Analyzing International Monetary Fund Policies, Debt, and Political Instability in Guatemala after 1990

Diana Alfaro

California State Polytechnic University, Pomona

The International Monetary Fund was created to promote peace and stability through economic interdependence and free trade. One of its many functions is to provide countries with loans and economic plans for development and to help them avoid default. However, these loans often require recipient nations to enact significantly disruptive reforms that tend to lead to political instability and increased debt. Guatemala has entered loan agreements with the IMF time and time again to develop economically, yet it has faced continued political instability and economic issues since the 1990s. This paper examines how IMF loan policies contributed to increased debt and political instability in Guatemala since 1990.

Created by Diana Alfaro, Department of Political Science, California State Polytechnic University, Pomona. Correspondance concerning this research paper should be addressed to Diana Alfaro, Department of Political Science, California State Polytechnic University, Pomona. Email: dalfaro@cpp.edu

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Research Question

The International Monetary Fund (IMF) was founded in 1944 to promote peace and stability through economic interdependence and free trade. However, its policies have often come under fire for being more harmful than beneficial, especially in lesser developed countries (LDCs). In order to prevent countries from going into default, the IMF sets conditions recipient nations must comply with in order to receive loans. However, these loans often create social and political upheaval due to the deprioritization of civilians' rights and increased prioritization of private property and economic policies (Bejar & Moraes, 2016). These loans and conditions are meant to provide financial stability by cutting deficits to reach equilibrium and provide countries with the means to generate revenue to pay off their debts (International Monetary Fund, 2023).

Guatemala became a member of the IMF in 1945 and barely started reporting data to the IMF and World Bank in 1990. After policy implementations done by the IMF in 1997, the country's debt rose exponentially. Various policy changes recommended, or more accurately required, by the IMF in the 1990-97 period included increased liberalization of important Guatemalan industries, increased taxation of the population, and cutting public sector deficits (International Monetary Fund, 1998). IMF reports from the time period claim that the Guatemalan debt improved during the time period, however, the central government's debt has only increased since 1990 (World Bank Open Data). Additionally, Guatemala was marked by political instability and repression during the 90s at the tail end of a civil war that had been raging for more than 30 years. Low economic development, persistent inequality, poverty, and violence has forced millions of Guatemala's poorest to migrate to the United States.

Given the IMF's track record of leaving LDCs in more debt and instability than they had to begin with, this paper will focus on analyzing how the IMF's policies created more debt and political instability in Guatemala. How did liberalization of key industries, increased taxation and cutting public sector deficits sink the country into deeper debt and create political instability?

Theory

Literature analyzing the specific consequences of IMF policies in Guatemala is lacking, if nonexistent. However, there is plenty of literature examining the effects of IMF policies on Latin America as a whole. Some scholars have analyzed why protests and demonstrations become more common in Latin American countries that enter agreements with the IMF. One argument presented is that "fiscal austerity measures, which constitute the large majority of economic reforms mandated by the fund, often imply important reductions in spending on development projects, welfare programs, and pensions, and reductions of public employees' wages" (Bejar & Moraes, 2016, 28-29). Additionally, IMF loan conditions have often required recipient nations to reduce protection of the social and economic rights of their citizens by imposing reforms like privatization, financial liberalization, and government expenditure cuts (Bejar and Moraes, 2016, 28). This means that IMF policy and loan agreements with Latin American countries are more likely to cause protests and political instability as the government attempts to enforce the unpopular loan conditions set by the IMF while experiencing mass protests.

Existing literature has determined that IMF loans with lots of required reforms cause democracies to deteriorate. Argentina and Mexico, for example, faced violent protests after starting to implement policies the IMF required. However Argentina's democracy declined while Mexico's strengthened. Scholars posit that different types of conditional requirements affect democracies differently. Agreements with minor required reforms can be democratically implemented with little trouble, but if an agreement comes with numerous disruptive reforms, they're left with three options: "attempt the reforms with their potential instability and re-election difficulties, or cancel the loan agreement…implement the required reforms, but reduce civil liberties to ameliorate the threat from any potential opposition" (Brown, 2009, 436).

In Guatemala's case, options one (attempted

implementation with political instability) and three (implementation with reduced civil liberties) were present. Option three was present between 1960 and 1990, when democracy was practically nonexistent due to the 36-year civil war fought between the Guatemalan government and leftist rebel forces. Any IMF agreements between 1960 and 1990 were implemented without any worry for civil liberties or opposition because they were already being severely repressed by the government. After the 1990s, increased taxation and privatization of certain sectors were met with some social unrest, but implemented successfully through new social programs and the continued use of political violence.

The IMF's management of the Latin American debt crisis, while causing political instability, also contributed to increased debt in Latin America. Latin American countries were accused by the IMF of "overborrowing" and making severe "policy mistakes" that led to debt accumulation during the Latin American debt crisis of the late 70s and 80s (Pastor Jr, 1989). It's been proposed that these "policy mistakes", particularly in South America, "were embedded by the monetarist/authoritarian models of accumulation adopted…[and]can be linked to the need to maintain authoritarian regimes' fragile claims to legitimacy–economic success" (Pastor Jr., 1989,84-85). The crisis forced Latin American countries to enter IMF stability programs, which then recommended the same economic package to all of Latin America, which wasn't appropriate to help manage the economic slowdown that caused the crisis in the first place. As such, the region's annual growth rate began to shrink and while fiscal deficits improved slightly, they were still extremely susceptible to economic shocks.

Hypothesis

This theoretical framework relates to Dependency Theory, which explains how exploitation and poverty of the Global South is justified by the Global North and ensures exploitative economic systems keep the Global South underdeveloped and unequal (Velasco, 2002). The IMF acts as a tool of the Global North, wielding economic and political power to ensure the Global South is dependent on and obedient to the Global North in hopes of someday developing. The IMF claims to know what is the best way to develop Latin America by imposing conditions to receive loans that promise to help them avoid bankruptcy and become developed. In their zeal to follow the IMF's conditions in hopes of developing, Latin America continues borrowing more money to pay their debts and invest in what they've been told will turn them into developed nations while remaining dependent on the Global North.

This dynamic is best exemplified by U.S action during the Latin American debt crisis, a time during which the United States saw an opportunity to revive U.S hegemony and mitigate the challenges the Global South posed to that hegemony in the 70s. In the 60s and 70s, global economic power was being redistributed to include a significant portion of Global South countries. This process can be divided into six factors; 1) exports of manufactured goods from countries in the Global South increased, usually through significant subsidies of parastate firms, 2) local content laws, regulations that require businesses to use a certain percentage of local resources and labor in their operations, were being increasingly applied to transnational capital in the Global South, 3) international organizations became global forums for these countries to present their demands in a variety of policy areas, 4) numerous Global South nations started to set up their own economic development through various domestic policies, usually by nationalizing important transnational assets, 5) alterations to oil ground rent distribution between the Global South and Global North by the Organization of Petroleum Exporting Countries, and 6) changes in IMF and World Bank lending policies due to the Global South's increased ability to influence policy making in multilateral institutions while these institutions began to lose lending power (Cypher, 1989).

These factors posed serious challenges to U.S hegemony, which was based on the global division of labor that kept the Global South dependent on the Global North's purchases of raw materials. In response, the World Bank and IMF began

to use structural adjustment lending policies to ensure debtor countries "structurally adjusted" to comply with increasingly interventionary and restrictive conditionality, as well as hyper-laissez-faire philosophies (Cypher). These policies also lasted much longer than previous lending policies; 10 years instead of 3 to 5 years. Under these structural adjustment loans, almost all policymaking regarding investment and foreign trade was relinquished to IMF or World Bank, superseding domestic policy making institutions for up to 10 years. These policies were applied to Latin American countries during the debt crisis to bring the Global South into the global assembly line and return some degree of power to the U.S hegemony. As stated by Dependency Theory, this is to ensure the Global South remains dependent on the Global North and underdeveloped.

Based on this theoretical framework, the preliminary hypothesis of this paper is that IMF policies cause increased debt and political instability in Guatemala.

Evidence

The IMF's 1998 report on Guatemala's recent economic developments claimed that from 1992-97, "efforts to improve fiscal and credit policies contributed to reducing the external current account deficit… declined steadily to less than 3 percent in 1996" (International Monetary Fund, 1998, 7-8). According to the World Bank's Open Data, Guatemala's central government debt in 1992 was $8.55 billion. In 1996, that debt hadn't gone down but instead risen to $10.73 billion. In 2013, the last year the World Bank has data for, the central deficit was $104. 97 billion, 10 times what it had been at the beginning of the 90s. The report also explains how Guatemala's manufacturing sector, which was created under protectionist policies of the Central American Common Market (CACM), comprised 15% of national GDP and employment. However, IMF policies slowly eliminated protections for that sector to encourage foreign investment. This foreign direct investment did make up 6.9% of Guatemala's GDP in 1998, but it plummeted to -4.1% two years later, meaning that liberalizing the manufacturing sector only worked very briefly.

In terms of political instability, Guatemala's 30-year Civil War drew to a close in 1996 but political violence was still prevalent through the end of the 90s. While the IMF can claim some credit for the signing of the Peace Accords, it's also very likely that these accords were signed because people had grown weary of the constant violence and human rights violations. However crime began to escalate, nearly doubling between 2001 and 2006 (Thomas and Benson, 2008). This made Guatemala the second most dangerous country in the world. Despite the IMF's best efforts to promote stability and peace in the country, their policies only plunged the nation into further debt, which exacerbated poverty and increased violent crimes.

Conclusion

Many people are very critical of the IMF, so research for this paper was conducted with significant effort to be as impartial as possible. After reading the articles and looking at the data, some of the things the IMF has done are somewhat commendable and have contributed to reducing conflict by encouraging economic interdependence. But the majority of literature about the IMF concludes that it mostly has negative effects on LDCs. The IMF is the embodiment of liberalism and the exploitative Global North characterized by Dependency Theory. Guatemala is one of the many Latin American countries that have been exploited by the Global North to the point that people have had to migrate elsewhere to find better opportunities. And while the events this paper discusses happened almost thirty years ago, the world still feels its effects today. The consequences of the IMF's meddling were economic decline and political instability, which have forced people to flee the country and flock to the U.S Southern border en masse trying to find better lives. Future research on the IMF and its loan requirements should focus on how their policies affect the populations of recipient nations and directly created the migration crises the U.S and other countries are grappling with today.

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