



Structural Adjustment Programs

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Throughout the 1980s and 1990s the U.S. has been a principal force in imposing Structural Adjustment Programs (SAPs) on most countries of the South. Formulated as loan conditions by Northern governments and the International Financial Institutions (IFIs), SAPs mandate macroeconomic policy changes that obligate recipient nations to liberalize their trade and investment policies.

Through its aid and trade policies, Washington has worked to restructure the economic policies of the Southern nations. The U.S. plays a fundamental role in designing and financing structural adjustment programs of the main IFIs, namely the World Bank and the International Monetary Fund (IMF), as well as those of the regional multilateral banks such as the Inter-American Development Bank (IDB). Starting in the 1980s, the U.S. also routinely began conditioning its aid agreements on acceptance of a package of economic reforms and adherence to the prescriptions of the World Bank and IMF. In addition, U.S. trade representatives

began to insist on changes in other nations' economic policies to facilitate increased U.S. trade and investment.

SAPs usually include several basic components geared toward reducing inflation, promoting exports, meeting debt-payment schedules, and decreasing budget deficits. They generally entail severe reductions in government spending and employment, higher interest rates, currency devaluation, lower real wages, sale of government enterprises, reduced tariffs, and liberalization of foreign investment regulations.

SAPs share a common objective: to move countries away

from self-directed models of national development that focus on the domestic market and toward outward-looking development models that stress the importance of complete integration into the dominant global structures of trade, finance, and production. Largely championed by the Reagan administration and Margaret Thatcher's government in Britain, the neoliberal principles that shape SAPs gained prominence in the IFIs in the 1980s. The neoliberal philosophy of economic development revived the old precepts of economic liberalism, which hold that an unregulated free market and

private sector are the engines for unrestricted growth, the benefits of which will trickle down from the owners of capital to the entire population.

The debt crisis, which reached crisis proportions by 1982, gave the IFIs the leverage needed to impose SAPs on the debt-ridden countries of the South. With the waning of North-South private capital flows, indebted countries became increasingly dependent on the IFIs, which conditioned new lending on the implementation of SAPs. In the 1980s, SAPs became virtually synonymous with IFI lending. At the World Bank, new leadership installed by the U.S. (which traditionally appoints the president of the World Bank) touted SAPs as comprehensive, long-term solutions for debtor nations. Designed by Baker and Brady of the U.S. Treasury Department, debt-renegotiation plans also ensured that neoliberal structural adjustment became a prerequisite for debt relief.

Virtually all developing countries—particularly in Latin America and Africa, and increasingly in the transition countries of east and central Europe—have implemented or are in the process of acceding to SAPs. The economic policies dictated by the IFIs and Washington have greatly facilitated the process of global economic integration. SAPs have also largely succeeded in shrinking government budget deficits, eliminating hyperinflation, and maintaining debt-payment schedules. But while government balance sheets may improve, SAPs have failed to establish a base for sustainable, balanced economic development. In their wake, SAPs have bankrupted local industries, increased dependency on food imports, gutted social services, and fostered a widening gap between rich and poor.

To mitigate the harsh social impact of SAP-mandated economic restructuring and austerity measures, the IFIs have sponsored social investment funds. This new programming—called neostructuralism by some analysts—reduces the social and political impact of SAPs through temporary job programs and other relief measures. The objective of social investment funds is to provide temporary relief and stave off political unrest until the benefits of neoliberal reform start trickling down. The underlying structural reasons for poverty, unemployment, and malnourishment are left unaddressed. The most recent change in SAPs is the IFIs' promotion of good governance. The IMF and World Bank are expanding their loan conditions (and hence their power) to include reforms in tax, budgetary, and judicial system transparency, along with the traditional economic policies. Good governance measures are now a criteria for the IFIs' stamp of approval

Key Points

- The U.S. leverages its dominant role in the global economy and in the IFIs to impose SAPs on developing countries and open their markets to competition from U.S. companies.
- SAPs are based on a short-term, profit-maximization model that perpetuates poverty, inequality, and environmental degradation.
- Social safety nets and good governance reforms do not compensate for the serious flaws that SAPs introduce by deregulating laws and diminishing the state's capacity to protect the welfare of its citizens.

Few would deny that such problems as persistent budget deficits, inefficient and ineffective government enterprises, and rapid inflation require reforms. But SAPs are driven more by neoliberal ideological principles than by objective evaluations of a country's specific economic problems and potential. As a result, the standard structural adjustment package advocated by the IFIs and the U.S. government fails to address a country's individual needs, thereby generating an array of economic, social, political, and environmental problems.

SAPs often succeed in achieving specific objectives such as privatizing state enterprises, reducing inflation, and decreasing budget deficits. Yet in many cases the GDP growth of countries undergoing structural adjustment is stagnant. The growth that does occur is commonly limited to a few sectors like raw materials extraction or goods produced with cheap labor, instead of a more well-rounded and sustainable growth in production. Even when a SAP-directed economy is growing, it is generally failing to create employment and generate the revenues needed to pay for the unregulated influx of foreign imports. Thus, reforms intended to open countries to foreign trade, investment, and finance may result in increased exports and greater access to foreign capital, but they also heighten financial volatility and speculative investment, flood the affected countries with imported luxury goods, undermine local industry, and constrict local buying power. SAPs benefit a narrow stratum of the private sector—mostly those involved in export production, trade brokering, and portfolio finance. These winners are usually well-connected elites and transnational companies.

Layoffs of government workers, wage constraints, higher interest rates, reduced government spending, and the shutdown of domestic industries all contribute to the shrinking of the domestic market. The weak state of the domestic market exacerbates the worsening socioeconomic conditions. Although there may be a new dynamism in certain elite sectors, social and economic insecurity deepens for most people in countries subjected to SAPs. The result can be increasing political instability (such as riots over food prices), outbreaks of guerrilla violence, and widespread disaffection with (and nonparticipation in) electoral political systems.

The emphasis placed by SAPs on increased exports can hasten the destruction of ecosystems by accelerating extractive enterprises such as the timber, mining, and fishing industries. In agriculture, SAPs augment the economic liberalization resulting from free trade agree-

ments, undermining peasant agriculture while reinforcing export-oriented agribusiness (and its dependence on dangerous agrochemicals). The insistence by SAPs on the deregulation of laws and the downsizing of enforcement agencies further obstructs a government's capacity to protect its environment.

Though reduction of world poverty is proclaimed as a major goal of U.S. and multilateral lenders, SAP policies hit poor people hardest. Increased unemployment and decreased government services are the most direct blows, but changes in the tax system often emphasize easy-to-collect, regressive sales taxes that also disproportionately affect the lower classes. Tightened credit requirements and higher interest rates make it virtually impossible for small farmers and businesses to invest. The liberalization of trade does make imported items less expensive, but most people in low-income countries consume little besides basic necessities.

Although the IFIs and the U.S. government have touted SAPs as a solution to the economic problems facing the world's poor and middle-income countries, the unstated goal of IFI-mandated structural adjustment is to integrate the countries of the South more completely into the North-dominated global trading, finance, and production systems. In this latter regard, SAPs have been successful. A narrow elite in countries undergoing SAPs do benefit from restructuring and increased integration, but the main beneficiaries are foreign investors and traders.

After decades of subverting populist and interventionist central governments, the IFIs have recently accepted some of the criticisms leveled against their neoliberal notions of a minimalist state. But the IFIs only tend to adopt neostructuralist programs of social investment after the dirty work of neoliberal structural adjustment has been mostly completed. Likewise their late concern for good governance only surfaces after successive SAPs have already dismantled many important state institutions and continue to undermine the ability of governments to exercise control over national economic development.

Key Problems

- SAPs are broadly imposed on nearly all developing countries, while the North only selectively adheres to its own neoliberal principles.
 - SAPs may achieve nominal GDP growth, but it is growth based on unsustainable resource extraction and the exploitation of cheap labor.
 - Elites and foreign investors often benefit from tax breaks and production incentives, while the domestic economy contracts dramatically, along with the jobs that support the lower and middle classes.
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As SAPs guide how money is spent, they are supposed to ensure good use of development funds. Yet SAPs are largely imposed on developing countries without sufficient input from the very sectors of society that will be subjected to them. Sometimes SAPs are imposed despite overt opposition. In addition, both Washington and the IFIs consistently fail to broaden the scope of SAPs to consider poverty, unemployment, the health of the domestic market, the impact of development patterns on the environment, and a government's capacity to ensure that the benefits of economic development are equitably distributed.

The U.S. could choose to spearhead an effort to shift the focus of structural adjustment. Through its financial clout in the IFIs, its central role in shaping global economic integration, and its own bilateral lending programs, Washington has the power to change or eliminate SAPs. Unfortunately, the U.S. has not exercised its leadership responsibly. Instead, it continues to pursue short-term gain, viewing the strict economic reforms required by SAPs as the best way to promote U.S. economic welfare.

The U.S. should broaden the focus of its foreign economic policy away from the narrow and misplaced objectives of SAPs to give more consideration to other issues such as sustainable growth, equitable distribution, employment generation, and community development. Similarly, the U.S. should pressure the World Bank to reduce drastically its structural adjustment lending and increase lending for sustainable development projects. Though macroeconomic factors need not be excluded from Washington's policies, they should be part of a broader definition of U.S.

national interests overseas and should encompass more than simply facilitating U.S. trade and investment. If economic standards and the adoption of economic policies are conditioned to financial assistance, they should not be stricter than those that the U.S. and other donor nations find acceptable for themselves, and they should be mutually agreed upon by both the U.S. and the borrowing country.

Other recommendations for a more responsible U.S. foreign policy include the following:

- The most important change the U.S. could initiate is to make binational and multinational financial agreements a more inclusive and open

process. Washington should insist that all potentially affected sectors of the debtor country's society are represented in the negotiating processes. Citizen participation in all stages of IFI lending—from planning and defining the scope of projects to implementation and evaluation—should be standard. The U.S. should also encourage a major role for affected governments in crafting the terms of agreements, rather than their being regarded as the passive recipients of SAPs. The World Bank recently launched a historic initiative to encourage such participation, working with civil society groups in several countries to assess the impact of SAPs (see SAPRI under Sources for More Information).

- Foreign loans and aid agreements should be transparent. Conditions and terms of all lending should be stated publicly so that the recipient country's citizenry is fully aware of the potential impact of lending agreements.
- The U.S. should carefully examine what IMF Managing Director Michel Camdessus terms "the second generation of structural reform," which includes further neoliberal macroeconomic reforms along with good governance conditionality and measures to provide temporary relief to those impacted by SAPs. Although governance stipulations (such as increased budgetary transparency and judicial reform) may be positive changes, they place an added burden on countries and increase the power of Washington and the IFIs to dictate policy in the South.
- The U.S. should encourage the recognition by the IFIs of the need for selective economic intervention by governments to regulate and guide sustainable and equitable growth. In its insistence on the promotion of the private sector, Washington fails to recognize the fundamental importance of government regulations and safety nets in fostering and maintaining economic development.
- Immediate debt relief for impoverished countries should be a priority for the U.S. and the IFIs. Overwhelming debt burdens, often resulting from poorly conceived development projects and North-imposed SAPs, prevent governments from retaining revenue and dedicating sufficient resources to health, education, the environment, and community development. Furthermore, U.S. and IFI debt-relief programs should be delinked from SAP conditionalities.

Key Recommendations

- The U.S. should take the lead in advocating a major role for borrowing governments and their citizen representatives in determining loan conditions.
- Washington's foreign policy should encourage sustainable, equitable development that benefits local people rather than international traders and financiers.
- The U.S. should push for transparency in the lending operations of the IFIs. Loan conditions and program documents should be publicly available so that all parties are informed and accountable.



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(Publishes *BankCheck Quarterly*)

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