The Role of the IMF and the World Bank in Revolutions in the Developing World: Nicaragua, South Africa, and Nepal

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Abstract

Much has been said, often negatively, of the role of the International Monetary Fund (IMF) and World Bank in the international system. Usually these criticisms focus on financial advice rooted in neoliberal ideology rather than in conditions within a given economy, or on the strict conditions attached to IMF or World Bank loans. The discussion of the role of these institutions often does not extend into the discussion of revolutions. This study seeks to draw connections between IMF or World Bank involvement in developing states and the revolutions that occurred within them. Using John Foran's model for revolution in the Third World, the study aims to determine whether conditionality constitutes a "world-systemic opening"—a change in the international system that allows the structural inadequacies of a state to fall to the pressures of the society beneath it. This examination reaffirms the notion that revolutions are complex processes with roots in a state's structures and its placement in the international system. The revolutionary consequences of IMF and World Bank involvement is not limited to conditionality, however; in the three situations studied, conditionality was limited, despite rules to the contrary. Throughout these revolutions, the work of the IMF and World Bank is pervasive, especially in economic policy advising and the extending of loans crucial to the survival of the old economic system. More often than not it is the withdrawal of funding due to political oppression or instability than it is conditionality that constitutes a world-systemic opening.

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CHAPTER 1: INTRODUCTION

For all their infamy, revolutions are relatively young social phenomena, arising alongside the development of the modern state in Europe—tradition clings to the eighteenth century overthrow of France's *Ancien Regime* as the first instance. Since that time, states around the world—from China to Nicaragua, Mexico to Russia, Cuba to Angola—have undergone social revolutions of varying success.

For sociologist Samuel Huntington, this recent development is no mere twist of fate. Rather, it is a result of the incredible strain modernization places on suddenly antiquated social and political structures. "Revolution is thus an aspect of modernization…an historically limited phenomenon…most likely to occur in societies which have experienced some social and economic development and where the processes of political modernization and political development have lagged behind"[1]

Discerning the specific causes of revolutions, however, has proven a much more difficult task. Debate still rages among political theorists as to where the search for variables should begin. Some argue for a "structuralist" approach, citing a state's internal form and placement in the international system as crucial starting points for investigation. Others push a "voluntarist" approach that holds up revolutionaries and the individuals in the masses—the people who comprise a revolution's social makeup—as central to understanding how and why revolutions occur.[2]

This paper, for reasons discussed in the second chapter, will take up the structuralist argument. Accordingly, it seeks to define those macro-level conditions that influence socio-political stability in increasingly exact terms. Employing the model of political scientist John Foran for revolutions in developing states, it primarily seeks to address the role of institutions, specifically the World Bank and the International Monetary Fund (IMF), in revolutions.[3]

Specifically, Foran's model defines two steps where it seems reasonable for the involvement of these Bretton Woods Institutions to influence revolutionary outcomes. Third world revolutions occur in societies experiencing widespread dependent development under exclusionist or oppressive regimes. Yet this is not enough, Foran maintains, to guarantee revolutionary conditions will arise.[4] Rather, society must have "political cultures of opposition," systems unique to a given society which revolutionaries employ to mobilize support.[5] When the state undergoes an economic depression followed by a change in its normal placement in the international system, these political cultures of opposition assist in the formation of coalitions and the explosion of a revolution.[6] Using Foran's framework, this paper investigates whether World Bank or IMF involvement constitute such a "world-systemic change," which Foran specifically defines as a "let up of external controls."[7] The World Bank, the IMF, and the conditions imposed by both are the exact opposite; their arrival constitutes a build up of external involvement and—given their advantageous position when dealing with countries in financial crisis—influence.

Revolutionary Theory

John Foran presents the evolution of revolutionary theory as a four-step development of socio-political thought. The first generation, he argues, merely described how specific revolutions occurred rather than why. Unfulfilled by this explanation, the next generation of revolutionary theorists went after the "why and when" of their subject, often reverting to psychological or functional explanations of group behavior. The upshot of this focus on society and the groups within it was an emphasis on agency—what a group of people could and actually did do—in various processes of revolution.[8]

Like rebellious children, however, the next generation rejected much of the second's analysis. This group rejected conclusions drawn from a particular revolution for yielding information far to event-specific to draw useful, overarching conclusions. Barrington Moore, Jr., one of this generation's best known scholars, pioneered the "structural" school, arguing that a complex relationship of social, political, and economic dynamics—not individual action—lies at the heart of every revolution.[9]

Moore's important step forward drastically changed the analysis of revolutions. In 1979 it led to Theda Skocpol's well-crafted definition of revolutions in her *States and Social Revolutions*: "Social revolutions are rapid, basic transformations of a society's state and class structures; and they are accompanied and in part carried through by class-based revolts from below… this definition makes successful sociopolitical transformation—actual change of state and class structures—part of the specification of what is to be called a social revolution."[10] The power of this definition lies in its ability to eliminate political revolutions, rebellions, insurrections, and coup d'états from the discussion of what is a highly unique phenomenon.

By continuing the tradition of structural critique, Skocpol centered discussion of her topic on the structure of the international system, the role of which could easily be investigated in numerous revolutions around the globe. From this, Foran's "fourth generation" of theorists have worked to incorporate into the structuralist approach a consciousness of agency, focusing on factors from racial diversity to cultural traditions or the role of gender.[11]

This latest development is important because through it one can find common trends in a great spread of revolutions, while simultaneously including the important role of the individuals who compose the revolutionary masses. As such, Foran's model of revolution in the developing world begins dependent development—characterized by foreign incursion into and development of a third world economy. It proceeds to the existence of an exclusionist or repressive regime alongside "cultures of political opposition" among the masses. Foran argues that, given these three conditions, an economic downturn followed by a let up of external influence will lead to a successful revolution. Foran's model is crucial to this study because, aside from providing a framework by which revolutions can be identified and examined properly, it allows for the two NGOs in question to play a part in social revolutions.[12]

The World Bank and the International Monetary Fund

As one of the products of the 1944 United Nations Monetary and Financial Conference (Bretton Woods), the World Bank was "created to channel investment in projects within countries in need of reconstruction and development,"[13] which from that time on "was defined as the promotion of economic growth."[14] Likewise, its sister organization, the International Monetary Fund originally was "charged with ensuring a stable international monetary system that would foster equitable growth" while also monitoring exchange rate policies and offering loans "to members encountering balance of payment problems."[15]

While opinions differ regarding the degree to which each organization met these responsibilities in their first thirty years, the collapse of the fixed exchange rate Bretton Woods system in 1973 led to an identity crisis in the IMF, necessitating some change of purpose if the institution were to retain its influence. This transformation came from within. Drawing from Section I of its Articles of Agreement, the IMF turned its focus to on correcting balance of payment (BOP) issues.[16] Thus, by the late 1970s both the World Bank and the IMF were "engaged in leveraging loans to ensure a jointly defined project of policy reform in borrowing countries" in addition to the project lending offered by the Bank.[17]

The institutions, however, have been the targets of heavy criticism. Many, like Canadian economist Michel Chossudovsky, label them as means of increasing the influence of Western political and corporate interests. His criticisms range from World Bank tax policies—which he argues cripples small agricultural and industrial interests at the expense of large international firms—to its sudden trade liberalizations, claiming they make credit too costly for small farmers.[18] Along with Chossudovsky, Graham Bird questions the prevalence of forced depreciations in countries taking loans from the IMF to end BOP deficits; both men argue that these actions lower the real wage of laborers—which Bird fears could "spark off political unrest."[19] Such moves have clear implications for revolutionary movements. Similarly, Adam Przeworski and J.R. Vreeland find reason to believe that "participation in IMF programs reduces growth while a country remains under and has no effect once a country leaves."[20] In light of the vast socio-political changes involved in adhering to IMF conditionality, it does not seem outside the realm of possibility for this failure to grow to add to the strength of cultures of political opposition while also crippling the credibility and cohesiveness of the state.

Conclusion

Through a general examination of World Bank and IMF behavior and via detailed case studies, this work will investigate whether the implementation of these two organizations' policies serves as a revolution-conducive change in the international system. The following chapter examines the tradition and existing literature on revolutionary theory and studies of the Bretton Woods Institutions, along with a justification for the role of non-governmental organizations within the international system. Chapters three through five provide detailed examinations of the rise of revolutionary situations in Nicaragua, South Africa, and Nepal under various programs and policies enacted or encouraged by the World Bank or IMF.

Revolutions are significant not in and of themselves, but rather because, as socio-political processes, they deeply affect the lives of innumerable individuals. The vast resources available to the IMF and World Bank bestow their actions with as powerful a reach. The case studies on Nepal, South Africa, and Nicaragua confirm the accuracy of John Foran's model of third world revolution, while the importance of the involvement of the IMF and World Bank in these countries remains dubious.

Notes

1. Samuel Huntington, *Political Order in Changing Societies*, (New Haven, CT: Yale University Press, 2006): 265.

2. Theda Skocpol, *States and Social Revolutions* (New York, NY: Cambridge University Press, 1979), 14-15.

3. John Foran, *Taking Power: On the Origins of Third World Revolutions* (New York, NY: Cambridge University Press, 2005), 18.

4. *Ibid*., 19-20.

5. *Ibid*., 14.

6. *Ibid*., 22-23.

7. *Ibid*., 23.

8. *Ibid*., 9.

9. *Ibid*., 10.

10. Skocpol, *States and Social Revolutions*, 4-5.

11. Foran, *Taking Power*, 13.

12. *Ibid*., 18-23.

13. Ngaire Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers* (Ithaca, NY: Cornell University Press, 2006): 7.

14. *Ibid*., 43.

15. *Ibid*., 7.

16. Adam Przeworski and James Vreeland, The Effect of IMF Programs on Economic Growth, *Journal of Development Economics*, Vol. 62 (2000) 385–421.

17. Woods, *The Globalizers*, 8.

18. Michel Chossudovsky, *The Globalization of Poverty and the New World Order*, 2nd edition (Quebec: Global Research, 2003): 52, 56.

19. Graham Bird, *IMF Lending to Developing Countries: Issues and Evidence* (New York, NY: Routledge, 1995): 39.

20. Przeworski and Vreeland, "The Effect of IMF Programs," 403.

CHAPTER 2: LITERATURE REVIEW

Any study of the role of institutions in revolutionary processes first must address three factors: the long-established yet continually evolving theory of social revolution, the claim that institutions hold a position of influence in a state-oriented international system, and the role and behavior of the specific institutions themselves. The performance of such an examination allows for the identification of causal linkages between the practices of the institutions and the theory. These perspectives provide variables by which the search for the influence these organizations wield in the socio-political arena might be conducted.

This chapter does just this. First, it demonstrates how the process of understanding social revolutions has changed over the past century to allow multiple avenues for this influence to be known. It then will argue for the importance of non-governmental organizations (NGOs) in the international framework, with an aim at solidifying the claim that establishments like the IMF can, and do, maintain an important, powerful place among states. Finally, it highlights how certain purposes, failures, and programs of the World Bank and the International Monetary Fund (IMF) tailor these organizations to foster revolutionary situations in the developing world.

Revolutionary Theory

Revolutions are inherently complex social and political processes. Despite their identification with certain dates—July 14, 1789 or October 1917 are forever tied with the French and Russian Revolutions, respectively—they are not solitary events but a long chain of them, characterized by the interaction of innumerable variables. It follows that the study of revolutions is a struggle, one marked by a need to sift through countless factors and to settle on those most crucial to the understanding of why revolutions occur.

The Evolution of Revolutionary Theory

John Foran characterizes the development of the theory of revolution as a movement through four generations. Each step is marked by transition: particular shortcomings in the previous generation become the near-obsessive focus of the successive one. Yet none of these stages constitutes a paradigm shift. Instead of a drastic change of direction, each succeeding generation built upon the work of the past. Thus, rather than a stepwise process of new and independent ideas, modern revolutionary theory is an amalgamation of critical thought.

Early revolutionary theory in actuality was no more than a simple retelling of how, rather than why, revolutions occur. Left with this rather unperceptive tradition, "second generation" scholars sought "to explain why and when revolutions arise, using either social psychology or structural-functional approaches to collective behavior."[1] Of these approaches, Theda Skocpol highlights "political-conflict theorists," who maintained the importance of group organizational capacity over surface assumptions of popular outrage. Even when this capacity exists, the state "may successfully repress the will to engage in collective action by making the costs too high to bear."[2] In light of this, a cutback of government capability should have, in environments where social unrest already exists, positive effects on revolutionary processes. This carries important implications for countries where IMF or World Bank support is conditional on fiscal contraction.

Skocpol also discusses the importance of what she calls "systems/value consensus" theorists, most notably Chalmers Johnson. According to Johnson, the social system cannot come into the crisis necessary to spark a revolutionary movement unless "values and environment become seriously 'dis-synchronized,' due to either external or internal intrusions, especially of new values or technologies."[3] From early in the tradition, theory allows for a powerful external entity to enter into a state's socio-political structure and, through polices foreign to that state, to reconfigure it. "Once dis-synchronization sets in, people in the society become disoriented, and thus open to conversion to the alternative values proposed by a revolutionary movement."[4]

Given the second generation's intense focus on the micro-characteristics of revolutionary societies, one can view the third generation as an attempt to attach overarching themes, rather than location-specific details, to the understanding of revolutions. Ranging from "the state, dominant elites, and armies, to international pressures and peasant mobilization," these structural variables translate the events of individual revolutions into common details that allow researchers to investigate root causes.[5]

Barrington Moore, Jr. often receives credit as the father of the structurally focused third generation, pioneering the approach in his *Social Origins of Dictatorship and Democracy*. In his studies of the English and French Revolutions, Moore finds that—more than the speeches of Danton or the writings of Locke—changes in each state's place in the world economy and their desire for growth determine the arrival of a revolutionary environment.[6] Often, this focus centers on the overthrow of an antiquated feudalist system, replaced “with a new social and political order, at once simple and more uniform.”[7]

While perhaps hidden in the shadow of Moore’s accomplishment in *Social Origins of Dictatorship and Democracy*, Samuel Huntington offers an invaluable conceptual discussion of social revolutions in chapter five of his *Political Order in Changing Societies*. Huntington begins with a cutting definition of revolution as “rapid, fundamental, and violent domestic change in the dominant values and myths of a society, in its political institutions, social structure, leadership, and government activity and policies.”[8] While this list seems to focus on innumerably micro-level conditions, Huntington leaves no doubts as to the role “institutional factors” will play in his analysis.[9] Revolutions result from the process of modernization. As a state’s economic and societal needs evolve, they run the risk of outstripping the development of its political and economic systems. At a certain point, this imbalance must lead to a crisis of the state, as new systems crash down upon the old ones.[10] Such processes suggest a dynamic by which the conditions set by international finance institutions (IFIs) might induce revolutionary situations. In societies marked by constancy, shock therapy reforms seem to run this risk. Far outside the control of revolutionaries themselves, state and international structure set the terms of revolution.

For Foran, however—and for the purposes of this paper—this generation’s greatest contribution to the literature is Theda Skocpol’s *States and Social Revolutions*. “Reacting to theories that relied too much on revolutionaries’ conscious control of events,” Skocpol sought to bring structure, specifically the role of the international system, into the debate.[11] "Unique to social revolution is that basic changes in social *structure* and political *structure* occur together in a mutually reinforcing fashion."[12]

From this standpoint, Skocpol lays out her definition of social revolution: "rapid, basic transformation of a society's state and class structures…accompanied and in part carried through by class-based revolts from below."[13] What makes this definition so useful is its simplicity. Unlike Huntington, Skocpol lists only two necessary changes: class and government. Two significant consequences of Skocpol's definition hold special importance for this study. The first is that a class-based revolt that does not effect lasting structural change cannot be considered a revolution but instead a rebellion. The second concerns political revolutions, which involve the reconstruction of the state while leaving social structures relatively intact; they also, Skocpol claims, need not result from inter-class struggle.[14] These two seemingly minor details are hugely important in ensuring that the selected cases fit the model of revolution chosen to examine the role played by the Bretton Woods Institutions in developing states.

Structure v. Agency

Ultimately, Skocpol's unbending structuralism inspired a theoretical counterrevolution. The basic idea that structures, the result of individual humans combining to form social networks, alone decided the arrival of revolutions ran counter to the intuition of many. "Social scientists often miss…the fervour and anger that drives revolutionaries and makes them into what they are…At the very centre of revolution lies an upheaval of moral indignation…with the powers that be."[15] This new generation focuses on the inclusion of "the interrelated issues of agency, political culture and coalitions, and the dimensions of ethnicity…class, and gender."[16] The division of where the line should be drawn, where structure and agency should meet, lies at the heart of the modern literature of revolutionary theory.

Structuralists, like Skocpol and Moore, echo Wendell Phillips' famous maxim: "revolutions are not made; they come."[17] Skocpol's own work centers this approach on international structures and world-historical developments.[18] This argument allows for an investigation of IFIs because, among other responsibilities, they possess the ability to change the linkages between the international economy and the state or society themselves.

Theorists who argue that revolutions, as social phenomenon, must be born of the agency of individuals, fall into the "purposive," or "voluntarist," approach. Best characterized by the writings of Eric Selbin, this school of thought rejects the structuralist assumption "that structural conditions dictate absolutely what people can do."[19] Selbin, in fact, argues for the importance of what Foran calls "cultures of political opposition": a population's cultural traditions which allow for the building of "strategies of action" aimed at addressing issues in their society.[20] Both Selbin and Foran advocate for the ability of these strategies to be exploited by revolutionaries to mobilize others to their cause.

Nonetheless, the voluntarist claim that "human actors are not simply 'carriers of structures' but also 'generators of them'" is ultimately unbalanced.[21] While room must be made for arguments that include the human elements of politics and society, the fact remains that, in a worldwide system, structures simply outsize the small groups at the core of revolutions. As a result, the ensuing study of the role of these IFIs on revolutions will take a structuralist stance that acknowledges pertinent micro-level variables.

Foran's Model for Revolution in the Third World

A proper, if brief, understanding of the development of revolutionary theory and the structure-agency debate are necessary for understanding the implications of John Foran's contributions to this investigation of the role of World Bank and IMF programs in revolutions. Foran adopts Skocpol's definition of revolution as his own. "The salience of these three factors—political change, structural transformation, and mass participation"—in her definition allows the organizations three avenues of influence.[22] The focus on international structures and changes to them reverberates in Foran's analyses.

In *Taking Power*, Foran presents his model for revolutions in the developing world—the model of revolution employed in the ensuing following case studies. Defining "success" in a revolution as "coming to power and holding it long enough to initiate a process of deep structural transformation,"[23] Foran adds to Skocpol's definition by providing a framework for a "complete" revolution, if such a thing exits.[24] The most convincing contribution he brings to the literature, however, is his introduction of voluntarist critiques into his structuralist model. Presenting his model as intrinsically economic, and thus well suited for this investigation of the revolutionary potential of IFIs, he practically develops a fifth generation of theory. As such, he seeks to determine "the relationship among" individuals, culture, states, "and political economy" instead of overemphasizing singular all-encompassing variables.[25]

Foran's model sets its focus on revolutionary events in the developing world. Of primary essence is the role of development in the formation of the Third World. Replying not only on the inner workings of the state itself, development also revolves around "a country's historical insertion into the world economy"; in the Third World, this development "significantly shapes its social structure."[26] This allows for organizations like IFIs to play a highly influential role in a poorer, weaker society's social structures.

Unsurprisingly, Foran's model begins with the phenomenon of dependent development, a process of "growth within limits" which fosters "social and economic grievances among diverse sectors of the population." However, since "*some* Third World countries actually do develop in aggregate terms" despite their disadvantaged position, simply staring at GDP growth statistics should not unveil potential hotbeds of revolution. On the contrary, such growth is "generally accompanied by negative repercussions for specific groups or classes," which becomes "the principle cause of the grievances of the classes and groups that participate in revolutionary coalitions."[27] Furthermore, this suggests that, while IMF and World Bank policies actually might achieve their own aims, they still might lead to instability. Whether or not they do does not depend solely on growth, but also where such growth successfully takes root.

Vietnam following World War Two offers a brutal picture of dependent development and its ability to inspire the mass mobilization Foran describes. Conquered by Japan in 1940, Vietnam became "a virtual accessory to the Japanese war effort."[28] The costs of this development, built upon the exploitative system of French colonialism, became clear in 1945. Exacerbated by the war and huge exports of rice by the Japanese, "'hundreds of thousands of people starved beside granaries of rice kept full by the Japanese and French.'"[29]

Foran's next qualifier is the existence of a repressive or exclusionist state. He includes this because a system like dependent development requires "a repressive state to guarantee order in a rapidly changing setting where much of the population is suffering." This differs from a democracy, which must ultimately take its mandates from popular vote. Oligarchies, like the fourteen families of 1980s El Salvador, and dictatorships, like the Somoza dynasty of Nicaragua, exclude the personal involvement of the majority in the activity of the state. Accordingly, they instigate indignation among the unprivileged while providing a specific target for overthrow.[31]

With these two structures—one based in the international system, the other in the state itself—in place, Foran introduces his voluntarist variable: political cultures of opposition, "the diverse and complex value systems existing among various groups and classes which are drawn upon to make sense of the structural changes going on around them." Citing the work of Eric Selbin for his inclusion of a voluntarist argument in a predominantly structural model, Foran admits that the delegitimization of the state—which begins under structures of exclusionism and dependent development—provides opposition groups building blocks for organized mobilization.[31]

While this paper intends to explore the effect the World Bank and the IMF have on fostering cultures of political opposition, the primary focus of this work is their role in Foran's final variable: the sequence of economic downturn and "world-systemic opening." Pointing out the crippling effects an economic downturn can have on state capability, Foran also indicates their nearly universal presence in successful cases. Once on the ropes of the world economy, developing countries must rely even more heavily on their relationships with core economies. This leaves the state further at risk of falling victim to the international system. "A world-systemic opening may occur when…this 'normal' situation is disrupted…This *let-up* of external controls adds to the crisis of the state and creates an opening" for revolutionaries to seize power.[32]

The following case studies seek, in essence, to expand this definition of world-systemic openings. Foran insists they comprise a lessening of foreign involvement in the country in question. World Bank and IMF participation in a specific country, however, ultimately amounts to an increase in foreign involvement; consequentially, Foran's argument leaves their behavior out of the discussion of revolutionary situations. The majority of World Bank and IMF agreements are the result of economic downturns in a state. It is counterintuitive to exclude such integral changes in the international system—the extension of crucial loans or development projects—from the discussion of changes in the world system. Foran also defines world-systemic changes by their disruption of the "normal situation" within the state. The case studies argue that, because the policies of these two IFIs change the status quo, implementation of them constitutes world-systemic change.

Foran's model, replicated in Figure 1 above, accurately depicts revolutions as a process. Originating from a state's position in the international system, the model progresses through political structure and social capacity, and considers various amplifiers of state crises. Foran insists that a social revolution must present all five of

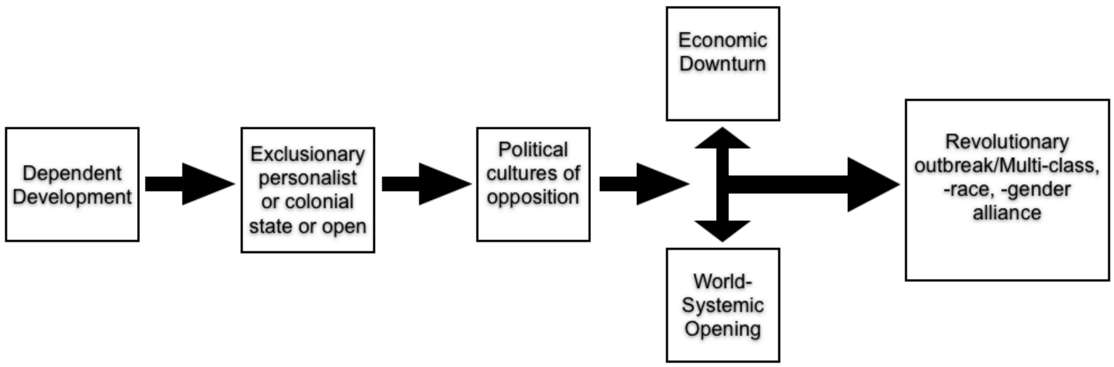

Figure 1.1: Foran's Model of Social Revolutions in the Developing World [33]

these variables meet his definition of success.[34] Thus, each of the following case studies will first ensure that all five steps in the model occur, as a means of doubly ensuring *social* revolutions are the subject of this analysis.

"Crises that have launched social revolutions have not at all been epiphenomenal reflections of societal strains or class contradictions," but the "direct expressions of contradictions centered in the structures of old-regime states."[35] In echoing Huntington's view of revolution as a process of modernization, Skocpol rejects the ability of a single variable to trigger revolution. Quite the opposite, she argues that various failures of the state to adapt to the circumstances imposed on it by suddenly antiquated international and societal structures fulfill this role. This requires the consideration not only of the individual crises that arise, for instance, due to state fiscal cutbacks, but also of those structures in that state that pre-destined it for economic failure, political instability, and the intervention of IFIs. Foran's model allows a proven format by which this undertaking can succeed.

Can NGOs Really Influence States?

Despite the discussion above, there exists no consensus that international institutions can have real influence on the behavior of states. Even Skocpol and Foran, when discussing international structures or events, turn almost exclusively to the actions of other states, e.g. foreign interventions or embargoes. This fits into the traditional school of international relations: Realism. Here, the most important international actors are states, and they rationally act to ensure their own survival, which is their main concern. States seek to ensure their survival through power in an anarchic international system that lacks any legitimate governing body.[36]

John Mearsheimer is modern Realism's loudest voice. He rejects the notion that institutions like the UN can serve as world powers, maintaining that states can choose whether or not to follow these groups' rules.[37] On the subject of the IMF and World Bank, Ngaire Woods confirms with this assessment by referencing "the record of failed conditionality" in Fund and Bank agreements: "borrowing governments seldom actually do as they are told."[38] In Mearsheimer's view, "institutions largely mirror the distribution of power in the" international system, leaving them as tools by which more powerful states can exert their strength.[39] While this criticism has been specifically directed at the IMF and World Bank, arguing this does not limit the reach the institutions themselves have.

Indeed, for institutions as integral to the functioning of the world economy as the IMF and World Bank, discrediting their role seems an act of obstinacy. Liberal institutionalism, a newer school of international relations, emphasizes the complexity of the international system, focusing especially on numerous interconnections between states and the societies under them.[40] Whereas Realism assumes a highly anarchic system where security is a chief concern and military strength crucial, "states act in accordance with liberal institutionalism when the threat of aggressive war is low."[41] Within this framework, Robert Keohane describes the modern world system in the following terms: "to analyze world politics in the 1990s is to discuss international institutions: the rules that govern elements of world politics and the organizations that help implement those rules."[42] This explicit acknowledgement of the importance of institutions encourages this study to continue into a discussion of the institutions in question, with a hope of discerning specific mechanisms to examine in the subsequent case studies.

The World Bank and the International Monetary Fund

In 1944, in the shadow of World War II, representatives from 44 nations arrived at the United Nations Monetary and Finance Conference in Bretton Woods, New Hampshire. Their goal was to develop a framework for the proper functioning of the international monetary system following the anticipated Allied victory. While also noted for the establishment of the General Agreement of Tariffs and Trade (GATT), by far the most important products of the "Bretton Woods Conference" were two organizations designed to help organize, protect, and develop the international economic system: the International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund.[43]

Purposes of the World Bank and the IMF

Moving beyond general aims of development and stability, proper understanding of the Bretton Woods Institutions and their programs begins with their individual Articles of Agreement. Amended numerous times since 1944, these documents outline the structure, organization, and purposes of the Bank and Fund in extreme detail.

The World Bank's creation aimed "to channel investment in projects within countries in need of reconstruction and development,"[44] especially projects too large or risky to be undertaken by private investors.[45] Yet "development" is an amorphous concept. It can entail the building of schools to expand the intellectual capital of a society and the personal growth of individuals. It also can mean the elevation of standards of living. Economist Amartya Sen advocates another interpretation: "expansion of freedom is…both (1) the *primary end* and (2) the *principal means* of development."[46]

"From early on" at the World Bank, however, development "was defined as the promotion of economic growth."[47] Woods stakes this claim to Article I.i of the World Bank's *Articles of Agreement*, which includes as an intention of the Bank the "development of territories of members by facilitating the investment of capital *for productive purposes*."[48] The Bank's approach in its early years had it provide loans for the development of large-scale public infrastructure, such as port facilities. This "need for industrialization" as a prerequisite to growth-focused investment suggests a means by which early World Bank involvement might have encouraged revolutionary situations. A higher degree of infrastructure increases the ability of ideas, people, and supplies to move across geography and society. In unison with the strains a move toward sudden industrialization can put on the socio-political structures of a country, this dynamic helps explain the historical record of revolution in industrializing states.

Outside of the economic growth of borrowing states, the drafters of the Bank's Articles of Agreement included a commitment to "promote the long-range balanced growth of international trade" while also protecting its members by giving "due regard to the effect of international investment on business conditions."[49] The balance the Bank has struck between its obligations to the domestic economies of its members and the development of the world economic system as a whole lies at the center of many critiques aimed its way. This criticism has grown over the past few decades, as the Bank turned from its "large public infrastructure loans toward a broader range of projects," the result of a shift in its concept of development. Woods describes this change as a move to "de jure conditionality," when Bank managers began to sense a role in development for "the overall policy framework and institutions within the borrowing countries."[50]

Originally "charged with ensuring a stable international monetary system that would foster equitable growth," the IMF was established to monitor the exchange rate policies of its members, especially through the direct lending to members short on reserves.[51] Among its listed purposes in its own Articles of Agreement are the promotion of "international monetary cooperation through…consultation and collaboration on international monetary problems" and "exchange stability."[52] With the growth and stability of the mechanisms which balance the world economy at the forefront of its responsibilities, the IMF was crucial to increasing the level of economic interconnectedness between member states.

This initial vision for the IMF was not to last long. In 1973, the United States went off the gold standard, shattering the decades-old system of dollar-pegged exchange rates. This, however, rendered the contemporary inception of the IMF superfluous. Seeking a new mission by which it could remain relevant, the Fund returned to Article I. Although doing so no longer upheld a world monetary system based on fixed rates, the Fund set its sights on the maintenance of its members' balance of payments. "Fulfilling this function the IMF transformed itself from a currency regulating institution" to a servicer of debt "involved in the policies of much of the third world."[53]

As a result of the collapse of the Bretton Woods exchange rate system, the modern inceptions of the World Bank and the International Monetary Fund experience a high degree of overlap in activity. Woods characterizes this new system as one in which both IFIs "are engaged in leveraging loans to ensure a jointly defined project of policy reform in borrowing countries on top of which the World Bank undertakes project lending."[54] Increasing its involvement in the fight against poverty, the IMF unveiled its Poverty Reduction and Growth Facility (PRGF) in 1999. The new program intends to make "the objectives of poverty reduction and growth more central" to IMF lending programs.[55]

Criticisms and Shortcomings

If only due to their prominence among NGOs and the scale of their operations, both the World Bank and IMF are targets of much criticism. The literature includes a preponderance of criticism toward the IMF. This may be due to the Fund's role as a lender of last resort during financial crises, when much is at stake for the borrowing country. In comparison, the focus of the World Bank on developmental programs makes its interventions less risky than bold charges into the guns of fiscal collapse.

Many of the broadsides aimed at the Bretton Woods Institutions focus on their lackluster "success" rate. Such premature attacks forget, however, the original purpose of the institutions. "They are public, universal agencies for a reason. Missing from the critics' view is the fact that the Fund and Bank exist in large part to go where angels fear to tread…If they enjoyed a 100 percent success rate and return on every loan, we would have to ask why public institutions were needed" in the first place.[56] Despite their many admitted shortcomings, the Bank and the Fund invest in some *very* risky places and projects. Thus the success or failure of their programs might not be to bad economics or even bad policies, but simply unwinnable starting conditions on the ground. The very nature of their investments means outcomes are, to a certain degree, ambiguous.

Another blanket attack levied against both institutions targets their motivations. Many accuse the organizations of being subservient to the interests of developed states or even large corporations—not the purposes listed in either organization's Articles of Agreement. Canadian economist Michel Chossudovsky, an outspoken critic of the Bretton Woods Institutions, cites the example of Korea following the East Asian Financial Crisis of 1997. The IMF's plan came out only "after high-level consultations with the World's largest commercial and merchant banks."[57]

Chossudovsky also stands out as one of the loudest voices against the policies of the World Bank. On the topic of their loans and conditions, he decries what he sees as exploitative tax laws, which fall on "small agricultural producers and units of the informal urban sector." While these local entities, presumably limited in their resources, "are subjective to government taxes, joint ventures and foreign capital invariably enjoy generous tax holidays as a means of 'attracting foreign investment.'" This dynamic is reinforced by increased interest on domestic credit; small agricultural and industrial interests cannot afford the high price tied to credit and are thus forced out of the way, Chossudovsky implies, of large foreign corporations.[58]

Likewise, Chossudovsky blasts the World Bank Public Investment Program. Despite large sums of investment directed through World Bank to domestic programs, this rarely translates into equal amounts of capital in the developing country. Interestingly, Chossudovsky does not suggest the possible existence of corruption in the borrowing states. Rather, he describes a process in which international firms submit bids for contracts to public works projects. After these firms take money in the form of consulting fees for research, they subcontract construction to local companies that employ the lowest-wage labor. Therefore, "loan money earmarked for infrastructural projects is largely 'recycled in favor of multinational contractors'" who have little need for the funds themselves.[59] This implies less capital and thus slower than expected growth, given the sums of money being channeled "into" the country.

On the subject of IMF programs, Adam Przeworski and James Vreeland are blunt: "International Monetary Fund programs are controversial." While borrowing governments might argue that involvement with the Fund is necessary for growth, regardless of the costs, "general strikes, riots, and ransacking of supermarkets manifest that IMF programs *mobilize popular resistance*."[60] Indeed, the public outcry that IMF programs often spark should have a noticeable effect on revolutions, especially as a means of coalescing cultures of popular opposition into a unified front.

Przeworski and Vreeland's research further suggests "the IMF is more likely to sign with dictatorships," possibly "because they are easier to negotiate with."[61] Ngaire Woods backs this claim, arguing that such officials hold the authority required to enact the policies the IMF and World Bank need to succeed.[62] This incorporates another variable of Foran's into situations involving the Bretton Woods Institutions: the exclusionist state. Each of the case studies involves such a government: Nepal, a monarchy; Nicaragua prior to 1979, a dictatorship; and South Africa, an oligarchy under the apartheid rule of the National Party. According to Stephen Nelson, the repercussions of this trend toward non-democratic regimes vary depending on location. In Africa, Nelson argues, IMF involvement tends to encourage democracy, "while its effect in Latin America and East Asia is consistent with one of the complaints of its critics, which is that the IMF suppresses democracy."[63]

Even more serious is Przeworski and Vreeland's conclusion that, "when matched for exogenous conditions, participation in IMF programs reduces growth while a country remains under and has no salutary effect once a country leaves." They are left to conclude that countries which refuse IMF assistance—even those with large balance of payment deficits—grow at a higher rate than those that do.[64] The implications of this finding for revolutionary processes are great. First, this implies that a country already in economic crisis will continue or worsen its economic standing by turning to the IMF for assistance. Additionally, the pain of fiscal contraction that often comes with large IMF packages limits the capability of the state to coerce any opposition that might gain a foothold during a long repression.

Vreeland and Przeworski's findings leave many questions unanswered as to how the IMF might fail so massively to achieve any of its goals in troubled states. For Woods, the answer lies in the "professionalism" of both the Fund and the Bank. Woods uses this term to describe the fact that the vast majority of the organizations' management and staff are trained in economics at North American universities.[65] While this likely allows for a degree of efficiency within these IFIs by focusing solutions on a very specific toolbox, its downside is a lack of "local knowledge" in the programs enacted around a diverse globe. The reason for this comes down to the "messy, political, intractable, and very difficult to make judgments about" nature of local knowledge. Such details reek of inefficiency.[66] However, without it, governments enact policy reforms that might be wholly inappropriate for their particular situation. These reforms might inadvertently trigger political instability. If they do, one might argue that, in an extension of Huntington, revolutions themselves are movements toward economic development—enacting policies and programs tailored exactly for the people in question. This lack of local knowledge also increases the culpability of the World Bank and the Fund. While the two institutions definitely do take on highly risky loans, their ignorance clearly fails to help them minimize losses. Rather, they fall victim to a generalist approach that William Easterly describes disparagingly as "planning": distant, uninvolved, and unaccountable.[67]

Among the most criticized policies that the IMF relies upon in its attempts to boost economic growth and shrink deficits is devaluation. Much has been made of the potentially destabilizing effects currency depreciation can have on a developing economy, focusing on real wages and diversification. Given the fear that devaluation will fail to translate into a depreciated real exchange rate because of inflation,[68] "the IMF obliges the government…to adopt a so-called 'anti-inflationary program'…which has little do with the real causes of inflation (i.e. the devaluation)."[69] The Mundell-Flemming IS-LM-FX model shows that, with an endogenous depreciation of the domestic currency as advocated by the IMF, domestic interest rates must fall. Given these limitations on the money supply, this lower rate requires a fiscal contraction (a downward shift in the IS curve), usually accomplished through massive government spending cuts. Output declines and wages remain the same; with dollarization, the potential for a price rise increases; overall, the economy faces the threat of recession and lower real wages. Bird in particular notes the potential of these "income redistributive effects" to "spark off political unrest" in the borrowing country.[70]

"Resulting from a desire to strengthen the tradeables sector of the economy and thereby to facilitate debt servicing," devaluation is seen by many to be "an overambitious attempt to achieve stabilization and liberalization simultaneously."[71] Yet, by placing a heavy emphasis on the export sector of the economy, the IMF ignores a dangerous possibility. In their World Bank policy research paper, Elbadawi and Sambanis find that "economic diversification that would reduce a country's reliance on primary exports" reduces the risk of political violence within that state.[72] Given the IMF's pursuit of policies that aim to build an export-heavy economic system, this claim suggests that such policies will contribute to instability and growing violence, both of which are traditional characteristics of revolutionary processes, indicative of mass mobilization and a crisis of the state.

Conditionality and Stability

"The economic policies that Washington urges on the rest of the world may be summarized as…free-market capitalism."[73] Policy makers in Washington viewed poorer states' inability to escape the poverty trap as a clear failure of managed markets. "After all, if one of the secrets of Western prosperity was the feedback and accountability of free markets, the most obvious thing the West could do to transform the rest was to introduce free markets."[74] For such a fundamental change could be accomplished cleanly—indeed, for it even could be attempted—would require a penalty for failure. Thus was born conditionality. A state could receive loans only if changes in its structure, most notably its markets, were made in return

From the 1950s to the "late 1990s," the IMF employed the Polak Model as "the foundation for IMF financial programming and conditionality."[75] This system, created by IMF economist Jacques Polak, presumed "that a country with balance of payments deficit was absorbing too many resources in consumption and investment, relative to what that country can produce." Domestic credit was increasing too rapidly in these countries, which, given a constant money supply, resulted in a BOP deficit and a loss of reserves. This focus on domestic credit and reserves connected the economic policies of a government to the health of its BOP. This meant that, "to help resolve a balance of payments problem, the IMF would need to address domestic economic policy."[76] Even at their start, however, such policies of interference were criticized, most notably for their lack of local knowledge or concern.[77] Capital controls were rejected as a means of balancing payments largely on the insistence of the United States, which pushed for an international policy of capital account liberalization. [78]

Each member country pays into the Fund a "quota" based on the size of that country's economy. On loans up to 25 percent of this quota, no special terms are required. Anything above the 25 percent threshold, however, necessitates an IMF agreement. This forces the borrowing state to embrace certain policies: loan conditions which "entail fiscal austerity (cutting government expenditures and increasing taxes), tight monetary policy (raising interest rates and reducing credit creation), and currency devaluations."[79]

Some countries may seek out conditionalities as a justification for imposing unpopular structural reforms or to pass blame for the implementation of such policies. For opposition groups to contest the policies in question "is no longer a rejection of the government, but a rejection of the IMF, which is costly because it sends a negative signal to creditors and investors."[80] If reforms are already unpopular in a society, establishing them anyway fosters certain aspects of cultures of political opposition. Additionally, opposition to these policies may have good reasoning behind their stance if the programs in question weaken a state with their drastic changes.

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CHAPTER 3: NICARAGUA

The overthrow of the Somoza family dynasty of Nicaragua by a multi-class coalition led by the Marxist-nationalist Sandinista National Liberation Front (FSLN) in 1979 has inspired a large degree of study. The amount of interest in the Nicaraguan Revolution likely stems from the fact it took place in the backyard of the United States of America, under a family that had uniquely strong ties to the US government. These ties became a liability to Washington, however, when the Somoza family's corruption and repressive behavior could no longer be ignored. Decades of unequal growth and government overinvestment in unstable sectors of the economy left the state vulnerable to the organized action of a disenfranchised population; as the economy's struggles deepened, Nicaragua's economic elites, seeking their own economic interests, shifted their support to the remarkably adaptive FSLN, forcing the balance of power away from Somoza. Conditionality seems to have had little role in the revolution; in fact, recent Nicaraguan participation in condition-heavy loan programs suggests no correlation between socio-political instability and loan requirements. The role of the Bretton Woods Institutions was still crucial, however. As the architect of the system of government-driven agro-export, the World Bank allowed the Somozas to consolidate economic and, thus, political power.

Dependent Development

Despite their small size, "weak entrepreneurship, organizational fragmentation, and political incompetence" Nicaragua's economic elites played an important role in linking the two sides of Nicaragua's political economy for much of the twentieth century.

While their holdings placed them on top of the social structure, these elites were fractured, often along regional lines.[1] Additionally, a surplus of sparsely populated land allowed for widespread use of subsistence farming. This labor-intensive, low-output form of agriculture regularly employed the majority of population in the working of community land rather than on the plantations of elites.[2] Thus, through the first half of the twentieth century, Nicaragua faced a combination deeply entrenched agricultural practices and an ineffective elite; together, these propagated a largely non-industrial economy with little hope of reform.

Even from these times, however, agricultural exports served as the source of growth for the Nicaraguan economy and of wealth for the nation's economic elites. Driven by successes in Costa Rica, in the 1850s the Nicaraguan state began to encourage the widespread cultivation of coffee, building the Pacific port of Corinto in 1859 to manage coffee exports. By the onset of the great depression, coffee was responsible for over half, 54 percent, of the value of Nicaragua's exports.[3]

As years passed, the success of coffee exports began to entrench export agriculture as the backbone of the Nicaraguan economy. This transition was encouraged in a large part by the international financial institutions. IMF Advisors in 1949 recommended "mechanizing agriculture and increasing the flow of capital to producers" as means of solving deflation, credit restrictions and slow growth through "the agro-export sector."[4] Experts from the IFIs sought not only higher productivity from agriculture, but also more efficient means of transporting farm goods to urban processing or shipping facilities. As such, the World Bank funded projects to construct links between farming regions and the Pacific Coast or Managua.[5]

Export agriculture noticeably bolstered Nicaragua's aggregate economy. Between 1950 and 1977, average annual GDP growth was a remarkable 6 percent. Nonetheless, such accomplishments could not conceal that "clearly, many Nicaraguans were getting poorer as their country grew richer." Childhood malnutrition shot upward, doubling between 1965 and 1976.[6] The encouragement on the part of the IFIs for an export agriculture driven economy had dangerous consequences for Nicaragua's socio-economic structures. Government policies in response to these recommendations benefited the economic elites who already controlled the means to grow, harvest, and ship export goods; their good fortune allowed them to expand their operations; yet as they purchased new land, they also widened income inequalities. Peasants found themselves forced from their homes to less fertile areas; their inability to subsist off this lower quality land sent a flow of the poor to plantations, where they "lived and worked…in miserable conditions during part of the year"[7] or to the cities, where they settled in burgeoning slums.[8] Aggregate successes were going to the Somoza family and the economic elites, bypassing the lower classes whose dispossession had allowed for such rapid growth.

The success of coffee soon expanded Nicaragua's export agriculture sector to new crops. As fast food chains exploded in popularity in the United States, demand for cheap, lower quality beef grew immensely. This had a remarkable effect on the Nicaraguan cattle industry, as beef exports climbed from $3 million to $44.5 million in the thirteen years after 1960. This trend added to the agricultural land grab, and a tripling in the amount of land used in cattle production further contributed to the rising numbers of homeless poor.[9]

It was cotton, however, that quickly became the propelling force behind the Nicaraguan economy, as cotton farming became the primary destination for domestic credit. "In 1954, 68 percent of all credit was devoted to cotton, and acreage doubled with the infusion of a $7.5 million loan from the World Bank. By 1955, cotton overtook coffee as the top export."[10] Since World Bank loans were allocated through the state to cotton-producers, the cotton industry's rise depended heavily on the state. In fact, "by 1956, government financing covered between 70 and 80 percent of the total cost per acre," creating "a pattern of short-term price speculation and reluctance to invest personal funds." This left the government heavily invested in a highly speculated market that was extremely susceptible to failure from pestilence, tropical weather, and price instability in foreign markets.[11]

Dependency went both ways; with the national bank as the majority provider of credit to cotton, cotton growers—and with them their financial strength—grew more and more reliant on the Somoza dictatorship.[12] With such a large proportion of the elite dependent on the regime, the state was more empowered to act as it wished, without interference from elites. The potentially destabilizing consequences of this system first became obvious in 1957, when a drop in the price of cotton broke years of political peace and shook the foundations of the economic elite. Since a large number of cotton growers still had outstanding loans with the National Bank of Nicaragua (BNN) at the start of the planting season, the government quickly found itself stuck with a $7 million deficit.[13]

Economic development in Nicaragua during the early to mid twentieth century was not limited to agriculture. Following the Second World War, Nicaragua's involvement in the world market deepened, and its economy diversified remarkably, "reinforced by the interventions of international financial and development authorities, particularly the World Bank."[14] The average annual growth rate of manufacturing grew at about 12 percent throughout the 1960s, a rate unmatched in the rest of Central America. By 1975, manufacturing controlled a small but important 22 percent of the economy, creating formerly unheard of opportunities for industrialists.[15]

Despite these minor victories for non-governmental elites in this period, the growth of the economy benefited the Somoza family far and beyond any other group. By 1979, "the family controlled economic assets which represented 25 per cent of GDP." In comparison, the two large Nicaraguan "business groups," composed of multiple economic elites, controlled only 20 percent of GDP.[16] The rapid development of the economic system under the guidance of the World Bank granted the Somoza regime with the power to control elites through manipulation—threatened or real—of the economy.[17]

The Nicaraguan economy of the mid-twentieth century also featured a heavy dependency on the United States. "The role assigned to Nicaragua by US capital, as a supplier of raw materials and a market for [US] manufactured goods, scarred the economy with every feature of dependency. Nicaragua relies on its exports…Its industry is grossly underdeveloped, unable to meet internal demand," which US industry met in its stead.[18] Additionally, "US-dominated institutions," namely the World Bank and IMF, served as the primary gateway to resources crucial to economic development—further trapping Nicaragua and the rest of the region within the US sphere of influence.[19]

Eventually, the behavior of the Somoza regime necessitated Washington to place a freeze on US and US-backed aid to Nicaragua. Without economic support, Nicaragua's economy teetered on the brink of collapse; with Anastasio Somoza Debayle's lifeblood gone, he lost control of the economic elites, who shifted their support toward the Sandinistas in hopes of resurrecting their own fortunes.[20]

Exclusionist State

The Somoza family held a firm grip on the politics, economy, and society of Nicaragua from 1937 until its 1979 overthrow.[21] Much of its power lay in its control of the National Guard, of which Anastasio Somoza Garcia, the patriarch of the dynasty, was appointed head in 1933. Complicit in the assassination of nationalist rebel and Somoza opponent Augusto César Sandino in 1934, the Guard's monopoly of violence built it into a much-feared tool of repression.[22] Over time, this violence became increasingly focused on the general population as well: on January 22, 1967, National Guard forces under the command of Anastasio Somoza himself attacked an unarmed political demonstration with disproportionate and deadly force, killing or wounding at least 600 protestors.[23]

Anastasio Somoza Garcia's rise to power employed the National Guard for his own aims. Having deposed President Sacasa, his wife's uncle, in 1936—two years after ordering the murder of Sandino—Somoza's ascent was one of intimidation and violence.[31] Nonetheless, not all of the Somozas' political consolidation was the result of guns and bloodshed; indeed, one of the biggest steps required Anastasio Somoza to strike a deal with members of the Conservative: "deference to Somoza…for one-third of the National Assembly and the promise of more commercial liberty."[32]

With the National Guard as its fist, the Somoza family extended its reach into every facet of Nicaraguan life.[24] More often than not the expansion of the Somoza family's influence resulted in a contraction of that of the elite.[25] The dynasty's consolidation of power severely limited elites' hereditary control over "traditional sources of wealth: sugar, coffee, and beef production."[26] To further this bid and to build something of a personality cult, the eldest Somoza built an image of himself as protector of the Nicaraguan nation; yet when he "staked the success of his administration on attracting foreign aid and expanding export agriculture," he opened his government to claims of illegitimacy if its promises failed to match economic reality.[27]

Corruption and a disproportionate control of wealth characterized the Somoza regime. Using a closely watched "bureaucratic network known as the 'minifaldas,'" or "miniskirts," the Somozas attempted to maintain their personalistic control over Nicaragua's economy by directly overseeing the design of liberal economic programs. Trained in economics or business at Western universities, the minifaldas developed policies that, due to their neoliberal education, allowed for Nicaragua to receive aid and international financial favor. The illusion of like-mindedness between the IFIs and the minifaldas to some extent worked to cover the Somozas' unconventional actions, providing a certain degree of freedom from "sources of pressure for socioeconomic reform" at home and abroad.[28]

If the government's procurement foreign aid displayed rank cronyism, its response to the 1972 Managua Earthquake was more akin to that of an invading army: "guardsmen, including Somoza's own security detail, deserted their posts to attend to their families or to devote themselves to looting, while ignoring victims' pleas for help." They then profited in the weeks that followed by selling their looted goods, along with relief supplies from abroad, on the black market.[29] Such behavior aroused and consolidated opposition in groups traditionally loyal to the state, namely economic elites.[30]

Cultures of Opposition

The violently repressive nature of the Somoza regime led to the alienation and the ultimate organization of the economic elite. In 1979, as a credit crunch gripped Nicaragua amid political instability, growers had difficulty obtaining funds from the BNN, and "a large part of the early plantings were abandoned because of insufficient capital to renew the cotton cycle."[33] Following the massive losses from this crop failure, many elites chose to organize and make demands of the government. As political unrest exploded among the lower classes, the discontent of the nation's economic elite provided the FSLN an opportunity to make their movement truly multi-class, while elite organization allowed revolutionaries a framework within which they could present their vision to those with economic power.

This tradition of organized protest—rooted in outrage over the credit system—would prove crucial in the coming revolution, although it does not appear that the IFI-backed credit system itself was the predominant reason for elite dissatisfaction. "Interview data convey a clash of political and moral values between Somoza and the cotton elite, not one over export markets and profits." Nonetheless, when elites moved to fight what they viewed as political and moral wrongs, they drew on the experience of credit protests to guide their efforts.[34] Additionally, such data ignores the negative correlation between the criminal activities of the Somoza regime and the state's ability to secure foreign loans or investment. Since the state channeled loans from abroad to agricultural elites, any loss of funds caused by its repressive tactics would have critical economic repercussions for growers. Sandinista leadership recognized the alienating effect of over forty years of Somoza rule on the country; "they even saw the opportunity to draw disaffected businessmen into a broad anti-Somoza alliance." By moderating their leftist rhetoric, they quickly gained much needed support from the disaffected upper class.[35]

Nonetheless, the FSLN's most powerful tool for framing their struggle against Somoza was the image of their namesake. Augusto Sandino was the leader of Liberal Party dissidents who, for six years, had waged guerilla war against US and US-allied Nicaraguan forces.[36] With his murder at the hands of the Somoza's US-backed National Guard, Sandino passed into the collective memory as an image of nationalist pride. "The revolutionaries' use of the figure and persona of Sandino was central to their success."[37] The hierarchy of his revolutionary ideals—advancement of the Nicaraguan nation and opposition to US imperialism[38] over Marxist motivations—made him an approachable image for a multiclass coalition.[39]

Economic Downturn

Nicaragua's turn to export agriculture did have a positive effect on the national economy; indeed, from 1961 until 1972, the economy grew every year and inflation remained in check. Nonetheless, prior to the Managua Earthquake of 1972, there had been a trend of steady decline in annual GDP growth rates. With the end of the post-earthquake construction boom of 1973 and 1974, the economy shrank minutely.[40]

The corruption and violence by which the dictatorship had ruled soon came to bear on the economy's ability to weather such difficulties. Under the Carter Administration, which claimed a foreign policy that put human rights first, funding to Nicaragua became less and less available. By 1979, White House had begun to block assistance from the IFIs; after one such loan for $20 million from the IMF had been

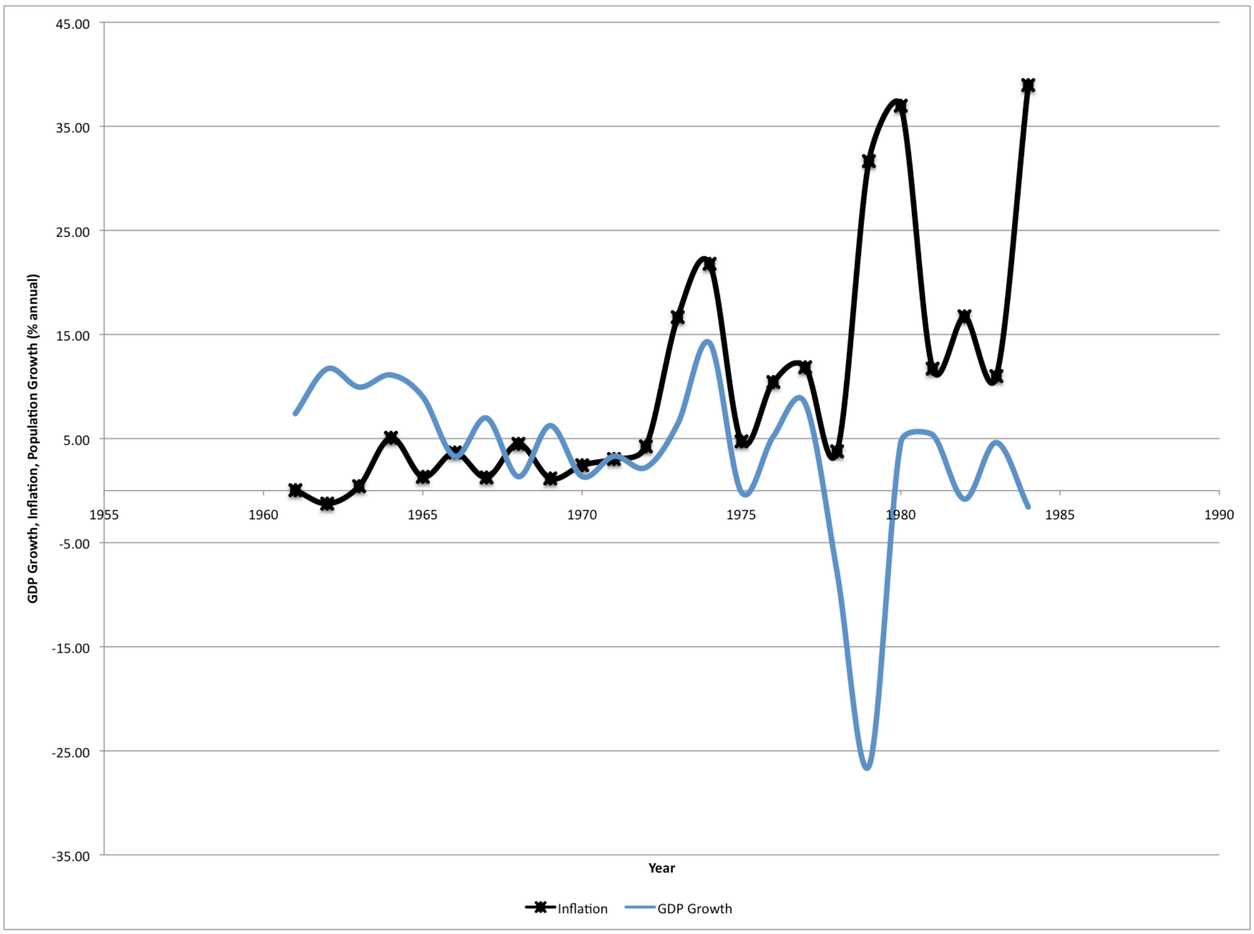

Figure 3.1: Nicaragua's annual rates of inflation (GDP deflator) and GDP growth, 1961-1984.[41]

vetoed, the Nicaraguan “government defaulted on $65 million of external debt. Then, the Central Bank raised interest rates on outstanding loans in agriculture and sped up amortization on short- and medium-term credit.”[42] The resulting “absence of liquidity and forthcoming capital from foreign lenders made it imperative for businessmen to wrest the banking system from the state.”[43] The cease of credit fueled the already steady rise in joblessness, encouraging more of the industrial working class to support the coalition fronted by the FSLN.[44]

World-Systemic Opening: IMF And World Bank Involvement

World Bank involvement in Nicaragua began in the early 1950s in the form of advisements and missions. After one such mission cited the “weakness of the transportation and financial infrastructure of the country” as a major limitation to growth, the Bank encouraged the building of highways in the fertile western portion of the country. Through this and more blatant urgings for building the economy on agro-export, the World Bank took on a huge role in shaping the Nicaraguan economic and political climate. The Bank’s involvement had unexpected consequences when it offered a $3 million loan “to set up the Ministries of Economy and Foreign Affairs.” The positions within these new institutions were immediately filled with Somoza cronies.[45] Simply put, without direct oversight by the World Bank—and its ignorance of the real situation on the ground in Nicaragua—the creation of government jobs under its programs became yet another means for the Somozas to expand their power.

Nicaragua's costly system of credit had its roots in World Bank advising. Having determined that not even 25 percent of Nicaragua's cultivable land actually was being farmed, a Bank report emphasized "the need for an adequate credit system to strengthen producers' ability to compete in export markets."[46] The disbursement of funds from the IFIs also had the unfortunate effect of magnifying the Somozas' power, as all loans disbursed to Nicaragua "had to be deposited in either BNN or INFONAC [the National Development Institute] accounts controlled by Somoza"; this made the Somozas "the lifeline to official development assistance."[47]

As World Bank involvement continued into the early and mid-1970s, its loan activity seemingly moved to counter growing inequality. In its 1974 *Annual Report*, the Bank reported that "small- and medium-sized farmers," those outside the large banking and business groups, would be the targets of its most recent batch of loans. The Central Bank of Nicaragua (BCN) was to disburse the loan, which again left vital credit in the hands of the Somoza regime. Furthermore, the loan's aim was focused still primarily on export agriculture rather than on the economic independence of Nicaraguan food supply or the survival of the rural poor.[48]

This effort to expand export-agriculture to small farmers could be seen as an attempt to curb the potential for socio-political instability, especially as growing numbers of landless farmers poured into Managua—fodder for FSLN revolutionaries. This suggests the World Bank might actively seek to minimize social instability even in the face of political and social injustice; from an investment standpoint, this makes much sense, as such actions would lower the risk factor for investors.

Unfortunately for such investors, around this time the Somoza regime itself began to lose economic credibility. Continued human rights violations tempted Carter Administration intervention, as its foreign policy claimed to be human-rights-centered. While the White House did end most international financial assistance to Nicaragua by 1979, the ban was not absolute; these exceptions often benefitted US interests while hurting Nicaragua's economic position. Notably, the IMF forced the BCN to devalue the córdoba 40 percent in April 1979. However, given the political climate, investment in planting was low and labor boycotts common; the sought-after rise in exports did not occur. What did happen was capital flight, as Nicaragua's loans, and their interest payments, were valued in US dollars.[49]

IFI planning and funding, rather than imposition of conditionality, ultimately crippled the Somozan state. This trend would arise again in the crippling of the Sandinista government, as the Reagan Administration cut off Nicaragua from international development funds, and most other trade and aid, during the 1980s.[50]

Revolution

"The Nicaraguan revolution was not peasant, proletarian, or bourgeois. People of almost every social stratum actively participated in the overthrow of the Somoza dictatorship."[51] FSLN attacks in 1977 marked the beginning of major armed conflict and quickly sparked investor worry over an imminent, "precipitated economic decline."[52] Boycotts, strikes, and shutdowns intensified throughout August 1978,[53] culminating in an uprising on September 9, 1978 that La Guardia put down viciously and violently, even against non-combatants.[54] Investor fears turned into reality, as war destroyed nearly 8 percent of Nicaragua's GDP in 1978.[55]

The massacres in response to the September 9 uprising occurred throughout the countryside and marked the point of no return. Nine months later, on May 31, 1979, a broadcast went out calling for general revolt and strikes: "'Heroic people of Nicaragua, the hour of the overthrow of the infamous dictatorship has come.'" The disenchanted masses—many the uprooted peasants turned slum and plantation dwellers—received the announcement with vigor. Their mobilization would play a "central role in challenging [the] anachronistic" Somoza regime.[56] By June 9 the Battle of Managua had erupted, "involving citizens from nearly every social sector…traders, vendors, artisans, carpenters, bricklayers, mechanics, and students."[57] Popular support for the FSLN was so strong that, throughout the city, "barricades, trenches, and well-defended positions...appeared overnight as if by magic."[58]

After over two weeks of fighting in the city, FSLN forces retreated to the relative safety of Masaya.[59] By saving thousands upon thousands of its forces from certain death at the hands of the technologically superior National Guard in the capital, and through the sheer improbability of the feat, the retreat amassed "awesome propaganda value."[60] Indeed, the successes of the FSLN in and around Managua signaled to many elites that the time to abandon Somoza had arrived, and some open support of the FSLN began. By June 27, the Superior Council of Private Enterprise (COSEP), in a final act of elite fracturing, recognized the Leadership Junta of the FSLN as the rightful government of Nicaragua.[61]

Lingering pockets of Somozan control soon fell to omnipresent FSLN pressure. With the fall of the conservative stronghold of Granada on July 17, Somoza retired from his position as commander of the National Guard and fled with his closest advisors to Florida. "Radio Sandino woke the nation on the morning of the 19th with martial music, folksongs, the Sandinista anthem and the slogans of victory. It broadcast the first instructions of the Junta, ordering discipline, vigilance, and generosity to the defeated enemy."[62] After decades of corrupt rule, exploitative governance, and unequal growth, the Somoza regime had collapsed under its own shortsighted policies and misbehavior.

Cutoff Over Conditionality: The Collapse of the Sandinista Government

The victory of the FSLN would not last the decade. The Sandinistas' predominantly Marxist, anti-United States rhetoric quickly made it unpopular with the Caribbean's undisputed hegemon. Within months, despite Nicaragua being "an obvious candidate for reconstruction financing," IFI assistance shriveled up.[63] So effective was US influence that previously accepted IBRD loans to Nicaragua underwent cutbacks after US officials announced their "displeasure" with Sandinista Nicaragua's politics.[64]

The war to overthrow Luis Somoza Debayle's government had left Nicaragua's economic infrastructure in ruins. "Nicaragua had suffered a 26 percent drop in production in 1979."[65] Rather than redevelop Nicaragua, the Reagan White House sought to bleed it dry. Counterrevolutionary groups ("Contras"), composed in part of former National Guard members, received US financial and military backing in their war against the Sandinista state. "By mid-1987, the war's direct costs in destruction of capital and lost production had reached $676 million" Beyond the huge damages the decade of civil war left on Nicaragua's economy, "the Reagan Administration exacerbated the economic strain by imposing a trade embargo and blocking Nicaragua's access to international development credits from sources such as the World Bank." The cost of six years at war was estimated to be in the range of $3.7 billion, "a prodigious sum for a very small economy."[66] Hemorrhaging money in war and economically isolated from everything but bilateral credits, the FSLN found itself financially unable to afford its goals and promises.

In the face of economic and military warfare, Sandinista reformed crumbled under democratic elections in 1988. Some indicators, "such as Sandinista pragmatism and labors' continued productivity, suggest that in the absence of hostile US policy, the Sandinistas' economic strategy could have been quite successful in rebuilding the country…and in expanding bases for self-sufficiency," ending the cycles of poverty and dependent development.[67] The new government, eager to please foreign investors and the United States, quickly embraced IMF and World Bank involvement and conditionality, and by 1992, nearly a half billion US dollars in loans were flowing to Nicaragua.[68] No revolution or major form of socio-political instability has occurred since in Nicaragua, despite the conditionality attached to loans since 1992.

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CHAPTER 4: SOUTH AFRICA

From 1948 until 1994, South African society existed under the racial segregation of apartheid. While segregation had existed prior to the 1948 election of the white National Party (NP), the rise of the NP and the enactment of its policies segregated all aspects of South African life.[1] With an economic policy aimed at promoting white prosperity, inequalities arose that, by the mid-1970s, would fuel domestic strife. Nonetheless, these policies' most important consequences lay in their effect on South Africa's placement in the international economy. As it grew more dependent on global markets, the NP lost its political autonomy, and the need for funds amid economic crisis required it to make concessions and undergo transitions that, together, would constitute a revolution.

Dependent Development

The oppressive, racist nature of South African society under the NP and apartheid made whites the privileged recipients of the economy's success. Following the course of "Racial Fordism," South Africa sought industrialization through import substitution of white South African consumer goods.[2] The combination of import substitution industrialization (ISI) with the cyclical creation and abuse of unskilled black labor laid the foundation upon which apartheid flourished for over four decades.[3] The sustained exploitation of the vast majority of South Africa's population for cheap labor required sizeable yet mild government intervention in the economy. Throughout its history of independence prior to 1994, South Africa's economic policy featured a large degree of "parametric rather than pervasive" government involvement. While avoiding the outright nationalization of any major industries, the state sought the success of Afrikaner-owned industry through "tariff protection, import controls, [and] local content regulations."[4]

South Africa's acceptance of import substitution as a means of growth structured manufacturing for the production of consumer goods purchased by whites. Unable to meet consumer demand on its own, South African industry had to import complex machinery, investment funds, and maintenance equipment. This dependence on abroad more than opened South Africa to international shocks; it limited the economy's ability to develop technology to suit its own particular needs, further restricting growth.[5] This would have dangerous repercussions for the economy were it ever to attempt sustained rapid expansion or enter rough economic times—or both. An economic expansion, marked by higher demand, required manufacturers to increase imports drastically in a short period of time. With increasing limits on foreign financial assistance as apartheid continued, problems began to arise within the balance of payments, requiring economic policy "to deflate the economy."[6] This aspect of the economy embodies the idea of dependent development as "growth within limits," and ultimately would play a crucial role in the overthrow of apartheid.

As a means of financing the import of massive quantities of capital, South Africa found its role in the international economy to be one of "exporter of precious metals and raw materials."[7] South Africa's large gold reserves allowed for the expansion of industry because of gold's consistently high price on the world market.[8] Zavareh Rustomjee and Ben Fine argue that mining or, more specifically, the "Minerals-Energy Complex [lay] at the core of the South African economy."[9] Beyond providing the foreign exchange required to purchase much-needed capital from abroad, the mining industry was a major target for foreign investment, further aiding the growth of the aggregate economy.[10]

The gold industry did not sustain the policy of racial Fordism on its own. The goal of the NP, "white minority domination exerting pressure…that would enhance white living standards," also played a key rule.[12] As a result, the quality of life for whites climbed.[13] South Africa's privatized, highly developed "white" economy spanned mines, "large conglomerate companies, banks and financial institutions," along with local industry. Meanwhile, since IFI assistance was distributed through the state, apartheid, which separated blacks and other non-whites from white capital, left the non-white economy decidedly Third World and with little recourse. While crushing poverty and high mortality terrorized black communities, the apartheid state constantly advocated "white interests, through education, health, social, and employment policies."[13]

ISI did fuel rapid growth in the 1960s, but its reliance on foreign capital made South Africa's economic structures highly dependent on the world economy.[14] Additionally, industry and mining's high productivity and low wages under apartheid made them rather profitable, encouraging foreign direct investment in South Africa.[15] As foreign involvement in the economy grew, it forced state-backed Afrikaner and comparatively weak English capital together, into the web of the global economy; this accelerated the rise of white society over that of the impoverished black masses.[16]

As dependence on foreign funds and capital swelled, the autonomy of the NP and the security of apartheid flagged. Indeed, the degree to which foreign interests had invaded the South African economy not only left domestic firms and the state more accountable to foreign capital, but it also made domestic growth wholly dependent on financing from abroad.[17] Investors worried over the labor market inefficiencies of apartheid and the political instability such oppression fostered. With the onset of the debt crisis of the 1980s, South Africa's increasingly dependent position in the world economy would become a major factor in bringing the NP to the point of negotiations with the African National Congress (ANC), especially with the suspension of foreign loans to the state after 1985.[18]

Beyond a disadvantaged placement in the world economy, South Africa also suffered from the exclusion of its non-white majority population from financial success. Wage discrimination was endemic; while the real wage of black workers had not risen in the period between 1918 and 1972, whites—amounting to only 10 percent of the labor market—earned roughly 67 percent of all wages at the end of this period.[19] For many blacks, this put education far out of reach, diminishing the black community's and the national economy's supply of skilled labor.[20] Inequality extended past racial imbalances within industry and into agriculture and mining; "the black population…represented 83 percent of the total population but occupied only 13 percent of the land."[21] Miners, though slightly better off than most of these farmers, rarely earned the wages an urban family needed to survive.[22]

These structural inequalities bred widespread, devastating poverty. In the fields of "housing, health, education, and water and electricity supply," apartheid absolutely failed the vast majority of South Africa's people.[23] Much of this was rooted in whites' control of indigenous tribal lands; blacks left landless and unemployed by white land grabs found that apartheid granted them limited economic opportunity.[24] In the overcrowded, crime-laden township slums of South African cities waited a disenfranchised, abused population aware of the prosperity around them.

South Africa's economic growth truly was "accompanied by negative repercussions for specific groups and classes"[25] Racially motivated fiscal policy cut deep inequalities in education and medical care, which left South Africa without the skilled, healthy, literate, numerate labor it desperately would require to compete internationally in the future. Simply put, the injustices which once faced black South Africans alone ultimately would challenge, and unseat, the arbiters of apartheid themselves.[26]

Exclusionist State

As previously noted, an economy as divided as that of South Africa from at least the end of World War I through the 1980s requires political intervention to survive—especially when it exists in a society where nearly 90 percent of the population find themselves the disenfranchised class. That "the hegemonic project of the National Party was racial exclusion of al those not classified as 'white'" was no secret.[27] Through racial Fordism and other tactics, South Africa became a state marked by "a stable form of racial domination and economic growth."[28] The exclusionist behavior of the state was not restricted solely to economic or political bounds; especially in urban areas, it extended into everyday social life. Here, special rules like pass laws limited the daily activities of the black workforce "in both the spheres of production and reproduction."[29]

Outside these laws, the violent oppression of mass demonstrations stands out as a hallmark of the NP's exclusionist, repressive state. In March 1960, nonviolent protests against pass laws in the township of Sharpeville ended with 79 blacks dead at the hands of the police.[30] Sixteen years later in Soweto township, not far from Sharpeville, black youth "incensed by racial discrimination and inspired by Steve Biko's Black Consciousness message and the collapse of Portuguese colonialism…started by protesting against the government's attempt to impose the use of more Afrikaans"—viewed as the language of the oppressor—"in schools."[31] By the end of the Soweto Uprising, as it became known, police forces had left more than 600 dead.[32]

The reproduction of the system of apartheid was a very clear goal of the NP, and violence the most obvious means to this end. Great resources were expended for the suppression of opposition groups like the ANC, with nearly a third of the workers at South Africa's London Embassy serving as intelligence officers. Violent attempts at oppression rarely stopped at South African borders. One ANC and South African Communist Party (SACP) leader died in 1982 when she opened a letter bomb in Maputo, while another ANC leader was gunned down in the streets of Paris in late 1988.[33]

In the 1980s, facing heightened pressure to reform, Prime Minister P.W. Botha "introduced polices designed to maintain white rule by combining security measures with internal social reforms," maintaining apartheid by changing its appearance.[34] Despite these attempts at so-called reform, structures of exclusion and violence continued. The adoption of a new constitution in 1984 attempted to diffuse the time bomb of popular dissent by involving Indians and "Coloureds" (typically those of historically African and European ancestry) in the political process. Its inability, however, to create an effective process of transferring rights to blacks meant that apartheid, and the violence that accompanied it, was still as exclusive and vicious as ever.[35] During the Convention for a Democratic South Africa (CODESA), an ANC campaign of demonstrations and stayaways ended in brutality: on June 17, 1992, in the midst of the sixteenth anniversary of the Soweto Uprising, over 50 residents[36] of Boipatong township were murdered at the hands of police and the Inkatha Freedom Movement, an NP ally.[37]

Cultures of Opposition

The ANC, along with its military arm Umkhonto we Sizwe (MK) and other smaller parties, long carried the revolutionary torch in South Africa. Along with its allies, the ANC, via its organization and support of stayaways, boycotts, or uprisings—and its returning of these to popular consciousness—"ensured that South Africa continued to sustain pressure from within."[38] By promoting the stories of black opposition leaders like Steve Biko—whom South African police brutally murdered in 1977—or Nelson Mandela, the ANC framed repression through specific, familiar stories.

The harsh repression and intense poverty under which much of society suffered provided another framing mechanism suited for uniting large swaths of the population. During its years of struggle and its rise to power in the early 1990s, the ANC explicitly sought the "'rapid improvement in the quality of life of the poorest, most oppressed and disadvantaged people.'"[39] The National Party and apartheid were not the only targets of such framing. During the negotiation process, Charles Nqakula, General Secretary of the SACP—a staunch ANC ally and co-founder of the MK—linked the suffering of many of South Africa's people to the Bretton Woods Institutions, which he accused of forcing their own agendas on the developing world. Only through a sole reliance on South

African resources and a rejection of IFI policies like export-led growth, he argued, could the people of South Africa become their own rulers.[40] Indeed, before 1993 even the ANC saw the IMF and World Bank as reactionary forces that would forestall the implementation of the organization's central goals.[41]

Economic Downturn

The struggles of the South African economy between 1970 and 1994 grew from the problems of inequalities and international dependence created racial Fordism. These hindered the economy's ability to adapt to changes in the world market while also making it vulnerable to debt crisis, the collapse of the Bretton Woods system, and oil shocks. Despite these challenges, however, in the 1980s South Africa had numerous assets working in its favor: a large domestic market, qualified research universities, First World financial services, and an ever-developing industrial sector.[42]

Regardless of South Africa's many advantages, big problems loomed. While South Africa's average annual GDP growth rate was 4.9 percent between 1945 and 1974, even at the dawn of the 1970s economic flaws in racial Fordism were glaring. The failed inclusion of excess labor from now landless rural communities and the lack of domestically produced capital placed limits on growth.[43] As the global economy declined during the late 1970s, economic conditions within South Africa worsened.[44] The appreciation of the US dollar vis-à-vis gold, accordingly, and high US interest rates left the economy "in a state of crisis."[45]

Changing dynamics within the international gold market further impeded the South African political economy's ability to sustain apartheid. In the past, South African gold had dominated the market so much that to boycott it was to take all new gold off the market This had changed by the 1980s; the high price of gold allowed countries with less accessible reserves to mine and sell their gold profitably. Indeed, these newer producers often headed campaigns for sanctions against South African gold.[46] The drop in the dollar price of gold near the end of the 1970s weakened South Africa's ability to acquire foreign exchange and to finance the purchase of capital; accordingly, the South African current account ran up a $4.38 billion deficit in 1981.[47]

The injustices of apartheid incited periods of social unrest which discouraged crucial foreign investment, further aggravating the fragile political-economic balance. Beyond the uncertainty of such a high-risk market, many Western bankers had to heed the reservations of their depositors, investors, and governments over South Africa's human rights record.[48] Following the failure of CODESA II, violent uprising seemed highly likely, and the amount of foreign direct investment plummeted.[49] In conjunction with a freeze on foreign loans to South Africa, investor demands would have a critical role in the overthrow of the apartheid state and society.

As foreign funds shrank, limited domestic investment could scarcely match depreciation. Meanwhile, the swelling black labor force was chronically and intentionally under-educated, severely limiting opportunities for employment.[50] For those who managed to find employment in manufacturing, average rates of growth for real wages since 1980 were negative.[51] These factors combined with the global economic downturn to spawn a deep recession. Additionally, balance of payments issues and increased state spending caused inflation to leap into the double digits (Figure 1), which would have a sizeable effect on poor, typically non-white households.

World-Systemic Opening: IMF And World Bank Involvement

The economic and social consequences of apartheid left the state heavily dependent on the intervention of IFIs. As the international economy grew unstable during the 1970s, its failures impacted the South African political economy in increasingly complex ways, pushing it toward socio-political collapse. As a result, the South African economy required evermore direct, external support; in this way, the IMF became a powerful player in the South African political economy.[52]

All apartheid-era loan activity on part of the World Bank ceased after the early 1960s; however, following World War II, "enormous long-term loans"[53] were made for the "development of the country's physical infrastructure (electricity, railways, harbours) [which] was vital to the new apartheid regime's strategy of industrialization."[54] So effective were the measures such loans supported that, following 1967, South Africa qualified as "a higher-income developing country," making it ineligible for loans from the International Development Agency of the World Bank.[55] Thus, the successful support of the apartheid regime—more than disapproval of the racist and repressive society the NP had created—prompted the end of World Bank involvement in South Africa.

Unlike the World Bank, the IMF remained highly active in apartheid-era South Africa until the mid-1980s, when its large Western shareholders could no longer afford the appearance of sustaining apartheid through critical financial assistance. Yet, the historical record of IMF involvement in South Africa suggests intentional support of the

NP, and hence its policy and goals. When the state received its first IMF loan from 1957-1958, it carried no conditionality—rare even at this time; while Latin American countries struggled to meet such standards, South Africa's experience under white rule tells of a "rather close and cozy relationship" with the IMF, likely due to South Africa's geo-political position during the Cold War.[56]

The increase in regional and strictly South African socio-political instability in the early- to mid-1970s left the South African state in an anxious position, especially as the neighboring Portuguese colonies of Angola and Mozambique fell to black African

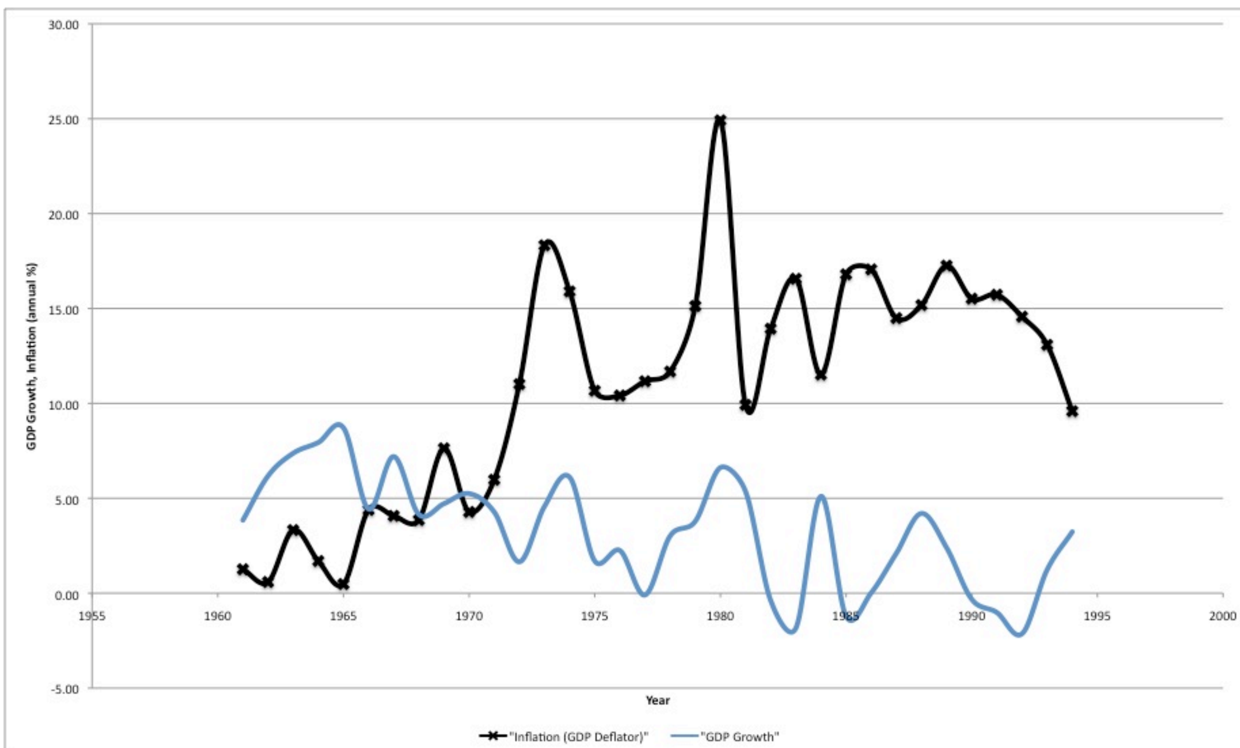

Figure 4.1: Annual GDP growth and inflation between 1961 and 1994, which shows the remarkably high interest rates and instable and comparatively low GDP growth during the last thirty-three years of apartheid.[57]

rule and civil war. The resulting fear that instability within South similarly could transform into revolution drove a massive increase in defense expenditures. Between 1973 and 1975, real military spending climbed 97 percent; to accommodate these increases while keeping government spending constant in real terms, there was a "substantial" real decline in other government expenditures during this period. The government could do this because the rate of money growth had shot to nearly 20 per year through a dynamic of "defense expenditures leading to budget deficits, budget deficits leading to inflation, inflation leading to balance of payments problems" in need of IMF assistance.[58]

Outside of its increased military spending, South Africa was imposing conditionality upon itself. By cutting, or at least not growing, non-military expenditures, the funds available for education and health, especially for the disenfranchised black population, could not match pace with either inflation or population growth. As a result, IMF assistance—totaling SDR643.2 between 1975-1977—basically funded the repression of the black and non-white majority.[59] South Africa's increase in spending on "defence and law and order"[60] from 1976-1977 totaled $450 million, "almost exactly the amount of IMF assistance" provided during that time.[61] Evidence so damning soon would bring the crushing weight of international financial abandonment upon the NP.

While "foreign investment in South Africa paid the highest return of any foreign investment in the world," the fact remained the economy struggled to attract investors; indeed, lower levels of investment in South Africa relative to similarly sized economies were a likely cause of the economy's high marginal return on investment.[62] With investors uncertain about South Africa and with gold still at a low price, the country's economy appeared to be poised for major problems.

In an effort to preempt further economic problems without cutting its military budget, South Africa turned again to the IMF in 1982. In another demonstration of Western shareholders' commitment to South Africa, the Fund approved a $1.1 billion loan in November 1982. Opposition to the loan was widespread but limited to members with developing economies, who lacked the quota and the votes to overrule the West.[63] It was not simply the loan's amount that stirred up such resistance; rather, objections stemmed from an apparent disregard for IMF protocol: "approval was given without conditions related to the country's political system or the impact of this system on the efficiency of its economy."[64] The loan's opponents within the IMF maintained that South African government policies were "anathema to the IMF's view of the world and its ideological stance on questions of development."[65] While apartheid topped the list as a labor market inefficiency, South Africa's loose monetary policy, trade restrictions, and "dual exchange rate regime" also were cited.[66] The small conditions attached to the loan failed to address these in any meaningful way.

The majority of the $1.1 billion came from the Compensatory Financing Facility (CFF). Since the loan had drawn South Africa's entire CFF quota, the IMF was to enforce specific steps—conditions—proven to solve balance of payments issues South Africa faced before disbursal of the loan. In reality, the loan came with no such conditionality; that South Africa could take a full 80 percent of the loan before any of its lenient conditions could be enforced demonstrates the preferential treatment South Africa received from the Fund.[67] Indeed, the loan seemed highly unnecessary; the IMF itself had forecasted a $1.6 billion dollar surplus for South Africa in 1983, and the country's credit ranking left it easily capable of seeking and obtaining loans in private global markets.[68]

Such a non-procedural loan inspired a large outcry. In the US, which had used its large quota of votes to push the loan through, public disgust resulted in the 1983 Gramm Amendment, which outlawed US support for IMF loans to South Africa unless the US Secretary of the Treasury could guarantee the loan would "'reduce the distortions caused by apartheid.'" While this allowed a loophole for the allocation of some aid to South Africa, it effectively ended IMF loans to the country for the next ten years.[69] Even the IMF itself joined the protest. In the IMF's first economic criticism of apartheid, Fund advisors informed South Africa on May 19, 1983, that the state's recurring BOP crises could only be solved through reform of the labor market. Only an end to apartheid could stabilize the economy in the long run.[70]

Through 1984, "the IMF represented a critical source of funds to South Africa for offsetting [its] balance of payments deficits."[71] The relationship came with limited conditionality for a regime whose policies strayed far from the IMF's stated ideals. This was tolerated politically because the United States sought to counter Soviet influence in the region; the capitalism-minded National Party presented itself as a bulwark against Marxism in Africa, especially in its struggle against the socialist-leaning ANC.[72] Furthermore, many powerful Western corporations had important and substantially productive investments in apartheid-era South Africa, and their deep ties to the political decision makers in their home countries worked to protect South Africa from reforms that carried the risks of civil war on nationalization.[73]

Revolution

Instability and uncertainty characterized the late 1980s in South Africa: “recession, drought, an absence of major new loans, slow inward investment, increasing capital flight, [and] spectacular political violence.”[74] Such difficulties, especially the continuing decline in new FDI, left the NP desperate for nearly any solution, and negotiation offered one such escape from the political economy’s troubles.[75] Indeed, during deliberations the NP’s bargaining position relative to the ANC rested heavily on the macroeconomic conditions South Africa faced, especially in terms of its ability to borrow.[76]

For State President F.W. de Klerk, the proper course of action was quite unclear. Whites, the basis of support for the NP, faced a dilemma: was economic success worth the loss of some, or even all, socio-political power? Initially, the NP saw the answer to this question in power sharing: something along the lines of the Tricameral Parliament established under the 1984 Constitution, with houses separated by racial makeup.[77] Global pressures—most especially the withholding of IMF funds—and rising domestic unrest strained racial Fordism and encouraged a turn to liberal markets.[78] Nonetheless, opening up to the free market prior to political reform was not a clear panacea; it threatened to increase inequality as whites, who composed South Africa’s political, social, and economic power base, “had a clear advantage over blacks in competing in the job market."[79] Only the desire "to preserve ethnic privilege" and an unwillingness on the part of IFIs prevented such a change from happening outright.[80]

Internal debate over what goals were to be sought in negotiation was not unique to the NP. Within the ANC existed the dilemma of seeking the nationalization of mining or the adoption of liberal economic policies. Going in the face of decades of ANC economic rhetoric, the "leading economists of the African National Congress believed that the legitimacy associated with the IMF was required for a democratic South Africa to access international financial markets."[81]

The dire condition of the South African political economy following the 1980s resulted in the 1990 unbanning of the ANC. For the first time, legitimate negotiations could occur between the NP and its chief opposition.[82] The first round of negotiations, CODESA I, ultimately resulted in an impasse; no agreement could be reached over the composition of the body that would draft the state's new constitution. It did produce, however, "a Declaration of Intent…that South Africa should be undivided, should enjoy peaceful constitutional changes, should be a multiparty democracy with universal adult suffrage, and have a constitution establishing separation of powers and containing a Bill of Rights."[83]

The actual fruits of CODESA II, started a few months after the end of the first round of CODESA, were similarly void of much practicality. While it was important in creating "the precursor to the final constitution,"[84] CODESA II quickly derailed following the Boipatong massacre, as the ANC walked out in the face of such forthright repression. The NP's complicity in the atrocity, however, forced the its own hand. To withdraw from the process of negotiations at this time risked civil war, to say nothing of the response the IFIs and investors would have to such a move. As a result, de Klerk's administration desperately needed to restart talks, although Boipatong had cost it legitimacy and placed it in a greatly disadvantaged position.[85]

Negotiations restarted on September 26, 1992, at the behest of the ANC, which now obviously held the upper hand in any debates.[86] In return, de Klerk, now keenly aware and afraid of the risks of failure, dropped the NP's previous demands for minority vetoes and ethnic power sharing in favor of "majority rule, based on one person, one vote, one value."[87] Elections for this new state and its Government of National Unity (GNU) took place on April 27, 1994. After 46 years, the system of apartheid—in its political, social, and, at least officially, economic forms—had fallen.[88]

Postscript: Was the South African Revolution Social?

Socio-political literature on revolution in South Africa leaves much to the mind of the observer. Within the confines of this study, which uses Foran's model of revolution in the developing world, the overthrow of apartheid constitutes social revolution. This statement flies in the face of Foran himself, who describes "the uprooting of apartheid" as "a remarkable political revolution" and nothing more.[89]

Foran's argument for a political rather than social revolution is rooted heavily in the fact that the socialist message of the ANC was abandoned following, he argues, "the collapse of the East Bloc that rendered the ANC's socialist economic alternative decidedly unfashionable."[90] In other words, because the economic privilege traditionally held by whites scarcely shifted to the non-white majority, the societal aspects of the revolutionary movement stalled, resulting only in political change. This ignores the many social gains the fall of the apartheid achieved. It eliminated the state-structured control of black lives via passbooks and townships, although not townships themselves. It solved, albeit incompletely, a crisis that "was at once interclass, interregional, and state-market."[91] It bestowed upon the formerly oppressed not only citizenship, but also humanity.

Additionally, many of the often-cited social failures of the revolution were chosen specifically by the revolutionaries to achieve the core social goals of the resistance movement. Despite its advantages in negotiations following the Boipatong massacre, the ANC had to ensure that the new government would be able to run itself, despite the ANC's total lack of experience with managing a state. As a result it needed to maintain positive relations with members of the white apartheid-era bureaucracy in order to capitalize on their talents and practical knowledge in running a government.[92] "As it transpired, the experience of the NP ministers was valuable in the GNU's early days."[93]

Other decisions, such as avoiding destructive civil war or abandoning the long-preached nationalization of the mines, were fueled by the desire to grow the economy via peaceful liberalization in an equitable way rather than through the potentially violent redistribution of wealth. While this allowed for the return of IMF loans within a context devoid of state-propagated labor market inefficiencies, it also required Truth and Reconciliation, "or apology without restitution."[94] Social changes were made or foregone with the consent of the ANC in order to guarantee the survival of personal autonomy and the post-apartheid, majority-rule state.

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CHAPTER 5: NEPAL

Nepal has the unfortunate distinction of being "one of the most aided 'developing' nations on earth," a state with a history of biting poverty and ethnic marginalization for a large swath of the countryside.[1] "About 87% of Nepal's population live in rural areas and rely on agriculture as a major source of income and employment."[2] The state's terrain, limited resources, and landlocked position have made large-scale industrialization difficult through any means. As a result, manufacturing remains a very small component of the economy, controlling only 3 percent of the workforce and 10 percent of the economy as a whole.[3]

During the second half of the twentieth century, as agricultural productivity slowed, the Nepali economy struggled; and BOP deficits necessitated the introduction of adjustment programs. Economic issues, an antiquated and repressive political system, and the imposition of Hindu caste structures on an ethno-religiously diverse society culminated in heightened political instability in 1990 and the Maoist revolution which, still ongoing, erupted in 1996.

Dependent Development

Nepal's history of slow growth and endemic poverty shares many similarities with the case of Nicaragua. As a geographical area marked by numerous mountain ranges, rivers, and dense jungles, Nepal is unfriendly to transportation. Consequently, subsistence farming has typified Nepal's economy and agriculture history. During the latter part of the twentieth century, however, the economy began to shift toward export-driven agriculture. The results were disastrous. "By the 1980s Nepal had turned from a net exporter to a net importer of food grains and the continuing fragmentation of holdings made it more and more difficult for ordinary peasant families to feed themselves." As a result, many peasant families began to slide further into debt, turning to emigration in hope of employment.[4] The flow of Nepalese to the Persian Gulf for work in petroleum refinement and related jobs has been both well documented and an important source of foreign exchange for the Nepali economy.[5]

These changes, along with drops in the prices of rice and jute, fueled growing landlessness. By mid-1984, 44 percent of rural Nepali households had lost their property.[6] Forced from the full-time employment of subsistence farming on their own land, these peasants struggled to find work. Without any other sources of employment available, unemployment in rural districts climbed very high, which significantly increased frustration and resentment among youth."[7] This blatant exclusion of rural communities—many of them ethnic, religious, or caste minorities—is characteristic of dependent development in the form of growth "accompanied by negative repercussions for specific groups and classes."[8] As the 1990s progressed, Maoists were able to recruit support from these frustrated rural communities heavily.[9]

The impact of the shift to export-based agriculture was not limited to the distribution of cultivable land alone. The resulting expansion of agriculture accelerated the destruction of Nepal's forests, which throughout Nepal's history had provided fodder, fertilizer, and firewood to the peasantry—an important buffer from famine.[10] This phenomenon was not especially unique to Nepal. It is classic in countries where dependent development took place in the form of export agriculture. Nepal's southern neighbor, India, underwent massive famines in the late Victorian era as a result of rapid trade liberalization and a sudden transition to export crops. The resulting famines—sparked by regional drought, market forces, a shift toward inedible crops like cotton, and the plowing under of many of India's resource-filled jungles—killed tens of millions of Indian peasants between 1876 and 1902.[11]

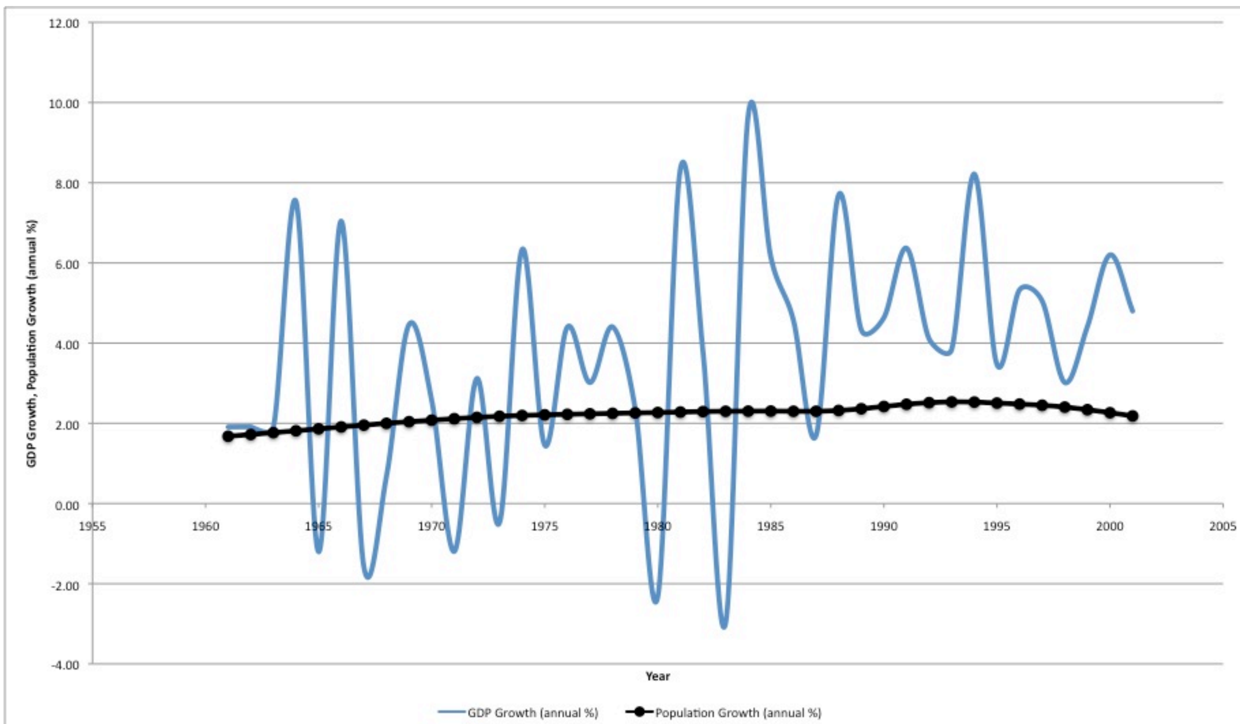

Figure 5.1: Graph of Nepal's annual percent rates of GDP growth and of population growth between 1960 and 2001. While population growth does not seem to be a large factor in this presentation, it is important to note that this data is aggregate for the entirety of Nepal. Population growth during this period was highest, and GDP growth the lowest, in rural areas, far removed from the limited attempts at industrialization.[15]

While a marked improvement in the quality of life for everyday Nepalese has been the stated goal of many of the governments in power since 1951, decades of monarchical rule has failed in this endeavor.[12] Population growth historically has outstripped GDP growth in rural areas, straining state resources.[13] In 2006 agriculture comprised 50 percent of Nepal's GDP, a decline from its 80 percent share in the 1960s. While population growth has been faulted for much of agriculture's role in the weakening of the economy, many critics point also to the inefficiency of farming techniques as at least equally culpable.[14]

The government's supposed commitment to improving living standards nationwide ironically had a significantly urban-industrial bent, despite the small percentage of Nepalese who lived in urban areas. As a result, funds were diverted from agricultural development to manufacturing. In fact, since the overthrow of the Ranas and the push for modernization in the mid-1950s, agriculture has failed to receive over 26 percent of development assistance; of that 26 percent, much was invested in relatively developed, easily accessible regions like the Terai.[16] This left little room for the creation or implementation of new technologies or practices to boost agricultural productivity. Between 1973 and 1980, agricultural production grew at a rate of zero, while grain production, specifically, shrank 1 percent.[17] In conjunction with annual population growth rates around 2 percent, this trend further impoverished Nepal.[18]

Other government policies also had a large impact on the destruction of rural living standards. The state-owned Nepal Food Corporation purchased from exporters a fixed portion of rice and food oils below market prices in order to provide the urban population cheap food. The fact that these foods were forcibly sold beneath their market price discouraged investment in agriculture and fostered investment in industry, which the government protected through tariffs and favorable exchange rates.[19]

Nepal in 1956 had embraced import substitution industrialization (ISI) "with a view to creating employment opportunities and improving living standards." In an attempt to bolster this sector, the state erected strict protectionist measures and apportioned financial aid to it. Nonetheless, these firms were terribly inefficient, while their public ownership discouraged growth in privately owned industry, "which could have created employment opportunities for a growing population." The result was government failure to accumulate resources for the improvement of the quality of everyday Nepali lives.[20]

Nowhere was the urban bias more obvious than in the Kathmandu Valley. The country's largest urban area, the Valley's large population and role in trade buffered it from the crushing poverty of the rural districts. "The Valley was a natural entrepot for trade between Tibet and India since merchants from the south could only cross the Terai in the cold season when the *aul*, a virulent form of malaria, had abated, but then needed to wait for warmer winter weather before crossing the mountain passes."[21]The majority of Nepal's economic activity occurs here or in the flat, relatively fertile region of the Terai.[22]

While Nepali industry saw relative success, its small size and the size of its workforce greatly limited its effect on the Nepali political economy.[23] Meanwhile, in rural areas, cash crops comprised only 15 percent of agricultural production.[24] These facts indicate the failure of the government during the 1970s in encouraging conservation of natural resources, domestically-oriented agriculture, and regional development—that is, in equalizing the distribution of resources between the Kathmandu Valley and Terai and the state's poorer regions.[25]

While about 40 percent of Nepal's government spending draws from foreign aid,[26] distribution of these funds has the mark of prejudiced decision-making and influence. Some of this assistance was directed toward infrastructure: in the forty years between 1951 and 2000, the total length of Nepal's roadways stretched from 276 kilometers to 15,308.[27] However, other practical results that could have had meaningful, direct impact in the lives of the poor were less tangible, if real at all. As growth in the agricultural sector was nonexistent in the decades following the establishment of the *Panchayat* system, foreign development funds have had marginal effect on the poor.[28] Meanwhile, many of the urban projects completed prior to the Maoist revolution "tended to benefit only the local merchant classes, without any general rise in living standards."[29]

The Nepali political economy is also heavily dependent on that of India. Indeed, India's economic dominance is largely to blame for the low levels of industry seen in Nepal throughout the twentieth century, as mass-produced Indian goods constantly had flooded the Nepali consumer market.[30] Beyond sheer economics, India also has a history of military and political intervention in Nepal, sometimes at the behest of the Nepali government.[31]

Dependent development in Nepal took place on multiple levels. At its most obvious, it was an unequal distribution of wealth, development funds, and government protection drawn along the urban-rural line. As agro-export became an important part of the national economy, land was consolidated into fewer hands, forcing many peasants out of their homes and their traditional means of employment and survival. The misdirection of development funds resulted in the stagnation of this sector of the economy, and as a result the benefits expected from it never materialized. This resulted not only in unemployment for peasants seeking work in large export-farming ventures, but also in lower aggregate output. Elsewhere, government policy and foreign aid projects favored the small urban bourgeoisie at the cost of the rural poor and equitable growth.

Exclusionist State

The unification of modern Nepal occurred under the rule, and sword, of Prithvi Narayan Shah, the King of Gorkha, between 1743 and his death in 1775. In this time, the Kathmandu Valley and many areas outside the state's present-day boundaries fell under the rule of this first King of Nepal.[32] The area he conquered encompassed rugged terrain at the crossroads of Central Asia, India, and China. With 59 nationalities, 102 ethnic/caste groups, and 37.2 percent of Nepalese belonging to indigenous groups, Nepal encompasses a large degree of cultural, ethnic, linguistic, and religious diversity, although in many cases geographic barriers separated these diverse groups.[33] Unification thus opened the door for oppression and exploitation of Nepal's minority ethnic groups; indeed, many of Nepal's poorer districts have a preponderance of such groups.

With a very homogeneous state planted on top so heterogeneous a society, a tradition of exclusionist, personalistic, and at times repressive, government emerged. In 1846, the Rana family seized power from the monarchy, relegating it to a largely symbolic role and establishing a hereditary claim to the now all-powerful Prime Minister position.[34] "The crown claimed legitimacy as the protector of…Hinduism…while the Rana regime reinforced and preserved the social hierarchy associated it with it. In the process, they sealed off the country from the outside world as a means of protecting their sovereignty and growing their power.[35] So intense was this fear of losing power that Nepal's first university was not opened until 1918, putting Nepal at a disadvantage in the production of human capital.

The end of British rule in India cost the Rana regime "its most powerful foreign sponsor."[36] The democratically elected government that replaced the Ranas in 1951 quickly was overthrown itself by King Mahendra on December 15, 1960. In its place, Mahendra established the *Panchayat* system, under which "the King kept all executive powers [while] people around him enjoyed privileges which promoted lack of transparency and favoritism." This system also placed limits on personal freedoms and legalized the suppression of all political parties. Economic policy restricted trade in an effort to bolster domestic industry.[37]

Under this "veneer of democratic participation and electoral accountability," the king exercised absolute power with little fear of political repercussions, even in response to the most unfavorable of policies.[38] Nonetheless, this also disabled traditional means of political organization which in the past had allowed for the airing of complaints; without this safety valve, grievances sparked by government repression shifted public opinion further away from the state toward new means of political engagement.[39]

Exclusion was not limited to political or economic spheres. Socially, caste standing held strong influence. “Rajput blood, real or imagined, was to remain an important status symbol,” key to inclusion in the upper echelons of Nepali political society. The dissent of the King and Queen over his lover’s non-Rajput status reportedly provided the motivation for Crown Prince Dipendra’s murderous rampage through the royal palace complex in June 2001.[40]

Hindu Newars—who, along with the socio-religious elite of Brahmans and Chetri-Thakuris, comprised only one-third of the state’s population—held nearly al political power;[41] dominated by Hindus, Nepali society suffered widely from caste discrimination.[42] Ethno-class tensions would come into play in the late 1980s and early 1990s as aid, especially poverty reduction efforts from Nepal’s Structural Adjustment Loans, was misdirected toward projects sponsored by wealthy families or appropriated by corrupt (usually Newar) civil servants.[43] While the actions of the crown pushed away many of the nation’s non-royal elites, within rural areas or small communities such behavior on the part of state administrators forced public opinion away from the government at all levels.

With the onset of the Maoist uprising in the mid-1990s, the state heightened its repressive tactics, bringing a level of violence unseen in the suppression of previous demonstrations. Police actions that started in 1996, under the new administration of Prime Minister Sher Bahadur Deuba, were “indiscriminate and brutal enough to increase local resentment against the government as well as insufficiently sustained to act as a real deterrent.”[44] By targeting civilians along with Maoist fighters, often in the neglected rural areas of the country where the Maoists held their greatest power, the exclusionist state further alienated the population.

Cultures of Opposition

Nepal's history is rich in traditions of mass mobilization of political opposition and unrest. While "Nepal is sometimes thought of as a peaceful Shangri-La," since its unification it has a history of public protest and violent struggle.[45] Whelpton cites pre-unification examples of mass action in the Kathmandu Valley as evidence of the historically crucial role of crowd action in Nepalese politics during heightened elite conflict.[46] Even the tightly managed Nepal of the Ranas experienced numerous "peasant insurgencies."[47] At the end of the twenty-first century, the Maoists were able also to draw on the successful experiences of *jana andolan*, a mass action campaign against the repression of the *Panchayat* system in 1990 [48]

Rolpa and Rukum, the two districts at the heart of the revolution, had their own history of political agitation prior to the outbreak of the Maoist insurgency in 1996.[49] The poverty in these regions was likely the most prominent framing mechanism for revolutionaries, as Quy-Toan Do finds that "poverty is significantly associated with the onset of the conflict, as well as its continuation."[50]

Under the Hindu state and the Newar-Hindu elite, many non-Hindu ethnic minorities fell into lower levels of caste strata. Nonetheless, as "it was unusual for any one caste or ethnic group to make up more than 50 percent of the population in any district," ethno-caste issues had to be incorporated into broader coalitions instead of into numerous tiny self-autonomy movements. While these issues played a prominent role in

Nepal following 1991, they were not alone.[51] Nonetheless, the Communist Party of Nepal (Maoist), the instigator of the revolution, quickly incorporated ethnic discontent into their platform as a means of gathering these groups to their cause.[52] In this way, the Maoists framed their goal of overturning "social and economic injustice against the poor, particularly in rural and remote areas," in terms acceptable to an even larger fraction of the rural population—an effective tactic considering the placement of much of the economy's resources in the hands of the powerful Newar group.[53]

Economic Downturn

The problems which historically had plagued the Nepali economy were, by the 1990s, the Maoists' most powerful framing mechanism. They were the result of decades of economic mismanagement and political repression, especially under the *Panchayat* system of 1962 to 1990. "Nepal, which had the highest agricultural yield (per hectare) in South Asia in the early 1960s, fell significantly behind other countries by the early 1990s."[54] A balance of payments crisis in the early 1980s amplified the problems caused by nonexistent agricultural productivity growth. Import substitution was largely to blame. As a result of rapidly increasing importation of raw goods and equipment for ISI, foreign currency reserves quickly shrank; when foreign capital finally failed to cover these annual shortfalls, reserves disappeared, leading to a devaluation of the rupee in 1985.[55] As a result, in 1986 Nepal received structural adjustment credits from the World Bank. The loan was offered with conditions encouraging liberalization of trade policies and "effective management of public finances," although it lacked price increases or cuts to fiscal budgets.[56]

In an effort to break its dependency on Indian raw and manufactured goods, in the late 1980s Nepal worked to expand trade across the Nepal-Tibet border. The result was a far-ranging blockade, as Delhi began to suspect that Nepal was giving Chinese goods preferential treatment—which India saw as intrinsically threatening to its security.[57] "The resulting shortages, particularly of kerosene, imposed considerable hardship on Nepal and at first the general public tended to blame India alone." This was not to last long, and soon public displeasure shifted to the government itself, fueling the movement to overthrow the *Panchayat* system.

As a result of "the social impact of the government's economic policies, a structural adjustment programme initiated in 1986, and the effects of the Indian trade embargo during 1989, Nepal entered the 1990s in economic and political crisis."[58] As Figure 2 below illustrates, inflationary pressures were near double digits for most of the late 1970s through the early 1990s, and GDP growth remained unstable at best, although in the 1990s GDP growth never dipped below zero.

World-Systemic Opening: IMF and World Bank Involvement

While the 1950s and 1960s saw foreign aid to Nepal in the form of development grants, which stemmed from Nepal's geopolitical importance at the time, such assistance decreased substantially as regional tension waned. At that point, "loans and the role of international agencies such as…the World Bank became more important."[60] Nonetheless, many investment projects—even those designed outside the exclusionist Nepali political system—failed to have a positive effect on employment outside the Terai and the Kathmandu Valley. Furthermore, the dependence of these jobs on materials and other

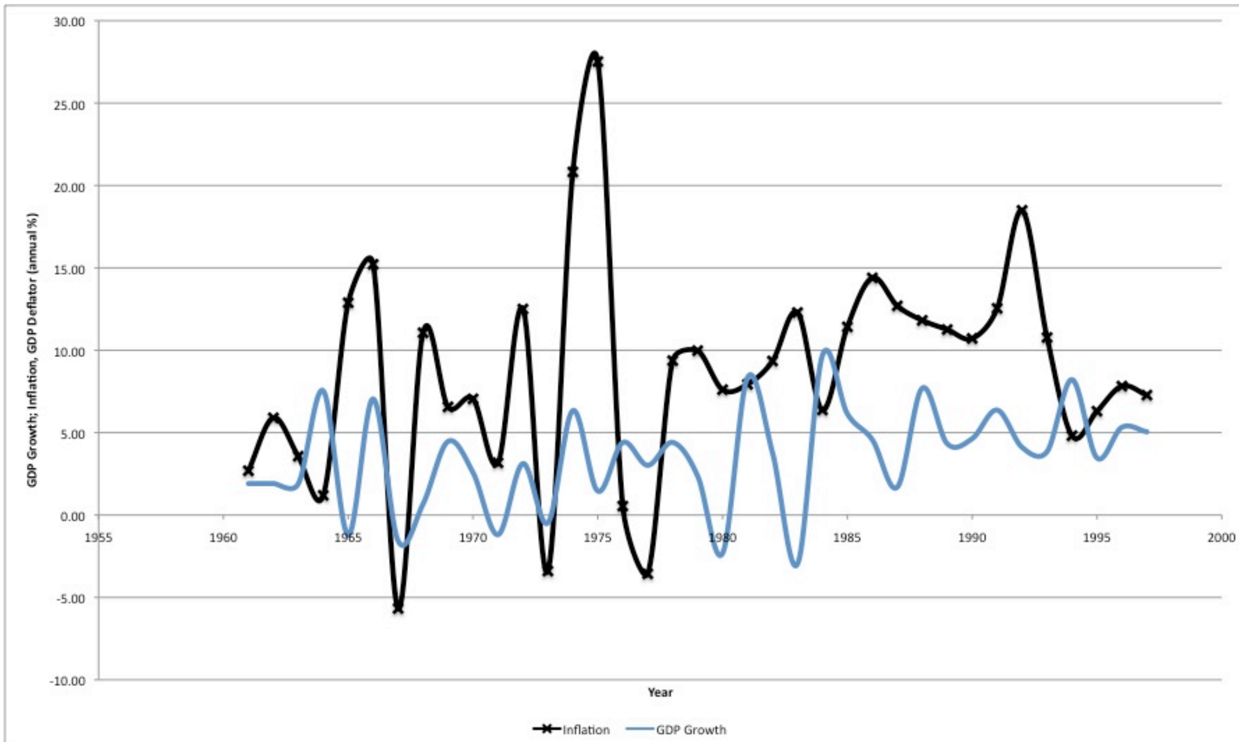

Figure 2: Graph of annual percent rate of GDP growth and of inflation (GDP Deflator) in Nepal between 1961, the year before the *Panchayat* system was founded, and 1997, the first full year of the Maoist Revolution.[59] It is important to note that, while the implementation of Structural Adjustment Loans appear to have had a positive effect on aggregate growth, inflation remained a large problem for the economy.

capital from abroad made industries targeted by World Bank loans counterproductively capital-intensive.[61]

Following the 1985 BOP crisis and devaluation, the Bank's involvement in the Nepali economy increased in 1986 with Structural Adjustment Loan I (SAL I). The driving hope behind this loan was actually the mobilization of heightened political support; as a result, conditionality focused on "sound macroeconomic management, effective management of public finances, support for agriculture and light manufacturing, liberalization of trade, and a start at reforming public enterprises" like Nepal's import substitution industries. Three years later, SAL II came online, aiming "to consolidate and reinforce the earlier operation." This time, the Bank ordered improvements to the tax system, the relatively closed financial sector, irrigation, and the handling of development funds. Totaling $60 million, the program succeeded to some degree in trade and financial liberalization.[62]

"Despite the plethora of organisations now involved in aid at different levels, it was, of course, the major international bodies, in particular the World Bank and IMF, which had the greatest influence over the government's general development policy and therefore had to share responsibility for developmental failure."[63] Furthermore, while SAL I and II were "certainly followed by a significant increase in GDP growth, both in agriculture and industry," and were successful in addressing many BOP issues, it failed to adequately solve inflation, which had "appreciable" effects on the lives of the poor.[64]

Revolution

Prime Minister Deuba's Commission on the Maoist insurgency described the revolutionary movement as "'an expression of people's dissatisfaction through violence…the outcome of defects in managing and handling statecraft and political instability…and the existing social discrimination, unemployment, and economic development."[65] Were this true—the evidence certainly indicates it was—the rural mid-western districts of Rolpa and Rukum, along with their neighboring districts of Jajarkot, Salyan, Pyuthan, and Kalikot, would be a natural "epicenter of the Maoist movement."[66] The mid-western hills are very remote and thus very poor; as a result, anti-establishment support had been drummed up tirelessly there since the 1950s.[67] Beginning "in 1995, the Maoists began a year-long campaign to build support among the peasants for initiating war" in these districts by organizing infrastructure-improvement programs and peasant groups.[68]

On February 2, 1996, the Communist Party of Nepal (Maoist) delivered a Forty-Point Manifesto in Kathmandu. Early in the document, the Maoists addressed economic issues, including "the domination of foreign capital in Nepali industries, business, and finance," ineffective customs policy that would further the nation's progress towards self-reliance, and an end to "colonial and imperial elements in the name of NGOs."[69] These demands might draw also from Nepal's experiences with the World Bank, which by its own admission had failed to incorporate local knowledge into SAL I and II.[70]

Provided the Hinduized state of the previous two centuries, the Maoists also demanded social changes that stretched far beyond purely economic issues. "Nepal," they insisted in Point 18, "should be declared a secular nation." They railed against discrimination of both women and the "downtrodden and backward people," ordering Hindu caste systems—and explicitly the concept of untouchability—extinguished.[71]

Violence broke out days after the release of the Manifesto.[72] For the next few years, conflict took the form of raids on isolated police stations in rural regions "weakly penetrated by the Nepalese state.[73] King Birenda had refused to deploy the Royal Nepal Army in these early stages for a variety of reasons, perhaps in hope of discrediting the politicians who had gained power at his expense in 1990.[74] While their tactics would remain the same, on September 25, 2000, the Maoists changed the conflict's intensity. A

Maoist attack on the state police's headquarters for the "inaccessible district of Dolpa" resulted in the death of 14 government personnel. Within the year, "the Maoists had gained almost total control of five mid-western hill districts."[75]

A greater blow to the state soon arose in completely unexpected fashion. On June 1, 2001, Crown Prince Dipendra, "not only tipsy from whiskey but also high on 'a special kind of cigarette prepared with a mixture of hashish and another unnamed black substance'" returned to a royal family banquet in military fatigues and bearing a small arsenal of weapons. He soon opened fire, killing ten members of the royal family: his mother; his father, King Birenda; his brother, the second in line to the throne; and, two days after the massacre, himself, now King Dipendra, from a self-inflicted head wound. Upon Dipendra's death, his uncle Gyanendra ascended the throne.[76]

The more conservative, less popular Gyanendra intensified efforts at rooting out the Maoists. On November 26, after classifying the CPN(M) a terrorist group, Gyanendra declared a state of emergency and deployed the Royal Nepal Army to fight the revolutionary forces. Over the next three-plus years, Gyanendra dismissed, reappointed, and again dismissed the government of Prime Minister Deuba before seizing absolute power himself on February 1, 2005, in what became known as "the royal coup."[77]

Gyanendra's seizure of power aimed to solve Nepal's socio-political crisis through the establishment of "a semblance of order," which his advisors felt would answer decades of frustration despite its destruction of democratic rights. They were wrong, and their miscalculation alienated even the king's longest allies. Despite increasing public outrage, Gyanendra continued his "backwards" march toward "a variant of *Panchayat*-era political engagements."[78]

In November 2005, the CPN(M) joined forces with the parliamentary Seven Party Alliance (SPA). In their "Letter of Understanding," both groups called for an end to "autocratic monarchy," which was only to be replaced by "absolute democracy."[79] Together they announced a four-day strike across Nepal, beginning on April 6, 2006. After a "lukewarm beginning, reports of violent suppression and killings of protestors drove the strike into a weeks long protest, ultimately pressuring the king to restore parliament on April 26.[80] Within a month, the newly established body had placed limits on the monarchy, secularized the formerly Hindu state, and began talks which led to the inclusion of the Maoists in an interim government.[81]

The Maoists, however, continued to gain influence—only now this was done via ballots rather than bullets. "In May 2008, Maoists unexpectedly won a plurality in the first assembly elections."[82] Now in control, they alerted Gyanendra on May 29, 2008, that within fifteen days he was to abdicate, ending the world's last Hindu monarchy and transforming Nepal into a republic.[83]

The Maoists' revolution still grinds on, like the Russian and Mexican ones before it. Disputes over the makeup of the Nepalese military led the Maoists to quit the interim government in 2009. Since then, they have sparked demonstrations and attempted to enact policy autonomously.[84] With the interim constitution set to expire on May 28, 2010, the future for Nepal is uncertain, with more struggles to come.[85]

Notes

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CHAPTER 6: CONCLUSION

The preceding case studies suggest that institutions can and do have a profound impact in the lives of states. As a crucial source of funds, the IMF and the World Bank act as critical care for states whose political, economic, and social structures have grown obsolete. Just as revolutions are not some quick momentary occurrence traceable to a single day, month, or year, it appears that the involvement of the Bretton Woods Institutions is not limited to a single factor or policy; rather, their participation in a state affects numerous steps on the path to revolution. The IMF and World Bank have long lasting repercussions that make it difficult to determine where their influence begins and where it ends.

The previous three chapters have sought to demonstrate Skocpol's claim that "unique to social revolution is that basic changes in social *structure* and political *structure* occur together in mutually reinforcing fashion."[1] They have illustrated revolutions as processes rooted in flawed structures, as exercises that require time and countless variables to reach their end. Each state in the study has experienced widespread, multilevel dependent development; an exclusionist, repressive state; cultures of opposition; and economic downturn. While IMF and World Bank involvement has been viewed primarily as composing a world-systemic opening, their inclusion in many of the other categories in each case study suggests that their involvement is much more pervasive, unable to be defined under just one dynamic.

IFI involvement had a rather powerful role in dependent development, creating inter-class resentment that fueled the grievances of the lower or disenfranchised classes.

In South Africa, blacks failed to receive an increase in their real wages for nearly six decades,[2] while IMF-backed white South Africa ascended into the First World—an economy held up as the example of growth and progress on the African continent.[3] In Nepal, similarly, many redevelopment funds went to projects that benefitted political elites, the wealthy, or other members of privileged ethno-caste groups.[4] While aggregate growth remained high and received praise, on the ground in rural districts, where the vast majority of Nepalese live, crushing poverty had become entrenched. Urban areas, where political elites lived among a far, far smaller fraction of the state's population, received a preponderance of international aid. Nicaraguan elites, especially the Somozas, benefited from foreign funding that fueled agro-export in the form of credit for cash crops.

The repercussions of these events were not immediately evident. The blatant successes of elite groups, viewed from below in the light of devastating penury, sparked inter-class hatred and fed the building of grievances. Furthermore, as these elites benefited from the support the Bretton Woods Institutions provided their states, the state had a decreasing need to be accountable, distancing public opinion and the desires of the vast majority of the population from the state's decision making, following the dynamic suggested by Foran.[5] As a result, antiquated and unpopular political structures continued to thrive. In all these cases, assistance furthered the dependence of each of these states on the international financial aid and capricious foreign markets.

By financially supporting and, in essence, legitimizing repressive, inefficient, and often flagrantly violent regimes, the most pertinent results of the IMF and World Bank's activities in the states studied above were the perpetuation of antiquated and inhuman state structures. Only this explains how a state with incredible budget problems, high inflation, and a brutally repressed and disenfranchised majority could persist as long as South Africa under National Party rule did. This was the primary reason that so many of the Fund's executive directors protested the $1.1 billion loan of the early 1980s. Often, state-saving resources were provided to these unjust states in the name of protecting investment and maintaining economic stability; yet, measures that would have crippled the political efficacy of these regimes, each of which during the Cold War had important geo-political positions, were very rarely enforced or suggested.

In contrast to what the literature suggests, these case studies found limited direct effect from the IMF and World Bank on the formation of cultures of political opposition. While evidence exists of public outrage over IFI policies and distrust of their motives, as in Nqakula's comments on the IFIs, it is difficult to ascertain just how far-reaching the influence of such thought was. While it certainly shaped the political-economic thinking of the ANC, the role of this viewpoint in mobilizing the masses seems highly limited. Instead, cultures of opposition seem to stem from secondary or tertiary results of IMF and World Bank intrusion or from outright Western interference in domestic affairs. While Nicaragua's World Bank-backed credit system led to elite organization and provided a means by which the FSLN could present their struggle in a positive light to the economic elites, their appeals likely were not made directly to the planters' disdain, if any even existed, for the World Bank. Instead, they were targeted at the corrupt and inefficient Somozan economic system.

The World Bank and the IMF had similar influence on the economic downturns each of these three states experienced. Many of South Africa's economic issues stemmed from the inefficiencies of apartheid, its impact on the labor market, lost investment due to political unrest, or the massive amount of defense spending required to repress over 80 percent of a teeming population. While IFI policies did not harm South Africa's economy directly, they did hasten the economy's struggles, by legitimizing the regime and by essentially funding its violent tactics.[6] On the other hand, in Nicaragua and Nepal, the promotion of and rapid conversion to agro-export sparked a huge rise in homelessness and landlessness, putting an unexpected burden on the states and peoples in question as the rural unemployed moved to slums and into revolutionary cadres.

This study acknowledged and searched for Foran's three factors in a revolution: "political change, structural transformation, and mass participation."[7] While initially the study looked for the ability of IFI involvement to incite mass participation—as the population became angered over lower real wages, cuts in government services, and general recession—and *through* political and structural change, the case studies suggest that the dynamic involved is more nuanced and complex, often occurring through a finance cut or poor, uninformed advising.

In Nicaragua and South Africa, the sudden withdrawal of crucial financial support had devastating ramifications for each state's ability to control its opposition. Specifically, in Nicaragua, the end of funding greatly limited the amount of credit extended to wealthy farmers. Already disenchanted with the government's moral and political shortcomings—as well as with their own prospects for financial success as civil war spread and Somozan malfeasance continued—the elites shifted their support to the FSLN in June 1979. Likewise, the sudden stop of funding to apartheid South Africa following the Gramm Amendment began to weaken the resolve of the National Party government, ultimately bringing it to the negotiating table.[8]

More than conditionality or a rapid decrease in foreign aid, Nepal suffered from loans that lacked oversight and proper advising. Funds simply were doled out without assurance they were designed to achieve their goals. Whelpton found that many projects were viewed by the poor as solely benefitting the wealthy, who, unlike the poor, did none of the labor required for their implementation.[9] Additionally, even the World Bank Group's own Independent Evaluation Group found that the design of SAL I and II lacked local knowledge of the situation within Nepal.[10]

As mentioned, the collapse of the Sandinista government after roughly nine years in power provides further evidence that a cutoff of international funding may prove more beneficial to a revolutionary movement than conditionality. Such a cutoff constitutes a world-systemic opening: a withdrawal of support from the international community, especially from the economic and military powers that hold the majority of the IFIs' votes. While conditionality can force a let-up within the state by limiting the resources available to fund repression, cutoffs additionally destroy any hope of emergency support for the old regime from the international community. Both the Somozan and Sandinista states avoided severe conditionality. Their cases illustrate the need for aid in dependently developing states for economic development to occur on any level. The fact that the conditionality imposed on Nicaragua in 1991 failed to spark another social revolution—or even a regime change—seems to support this conclusion.

Beyond the actual funds provided by the IMF, the relationship between the Fund and the National Party's South Africa bolstered the National Party government, encouraging military and police spending, legitimizing the regime in the developed world, and in effect acting as a counter-revolutionary influence. Indeed, the ability of IMF loans to assuage the fears of foreign private lenders following Sharpeville and the Soweto riots bestowed a degree of political legitimacy on Pretoria.[11] While so reactionary a side of IMF involvement is not wholly shocking—one of its goals, from a financial standpoint, should be to encourage the stability that investors seek—the fact remains that "the IMF played an important role in staving off the imminent crisis in the South African political economy."[12]

In these case studies, there forms a picture of the IMF and World Bank as attempting to foster development at all costs, usually hand-in-hand with ensuring that foreign investment is promoted and protected. In apartheid South Africa, rates of return were some of the highest in the world; but without IMF backing of South Africa through numerous loans despite apartheid's wrongs, it is unlikely those investments would have occurred. Loans were continually offered to Nepal despite highly limited results where they were needed most, although aggregate growth was substantial; the same might be said for Nicaragua. Such behavior reinforces claims in the literature that the Bretton Woods Institutions—by working to establish political, economic, and social stability—enact policies that primarily favor their shareholders. Many of the investments such measures aim to protect come from Western, industrial economies. As these hold most of the power in the IFIs, their focus on minimizing risk to investment—regardless of crushing poverty, murderous oppression, and flagrant corruption—place Western interests ahead of those of recipient nations.

While the examples of these three revolutions cannot support the claim that conditionality encourages revolutionary processes, they cannot necessarily deny it, either. When given the choice between international economic growth or stability and seemingly locally contained inefficiencies or injustices, the IMF and World Bank, in this study, often chose the former. Conditionality was thus too rare to be given any blame in the context of Nepal, Nicaragua, and South Africa; but it was also too rare to conclude it has no role in revolution elsewhere in the developing world. Rather than through a single aspect of their behavior, the IMF and the World Bank influence the lives of states via numerous channels. From ill-fitted policy advice or crippling cuts in financial assistance to the counter-revolutionary support of obsolete states in the form of conditionless loans and legitimization, they profoundly affect revolutions in the developing world.

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