SDG 10

The IMF's role in economic governance: conducive to reducing inequalities within and among countries?

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The International Monetary Fund (IMF) plays a central role in economic governance, both at the global and national levels. Although it presents itself as neutral economic arbiter, its approach is in fact deeply rooted in certain economic orthodoxies, many of which have proven incompatible with the achievement of sustainable development and the meaningful reduction of inequalities, particularly in the Global South. Drawing on the examples of Egypt and Brazil, we present concrete examples of how IMF governance – in its various forms – has led to deepening of social and economic inequalities, and threats to human rights enjoyment. This is in stark contrast to the image that the IMF is painting of itself as a champion of the SDGs.

Increasingly, the IMF is claiming a role for itself as a central player in the implementation of the 2030 Agenda, and has positioned itself as an important actor on SDG 10 and tackling inequalities (economic and gender-based). However, in practice this commitment has been patchy at best, with little evidence of any meaningful policy realignment.[1] Are the IMF's actions really conducive to 'Transforming Our World', the official title of the Agenda?

SDG 10 is a particularly useful case study. It includes target 10.4 to reduce inequality through social protection, fiscal and wage policy; whereas the Fund's approaches to all three of these policy areas has been subject to robust criticism, precisely for exacerbating inequalities.[2] Indeed, despite a recent pivot towards defining income and gender inequality as 'macro-critical' issues, evidence gathered by Oxfam[3] and the Bretton Woods Project,[4] among others, suggests that the IMF's own policy recommendations and loan conditionality have in fact been – and continue to be – a major contributor to the inequality crisis. A recent academic study analyzing IMF loan conditionality from 1984 to 2014 finds that overall, "policy reforms mandated by the IMF increase income inequality in borrowing countries" and that "the IMF's recent attention to inequality neglects the multiple ways through which the organization's own policy advice has contributed to inequality in the developing world."[5] And this is not a matter of history: for example, in many countries the Fund persists in pushing austerity measures, which have taken a heavy human rights toll on the poorest and most disadvantaged groups, including women.[6] The IMF has also continued to emphasize regressive taxes like the value-added tax (VAT), rather than reining in and redistributing the incomes and wealth of the top 1 percent and multinational corporations.

Of course, SDG 10 also aims to tackle inequality *between* countries. There are a lot of policy areas

1 See Donald (2019), from which parts of this chapter are adapted.
2 See e.g. Alston (2018) and Bretton Woods Project (2017).
3 See www.oxfam.org/en/research/great-expectations-imf-turning-words-action-inequality.
4 See www.brettonwoodsproject.org/wp-content/uploads/2019/02/Operationalising-Change.pdf.
5 Forster et al. (2019).
6 See e.g., CESR (2018) and Donald/Lusiani (2017).

where the IMF could be doing much more to reduce inequality between countries: preventing the 'race to the bottom' on corporate tax rates rather than advocating for cutting them, and deepening its efforts to prevent cross-border tax abuses.[7] Meanwhile, what are the IMF and its 'developed' country members doing to meet target 10.6 on enhanced representation for developing countries in decision-making in international financial institutions, on which they could have a very direct effect (for example through the upcoming quota review)?

The two main forms of governance through which the IMF exercises its power over countries' economic policy can be viewed as representing its 'soft power' and 'hard power' arms: the former via Article IV surveillance reports; and the latter via loan conditionality. This can be illustrated in the cases of Brazil and Egypt: Brazil is subject to routine IMF policy advice including Article IV surveillance over its economic and financial policies, albeit in the context of economic crisis; Egypt has an IMF loan, and is therefore subject to strict loan conditions.

Brazil – IMF providing cover for dangerously regressive economic policies[8]

In 2016, the Brazilian government passed a constitutional amendment (EC 95) freezing real public spending for the next 20 years (the "Expenditure Ceiling Act"). This unprecedented measure will prevent any future elected governments without an absolute majority from determining the size of investments in human rights and sustainable development, even in the context of aging populations and increased financing needs. The UN Special Rapporteur on Extreme Poverty and Human Rights considered EC 95 "a radical measure, lacking in all nuance and compassion",[9] while the Inter-American Commission on Human Rights expressed grave concern about the impacts on poverty, inequality and discrimination.[10] Fiscal policy in Brazil had already become more regressive – and other austerity measures have been taken since the election of President Bolsonaro in 2018 – but the public spending freeze will keep these deficiencies in place for 20 years.

However, the IMF has expressed continued support for this draconian measure,[11] providing a cover of economic prudence for this nakedly political act, which has already had severe, detrimental human rights impacts. Regressions in health and education outcomes are already visible, while forecasts show that EC 95 will result in significant reductions in health and education investment over the next two decades. For example, if a similar limit had been imposed since 2003, the health budget in 2015 would have been 43 percent less. In 2017, the share of health and education spending within the federal budget already dropped 17 percent and 19 percent, respectively.[12] This is having immediate and concrete impacts: for example, in 2017, the Ministry of Health closed 314 public pharmacies, leaving only 53 in operation and 305 municipalities without access; despite the fact that more than a third of beneficiaries depended on these pharmacies for access to medicines. And for the future, a recent paper predicts an increase of 8.6 percent in the infant mortality rate by 2030 due to austerity.[13]

Fiscal policy in Brazil was already ineffective at reducing inequalities, while a proposed pension reform would seriously erode the country's most redistributive policy.[14] The reform focuses on the general social pension,[15] which is the scheme that most

7 As of April 2019, there are signs that the IMF may be moving towards a more positive position in this regard. See e.g., https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/03/08/Corporate-Taxation-in-the-Global-Economy-46650.

8 Much of this section – including statistics – is adapted and updated from CESR/INESC/Oxfam Brasil (2017).

9 Alston (2016).

10 IACHR (2018).

11 See e.g., www.imf.org/en/Publications/CR/Issues/2017/10/04/Brazil-Technical-Assistance-Report-Supporting-Implementation-of-the-Expenditure-Rule-Through-45275 and https://blog-pfm.imf.org/pfmblog/2017/10/by-fabian-bornhorst-and-teresa-curristine1-brazil-is-emerging-from-a-deep-recession-while-the-country-is-expected-to-regist.html.

12 INESC (2017a).

13 Rasella et al. (2018).

14 ANFIP/DIEESE (2017).

15 The other two schemes are the specific pension for public servants and the specific pension for the military.

reduces inequalities and benefits the larger and poorest part of the population. Also, the reform intends to untie the Continuous Cash Benefit (BPC), the rural pension and the widow pension from the minimum wage. Women, older persons and persons with disabilities would be most affected by these changes and obliged to live on less than what is considered minimum income in Brazil.[16] Yet the IMF has promoted the reform as “much-needed”,[17] ignoring likely effects on inequalities and human rights.

Austerity particularly threatens the rights of women (especially black women) in Brazil. In 2017, the government reduced funding for food security programmes – essential for low-income mothers in particular – by 55 percent.[18] Under the cover of austerity, it is also dismantling the institutions which promote gender equality, such as the Secretariat on Policies for Women, and slashing funds to women’s rights programmes. For example, the number of specialized services offered to women suffering from violence has been reduced by 15 percent as a result of budget cuts – although cases of violence have been on the rise and Brazil has the world’s fifth highest female homicide rate.[19] EC 95 therefore not only violates the human rights principles of non-retrogression and non-discrimination, it “endangers the lives of Brazilian women”.[20]

Despite this evidence, underlined repeatedly by civil society, the IMF 2018 Article IV report for Brazil doubles down on austerity, expressing concern only that it might not go far enough: “continued fiscal consolidation is of paramount importance.”[21] The human and social impacts of these measures are not considered – let alone the related political consequences, in a country where an openly misogynistic, racist and authoritarian leader has just taken power and basic human and environmental rights are under threat.

16 See https://g1.globo.com/politica/noticia/2019/02/20/bolsonaro-chega-ao-congresso-para-entregar-proposta-de-reforma-da-previdencia.ghtml.

17 IMF (2018), p. 4.

18 INESC (2017b).

19 CESR/INESC/Oxfam Brasil (2017).

20 David (2018).

21 IMF (2018), press release, p. 2.

In contrast to SDG 10’s commitments to eliminate discrimination and social exclusion, Bolsonaro’s election has normalized openly discriminatory attitudes and actions, and even violence: data from "Call 180", a reporting channel for violence against women, shows that in the first two months of 2019, 17,836 notifications were received, an increase of 36.85 percent for the same period in 2018.[22]

Moreover, despite IMF protestations to the contrary, there *are* alternatives to austerity. For example, according to the Brazilian Union of Tax Prosecutors, combating tax evasion could raise R$ 571.5 billion, almost four times the 2016 federal deficit. A reform of the personal income tax, taxing profits and dividends and adding a rate of 35 percent for very high incomes, would generate another R$ 72 billion in additional revenue, while reducing inequality by 4.31 percent.[23] And a broader tax reform redistributing the composition of the tax burden could not only enlarge fiscal space on the revenue side, but also reduce inequality.[24]

Egypt – loan conditionalities exacerbating inequalities and rights deprivations

In November 2016, the executive board of the IMF approved an agreement with the government of Egypt for a US$ 12 billion loan. Intended to remedy the country’s economic woes, the agreement purports to support the “government’s home-grown comprehensive economic reform plan”, which include cuts to public spending, shrinking the public wage bill, introducing a VAT, liberalizing the exchange rate and encouraging foreign investment.[25] The reforms have resulted in drastic cost-of-living increases, exacerbated by unprecedented spikes in inflation and currency fluctuations. Accompanied by the dismantling of the fuel subsidy system, these have had huge consequences on affordability of basic goods (including

22 See https://odia.ig.com.br/rio-de-janeiro/2019/03/5625385-crimes-contra-mulheres-se-multiplicam-e-especialistas-alertam-que-pais-vive-epidemia-de-violencia.html.

23 CESR/INESC/Oxfam Brasil (2017).

24 ANFIP/FENAFISCO/Plataforma Política Social (2018).

25 See www.imf.org/en/News/Articles/2016/11/11/PR16501-Egypt-Executive-Board-Approves-12-billion-Extended-Arrangement.

medicines and food), especially for those living in poverty.[26] Although official data on poverty have not been updated since 2015 (when the poverty rate rose to 27.8 % of the population), the Egyptian Initiative for Personal Rights (EIPR) reports that an "unpublished government study estimates that poverty rates are likely to have increased in 2017 to 35 percent".[27]

The IMF has classified the Egyptian reforms as successful, because of improvements in growth and employment.[28] However, experts argue that the growth experienced has not been inclusive or sustainable, but rather has been in capital-intensive industries, like tourism and the extractive industries.[29] Meanwhile, the overall fall in unemployment belies the deep inequities in how far Egyptians are able to enjoy their right to decent work, as revealed by the independent Egypt Social Progress Indicators.[30] For example, the youth unemployment rate is still over 25 percent, women's labor force participation is extremely low at 22.9 0percent, and Egypt ranks 134 out of 140 countries on the 2017 Global Gender Wage Gap Index.[31] Moreover, between 2016 and 2017 wages decreased by 14 percent in real terms, and labour rights are increasingly criminalized or restricted.

Of particular relevance to SDG 10, economic inequality in Egypt is astoundingly high, and worsening. In 2017, Egypt's wealth Gini coefficient was the third highest in the world, reflecting an increase from previous years. The World Inequality Lab estimates that in 2015 the share of pre-tax national income was 19.1 percent for the richest 1 percent of the population and 48.5 percent for the richest 10 percent.[32] However, despite the IMF's professed commitment to tackling inequality, the reforms they have pushed and supported are far from redistributive.

Egypt already has one of the lowest social spending levels as a percentage of GDP compared to similar Lower Middle Income Countries. Its social spending is below half the average for the Middle East, which is 1 percent of GDP.[33] The central tax reform undertaken – at the urging of the IMF – has been the introduction of VAT (now at 14 %, replacing the sales tax of 10 %). Although some basic food products have been exempted, the VAT has added to the increasingly unaffordable cost of living for poor families.[34] Meanwhile, direct taxes (which are more progressive) make up only 44 percent of total tax revenue collected, and the effective corporate tax rate in Egypt is 7 percent lower than the statutory rate. Therefore, although Egypt certainly needs to improve its tax-to-GDP ratio, there are far more progressive vehicles for doing so than VAT (e.g., implementing the long-discussed capital gains tax,[35] a modernized and effective property tax, and a higher rate of income tax for the highest earners).

Although the IMF has claimed that social protection is a "cornerstone of the government's programme" and will help to cushion the blow of austerity, the Egypt Social Progress Indicators show that only 50 percent of those living under the poverty line receive support under the three main social protection programmes. Moreover, these programmes show extremely high exclusion errors, a symptom of the highly 'targeted' approach favoured by the IMF. Public health spending in Egypt is already remarkably low (even among peer lower middle income countries), at only 1.25 percent of GDP, and public expenditure on health has declined since 2015.[36] This produces severe inequities in access to health care, with households having to shoulder the large majority of health care spending from their own pockets, and women in particular facing major barriers to needed health care. It raises the question of how responsible it is for the IMF to push for further cuts to public spending, when the levels of unmet need and

26 Corkery and El-Badrawi (2016).
27 EIPR (2018).
28 See www.imf.org/en/News/Articles/2019/02/05/pr1933-egypt-imf-exec-board-completes-4th-review-extended-fund-facility.
29 EIPR (2018).
30 See on this and the following indicators Egypt Social Progress Indicators (2018).
31 World Economic Forum (2017).
32 See Alvaredo/Assouad/Piketty (2018).
33 EIPR (2018).
34 See Corkery/El-Badrawi (2016).
35 See www.reuters.com/article/us-egypt-economy-tax/egypt-president-ratifies-capital-gains-tax-freeze-extension-approves-stamp-duty-idUSKBN19D2DM.
36 Egypt Social Progress Indicators (2018).

disparities in access to basic services are already so high.

Nevertheless, in January 2019 IMF Managing Director Christine Lagarde praised the “substantial progress” of the Egyptian economic reform programme.[37] She urged the government to “press ahead” with the reforms, and a weak reference to the need for “measures to increase transparency and accountability” is the closest her statement gets to acknowledging the dire human rights situation in Egypt. She closed by “commend[ing] the patience and commitment of the Egyptian people to the reform process.”

In fact, the reforms triggered significant social resistance and opposition, even before the loan agreement was reached,[38] which has only been controlled by the government’s brutal crackdown on human rights defenders and other ‘critics’, including an economic researcher who questioned the government’s economic policy.[39] These measures are of course in stark contrast to the government’s human rights obligations and commitments under SDG 16. Instead of saluting the “patience” of the Egyptian people, the IMF would do better to interrogate the social impacts of its loan conditions on the Egyptian people and inequalities in the country. EIPR has assessed that of the 14 measures imposed by the IMF in Egypt from November 2017 to May 2018, eight measures have a negative impact on Egyptian people and socio-economic development more broadly.[40] Certainly, the evidence suggests that the IMF is not playing a positive role with regards to Egypt’s chances of achieving SDG 10.

37 See https://www.imf.org/en/News/Articles/2019/01/25/pr1918-statement-by-imf-managing-director-christine-lagarde-on-egypt?cid=em-COM-123-38298.

38 Egypt followed Article IV recommendations closely since at least 2013, in preparation for a potential loan. See e.g., https://foreignpolicy.com/2012/11/29/politicizing-egypts-economic-reform/.

39 See www.reuters.com/article/us-egypt-arrest/author-of-critical-book-on-egypts-economy-arrested-sources-wife-idUSKCN1MV102.

40 EIPR (2018).

Conclusion

The larger question we should ask is: Is it really legitimate that the IMF should wield and exercise this degree of power over economic governance? It is essentially imposing a narrow, neoliberal and non-rights-compliant approach to economic policy (usually centered on ‘fiscal consolidation’ or austerity) across the globe; an approach which has been proven to have negative impacts on human rights, poverty eradication, and the reduction of inequality. The UN Committee on Economic, Social and Cultural Rights, for example, recently expressed concern about the impacts that Argentina’s latest agreement with the IMF was having on human rights, poverty and inequalities.[41] It raises the question: Should the IMF’s advice and strictures have more weight than human rights obligations? Should the current system of global economic governance, which is dominated by the richest countries and has produced the inequality crisis that the SDGs are at least grappling with, be trusted to play a constructive role in the transformation we need?

The IMF can no longer maintain the pretense that human rights concerns are not within its purview, especially while their policies and practices have such far-reaching impacts on economic and social rights, and while they claim to be helping countries achieve the SDGs, which are explicitly underpinned by human rights law. Ultimately, what is most disappointing is that, rather than seizing a much-needed opportunity to question and realign its practices based on the SDGs, and especially the commitment to reduce inequality within and among countries, the IMF is instead using the SDGs to justify what it is already doing, no matter how incompatible this may be with equitable sustainable development. Given the IMF’s profound influence over global macroeconomic governance – and therefore the enabling (or currently, disabling) environment for sustainable development – these contortions are deeply irresponsible.

41 See www.ohchr.org/en/NewsEvents/Pages/DisplayNews.aspx?NewsID=23661&LangID=E.

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