

**THE INTERNATIONAL MONETARY FUND AND  
TOBACCO: A PRODUCT LIKE ANY OTHER?**

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The International Monetary Fund (IMF) has promoted the lifting of trade restrictions on tobacco and the privatization of state-owned tobacco industries as part of its loan conditions. Growing evidence shows that tobacco industry privatization stimulates tobacco consumption and smoking prevalence in borrowing countries. Privatized tobacco companies make favorable tobacco control policies a condition of their investment and lobby aggressively against further control measures. This, along with increased efficiency of the private sector, leads to increases in marketing, substantial reductions in excise taxes, drops in cigarette prices, and overall rises in sales of cigarettes. The actions of the IMF have therefore led to substantially greater use of tobacco, a product that kills half of its consumers when used as intended, with little evidence of economic gain.

Loans from the International Monetary Fund (IMF) come with strings attached. Recipient governments must accept “conditionality,” a process that can encompass rigorous qualification criteria and strict systems for monitoring their implementation. One element of these policies is frequently the privatization of state-owned enterprises, which since the mid-1980s has been included as part of both the Washington and post-Washington Consensus (1). The rationale is that privatized enterprises relieve governments of the burden of investment financing, increase efficiency, and bring in a new emphasis on performance-oriented commercial management (2). Yet the evidence for this assertion at the time the IMF began to promote privatization was largely nonexistent (3), and for parts of the world it remains, at best, equivocal (4–8). However, the effectiveness of IMF conditionality in promoting privatization is unambiguous, with one study finding that every US\$1 loaned by the IMF was associated with the subsequent

privatization of 50¢ worth of state-owned enterprises (9). Focusing on traditional justifications for privatization, however, ignores the question of whether the enterprise in question is producing “goods” or “bads.” On this, as on many other issues not directly connected to its goals, the IMF is agnostic (10).

One area where this distinction becomes important is tobacco. Tobacco companies are unique in making and selling a legal product that, when used as intended, will kill about 50 percent of its users. The ethics of improving the efficiency of and encouraging competition between such companies, as would occur with privatization, is, to say the least, dubious. Economic theory indicates that such changes would encourage reductions in price and increases in tobacco advertising, the two factors most likely to stimulate tobacco consumption. Yet there is a growing list of countries where the IMF has promoted privatization of state-owned tobacco companies, in some instances even withholding loans when privatization was not undertaken (11, 12). The IMF has also pushed for tobacco tax and tariff reductions (11). Its defense of privatization is that governments owning tobacco companies are less likely to enact stringent anti-smoking policies and thus, paradoxically, privatization will facilitate tobacco control (13). What does the evidence show?

While state-owned tobacco companies, as monopolies, faced little incentive to advertise, privatization has been accompanied by massive marketing campaigns by the transnational tobacco companies that bought the newly privatized companies (14–16). In particular, they aggressively targeted young people and women, who in many low- and middle-income countries had, traditionally, not smoked (14, 17). In many cases, the transnationals either ignored local restrictions or redrafted laws to lift restrictions on marketing (14). Transnational tobacco companies have also been able to take advantage of the limited capacity in finance ministries to rewrite tax policies, leading to substantial (up to 50%) reductions in excise (18). Predictably, marked reductions in real cigarette prices have been seen since privatization (19, 20). As price and marketing are two of the major determinants of smoking prevalence in a country, it is unsurprising that both cigarette consumption and smoking prevalence rates have increased markedly in countries where privatization has taken place (15, 17, 21). Moreover, these increases have been most marked in the population subgroups specifically targeted by the industry (17, 22). Finally, as the evidence summarized above suggests, the literature from all countries in which privatization has been closely studied shows that it has led to an intensification of lobbying by the industry against the introduction of new tobacco control measures, particularly advertising restrictions and tax increases (14, 16, 18, 23–27)—fundamentally undermining the IMF’s prediction that privatization would improve tobacco control.

The adverse public health consequences of IMF-driven privatization in itself raises serious doubts about the policy. Yet it is not even clear that countries achieve the economic benefits that the IMF presumes privatization to bring. This is true of privatization in the general economy (28), but the experience with

the tobacco sector suggests that the benefits may be even more illusory. The transnational tobacco companies have been able to buy state-owned enterprises at below their real market value, both by directing the smuggling of cigarettes into these countries prior to privatization, thereby undermining their value, and by obstructing competitive tenders (24, 29–31). Once purchased, they have often succeeded in negotiating highly favorable tax regimens that allow them to maximize the share of profits that can be repatriated, and, along with their efforts to reduce cigarette excise, have substantially reduced government revenues (29, 32). Finally, by investing in modern machinery, they have reduced employment in the domestic tobacco industry (33, 34).

The actions of the IMF contrast with those of the World Bank. The Bank has placed a high priority on tobacco control, drawing attention to the human and economic costs of smoking (35), and, more recently, to some of the dangers inherent in tobacco industry privatization (32). Yet such efforts appear to have had little influence on the IMF. It is surely not too much to ask that the IMF should acknowledge the Bank's evidence that tobacco control benefits economies and growing evidence of the adverse effects of tobacco industry privatization, and join in the struggle to reduce the toll of avoidable death and disability caused by this exceptionally dangerous product.

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