West Africa's Financial Immune Deficiency*

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In recent months, as the spreading Ebola emergency took center stage in Washington, the World Bank and International Monetary Fund (IMF) have pledged $530 million to help Guinea, Liberia, and Sierra Leone. And in October, at a special session with African leaders on Ebola during the IMF/World Bank annual meetings in Washington DC, IMF Managing Director Christine Lagarde said that in addition to the aid, the IMF would depart from its notorious budget austerity, and actually allow the hard-hit west African nations to increase their budget deficits: "We don't normally say this!" she emphasized. To which the Guinean president, Alpha Conde, responded, "I'm extremely pleased to hear the IMF Managing Director [say]… that we can increase our deficit, which is quite a change from the usual narrative."

He was right. Indeed, if you really want to understand why several West African countries have been so ill-equipped to tackle the latest outbreak of the Ebola virus, then you also need to look at the "usual narrative" of IMF fiscal and monetary policy restraint. That's because it is a major reason for the dilapidated public health systems that have proven to be such vulnerability during the crisis.

Many experts note that the conspicuous unpreparedness of countries like Guinea, Liberia, and Sierra Leone is a direct consequence of years of insufficient public investment in the underlying public health infrastructure. "We know how to prevent diseases like this, if we can get the basic level of the healthcare systems up to speed," said Columbia Business School Professor Amit Khandelwal. Critics point out that this lack of investment can be traced directly back to sparse spending on public goods dictated by IMF loan conditions and policy advice, which invariably entail adherence to its strict definition of "macroeconomic stability."

Since the 1980s, when the doctrines of Thatcher and Reagan reigned supreme, the IMF's monetarist approach has meant prioritizing price stability (low inflation) and fiscal restraint (low budget deficits) over other spending goals in developing countries. These policies had the effect of greatly limiting overall public spending each year. Because of this squeeze, most of the budget went to immediate needs and recurrent expenditures and little was left over for scaling up long-term public investment in infrastructure, including the underlying public health infrastructure. This led to a serious drop-off in public investment as a percentage of GDP seen across many developing countries that in many cases has been sustained until today.

So the harmful effects of IMF policies on health systems are not direct; it's not as if the IMF comes in and directly tells a country to spend less on public health. Instead it's a two-step process: first the IMF policy targets constrain overall national spending levels, and this then limits the spending available for long-term public investment, including for the health infrastructure. Consequently, chronic and sustained underinvestment in public health infrastructure has become the norm in many countries, year after year, over the last few decades.

Some critics have long claimed that the IMF's policy targets are too tight, and other more expansionary policy options could allow for increased public investment. They charge that the IMF approach is unnecessarily restrictive, preventing developing countries from scaling up long-term public investment in public health systems. Such polices, they say, have led to dilapidated health infrastructure, inadequate numbers of health personnel, and demoralizing working conditions that have added to the "push factors" driving the migration

of nurses from poor countries to rich ones. All this has undermined public health systems in developing countries, including the ones now trying to cope with Ebola.

Specifically at issue are two controversial IMF policies to keep inflation at or below 5–7 percent per year and budget deficits under 3 percent of GDP. Skeptics contend that such policies have unnecessarily undermined the ability of domestic industries to generate higher levels of productive capacity, employment, and GDP output -- and correspondingly reduced tax revenues as well. They call on the IMF to consider other more expansionary fiscal and monetary policy options that would enable governments to obtain higher levels of tax revenue for both recurrent expenditures, and crucially, for long-term public investment as a percentage of GDP. Most countries suppress inflation by raising interest rates, which makes credit less affordable and prevents the government from engaging in more affordable deficit financing or public investment. Higher interest rates also prevent the domestic private sector from expanding production and employment, which has negative long-term implications for revenues, national budgets and, consequently, health financing.

More technically, the IMF squeezes fiscal space in countries by tightening two screws: it sets binding targets called "performance criteria" in IMF loan agreements that either raise the floor on required net international reserves (NIR) of foreign exchange at central banks or lower the ceiling on net domestic assets (NDA) (including foreign aid). Quite often the Fund does both in ways that greatly restrict public spending and longer-term public investment. To enforce compliance with budget restrictions, the IMF sometimes sets specific limits on the amount of the budget that can be spent on public sector employees -- including, according to Doctors Without Borders, desperately needed public health personnel.

So while the IMF says it is just being "cautious" because it is worried about how damaging macroeconomic instability can be, this concern about IMF policies being too tight was pointed out by a 2001 US Government Accountability Office report on IMF loans, which warned: "Policies that are overly concerned with macroeconomic stability may turn out to be too austere, lowering economic growth from its optimal level and impeding progress on poverty reduction." Indeed, the consequences of such policies have led to years of insufficient public investment in the underlying health infrastructure of the countries today facing the Ebola outbreak.

For those interested in improving public investment in health infrastructure in developing countries, there's no getting around the problems caused by the excessive restrictiveness of IMF policies. It would be one thing if the IMF had some hardcore base of academic research and evidence to justify its very tight fiscal and monetary targets, but, as critics point out, it doesn't. As a result, the IMF's ability to justify such budget restraint has long been challenged. This is important: if the IMF's policies are unjustifiably restrictive and other viable options could better enable increased spending on long-term public investment, including on health systems, then that's a real case for a policy change. And advocates for better health and education infrastructure in developing countries will have to mobilize to push for it.

On the inflation-reduction target, critics have claimed the IMF has little evidence to justify pushing inflation down to the 5-7 per cent level. On the question of how low inflation must really be, critics note that the peer-reviewed economics literature on the subject offers no firm consensus for the appropriate level of inflation for developing countries. While everyone agrees that high inflation is bad and must be brought down, others make the case that there is a time when allowing moderate levels of inflation can be appropriate for developing countries during their key developmental phases, and that therefore IMF policy should permit more moderate inflation.

This point has been made by organizations ranging from the Washington-based Center for Global Development to the Financial Services Committee of the U.S. House of Representatives. This issue was raised again in the 2008 high-level report of the Spence Commission on Growth and Development, which noted that some countries have grown for long periods "with persistent inflation of 15–30 percent." Commission member Montek Singh Ahluwalia criticized the IMF and other international financial institutions, which, he said "have tended to see public investment as a short-term stabilization issue, and failed to grasp its long-term growth consequences. If low-income countries are stuck in a low-level equilibrium, then putting constraints on their infrastructure spending may ensure they never take off."

Indeed, the health infrastructure in Guinea, Sierra Leone and Liberia has never taken off.

In spite of this situation, the IMF has pursued the same basic set of policies for years -- starting long before the recent financial crisis and continuing during and after it. While the IMF has tried to present data that show relative increases in public health spending in its program countries in recent years in an effort to claim that its policies actually support public health, this belies the much more serious long-term drop in public investment as a percentage of GDP seen across many developing countries since the 1980s. We won't be able to solve the underfunding of public health infrastructure without new fiscal and monetary policies that reverse this trend.

None of this is to say that the IMF is solely responsible for the Ebola outbreak. Of course, the wars in Sierra Leone and Liberia, corruption, ineptitude, and a host of other specific political, cultural, and socioeconomic factors have all contributed to the current state of the public health systems in West Africa. But if the international community is serious about addressing chronic under-investment in the public health systems in these countries, it will also have to revise the obvious shortcomings of IMF fiscal and monetary policies.

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