up support for water for irrigation, streamlining access to land and markets, reviving cooperative societies, pre-fixing prices for agricultural produce and establishing a stabilization fund for farmers (Sserunjogi 2011).

Beyond the high prices for food and fuel lies a deeper set of frustrations, particularly among the large numbers of youth which are facing limited prospects for meaningful employment opportunities and a growing frustration with corruption. Youth involvement in politics has greatly increased in recent years and young people using new telecommunications technologies have played major roles not just in the Walk to Work protest movement in Uganda, but also in the referendums and post-election turbulence in Kenya in 2007 and recent protests in Tanzania (Ernest 2011).

The Ugandan Parliament is debating a Bill that will involve citizens in the fight against corruption following an increase in embezzlement of public funds by public servants. The Whistle Blowers Protection Bill 2010 will not only create an enabling environment for citizens to freely disclose information on corrupt or improper conduct in public and private sectors, but they will also be rewarded with five percent of the recovered monies in a corruption scam. However, there is skepticism whether this legislation will work in a country where corruption has become a way of life. "It is apparent that corruption has been institutionalized as an acceptable way of life," says the National Integrity Survey Report 2008. "Corruption is one of the most serious problems hindering development in Uganda," says Mukotani Rugyendo, senior advocacy and communications officer, at Uganda Debt Network, an advocacy and lobbying coalition against corruption. "Laws are not necessarily the cure, but they are essential and we need to go further and appeal to the conscious of our people…We believe that a combination of necessary laws that punish those who engage in corrupt practices can work," says architect of the Bill, Ethics and Integrity Minister Nsaba Buturo (Kiapi 2011).

Rugyendo thinks corruption is a political problem and without fundamental political will, legislation is ineffective. He notes that there have been many commissions of inquiry into corruption in government institutions, but most of the recommendations have never been acted upon and no prominent public official has ever been punished, sending a signal that government is not committed in the fight against graft. However, there are also concerns whether legislation can work in a country where citizens are not aware of what happens in public offices, especially since the Access to Information Act has not been effectively implemented since its adoption in 2005 (Kiapi 2011).

It is precisely such entrenched corruption in Uganda that worries people about how the new oil production revenues will be dealt with. There is a deep concern that, despite government promises, the proceeds will not be handled transparently or properly. Uganda lacks of a well defined oil policy, and has already frustrated citizens groups by the opaque nature in which the first deals and contracts with oil companies have been signed (Naggaga 2011). Claims by the IMF that Uganda's plan to handle petroleum revenues is "sensible" and promotes transparency and accountability, have done little to reassure citizens.

Some members of parliament (MPs) are pressuring the government to make public details of oil production-sharing agreements it signed with various international oil companies to enable parliament to scrutinize agreements over the production. John Arimpa Kigyagi, a member of the parliamentary committee on natural resources, says while on Feb. 21 the committee received copies of the oil production-sharing agreements (PSAs) signed between the government and oil company Tullow Oil, the current disclosure restrictions are such that they are not at liberty to disclose details to the public. The committee are also not at liberty to disclose details of the agreements to the rest of parliament. In response to this levels of secrecy, 60 of over 300 MPs have signed a petition that will be presented to the house to force government to disclose to parliament contents of the agreements. The petition began after consultative meetings were held with CSOs and MPs – including those from the natural resources and national economy committees. These two committees handle issues relating to the oil sector, which has taken centre stage since Uganda first struck oil in 2006 (Kyalimpa 2011a).

The petition by the MPs is the latest in a series of protests against the PSAs. In 2010, with the help of the Human Rights Network (HURINET), journalists applied for a court order to compel government to disclose details of its agreement with Tullow Oil, but the judgment was in favor of the government. HURINET believes the court ruling was a test of the country's Access to Information Act 2005. The Act states that every citizen has right to access information and records in the possession of the state or any public body except where it interferes with state security, the country's sovereignty or the right to privacy of an individual. Therefore the government has not met its obligation to make public information in its possession as required by the act (Kyalimpa 2011a).

The many Ugandan NGOs that comprise the Ugandan chapter of the international Publish What You Pay (PWYP) network have also criticized the government on oil deals conducted already. In a recent joint communiqué publically issued in April 2011 to both government and the oil companies to publically explain and address the persistent refusal to pay taxes by the oil companies and the government's inability to punish such companies. It stated, "The government has an obligation to Ugandans to disclose all the oil information to the citizens through open processes such as open bidding for licenses to companies, disclosure of production sharing agreements, Memorandum of Understanding concerning payment of Capital Gains Tax (CGT), Environmental Impact Assessments (EIAs) through public hearings and translation of EIA reports into relevant local languages to build national confidence and popular support" (PWYP 2011).

The coalition said the government and companies have persistently ignored the citizens' demands for transparency and accountability in the industry because of self interests. For example, between 2006 and 2010, Hardman, Energy Africa and Heritage sold their petroleum assets at USD 500m, 1.1 billion and 1.45 billion respectively which would have been used to provide social services such as good roads, health services, education, and employment. “These losses are caused by the poor governance of the oil sector where the companies and the government are doing everything in darkness.” Publish What You Pay-Uganda notes that there is limited information on tax negotiations by the two parties- Government and the oil companies. For instance, the government failed to ensure the payment of tax by Heritage Company which made over 800 percent profit on its investments in Uganda. The groups are calling for the government to enact the Petroleum Resource Management Bill 2010 into law; amend and strengthen the 1997 Income Tax Act to ensure that oil companies pay the right taxes on all their operations in the country; and the disclosure of all the PSAs signed with all the companies (PWYP 2011).

In a coordinated South-North advocacy effort, Publish What You Pay—Uganda is working with its NGO allies in the PWYP coalition in the UK to mobilize pressure on the British government to pass legislation that makes transparency in extractive industries mandatory for companies listed on the London Stock Exchange. The British parliament last week “raised attention” for oil companies listed on the LSE to start financial reporting on their activities to governments where they operate, including Tullow oil, Uganda’s main operator in the extractive industry is listed on the LSE. Already, the US has legislation to force American firms engaged in the extractive industries abroad to be more transparent, especially the ones listed on the New York Stock Exchange. The firms are required – by law to report how much they pay to governments on a country and project basis, in an annual report to the Securities and Exchange Commission (Nakkazi 2011).

Ugandan citizens groups are also mobilizing against a repressive media law. The Article 29 coalition, named after the section of Uganda's constitution that guarantees freedom of expression, is fighting to preserve press freedom in Uganda. Under the proposed restrictions, publishers and journalists would have to apply annually for a license, which could be revoked at will in the interests of "national security, stability and unity," or if coverage was deemed to be "economic sabotage." Media activists say government wants to gain the power to deny, revoke or refuse to renew newspaper licenses at will and without recourse to the courts of law. Article 29 has united various media organizations, including the Ugandan Journalists' Association, to resist further encroachment on media freedom (Kyalimpa 2011b). Even more recently, Uganda's governmental crackdown on alleged “errant media” has forced radio stations in eastern Uganda to go into self-censorship to avoid closure. The more than twenty radio FM stations that operate in the region have abandoned their watchdog function and substituted it with music programs. Many stations are no longer hosting political discussions with guests and have stopped inviting opposition party officials onto news shows (Omaje 2011).

LATVIA

3.7 The IMF-EU Loan Program for Latvia

From 2000 to 2007, Latvia’s economy grew at annual rate of 9 percent, making it one of the fastest growing economies not only in Europe but in the world. Between 2005 and 2008, wages doubled. As with the US, UK and elsewhere in Europe, much of the demand was channeled into property, driving up the perceived value of property to unrealistic levels causing a classic “asset price bubble” in the real estate sector. Because Latvian citizens believed they were able to afford it, Latvia was importing more goods than it was exporting, and through easy credit on offer, borrowed heavily from European banks in euros, creating a large current account deficit that had grown to more than 20 percent of GDP by 2006-2007. This meant that Latvia was borrowing roughly 20 percent of its income from abroad. By end 2007, foreign debt, most of it private sector debt, had increased above 125 percent of GDP.

However, with the onset of the global financial crisis in 2008, European banks abruptly stopped lending to Latvia, foreign depositors withdrew their funds, and in late 2008 Latvia began experiencing a deep recession. As the financial crisis plunged the world into its deepest recession in over 70 years, it became a severe economic crisis. Latvia's banks were facing collapse, businesses closed, unemployment soared and economy contracted by 4 percent in 2008 and by 18 percent in 2009. Much of this was a painful correction to the bubble that had inflated in the economy for much of the previous decade.

The Latvian government responded with an expensive public bailout program for its banks, and a reform program designed to arrest the immediate liquidity crisis as the government began to run up massive budget deficits as the economy suffered a major contraction and tax revues plummeted.

In December 2008, Latvia was given an emergency bailout loan from the IMF and European Central Bank (ECB), with contributions from other lenders as well, totaling €7.5 billion ($10.65 billion) of available financing. The IMF's part of the package amounted to €1.7 billion and was approved in December 2008 as a 27-month Standby Arrangement (SBA). At that time, around €600 million was disbursed, followed by two more disbursements of €200 million in August 2009 and €200 million in February 2010 (IMF 2010g). The loan program for Latvia also included €3.1 billion from the ECB; €1.8 billion from the Nordic countries; €400 million from the World Bank; €200 million from the Czech Republic; and €100 million each from the European Bank for Reconstruction and Development (EBRD), Estonia, and Poland. This financing allowed Latvia to rebuild its international reserves and foreign currency reserves to €4.8 billion in 2010, up from €3.4 billion at the height of the crisis in November 2008 (IMF Survey 2010).

The overall IMF/ECB program for Latvia was based on the continuing goal of Latvia to join the eurozone countries by 2014. The thinking behind this goal is that euro adoption will replace the Latvian currency, the lat, from its current fixed exchange rate with the euro, speculation over the exchange rate by investors would end once and for all, and interest rates would fall in Latvia to levels in the euro area. It is believed that adopting the euro will enable Latvia to enjoy both lower interest rates as well as increased foreign direct investment (FDI). However, pursuing this goal has meant keeping the lat pegged to the euro at a the rate of 1 euro = 0.7 lats, and this approach eliminates the possibility of other more flexible monetary policy options Latvia could have otherwise used, such as a currency devaluation. It also meant a much more severe fiscal adjustment, as Latvia would need to have its massive budget deficit lowered to below 3 percent of GDP by 2014 in order to comply with the strict Maastricht criteria for joining the eurozone. Therefore, Latvia's desire to become part of the eurozone made its bailout conditions exceptionally more difficult than otherwise would be the case.

Given its desire to maintain its currency peg with the euro, Latvia chose a path that puts a heavy burden on fiscal policy in the short term. Normally economic recoveries and adjustments can take place in two ways – either through a devaluation of the national currency or deflation of costs—what is called an "internal devaluation". An internal devaluation is an incredibly painful process. The idea is that in order to increase exports (in order to earn foreign currency with which to pay back foreign creditors in a timely manner) a country that has high unit labor costs relative to its trading partners is perceived to be not competitive, and therefore can become more competitive by lowering wages. The way they lower their wages is to force workers to take pay cuts under the pressure of high rates of unemployment. Latvia is currently the "poster child" for internal devaluation. Its unemployment rate was still hovering around 17 percent in the second half of 2010. Instead of devaluing its currency, Latvia chose for adjustment of costs – drastically reducing wages for workers, pensions for retirees and other payments thus reducing the purchasing power of citizens and cutting down on consumption, along with steep budget cuts (Baker 2011).

Given that other adjustments to monetary policy were ruled out, the IMF/ECB program focused on deep cuts to the budget deficit. The program originally called for the budget to be lowered to 5 percent of GDP during 2009, however because of the impact of the deepening global recession hitting the countries to which Latvia traditionally exported most goods, the deficit reduction target was revised. As per the most recently revisions to the program, the fiscal deficit for 2009 was targeted at 13 percent of GDP; for 8.5 percent in 2010; 6 percent for 2011; and down to 3 percent by 2012; and below 3 percent before 2014 when Latvia hopes to be allowed to the euro.

The IMF/ECB program also called for the privatization Citadele, the successor bank to the failed financial group, Parex, via an auction. The bailout of Parex in November 2008 by the Latvian government was one of the reasons Latvia had to take the IMF/ECB bailout loan program. Latvia restructured Parex and formed a new bank, Citadele, from the good assets of Parex. The state has 75 percent of Citadele while the European Bank for Reconstruction and Development (EBRD) has 25 percent plus one share. The state has set several goals for the sale, including getting back as much as possible of the state's aid to the bank. The rump Parex Bank, which was left with all the bad assets, will not be offered to investors and management will have to work further to increase or at least retain the value of its assets (Braslina 2011a).

The original IMF program that was agreed with the government in December 2008 claimed that social spending would be fully protected. But later revisions to the agreement ended up calling for cuts in all areas, including pensions that were reduced by 15 percent. In May 2011, the World Bank approved a loan to assist Latvia's financing limited social safety nets. However, the World Bank loan in May 2011 did not prevent earlier and deep cuts to social spending during 2009 and 2010, including substantial budget cuts applied within education sector (discussed below) or wages from being decreased by 40 percent, relative to 2008 levels. Deep cuts were also implemented across the levels of civil servants and public administration by 30 percent, which has impeded the ability of public administration to fulfill its obligations. These measures produced severe rioting in Latvia in January 2009 and led to the collapse of the government on February 20, 2009.

The new government that followed, however, continued to implement the harsh austerity measures. The deep fiscal adjustments in the IMF/ECB program required both expenditure cuts and new tax revenue increases. Latvia has a tradition of very low taxation, but has been compelled to bring revenues more in line with expenditures. The IMF/ECB program proposed improvements in tax administration and a broadening of the real estate and personal income tax as well as introducing a capital gains tax. The VAT rate on consumption was increased from 18 percent in 2009 to 23 percent in 2010. Latvia has had a flat tax in place since 1997, and the IMF has suggested that making it more progressive would bring the country in line with most other countries in the EU and would reduce the tax burden on low-income groups, however the problem of substantial tax evasion remains.

The importance and harmful consequences of Latvia's decision to continue to seek entry into the eurozone above all else cannot be underscored. Just like other European crisis countries that are already members of the eurozone, such as Greece, Latvia has been trapped in a recession in which all of the major macroeconomic policies – the exchange rate, fiscal policy, and monetary policy – are either going in the wrong direction or cannot be utilized to help stimulate the economy. This is because of the government's commitment – encouraged and supported by billions of dollars of loans from the IMF and the European authorities– to maintain its exchange rate peg to the Euro. This policy course of action has hurt the ability of Latvia's economy to recover in a number of ways. The overvalued euro-lat exchange rate hurts its tradable goods sector by overpricing exports and under-pricing imports. It also lowers investment due to the fear of devaluation, which has caused spikes in interest rates as well as capital flight at various points in the past three years. Then there is the pro-cyclical fiscal policy of deep budget cuts, which are designed to make sure the economy contracts and unemployment rises sufficiently in order to push down wages and other costs to the point where there is a significant real devaluation, while keeping the nominal exchange rate fixed. However, so far, none of the countries that have attempted to do this have succeeded in moving the real effective exchange rate very much. It is not clear that such a strategy will succeed even after a long time. Instead, the approach is likely to cause a prolonged period of slow growth with high unemployment, or even a relapse into recession – as may be happening now in Ireland, Romania, and possibly Spain. Greece, which is undertaking a similar internal devaluation, and has been subject to severe fiscal tightening, has resulted in negative GDP growth for seven consecutive quarters.

Latvia's economy experienced a major decline in GDP of about 18 percent in 2009 and unemployment of nearly 20 percent, and continued to experience negative growth for most of 2010. Latvia's contraction of more than 25 percent of GDP for the two years 2008-2009 is a historic record of tragic proportions, surpassed only by the four-year decline (1929-1933) of the United States' Great Depression. Even as low GDP growth has picked up slightly in 2011, the IMF projects that Latvia's GDP rate will still be well below its pre-crisis (2007) level of GDP in 2015 – nearly a decade of lost growth and employment.

In May 2011, the IMF review of the loan program praised Latvia for its "progress" in staying the course with historic levels of suffering, and encouraged it continue with even steeper budget cuts in 2011, rather than a mix of budget cuts and tax increases. "Euro adoption would mark a successful exit from Latvia's difficult and ambitious program, but will require a focus on fulfilling the [Maastricht] criteria in a convincing and sustainable way. The substantial fiscal adjustment to date and the decision to aim at a 2012 deficit of 2.5 percent of GDP demonstrates the authorities' commitment. It will be important to maintain strong budget implementation in 2011 while working to identify high-quality and sustainable fiscal measures early in the budget cycle." The IMF added, "Inflation is rising due to higher world food and energy prices, as well as tax increases. The authorities' should focus on spending cuts rather than tax increases in the 2012 budget and on enhancing efficiency in product markets and state-owned enterprises to help keep inflation under control" (IMF 2011).

3.8 The Consequences for Latvia

The collapse of the Latvian economy over the past two years would seem to offer a cautionary tale for Europe's periphery as to the extremely high economic and social cost of IMF-style austerity within the straitjacket of euro membership. Since the adoption of an IMF/ECB austerity program at the end of 2008, Latvia's gross domestic product has declined by 25 per cent, while its unemployment rate has climbed from less than 8 per cent to more than 20 per cent.

Even the most optimistic forecast are now projecting about a 3 percent growth rate for 2011, and the IMF/ECB and others are celebrating this as “progress” and a sign of “success” for their program, in fact, given the 25 percent fall in GDP over the crisis period, new GDP growth at this rate means it will take a decade to just restore the size of Latvia's 2007 economy.

As government cutbacks in education, health care and other basic social infrastructure threaten to undercut long-term development, young people are emigrating in search of work and better conditions abroad. Over 12% of the overall population (and a much larger percentage of its labor force) now works abroad. This exodus has exacerbated a population that had already been experiencing a trend of declining birthrates in Latvia. But according to the IMF, “Emigration is a safety valve that can help overcome Latvia’s severe unemployment problem” (IMF Survey 2010). The Latvian Education and Science Workers’ Union (LESWU) issued a public condemnation when the Bank of Latvia President and government advisor in economy, Ilmars Rimsevics, advised Latvian teachers “to find a better-paid job abroad” (BNN 2010).

According to Michael Hudson, an economist at University of Missouri at Kansas City and an advisor to the Renew Latvia Task Force, Latvia's people have suffered from the ravages of two World Wars and two occupations, capped by neoliberal reform policies that led to the dismantling its industry and driving it deeper and deeper into debt - indeed, foreign-currency debt - since it achieved independence in 1991. Hudson compares the post-World War II Marshall Plan aid with the failure of the neoliberal model used for the East European countries when they joined the European economy in 1991 after the end of the Cold War. The Marshall Plan approach for Western European economies ravaged by the war included the use of capital controls, industrial policies and large-scale government investment to encourage economic development and monetary independence, and notes how this aid was used to enabled Western Europe's national economies to buy imports from the United States while building up their own export capacity and raising their living standards. In contrast, after the Cold War the only plan for assisting the newly-liberated Eastern European economies was neoliberalism. “Sustainable structures were not put in place to make their economies self-sustaining. Just the opposite outcome was structured in: foreign currency debt, especially for domestic mortgage loans, without putting in place the means to pay it off” (Hudson and Sommers 2009). Similar contrasts are made by Reinert (2007).

Today, the wealthiest EU states are high-value added manufacturers and easily capable of financing their trade deficits or are enjoying surpluses. In contrast, the Baltic and East European countries have financed their trade deficits over the past decade mainly by Swedish, Austrian and other banks lending against real estate and infrastructure being sold and resold with increasing debt leverage. The neoliberal model has not put in place steps to build the productive capacity needed to pay off these debts, but instead only offered a model of liberalized financial markets that that inflated the asset prices during the real estate “bubble” to sustain enough foreign-currency borrowing to cover their chronic trade deficits and capital flight. But since the bubble burst, the Baltic States are adjusting to the cessation of capital inflows from foreign banks and are bringing their current accounts into line, not by producing more goods and services, but by the neoliberal policy approach of slashing domestic consumption - not to create capital for crucial long-term public investment, but for repaying debts to bankers.

According to Hudson, these arrangements served the interests of the major EU exporters but the post-Cold War neoliberal model did not develop a broader European-wide stability based on more extensive economic growth. “Without the looming threat of war or political threat from Russia, Europe's richest nations pushed for trade liberalization and privatizations that accelerated de-industrialization in the former Soviet bloc. Southern European members were brought into the Euro zone with its strong currency and strict limits on government spending that failed to enable these countries to develop their manufactures in the way that Western Europe (and the United States) had done" (Hudson and Sommers 2009). There was a vague hope that levels of economic development eventually would equalize across the EU, "as if bank lending and foreign buy-outs would lead to greater homogeneity rather than financial polarization." The problem was that the EU viewed its new members "as markets for existing banks and exporters (including as dumping ground for its agricultural surpluses), not to help these new members become economically self-sustaining or set up viable national financial systems of their own" (Hudson and Sommers 2009). These same arguments could be made about the failings of the neoliberal development model for Jamaica, Uganda and many other developing countries (Reinert 2007).

3.9 Education in Latvia

For education advocates, the IMF/ECB program has been especially destructive, and comes at a time of decreasing population and declining numbers of students in Latvia. Over the past few years, the number of pupils in comprehensive schools and educators has been dropping. In the 2010-2011 academic year, 28,800 teachers are working in schools Latvia, which is 5,600 less than had been teaching in the 2005-2006 academic year, according to the Central Statistical Bureau. Data shows that student enrollment in basic education programs (form 1-9) has also been declining yearly. Over the past six years, enrollment has declined by 53,000 students to the current level of only 174, 700 today (BNN 2011a).

According to the Latvia's Ministry of Education and Science annual report to the European Commission, the budget austerity program led to deep cuts in expenses for the remuneration of the employees of its state and municipal institutions, as well as to a consolidation in the number of educational institutions. In 2009 alone, the number of structural units was reduced by 40 percent, the number of employees by 30 percent and salaries by 37 percent (MoE 2009/10). Further cuts occurred n 2010. The consolidation of the educational institutions undertaken by the ministry resulted in a considerably smaller number of comprehensive schools in the academic year 2010/2011, with a similar decline in vocational schools. There has also been a consecutive decline in number of higher education students over the last 5 years. In this academic year, while 66 percent of higher education students are paying the tuition themselves, 34 percent are being state funded, although the number of students studying with state funding has been climbing (BNN 2011a).

Regarding the financial impacts on higher education, the European University Association recently released a report on the impact the economic crisis has had on financing for national universities across Europe, and found that Greece, Ireland and Latvia have been forced to slash university employee salaries, and Estonia and Latvia have both enacted hiring freezes. These conflict with the "Barcelona target" adopted in 2002 when the European Commission at the Barcelona European Council called for EU members to invest 3 percent of their GDP in research and 2 percent specifically in higher education. The EUA's current report echoes its 2009 Prague Declaration, in which the organization called on governments to renew their commitment to the Barcelona target (EIN 2010). The Prague Declaration noted that higher education is crucial to the process of economic recovery, and that research-based education at all levels provides the high-level skills and innovative thinking societies need and on which future economic, social and cultural development depends.

The EUA has been tracking the impact of the economic crisis on European universities since 2008, and has found that the biggest public funding cuts have happened in Latvia, which slashed its higher education budget by 48 percent in early 2009 and by another 18 percent in 2010. The EUA blames these drastic reductions on the deep budget austerity in the IMF/ECB loan program (EIN 2010).

According to the Latvian Education and Scientific Workers' Trade Union (LIZDA), cuts in the education sector have been the highest among the cuts to other public sectors. The state budget for teachers' salaries in primary and secondary education was reduced by 50 percent in September 2009, following a previous cut of 20 percent. LIZDA also reported that certain municipalities that must close schools due to a lack of funding, and that from September 2009, unemployment compensation for teachers has been reduced from four month compensation period to a mere 30 days (EI 2010).

Education International stresses that investments in early childhood education, general education, vocational education and training, and higher education and research are essential for economic recovery and for the future of the next generation, and expressed support for the demands of LIZDA and the Latvia Student association (LSA) for no further budget decreases for higher education; to retain the budget for basic funding of research on the level of 2009. It stressed that current budget cuts to education and research are fundamentally harmful to the future social and economic stability of the country (EI 2009).

In a broader response by European labor unions to the austerity in the IMF/ECB austerity measures also being undertaken in several other European countries (Iceland, Portugal, Greece, Ireland, Spain), the The European Trade Union Confederation (ETUC) has called for European Trade Union Action Day on June 21st, arguing that "European Economic Governance needs a change of course". According to the ETUC Congress held in Athens in May 2011, the labor groups were unanimous in their condemnation of the type of economic governance that the European Union wants to impose in proposed reforms regarding the relations between the three parts of the trilaogue: the Commission, the Council and the Parliament. The trade unions claimed the advances achieved during the voting of the European Parliament's Economic and Monetary Affairs Committee must be preserved: the independence of the social partners must be secured, particularly as regards wages and their negotiating framework; and public spending for sustainable investments must be independent from a "budget straightjacket". ETUC called for European economic governance to include harmonisation of the tax base with a minimum tax rate for companies; for Eurobonds to be issued to finance investments in European development and infrastructure networks and projects; that the important role played by the Council and the Parliament in the European democratic process must be preserved. In sharp contrast to the IMF/ECB approach, the ETUC says responsible economic governance must be geared to creating access to stable and quality jobs, the generalized promotion of training for all, decent wages, and strong social protection. "Purchasing power, the level of pensions and access to quality social services must be defended and secured" (ETUC 2011).

As mentioned above, Latvia has finally started to register positive GDP rates in 2011. In June 2011, Latvia revised upwards its first quarter GDP to 0.3 percent compared with the fourth quarter of 2010, and 3.4 percent growth on the year, slightly above expectations. Yet, as mentioned above, this is still well below its pre-crisis GDP.

Latvia also announced in June 2011 that it is preparing to issue its first international bond since the financial crisis, amid signs its economic recovery is underway. The dollar-denominated bond will be used to refinance its bailout loans Latvia took on during the crisis. However the power of the creditors was underscored as the credit rating agency, Moody's, announced it had upgraded Latvia's bond rating outlook to positive from stable, citing good economic performance and fiscal consolidation. But then it overtly warned Latvia's government, "If, however, as a result of political developments, the government of Latvia were to become less committed to the consolidation of the public finances, then Moody's would consider moving the outlook on Latvia's ratings back to stable" (Braslina 2011b). The other major credit rating agency, Standard & Poor's, was even more cautious, leaving Latvia's credit rating unchanged, but warning that Latvia "must stick to its fiscal commitments" (Braslina 2011c).

3.10 Alternatives

There are alternatives for Latvia to the harsh budget austerity approach of the IMF/ECB program. One alternative possibility is that Latvia could postpone its goal of adopting the euro in 2014 and devalue and re-peg its currency against the euro at a lower rate. Two major benefits of un-pegging from the euro and devaluing the lat would be to avoid the painful internal devaluation process of the current IMF/ECB program and to make Latvia's exports much cheaper, which would help it generate more foreign exchange more quickly, while also increasing employment and kick-starting its economic growth rate. Devaluation would also allow Latvia's current level of foreign-exchange reserves to go further, and perhaps help tempt back nervous investors. But this approach also has its drawbacks because it would make it harder and longer for many households and companies to repay their euro-denominated foreign debts. Additionally, how much Latvia could export even if its goods become cheaper is unclear and would depended on the degree of economic recovery among its major trading partners. However, given these two choices, devaluing the lat may be a better long-term approach for the country than facing the scale of wage adjustment that Latvia needs to comply with under the IMF/ECB program, which is so huge that it will imply years of grinding recession unless the currency is weakened. Advocates of the devaluation approach point to the UK and Italy, which abandoned their currency pegs in 1992—and then recovered quickly from recession.

Another possible alternative option to the current IMF/ECB program would be for the major trade surplus economies in the world (Germany, Japan, etc) to promote a somewhat higher rate of inflation in the surplus countries – most importantly, Germany. Slightly higher inflation from the current 2 percent target to 4 percent in the major surplus countries would allow the deficit countries to regain competitiveness simply by having their wages rise less rapidly than the inflation rate in the surplus countries. This could be accomplished without the double-digit unemployment rates that the latter countries are now enduring. This route is consistent with the path suggested by Olivier Blanchard, the IMF's chief economist, in the paper he wrote last year (discussed above). A higher inflation rate would also have the benefit of eroding the real value of the debt for both heavily indebted countries and heavily indebted homeowners. This would allow these economies to get back on a normal growth path more quickly (Blanchard, et al 2010).

However, the overwhelming dominance of monetarism in central banks in the last 30 years since neoliberalism came into ascendancy vehemently rejects this approach. Even though Blanchard laid out this suggestion at the March 2011 conference at the IMF in which many other cornerstones of its macroeconomic policies were being reconsidered, many of the speakers at the conference seemed still to believe that the policy of inflation targeting, in which central banks target a 2.0 percent inflation (in the rich countries) to the exclusion of all other concerns, is the best route to pursue. This is the ardent position at the ECB, as well as at many other central banks around the world.

But for the same reason this policy is disastrous in Jamaica and Uganda, it is as well in Europe. As Dean Baker, economist at the Center for Economic and Policy Research in Washington DC, says, "This should have populations everywhere rising up with their pitchforks. Inflation targeting has led to an enormous economic and human disaster, likely costing the world more than $10 trillion in lost output and leaving tens of millions of people unemployed. If this experience is not enough to discredit a policy, it is difficult to imagine any possible set of events in the world that could lead the inflation targeters to change their minds" (Baker 2011).

Again, these decisions are more based on political realities and political power than on economic policy constraints. Although many economists truly believe that very low inflation is important, it is also true that politically many financial institutional investors and bond holders are especially opposed to allowing even moderate increases in inflation because it would depreciate the real value of debts they are holding and erode the value of the interest they are expecting to earn; so the political power they bring to bear on decision makers cannot be overlooked. According to Baker, "For the financial industry, a modest rise in the inflation rate would genuinely be bad news, reducing the value of their assets and the real value of their interest income. In order to ensure that the major banks of the world do not have to deal with this situation, the central banks are prepared to force tens of millions of people to remain out of work" (Baker 2011).

But as stated above, many of the good ideas regarding IMF policies reconsidered at the March 2011 conference and the "lessons learned" in the Blanchard, et al paper have not been put into practice. The fact that many of the world's most prominent economists, including even the chief economist at the IMF itself, can make policy prescriptions that are essentially ignored by those conducting policy, strongly suggests that policy is not being guided by neutral individuals seeking the best outcomes for society. Rather, as Baker concludes, "This is yet more evidence that the central bankers and others directing policy place the interests of the financial sector at the center of their concerns" (Baker 2011).

Another alternative option for Latvia is to consider defaulting on its foreign debts and entering into discussions with creditors about restructuring the debts, i.e. paying back less than is owed, paying it back at lower interest rates or over a longer period of time, or any combination of these arrangements. One basic problem is that the IMF and ECB have so far been unwilling to the let the European banks which had engaged in all of the risky overleveraging take a loss on their bad investments. As in other crisis European countries, Latvia's economic troubles escalated when the financial crisis struck in late 2008 and it had to bail out its own domestic banks that were faced with collapse when the bigger Western European banks began to panic and call in their loans. Then its budget deficit grew even more as the economic recession began and deepened and unemployment skyrocketed, lowering tax revenues.

Therefore, it must be remembered that the economic problems were not originally caused by public overspending or a buildup of sovereign debt but by the need for governments to step in and bail out the bad loans held by their banks, which had mostly been contracted through deceptive financial practices and facilitated by neoliberal financial sector bank deregulations of the previous decade. Because it is the biggest European and other foreign banks who are now trying to avoid taking losses on financial claims that are largely fictitious, inasmuch as they exceed the ability of indebted economies to pay, the whole process is actually a political one at its core. The crisis can be solved either by through brutal austerity for citizens, or the making the banks write down their debt claims to realistic 'junk' bond valuations and accept the losses. Other than for political reasons, there is no good reason why Latvia and other countries need to wreck their economies by subjecting them to deep budget austerity and financial asset-stripping (privatizations).

So, a fundamental problem with the IMF/ECB approach from the beginning has been to treat the crises in Latvia and elsewhere as a matter of liquidity rather than one of basic solvency of the banks. Such a view has led the IMF to dismiss any ideas for debt restructuring, which would be the normal course for dealing with insolvency. It also dismisses any ideas about either de-linking or exiting from the euro as a solution to the public sector and external imbalance problems. Rather, the IMF claimed the crisis was one of liquidity, for which its loans would be the correct response, along with the accompanying painful internal devaluation and budget austerity upon which such loans are conditioned.

As Weisbrot (2011) has written about regarding the case of Greece, suffering the consequences of a debt default may be the less bad than going through with the IMF/ECB's international devaluation austerity program, which could involve as much, if not more, suffering and retrogression as Latvia has experienced. In considering the projections of how long it will take for Greece to regain its pre-crisis level of GDP, Weisbrot says, "There is absolutely no excuse for this, from an economic point of view. Any policies that require this kind of extended period of unemployment and stagnation are by definition wrong. If this is what they need to ensure debt repayment, then the country is better off defaulting on its debt, as Argentina did when it was faced with an unsustainable debt burden and defaulted at the end of 2001. The economy shrank for just one quarter and then grew 63% over the next six years, recovering its pre-crisis level of GDP in less than three years" (Weisbrot 2011).

The European authorities and IMF together have so much money ($750bn for the IMF, $635bn for the European Financial Stability Facility and $87bn for the European Financial Stabilization Fund) that it would be quite simple to painlessly rescue the relatively small economies of Greece, Ireland, Portugal, or Latvia – or even the much larger Spanish economy, restoring growth and employment first and worrying about the repaying the debts after the economies are back on track. This would be much more similar to how the Marshall Plan assisted Western Europe after World War II.

But from a creditors' point of view, this would be rewarding "bad behavior". So these countries' citizens must suffer through years of high unemployment (20 percent in Spain, 15 percent in Ireland, 11 percent in Portugal, 14 percent in Greece, 17 percent in Latvia), not to mention the privatizations and anti-labor "reforms" they are also subjected to. However, if UK and Italy could successfully un-peg their currencies previously and countries like Argentina could default, and countries like Ecuador could threaten to default but reach agreement with it bond holders, then certainly these options should be on the table for Latvia, just as threatening to withdraw from the euro should be on the negotiating table for Greece.

Dozens of countries have defaulted on their debts in recent decades, the most recent being Dubai, which declared a debt moratorium on November 26, 2009. If the once lavishly-rich Arab emirate can default, more desperate countries can; and when the alternative is to destroy the local economy, it is hard to argue that they shouldn't. That is particularly true when the creditors are largely responsible for the debtor's troubles, and there are good grounds for arguing the debts are not owed. According to Los Angeles attorney and author of "Web of Debt," Ellen Brown, "Standing up to the IMF is not a well-worn path, but Argentina forged the trail. In the face of dire predictions that the economy would collapse without foreign credit, in 2001 it defied its creditors and simply walked away from its debts. By the fall of 2004, three years after a record default on a debt of more than $100 billion, the country was well on the road to recovery; and it achieved this feat without foreign help. the economy grew by 8 percent for 2 consecutive years" (Brown 2009).

According to Hudson, the economist and advisor to the Renew Latvia Task Force, other basic alternative economic policies to be considered by Latvia and others include shifting taxes back onto land and resource rent, and onto financial and capital gains. This would prevent another real estate bubble from being inflated by debt leveraging. By holding down housing prices, it would save workers from having to pay an equivalent amount in income tax. Latvia could also “de-privatize” or renationalize basic utilities and natural monopolies to prevent foreign investors from turning it into a “tollbooth economy.” Another major alternative regards changing the European Constitution’s article 123 so that the legal mandate of the ECB could be changed to allow it do what central banks are supposed to do: create money to finance government deficits (currently this article prevents the central bank from lending to governments). This restriction currently forces governments to levy taxes on citizens to pay interest to banks – whereas creating electronic credit as most modern central banks do could easily be done (Hudson 2010).

In the immediate aftermath of the first World War in 1918-1919, John Maynard Keynes had been the principal representative of the British Treasury at the Paris Peace Conference, but he resigned from the Treasury in protest at the harsh scale of the reparations demand of Germany by the victorious Allied powers, and subsequently protested publicly in his best-selling “The Economic Consequences of the Peace” (1919) (Markwell 2006). Keynes argued that it was better to just write off bad debts than to try to get creditors repaid at the cost of reducing capital formation, living standards and public spending on education, health care and other basic infrastructure in Germany. He felt a wise government should subordinate the short-term interests of the financial sector to promote economic growth, capital formation and rising living standards. Of course, Keynes’ advice was neglected and the harsh repayment terms deepened Germany’s suffering.

But today Europe’s crisis countries are more democratic and are more free to choose. In fact, In April 2011, citizens in Iceland voted “no” in a national referendum to reject its government-approved deal to repay the UK and the Netherlands $5 billion for their citizens' deposits in the failed online bank, Icesave (Guardian 2011). And although the dispute between Iceland and the two countries over the deposits continues unresolved, this did not prevent Iceland from returning to the bond markets just three years after its economic meltdown. The timing of the announcement surprised some market participants, given that Iceland is still battling with the UK and Dutch governments over how the "Icesave case" will be resolved. And although Iceland’s economy and still heavily external debt load will be scrutinized by investors, one bank official noted, "The recovery time for issuers in such instances has been falling in recent years, and with Bund yields at close to 3%, the return of Iceland could be attractive for income funds looking for sovereign diversification," (Winfield and Azimkanov 2011).

In Greece the IMF/ECB loan conditions inspired the "I won't pay" civil disobedience revolt that grew quickly into "a nationwide anti-austerity movement". The movement's supporters refuse to pay highway tolls. In Athens they ride buses and the metro without tickets to protest against an 'unfair' 40 per cent increase in fares." In June 2011, several months of protests culminated in a massive rally outside parliament attended by an estimated 50,000 people and called for a general strike for June 15. Inside, the Greek cabinet of ministers had just backed new budget cuts and endorsed a mid-term fiscal and privatization plan required by the EU and the IMF as part of their bail-out conditions. The vote in parliament is expected by early July (BBC 2011).

Similar protests are underway in cities all across Spain, led by its M-15 Movement of civic protest against fiscal austerity and high unemployment (Ramoneda 2011).

Part 4 IDEAS FOR ADVOCACY

4.1 Education advocates should make broad alliances against neoliberal policies

Education advocates should not work alone. There are many civil society organization (CSO) networks and social movements which could potentially be on the same side of these fights with education advocates and who already share their same goal of an increased tax base and generating larger national budgets for social expenditure. Some likely allies are the existing national networks of health advocates, women's rights organizations, organized labor unions and especially public sector labor unions, pension fund watchers and those fighting against privatization of pension funds, advocates for social security, and human rights advocates, many of which are increasingly working on economic and social rights. Even some domestic business associations might be interested in supporting efforts to change some of the neoliberal policies, such as the high interest rates on their commercial credit and premature trade liberalization, etc. While most of these groups will want to see larger public budgets for social expenditure, education advocates may have to first do sector-specific work on helping to "make the connections" to show how specific IMF loan conditions and neoliberal policies negatively impact the goals of other advocates to get increased social spending (See Economic Literacy Trainings below).

Listed below are 7 crucially important types of national/international civic activism that have been expanding in recent years and each of which should be actively supported by education advocates in their fight against IMF loan programs and neoliberal polices in their countries. Where these do not already exist, education advocates should create them. Some have already been mentioned in the context of Jamaica, Uganda and Latvia but these particular types of civic activism are springing up in countries all around the world:

- **Budget Tracking Initiatives**
  One of the many examples of such groups is the International Budget Partnership (IBP). It supports and collaborates with CSOs in developing countries to analyze, monitor, and influence government budget processes, institutions, and outcomes in order to make budget systems more responsive to the needs of poor and low-income people in society and, accordingly, to make these systems more transparent and accountable to the public. Only ten years ago, civil society was effectively shut out of the budget process around the world. Today, the IBP is active with its partners in promoting budget accountability and civil society engagement in over 85 countries. There are also many other groups who do this kind of work.

- **Participatory Budgeting Initiatives**
  Since its emergence in Porto Alegre, Brazil, the civic approach to participatory budgeting has spread to hundreds of Latin American cities, and dozens of cities in Europe, Asia, Africa, and North America. More than 200 municipalities are estimated to have initiated participatory budgeting. In some cities, participatory budgeting has been applied for school, university, and public housing budgets. These international approaches differ significantly, and they are shaped as much by their local contexts as by the Porto Alegre model. Participatory budgeting is a natural extension of the 21st article of the Universal Declaration of Human Rights; that "everyone has the right to take part in the government of his country". Article 25 of the International Covenant on Civil and Political rights moreover states that citizens shall "have access, on general terms of equality, to public service in his country." Truong (2011) provides an updated overview of participatory budgeting and its importance, its successes and concerns.

- **Freedom of Information Legislation & Campaigns**
  In the last decade, dozens of countries have enacted formal statutes guaranteeing their citizens' right of access to government information. Elsewhere, even without legal guarantees, citizens are asserting their right to know. Throughout the world, freedom of information movements are changing the definition of democratic governance. In some cases, governments such as Uganda have already adopted a national freedom of information law, but the problem is its enforcement. In such cases, it may be necessary for advocates to launch campaigns to ensure that such new laws are actually enforced. Education advocates, investigative journalists and practically everyone needs such transparency today. One organization at the forefront of this issue is www.freedominfo.org which is a one-stop portal that describes best practices, consolidates lessons learned, explains campaign strategies and tactics, and links the efforts of freedom of information advocates around the world. It contains crucial information on freedom of information laws and how they were drafted and implemented, including how various provisions have worked in practice. It also hosts IFI Watch, for information specifically about the IMF and other international financial institutions (as does the www.brettonwoodsproject.org). Another important website for advocates working on the IMF is the Global Transparency Initiative at www.ifitransparency.org Your group can sign on to their excellent GTI Transparency Charter for International Financial Institutions – based on international best practices of transparency for public institutions, it demands that the IMF and other IFIs improve their information disclosure policies and bring them up to best practices standards. To learn more about the details of the IMF's information disclosure policy – what documents it will disclose and when, as well as a good overview description of the various types of IMF loan programs, see (Chowla 2007), and for the updates on the latest efforts to improve the IMF's information disclosure policy, see McIntosh (2010) and BWP (2010b).

- **Tax Justice Network**
  These national and international coalitions of groups, activists, tax accountants and other experts has sought to take on issues such as tax evasion, illicit capital flight and the stopping the role of off-shore tax havens in an effort to help national authorities increase and improve tax collections. Many countries already have national Tax Justice Network chapters. Tax revenue is potentially the biggest source of long term financing for sustainable development and is the lifeblood of all state services which include the provision of public services such as education, health care and infrastructure. Domestic revenue mobilization is crucial because taxation strengthens democracy, increases incentives for public participation and strengthens the social compact between citizens and the state and so can serve to strengthen democracy and develop accountability between state, business and citizens. The various types of Tax Justice Networks in countries work with CSOs to popularize tax revenue as a viable and sustainable source of development finance; enhance the capacity of key stakeholders i.e. CSOs, policy makers, government practitioners, tax authorities to understand/appreciate the linkages between tax and sustainable development (appreciate tax as a development issue); enhance the capacity of stakeholders to effectively participate /influence national, bilateral and multilateral tax policies and agreements /negotiations; and provide a platform for stakeholders to debate and influence tax policies.

- **Publish What You Pay**
  Mentioned above in the case of CSOs and activists in Uganda, the various PWYP coalitions in many countries his and international coalitions of groups work closely with freedom of

information activists seek to better regulate the proper and transparent financial reporting of royalties paid to foreign investors in developing countries involved in the extractive industries, and the taxes owed by companies on the profits they are repatriating out of countries. Many countries already have national PYWP national chapters. Increasingly an internationally connected movement, many countries are working with the UN and currently pursuing new tax treaties and putting pressure on offshore tax havens to increase transparency and accountability. Such efforts can be important in enabling citizens to increase their national tax base.

- **National Citizens Debt Audits**
  In addition to the excellent advocacy work done by international groups such as Jubilee USA, the UK Jubilee Debt Campaign and domestics groups like Uganda Debt Network to lobby the G7 governments to enact debt cancellation for developing countries, these new type of national debt audits are a more recent type of civic exercises that are an excellent way to get citizens involved, hold public officials accountable for the domestic and external debts that have been built up by previous government borrowing. Ecuador's national debt audit was one of the most far reaching to date, enabling its citizens to identify which of Ecuador's external debts were legitimate and determining which were considered odious and thus not to be repaid. More recently, the citizens of Greece and Ireland are undertaking similar citizens' initiatives in the midst of their economic crises IMF/ECB loan programs. Maria Lucia Fattorelli, Coordinator of Citizen Debt Audit-Brazil, explains, "A debt-audit is an opportunity to have documents and proof of the real nature of the so called 'public' debt. The findings of the audit can push concrete actions in all fields: popular, parliamentarian, legal and any other policies. Most parts of Greek public debt is reflected in sovereign bonds. The first question we must ask is: What part of Greek public debt comes from bonds issued to rescue banks? What part of this debt has never been really received by Greece, because is just a result of financial mechanisms, attacks, and speculation in financial market? Does anyone own what has never received? Is it right that all Greek people pay for this?" (Fattorelli 2011). Similarly, Nessa Ní Chasaide of Debt and Development Coalition Ireland, explained, "Debt audits can be a powerful tool to support civil society around the world access information on the debts of their countries in order to judge for themselves whether the debts should be paid, and the implications of any payment or non-payment decisions. This is an approach which is gaining international currency at governmental and citizenry levels. For example a governmental supported debt audit has been implemented in Ecuador, and parliamentary audit initiatives are being planned in Bolivia, Brazil and in the Philippines resulting from citizen pressure for debt justice" (Ní Chasaide 2011).

4.2 Economic Policy Audits with a Rights-based Approach to Economic Policy

Under a human rights-based approach to poverty reduction, the state, the UN system, the international financial institutions and other actors are under moral and legal obligation to develop and implement strategies that target to empower individuals and groups that have been socially excluded and marginalized. This means that the state has the duty—not a choice—to fight poverty. Under a human rights-based approach to economic policy making, charity, goodwill or philanthropy change from being privileges to being matters of legal obligation. The UNDP indicates that Rights-Based Approaches (RBA) to economic policies can better address the multidimensional nature of poverty beyond lack of income than can traditional donor aid or philanthropic NGOs. Thus, RBA broadens the analysis of poverty and scope of poverty reduction strategies to address the structures of discrimination and exploitation that often generate and deepen poverty. Contrary to traditional economic growth models, the RBA prioritizes the human person as the central subject of development and whose active, free and meaningful participation is as important as the benefits he/she is supposed to enjoy as a result of the economic development process. The RBA further recognizes the instrumental value of civil and political rights in the political process in addressing the causes that perpetuate poverty. It guarantees accountability of actors engaged in economic policy making, both public and private, at the local, national and international level. Therefore, instead of envisioning development as a process by which governments and international agencies channel resources to 'help' excluded groups overcome poverty, the RBA starts by acknowledging the entitlements of the poor (Tumukwasibwe 2010). As a result, "service providers" and "policy makers" are better conceptualized as "duty bearers" and the citizens as the "rights holders." It is their obligation, not their choice, to guarantee the human rights of the poor, the rights holders.

According to Jochnick (2001), the real potential of human rights lies in its ability to change the way people perceive themselves vis-a`-vis the government or the "donors". Instead of talking about "beneficiaries with needs" or "consumers with choice", the RBA speaks of "citizens with rights'. At that level, citizens must be active subjects in the political sphere, not objects of pity, charity or the benevolent intervention by government programs or passive choosers in the market place (Tumukwasibwe 2010). Another important value of the RBA is its emphasis on express and active linkage of economic policies and development to law. This entails three core features. First, it means that development projects should use the language of rights explicitly by making direct reference to the national, regional and international human rights instruments that the country is party to. Secondly , it means empowering citizens to pursue the legal defense of their rights through accessible, transparent and effective accountability mechanisms – be they judicial, quasi-judicial administrative or political (UNHCHR 2004). Thirdly, in terms of poverty reduction policy, it means that citizen participation, empowerment, affirmative action in favor of the most poor and vulnerable and accountability of duty-holders should be institutionalized in law through citizen activism with the national courts, and not left to the goodwill of duty- bearers. Such an approach can create a fundamental shift in thinking and action by inviting citizens to become active in paying more critical attention to systemic, institutional and political factors determining inequalities in access to public goods and services (Hawkins et al. 2005; Offenheiser and Holcombe 2003).

Education advocates should work with others to initiate their own public forums and open participatory dialogues to conduct "economic policy audits" in order to broaden public debates about IMF policies and raise awareness about alternatives, and do so by using a rights-based approach to integrating macroeconomic policies with human rights (Balakrishnan and Elson 2008). Within their individual countries, education advocates can identify which international human rights agreements their country has already committed to and which national constitutional rights might be violated, compromised or contradicted by policies in IMF loan programs that unduly limit education budgets.

A successful recent example occurred in Latvia in December 2009 when a court case was brought by pensioners to challenge the constitutionality of the new state pension law designed to comply with IMF/ECB deficit reduction targets, which had temporarily restricted payment of pension funds (ESCR 2010). The new law had decreased the amount received by current pensioners by 10 percent and decreased the pensions of future pensioners (individuals currently employed) by 70 percent. Although temporary, the law did not provide for repayment of the reduced amounts once the economy stabilized. In defending the law, Parliament pointed to the liabilities it had under loan agreements with international creditors, including the IMF. However, the Court found the law unconstitutional and in violation of an individual's right to a pension and relied on Article 109 of the Latvian Constitution and Article 9 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) to find that an individuals' right to a pension is part of the fundamental right to social security, that the minimum essential levels must be guaranteed irrespective of resources and vulnerable groups such as pensioners must be particularly protected. Finally, the Court determined that the international creditors had not explicitly stipulated reductions in pension funds, and that these conditions had been proposed by Cabinet Ministers, but even if the conditions had been imposed by the creditors, the Court stated that conditions "cannot replace the rights established by the Constitution," and refused to recognize loan conditions as a valid argument in support of the law's reduction of pensions (ESCR 2010).

Finding the law to be unconstitutional, the Court ordered the Parliament to draft a plan for the repayment of the reduced pension funds by March 2010. Since this decision, the IMF has increased pressure on the government of Latvia to reduce "early" retirement, which they define as retirement before the age of 65. In this case, the Latvian Constitutional Court asserted the primacy of constitutional and human rights law in making public policy decisions on fiscal allocations. The Court's declaration that international loan provisions could not trump human rights obligations was a major victory for those seeking greater accountability from multilateral institutions to universal human rights principles (ESCR 2010).

This case is just one example of how civil society advocates and others can and should demand that the policies set by the IMF be scrutinized by international human rights standards using a human rights-based approach to economic policy making. The IMF has never expressed concerns with human rights and does not routinely consider whether the conditions it attaches to loans may themselves obstruct the efforts of governments to meet their basic human rights obligations—but this does not mean that advocates cannot do so.

Education advocates and others who have been advocating for the MDGs should recall that the IMF is officially a part of the United Nations system as a "specialized agency". And the international human rights framework, including workers' and women's rights, rights to education, food, health and housing, is a fundamental pillar of the UN system as set out in the Universal Declaration of Human Rights. These obligations have been spelled out more fully through a number of subsequent treaties, agreements, and mechanisms.

Most governments that sign on to IMF loans are also member states of the UN, and are required to contribute to international cooperation in the full realization of human rights. When acting within inter-governmental forums, such as the United Nations, the World Bank, and the IMF, states must guarantee that their policies are consistent and conducive to the realization of human rights. Although the IMF is not a party to the fundamental international agreements on human rights, it has a direct and immediate impact on the policy decisions that governments undertake (Balakrishnan and Heintz 2010). Given this influence, the IMF should support the efforts of countries to realize human rights standards and norms – or be made to do so. However, as the case of Latvia showed, many of the policies required by the IMF -- in particular the conditions attached to loans -- imply that governments receiving IMF loans may feel under pressure to violate their economic and social rights obligations to get access to these badly needed resources. Cooperation in the "realization of human rights" is frequently impaired when macroeconomic policy conditions are demanded by the IMF and other aid donors. This also directly impairs the ability to achieve the MDGs.

In their recent Huffington Post article, Balakrishnan and Heintz (2010) point out that at least three human rights obligations are particularly pertinent to the macroeconomic policies of the IMF:

- Obligation of progressive realization and non-retrogression, which means that governments must move as expeditiously and effectively as possible to realize economic and social rights, and cannot take steps backward.
- Non-discrimination and equality, which means that governments have an immediate obligation for ensuring that deliberate, targeted measures are put into place to secure substantive economic equality of all and that all people have an equal opportunity to enjoy basic human rights, and
- Maximum available resources, which means that a government, even in the face of public revenue limitations, must use the maximum resources available to fulfill economic and social rights.

Although the IMF often claims that its policies are intended to restore economic stability, the costs of the IMF's particular conservative policy approach in human rights terms - including the right to an adequate standard of living, the right to education and health, and the right to life – have never been factored in. In terms of economic and social rights, the IMF's preferred policy choices have often been a disaster, in effect coercing the aid-dependent borrowing countries to violate their obligation of non-retrogression by cutting social services, such as education and healthcare. But citizens everywhere can bring forth cases in their national courts as the pensioners did in Latvia to challenge the constitutionality of such IMF policies.

As discussed above, the IMF's macroeconomic policies are often contractionary and pro-cyclical and do not allow for an increase in social spending or for sufficient long-term public investment that is fundamental to achieving the MDGs and economic development. Under such policies, while the IMF may have achieved its short-term priorities for financial variables, it is unclear where the resources will come from to finance the public services for the MDGs which are directly tied to the realization of economic and social rights. Therefore, it is clear that in setting the conditions attached to loans to the poorest countries, the IMF has ignored the implications its policies have for governments' ability to meet their human rights obligations. Instead, the IMF narrows its focus to lowering deficits and lowering inflation. However, by proactively adding human rights into the mix, MDGs advocates can publically demand a re-thinking that could lead to a fundamental change in how the IMF supports stabilization during crises and longer-term development. But left alone, the IMF will never do this. MDGs advocates must step up and take action to demand that a new order of priorities ought to guide policy making: human rights obligations represent the constraints under which macroeconomic policies must operate, not the other way around.

As discussed above, a significant percentage of post-crises austerity budgets have included proposals to limit the public sector wage bill by reducing the public sector workforce and cutting or freezing wages of public sector employees. Often these cuts are not progressively implemented, and therefore have a disproportionate impact on the lowest wage brackets. (Sepúlveda 2011). These measures run a real risk of constituting unjustified retrogressive measures if they impede the state's ability to maintain minimum essential levels of enjoyment of economic, social and cultural rights. Of utmost concern is the trend towards the cutting of salaries of primary school teachers and nurses, the result of which is that, in some countriess, the salaries received by teachers and nurses are barely sufficient to allow them an adequate standard of living. The erosion of teachers' wages commonly leads to teacher absenteeism and an increase in informal fees. This has an adverse impact on the right of children to education and increases the likelihood of poor child outcomes, particularly in rural areas (Sepúlveda 2011).

One way for CSO advocates to open up this type of public debate in their countries is to conduct what Balakrishnan and Elson (2008) have called "audits of their national economic policies from a human rights perspective" with a particular focus on economic and social rights. In using such national "audits" CSO advocates can work together with human rights experts and progressive economists who are critical of the IMF policies to audit key economic policies as proposed in their IMF loan programs in light of human rights obligations. With such an audit, CSO advocates can select their current fiscal, monetary, taxation and trade policies and test them against core principles such as maximum available resources; non-discrimination and equality; transparency, accountability and participation; and progressive realization and non-retrogression. While such attention to human rights obligations does not provide the answers to all economic policy questions, it can help citizens to define the set of policies that are consistent with human rights obligations, and to rule out policies which are not consistent (Balakrishnan and Elson 2008).

Similarly, MIT Professor Alice Amsden advocates extending the human rights framework even further, to the region or nation, and to its right, in response to the needs and demands of individuals, to have the freedom to adopt and implement economic policies of their choice to promote an adequate living standard through social security or employment (Amsden 2010). The ability of a country to implement an economic policy regime of its choice is usually conceptualized in the economic literature in terms of "policy space," and how organizations like the World Bank and IMF affect this space (Chang 2005). As Balakrishnan, Heintz and Elson have tried to underscore, economic policy, when it involves the employment, social security and well-being of individuals, qualifies as part of the new human rights agenda, which the UN has pioneered. Amsden (2010) reminds us that the US Full Employment Bill of 1946 mandated that the federal government achieve full employment as a "right" guaranteed to the American people. The bill was passed in a watered down form, but it may be worth revisiting by advocates everywhere for its treatment of full employment, and by implication economic policy making, as a national right.

CSO advocates can initiate and use such types of public dialogues about IMF loans and conduct "public audits of national economic policies" as a means by which to advocate for increased employment. Of use would be the valuable new guide recently produced by the UN's Non-Governmental Liaison Service, which was specifically written for advocates to promote more ambitious and progressive alternative strategies for employment-based national economic development and more just and stable global economic governance reforms (UN NGLS 2010).

4.3 A Suggested Advocacy Strategy against IMF Policies

Education advocates must remember that economics is not an abstract, objective, neutral or technocratic science as the IMF and neoliberal economists try to portray it. Rather, it is inherently political. It is about making the decisions about how the budget pie will be divided among citizens, where future public investments will be directed, and who in society will benefit or lose from such choices. Given this fact, there a pressing need for education advocates to work with others at the national and international levels to open up the public discussion of these policy issues to include the participation of a much broader array of stakeholders in such important economic policy choices.

This section below proposes an advocacy strategy to mobilize citizens against IMF policies and encourage them to take a more active role in considering and debating alternative macroeconomic policies. It includes suggestions for both domestic advocacy work done at the national level and at international level by which education partners in other countries can coordinate to conduct joint-South/North advocacy work to get IMF policies formally changed at the level of the IMF Executive Board in Washington DC.

The principle objectives of the proposed national level work are to sensitize the participating organizations to the problems with the current macroeconomic frameworks in IMF loan programs, or about neoliberal policies even in countries which do not currently have IMF loan programs but whose governments believe it is necessary to adopt such policies anyway. This proposed work is also designed to raise awareness of alternative macroeconomic policies that can enable countries to significantly increase their public expenditures education and in other areas and to get citizens engaged in their economic policy making processes at the national level with the objective of enabling governments to exercise greater "policy space" within which to choose their own fiscal and monetary policies, including alternative approaches to macroeconomic and development policies.

- **Conducting Economic Literacy Trainings**

The first step in the proposed advocacy strategy includes suggests that education advocates organize and mobilize fellow citizens at the national level to participate in a series of Economic Literacy Trainings that sensitize and demystify the facts about the IMF loan programs and neoliberal policies in their countries. Education advocates should reach out and work with progressive economists at universities, research institutes and other NGOs to acquire information and easily explain and deconstruct the basic information about economics in a non-technical manner that will be accessible, relevant and useful for advocates. The first hurdle education advocates will confront in this proposed work is the false but widespread notion that one must have a PhD in economics in order to get involved in such issues. This is very disempowering but it is unnecessary and must be dispelled by making trainings clear and accessible for non-economists. This can be done by making clear connections between such policies and the issue-specific issues people already care about and around which citizens are already organized, such as education budgets, teachers' wages, etc. The purpose is not to create experts in economics, but to give advocates the basic "nuts & bolts" information they need to be more effective when advocating for reforms with their parliaments, governments or their domestic media.

It is important for education advocates to build new relationships between academics, economists and experts and the CSO partners so that such experts can become regularly accessible when needed and to find ways to sustain those relationships once established (this is related to the much larger related problem of how to strengthen CSO advocacy work through more regularized and formalized structures between economists, researchers and advocacy CSOs).

Based on the knowledge gained in these trainings and with continued support from the economists, each of the partner organizations should draft and publish their own materials to disseminate this information among other groups within their respective advocacy constituencies.

It is important to not do only one training. Conducting only one training with a limited number of participants will like be totally insufficient. A series of trainings over time involving larger numbers of education advocates and other social sector partners will be necessary. Therefore, when seeking funding and conducting planning for such Economic Literacy Trainings, advocates should go into this process seeing it as long-term or ongoing endeavor. Ideally at least 3 or 4 man Economic Literacy Trainings involving up to 40 or 50 persons at a time should be planned, with variations based on country contexts and circumstances.

As stated above, education advocates must broaden their base of domestic political opposition to IMF policies. When inviting participants to such Economic Literacy Trainings, it is import to include key parliamentarians, any relevant ministry officials willing to attend and especially members from the domestic media to join with CSOs in the trainings so that CSOs are not the only ones with key information when moving forward. Education advocates should proactively seek to include partners from other sectors to the trainings.

- **Conducting Public Events about the IMF Loans**

After the first few Economic Literacy Trainings have been completed and advocacy groups have written and published materials for their networks and constituencies, the second step in the proposed advocacy strategy involves education advocates hosting a series of open national Public Events at which attention can be drawn to the problems with the current IMF loan program and alternative policies can be proposed and discussed.

First a word on existing formal consultations and the crucial difference between "invited spaces" and "created spaces". It is important for education advocates to take the initiative and proactively create their own public forums at which they decide on the agenda and the topics to be discussed. Many civil society groups have wasted a great deal of time and energy over the years by participating in their governments formal "consultations" for their national Poverty Reduction Strategy Papers (PRSPs), which were first required to access the HIPC debt relief and later for accessing any World Bank lending. However, these papers are drafted to prioritize the limited amounts of social spending that exist after a country has already agreed to adopt neoliberal policies. The PRSPs do not allow for changes to the formal World Bank or IMF loan programs or WTO or bilateral free trade agreements (FTAs) or bilateral investment treaties (BITs).

Additionally, the PRSP documents typically do not use a rights-based approach as described above. National legislatures typically just give rubber-stamp approval of their national PRSPs, and do not use a rights-based approach to assess such documents. As Tumukwasibwe notes regarding the case of Uganda's PRSP document, the country developed its first holistic approach to fighting poverty with its the Poverty Eradication Action Plan (PEAP) in 1997, which was developed ten years after the Government of Uganda had acceded to the International Covenant on Economic, Social and Cultural Rights (ICESCR) in 1987. As a state party to the ICESCR, Uganda assumed legal obligations to take immediate and progressive measures to respect, protect and promote social, economic, cultural, political and civil human rights of the citizens of Uganda. "While on the surface it would appear that the Ugandan parliament enacted useful laws to underpin the implementation of anti-poverty agenda, Oloka-Onyango shows that in the scrutiny of bills, the House has not conducted a human rights audit in order to ascertain the degree to which there is compatibility between the contents of a bill and the government's human rights obligations, whether domestic or international (Oloka-Onyango 2007; Tumukwasibwe 2010).

Also, in recent years, the IMF has sought to pre-empt any domestic opposition to its loan programs by agreeing to come out and meet with CSOs. At such invited spaces, like PRSP consultations, the CSO are the invited guests, and as supplicants, do not control the agenda, who else is invited, or what topics will be discussed. But most important is the timing: such IMF-CSO consultations usually occur after the government has already signed on to an IMF program. Therefore, such meetings allow the IMF to explain and justify decisions that have already been taken. Thus, these Public Events are not to discuss or consider alternative policies.

Additionally, the IMF is an international institution whose Executive Board is comprised of national governments, and consequently it is not politically accountable to any citizens anywhere. Therefore, it is very important for education advocates to keep focused on those who are directly accountable to them and where they have or can improve their proper channels of political recourse as citizens – on their finance ministries, central banks and key legislative committees. It is on these bodies where citizens must remain focused.

Based on the above considerations, this the second step of this proposed advocacy strategy involves education advocates hosting a series of open Public Events at which attention can be drawn to the problems with the current IMF loan program and alternative policies can be proposed and discussed. It is education advocates who should create the space, do the inviting and set the agenda. Crucially, they should ideally set the dates for such Public Events to occur *before* the IMF sends it regular mission teams to the country (usually about every six months for most countries) and/or *before* the government agrees to sign on to the next IMF loan program, or *before* domestic officials go off to visit the IMF in the US.

Keeping track of when a government and the IMF will meet can be difficult and will require intelligence gathering work on the part of education advocates, but is not impossible. The IMF often makes public information about the dates of its next upcoming missions visiting the countries, but this information is not always made available and is not always accurate. Education advocates should be in regular contact with their domestic IMF Resident Representative's office in their countries to regularly check and double-check such dates, and then confirm this with the support of education advocacy partners in Washington DC. Advocates should also be in touch with the NGO Liaison at the IMF in Washington DC, as well as regularly question their finance ministry about such dates. NGOs such as the Bretton Woods Project in the UK and Eurodad in Brussels can be specially helpful using their contacts to help get access to vital information about: 1) the next stage in the loan program for their country that is currently being drafted and will eventually have a scheduled date when it is to be approved by the entire IMF Executive Board; and 2) the exact dates when the next periodic IMF mission team will be visiting their country.

As Don Robotham proposes in the case of Jamaica, "First of all, the entire negotiating process must be fully public. Second, we should slow down the negotiations. The idea of a small team of Ministry of Finance and Bank of Jamaica officials slipping off to Washington in the dead of night and signing away our future must be rejected outright. Third, we should insist that the negotiating team include representatives of civil society organizations. Someone from Jamaicans for Justice, or the new group calling for debt rescheduling, for example. Fourth, we must wage a battle against these crushing conditionalities internationally, not just locally" (Robotham 2009). This is precisely the correct thinking, however, it is unlikely that any government would actually include CSO representatives in such discussions with the IMF, or even if they did so, that the CSO representative would have the power to change anything. That is why education advocates must not wait to be invited but instead take steps to pro-actively mobilize their fellow citizens to generate domestic political pressure on their finance ministry, central bank and relevant legislative committees. Therefore, role of initiating such Public Events is a key part of this proposed advocacy strategy.

Such Public Events can take many different forms, including undertaking national policy "audits" from a rights-based approach as discussed above. The key goal must be to engage citizens in a wider national dialogue, convene broad public spaces in which to raise concerns, to make clearer how the IMF policies negatively impacts education and many other segments of society and to let people know there are viable alternative policies that must be considered. Education advocates should seek to widen the circle of participants at such Public Events by inviting key labor unions, members of line ministries, members of relevant legislative committees, relevant reports from domestic radio, print and television media, and domestic business associations (many of whom would be in favor of alternative policies such as lower interest rates on commercial loans, bringing back public development banks, and greater trade protection). Many other groups which are active in the 7 key trends of economic activism listed above should also be invited to participate.

It is necessary for education advocates to "make the connections" and show how the concerns of other advocacy sectors are linked to IMF policies and invite them to participate in the Economic Literacy Trainings and Public Events. As discussed above, these could include existing domestic advocacy networks for: tax justice issues such as tax evasion, illicit capital flight and the role of off-shore tax havens; groups seeking to better regulate the reporting of royalties paid to foreign investors in developing countries involved in the extractive industries; groups advocating for increased transparency and freedom-of-information laws to be enacted; groups monitoring and advocating to influence government budget processes; pension fund watchers and groups opposing privatization of pension funds/social security campaigns; and human rights groups, particularly as many are now making links to economic and social rights.

- **At the International Level**

Before considering the third step to the proposed advocacy strategy – internationally coordinated actions –it is important to understand some basic facts about the internal governance structure in order to understand how best to go about advocating for policy changes at the IMF. The IMF is run by its Board of Governors and particularly by its Board of Executive Directors, of whom the G7 country representatives have overwhelmingly control over voting on country loan programs or policy changes because of their disproportionately large share of voting power.

There are 24 Executive Board seats and the IMF's five largest members -- the US, Japan, Germany, France and Britain – each have their own seats on the IMF board and are allowed to appoint their Executive Directors, whereas the other 19 seats of the 24-member board are comprised of groups of countries called constituencies. Since a super-majority of 85 percent of votes is required for major decisions, and the US has 17.7 percent of the votes, Washington's Executive Director has a built-in veto.

Recent high-profile adjustments to this voting structure that claim to have given more voice to developing countries do not change any of this basic power imbalance between borrowing countries and the creditor countries. Recent adjustments merely shifted a tiny percentage of vote shares from some European board seats to the largest emerging market economies, allowing China to become the third-most important member, ahead of Germany, France and the UK, and India to rank 8th, Russia 9th and Brazil 10th. Although the negotiations are still underway, it may mean that some European nations may have to give up two of their 9 seats, but they are lobbying hard to prevent this. Regardless, such changes do not alter the basic power structure of IMF governance: The US still holds a veto over crucial decisions while a handful of emerging market economies have been given marginally increased voting power, and the majority of the world's developing countries still have no meaningful voice.

The changes fall far short of what developing countries have repeatedly called for in terms of more democratic and equitable representation. For example, in the United Nations June 2009 Conference on the World Financial and Economic Crisis, the group of 132 developing countries, represented by China and the G77 in the UN General Assembly, called for quota realignments in the IMF "to result in an equitable voting power distribution between developed and developing countries" and for "decision-making rules should be changed in order to strengthen voice and participation of developing countries." The main problem in increasing the representation of most developing countries in the IMF is that their economies are small on a global scale. Therefore, improving their representation requires farther-reaching reforms such as a second, state-based voting structure alongside the current 24-member board, creating a so-called "double majority" voting system, which Strauss-Kahn has said he supports. Under such a system, decisions would require both a majority of weighted votes (that is, votes according to country's shares—the current approach) and a majority of the 187 member countries (in which each executive director would cast votes equivalent to the number of members in the constituency). Simple majority decisions would then require approval by more than 50 percent of the voting weight and more than 50 percent of the membership. Such a system would more effectively achieve the goal of enhancing the voice of developing countries, and go much farther in solving the IMF's crisis of legitimacy. But under any system for distributing power more equitably, one thing is certain: The US must give up its built-in veto.

Therefore, for advocates engaging in attempts to get IMF policies changed under these current governance arrangements at the IMF, it is important to recognize the dominant authorities are the US Treasury Department (which includes heavy representation from Goldman Sachs) and, secondarily, the European powers, all of which are under tremendous lobbying pressure from their respective financial industry associations.

However, the voting and governance structure is not currently the main obstacle to changing IMF policy. At this point, the developing countries – as well as the recent European crisis countries – are not using their potential influence within the IMF. Their representatives are mainly going along with the decisions of the G7. This does not need to be the case. If any sizeable bloc or blocs of these countries were to band together to press for change within the IMF, there could be some real reforms at the IMF. This type of international coordination among developing countries has been effective over the last decade of struggle within the World Trade Organization, where developing countries have often not accepted the G7 consensus, and have successfully blocked the negotiation and implementation of rules that would hurt them – despite the fact that the WTO rules have been, from the outset, stacked against developing countries. It is true that the WTO operates by consensus (one country-one vote) rather than a quota-based voting structure like at the IMF, but that is not the key difference between it and the IMF. The key difference is in the role of developing countries and their representatives – and the degree to which they can be successfully pressured by political activism that is coordinated by activists across many countries. It was such internationally coordinated activism by both citizens groups and domestic businesses that led to creating the blocs of countries that have successfully stopped the harmful WTO negotiations from moving forward. There is a similar story with efforts to successful stop the US-pushed Free Trade of the Americas Agreement (FTAA), which was an attempt to extend the NAFTA agreement to all of Latin America.

Given these facts, it can be seen that there are important roles for advocates to play in both Northern and Southern countries in the context of the IMF Executive Board. Civil society advocates in the Northern countries, particularly in the G7 economies, have a special obligation to get IMF policies changed and governance reforms enacted because their governments exercise tremendously more disproportionate power on the IMF Executive Board. However, CSOs in all countries must pressure their own finance ministries, foreign ministries and agencies which are responsible for giving instructions to their representatives (Executive Directors) on the IMF Executive Board. CSO advocates should also engage directly with their legislative committees which have are supposed to exercise oversight control over what actions are taken by their foreign ministry or finance ministry representatives at the IMF.

Therefore, a third step in this proposed advocacy strategy includes developing a specific joint South/North advocacy plan that will involve jointly-coordinated actions by education advocates in both countries of the North and South. There are many ways in which such actions can be taken, for example in the days and weeks before an IMF loan program is scheduled to be approved for Uganda at the IMF Executive Board in Washington DC, CSOs in Uganda could do a joint coordinated lobby and media campaign with their Northern CSO partners before the loan program is to be formally approved by the Board. This type of coordinated action could include joint South/North sign-on letters and the strategic use of the media in both Uganda and its the Northern CSO partner countries, and could include coordinated, simultaneously lobbying of the all of the IMF Executive Directors against approving the loan program for Uganda. Such steps could also be taken in the days and weeks ahead of when the IMF Mission teams plan to come to Uganda to decide on the details and conditions of the next loan program.

Likewise, Northern education advocacy CSOs and their partners could conduct Economic Literacy Trainings about IMF policies and conduct Public Events in their own countries. They could invite education advocates and progressive economists from Southern countries to attend and participate in such trainings to help educate the participants attending such trainings or public events in Northern Countries.

In the US context, because the US Congress has certain committees with jurisdictional oversight over what the US Treasury does at the IMF, earlier efforts of citizen activists were successful at sensitizing these committees about the problems with IMF policies that the US Treasury regularly approves. This work was highlighted in the 2007 letter to the US Treasury by the US House Financial Services Committee questioning the efficacy of IMF policies (Financial Services 2007), but much more along these lines can be done going forward, and a in simultaneous and coordinated fashion in other countries as well.

With enough commitment, planning, coordinating and financing, education advocates across several countries could take the three steps of this proposed advocacy strategy and embark on conducting a series of national Economic Literacy Trainings, national Public Events about the need to change IMF policies and to then undertake strategically coordinated international lobbying and advocacy actions involving partners in both Southern and Northern countries. Such an effort should be considered as a medium-term effort that may well require a several year commitment. Such an advocacy strategy should build on previous work against IMF policies by many CSO actors as well as the new and growing strengths of the 7 existing strands of civic activism mentioned above.

Even before the global economic crisis struck, many countries had long suffered under inadequate education budgets, yet today in the midst of deepening budget austerity everywhere, it more imperative to act than ever before. Advocates cannot assume that the IMF will reform itself, or that its leading shareholder governments will willingly adopt such changes. The types of economic policy changes outlined above must be forced with effective and sustained political pressure by mobilized citizens in their countries and internationally in a coordinated way across several countries at the same time. This will require that advocates work nationally and internationally in transparent and accountable ways to push for such changes.

Conclusion

George (1997) documents how neoliberals had spent the decade of the 1970s successfully implementing a strategy of recruiting and rewarding thinkers and writers, raising funds to found and to sustain a broad range of think tanks, publishers, media outlets, university department endowments and other institutions who were to play a role at the forefront of the "conservative revolution" in the US and the UK. These tactics were successful in promoting the neoliberal ideas that Reagan and Thatcher put into practice when they came to power in the early 1980s. These conservative activists fought long and hard and methodically over several years to promulgate their ideas and critique the previously dominant Keynesian approach to economic policies. They carefully exploited the global economic crises of the OPEC oil price shocks and the two global economic recessions of the early and late 1970s. They were explicitly political about their agenda and successfully sought to politicize others. Today, education advocates who want to fight for a better world must push just as hard and get just as political.

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