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Commentary on "Social protection and the International Monetary Fund: promise versus performance" by Alexander Kentikelenis and Thomas Stubbs

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Abstract

Background The Covid pandemic and its aftermath have triggered new alarm and social unrest across the Global South over the deepening international debt crisis that now threatens to derail Universal Health Coverage (UHC), other Sustainable Development Goals (SDGs), future pandemic preparedness, and global warming mitigation. The recent Globalization and Health article by Alex Kentikelenis and Thomas Stubbs (May 2024), "Social protection and the International Monetary Fund: promise versus performance", offers a meticulously quantified rendering of the social costs imposed by the crisis and takes aim at IMF solutions. They advocate for a rejection of IMF austerity programs and offer a valuable prescription for change through the International Labor Organization's "Universal Social Protection" concept.

Main body Similar to the Jubilee movement at the turn of the century, global civil society, humanitarian aid, and health organizations are mobilizing in a variety of global networks to call for debt cancellation and restructuring as well as an end to austerity. These include new debt law campaigns in London and New York to rein in private creditors, calls for new IMF issuance of "Special Drawing Rights", demands for "Global Public Investment", and promotion of Universal Social Protection.

Conclusion The Universal Social Protection approach described by Kentikelenis and Stubbs provides a focal point for these demands to confront this latest and worst episode of sovereign debt crisis already undermining global health progress.

Keywords Debt crisis, Austerity, Social protection, IMF, Special drawing rights

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Background

The Covid pandemic and its aftermath have triggered new alarm across the Global South over the deepening international debt crisis that now threatens to derail Universal Health Coverage (UHC) and other Sustainable Development Goals (SDGs), future pandemic preparedness, and global warming mitigation. Debt and the austerity policies imposed to address it have provoked widespread social unrest from Kenya and Nigeria to Bolivia and Sri Lanka [1]. Sovereign debt distress has ebbed and flowed over the last 40 years [2], but this latest episode is considered by many observers to be the direst; some see an "austerity pandemic" now sweeping the globe [3]. The recent Globalization and Health article by Alex Kentikelenis and Thomas Stubbs (May 2024), "Social protection and the International Monetary Fund: promise versus performance" meticulously quantifies the social and public health costs imposed by the crisis and takes aim at IMF solutions [4].

As the authors explain, the Covid pandemic undermined local economies across the Global South while the war in Ukraine contributed to rising prices for food and energy. Global growth slowed while inflation surged leading central banks to raise interest rates which plunged many countries reliant on external borrowing into vicious debt spirals [5]. The IMF reports that 36 low and lower-middle income countries (LMICs) were in debt distress by the end of 2023, with many more facing major challenges [4]. Debt service crowds out critical social spending in ways that broadly undermine social determinants of health in public employment, agriculture, social services, and education sectors as well as cuts to direct health system investment. Debt repayment exceeds health expenditures in 116 countries, and total social spending in 33 [6]. African countries spend an average of 9.6% of GDP on debt service. In 2020, the IMF and G20 recognized the crisis during the pandemic and rolled out the Debt Service Suspension Initiative (DSSI) in which countries could forego debt payments for one year. The DSSI ended in December 2021, but the debt remained, and the crisis has since deepened.

The IMF and G20 in late 2020 also launched the "Common Framework" as an ongoing approach to creditor coordination for debt restructuring, but only a handful of countries (notably Zambia and Ghana by 2024) have managed to navigate its complexities and long delays [7]. At the IMF and World Bank meetings in March 2024, the International Financial Institutions (IFIs) celebrated what they claimed as progress in resolving the debt crisis, citing Zambia and Ghana as examples [8]. More funds were raised through country donations to the International Development Agency (IDA), part of the World Bank Group that provides development investment. Although the IFIs claimed to have made progress for faster debt restructuring, the World Bank's chief economist, Indermit Gill, acknowledged outside the meetings that, "The common framework is not working. If the money from debt relief was coming in dribs and drabs, I would say OK, but there hasn't been a single dollar of debt relief from the common framework." [8] Debt justice groups expressed exasperation at the failure of the IFIs to make meaningful progress and the "piecemeal solutions" being offered [9].

Main text

Growing role of private creditors

Adding to the debt misery among LMICs are the private creditors, especially Wall Street and London based predatory "vulture funds"[1], that have further scrambled the effort to provide debt relief. China is also a relatively new and major creditor, especially in Africa. Private creditor lending rose dramatically after the 2010s when bilateral and multilateral credit was tighter after the Great Recession, and the IMF and World Bank encouraged Global South nations to pursue private financing [10]. Most private creditors refuse to participate in IMF-led or other public debt restructuring initiatives, including the Common Framework, as they insist on their right to extract their enormous profit margins, often through lawsuits [10].

The new austerity

Equally alarming, Kentikelenis and Stubbs argue, recent IMF debt relief strategies, including the Common Framework, reveal the return of harsh austerity measures [4]. From the era of "Structural Adjustment Programs" (SAPs) to the euphemistic "Poverty Reduction Strategy Papers" (PRSP), then the "Extended Credit Facility" (ECF), the IMF has long imposed a toxic list of "conditionalities" embedded in debt restructuring packages [2]. These normally include major cuts and caps on public spending, promotion of privatization, government deregulation, and trade liberalization in support of "free market" policies. This time around, and in response to backlash from humanitarian aid agencies and civil society, the IMF claims to be protecting the social sector in its debt restructuring programs through so-called "social spending floors" for health, education, and other social services [4].

Kentikelenis and Stubbs provide a powerful rebuke to these claims. They offer evidence that in 37 out of 117 countries with recent IMF programs the spending floors simply were not implemented. In other cases, social spending floors declined over time or were set too low

[1] Vulture funds refer to hedge or private equity funds that buy distressed debt at a discounted rate and then use multiple methods to coerce sale of that debt at a higher price, including by indebted governments.

to begin with, and in some instances the spending floors actually act as ceilings, preventing any hope for increased "fiscal space" when needed. They conclude that, "at best, social spending floors act as damage control for the painful budget cuts…….At worst, these floors can be seen as a distraction from the urgent policy work necessary to ensure that IMF programs do not jeopardize health and social protection policies" [4]. But the existence of the spending floor component signals an IMF susceptibility to criticism around the deep social sector harm caused by so-called "financial consolidation". In practice, the IMF floors act as veneer for crushing austerity and its long-term harm to public health.

In contrast to the IMF, Kentikelenis and Stubbs promote the International Labor Organization's "Universal Social Protection Floor" concept in which universal access to social services and social security transfers across the life-course provide the best guidance for financial and debt restructuring [4]. In principle, an embrace of a floor defined in this way, and guided by protection of basic human rights, would block certain forms of austerity measures in financial restructuring. Importantly, the emphasis on the "universal" would be a major and crucial change to the IMF's narrow allowance of resources to select vulnerable groups that some observers see as cover to defend against critiques of the social and public health harm caused by austerity programs. While Kentikelenis and Stubbs provide valuable evidence to support rejection of austerity, they are less clear about the political strategies needed to push for universal social protection and challenge the global financial architecture that produced the crisis. Thankfully, a new mobilization to end austerity is underway.

Growing resistance

The debt crisis is multifaceted, enormous in scope, and engages a variety of public and private actors in an essentially ungoverned global arena. Grassroots and civil society efforts to take it on are often seen as quixotic and hopeless. However, organized resistance is emerging in a variety of settings. And activists remind us that over 25 years ago, when the 1990s debt crisis was at its nadir, the Jubilee2000 movement and its allies managed to stimulate a wave of debt cancellations and provoke creation of the IMF's Heavily Indebted Poor Countries Initiative (HIPC) initiative that provided a mechanism for further relief [11, 12]. Twenty-five years later, many of these same movement actors are again mobilizing. In addition to local protests and resistance in dozens of countries [1], global civil society, health organizations, and humanitarian aid groups are taking on the very architecture of the global financial system.

Nearly all major private creditors are based in New York or London (which include major Wall Street and London-based financial firms such as BlackRock, HSBC, JP Morgan, and UBS among others) [13]. The refusal of these creditors to participate in debt relief programs has created enormous obstacles to even minimal debt restructuring (cf. Zambia, Ghana) [13–15]. Activists have responded with two major debt law campaigns. In New York State, JubileeUSA is leading an effort to pass the "The Sovereign Debt Stability Act" through the state legislature in a campaign supported by major labor and church organizations [16]. Similarly in London, DebtJusticeUK and others are promoting new debt law legislation through parliament [17]. Both bills would mandate that Wall Street and London-based creditors participate in debt relief at the same level as governments and other public creditors. No private lender could sue a country for more than they would have received if they had taken part in debt restructuring through existing agreements.

At the same time, the "Global Crisis Relief with Special Drawing Rights" (SDRs) coalition, led by Action Corps, Advocacy Networks for Africa, Oxfam, Partners in Health, American Friends Service among others, is pushing the IMF to issue $650 billion in "Special Drawing Rights" that would support debt relief [18]. As described by the coalition, "SDRs are international reserve assets issued by the IMF that can be used to pay debts, bolster foreign reserves, or fund critical purchases like vaccines and food supplies by exchanging their SDRs for hard currency." Unlike IMF loans, there are almost no conditionalities (e.g. austerity conditions) attached to SDRs. In response to the Great Recession, $250 billion in SDRs were issued in 2009 while $650 billion were provided during the Covid pandemic. The coalition now seeks to pressure the U.S. with its powerful vote in the IMF for a new issuance of $650 billion SDRs immediately, and more SDRs in the future, to mitigate the debt crisis. The amount of SDRs that can be allocated to countries is calibrated to the level of funding they provide to the IMF, thus most go to rich countries in least need. Wealthy countries are being asked to donate their SDRs to LMICs and some countries agreed to this in previous disbursements, so far totaling around $100 billion. The coalition argues that SDR allocation should be based on need and not on voluntary donation. In 2023, the American Public Health Association (APHA) adopted a policy statement calling for debt cancellation for those countries in deepest crisis, rejection of IMF austerity measures, and new issuance of SDRs in line with Global Crisis Relief [19].

The new "Global Public Investment Network" (GPIN) and the Expert Working Group on Global Public Investment also recognizes that the current global financial architecture is intolerable and unsustainable [20, 21]. GPI promotes the notion of a global multilateral investment fund or apparatus that all countries would contribute to and through which nations in need could access long term public financing for social protection programs. It is a tall order, but the GPI can stimulate further action to avoid the debt trap and austerity, and substantially increase public financing for health, education, and social services.

Conclusions

On a larger political scale, the UN is sponsoring its next “Financing for Development Conference” in July, 2025 (last held in 2015) [22]. The goals are ambitious. As Devex reports, “Spain’s 2025 conference will be a venue to further push proposals related to reforming the global financial architecture — the systems and rules that govern the economy — on issues of debt, taxation, and aid, among other issues.” [23]. Given the powerful players involved, including governments, multilateral agencies, and private actors, one can be skeptical that austerity and the debt loads used to justify it will be meaningfully addressed. Conference goals could be hijacked toward private sector and market solutions – more of the same. But the conference will nonetheless provide an important venue and target for advocacy and activism to demand major increased and long-term public financing for health, education, and social protection.

Kentikelenis and Stubbs provide further evidence that the rejection of austerity and an embrace of universal social protection must lie at the center of any solutions to the current debt crisis. As in the past, social movements, civil society mobilization, and solidarity with growing Global South rebellion will be essential to push progress. As Ortiz and Cummins of the Committee for the Abolition of Illegitimate Debt (CADTM) argue, “Austerity cuts are not inevitable, there are alternatives. There is no need for populations to endure adjustment cuts: instead of cutting public expenditures, governments can increase revenues to finance universal social protection and quality public services in accordance with human rights and the SDGs.” [3].

Abbreviations

APHA	American Public Health Association
CADTM	Committee for the Abolition of Illegitimate Debt
ECF	Extended Credit Facility”
GPIN	Global Public Investment Network
HIPC	Heavily Indebted Poor Countries Initiative
IMF	International Monetary Fund
IDA	International Development Agency
IFIs	International Financial Institutions
LMIC	Low and Middle Income Country
PRSP	Poverty Reduction Strategy Papers
SDGs	Sustainable Development Goals
SAPs	Structural Adjustment Programs
SDRs	Special Drawing Rights
UHC	Universal Health Coverage

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