‘Short term pain for long term gain’; In your Opinion, is this an Accurate Description of Structural Adjustment Programmes?

https://www.e-ir.info/2008/02/12/%e2%80%98short-term-pain-for-long-term-gain%e2%80%99-in-your-opinion-is-this-an-accurate-description-of-structural-adjustment-programmes/

MACIEJ OSOWSKI, FEB 12 2008

The spectre of debt crisis whose first signs were seen in the Third Worldcountries in 1970s, and the fear of world finances’ disintegration, led the International Monetary Fund (IMF) and the World Bank (WB) to propose to the developing world Structural Adjustment Programmes (SAPs)[1]. SAPs were generally based on the assumption that developing countries, having introduced certain structural modifications, would be able to repay their debts, which would eventually (in the near future, as it was assumed) enhance their economic growth. The aim of this paper will be to prove that SAPs have, indeed, been “short term pain for long term gain”. Despite the obviously great complexity of what we call the Third World, it is impossible, in an essay of this size, to write about each country individually. Thus, for the purposes of this essay, all countries from Africa, South America and Far East where SAPs or loans were to any extent introduced, will be collectively referred to as the Third World, for – although at different stages of development – in 1960s, they were indeed collectively conceptualised as the Third World. A few countries, however, will be selected for comparison purposes, in order to determine which strategies proved the most effective in terms of bringing about actual sustainable growth.This paper will start with a description of long term advantages of SAPs, as advocated by the IMF and the WB. Elements of neo-liberal philosophy will be also presented as an ideological basis for the programmes. Later in the essay, short term disadvantages of SAPs – largely revolving around unsustainable growth – will be presented.

In each country where it took place, the introduction of SAPs resulted in severe curtailment of expenditures on basic services (health services, education, social programmes). Instead, money gained from selling goods and exporting them to world markets was used to make payments for the IMF, WB and private lenders, and was to enhance market activities and capital investment, rather than be earmarked for basic services[2]. What was the motivation behind such radical steps as suggested by the IMF and the WB to developing countries? It is believed, contrary to the now almost unanimous criticism of the way loans were distributed[3], that the causality behind them was not simply the surplus of cash in Western banks and their alleged aim of exploiting the developing countries, but rather their true willingness to boost economic development in the Third World. This becomes even clearer in the light of the fact that in Africa, most loans were given by Western governments, themselves by no means enjoying budget surpluses caused by high prices of oil on international markets. The majority of Third World countries were not ready for this kind of cash injection[4], however, there were exceptions. Far East countries like South Korea, Taiwan and Singapore took the chance and spent their loans on internal development[5]. This historical evidence shows that it is SAPs rather than loans that should be the way to development for Third World countries in most of Africa and South America in the first place. It is clear that IMF and WB suggested these programmes for developing countries because of the earlier success stories to which invisible hand of market contributed. Indeed, all Western countries owe their economic supremacy to the liberal economy rule present over past three centuries[6]. The question then arises, what has prevented African and South American countries from economically growing as fast as Western countries did.

The first stopping factor is surly the debt installments that the developing countries have had to pay. For example, Tanzania is still paying 27% of its government revenue in debt repayments[7]. Although there was massive debt reduction connected to Cologne Debt Reduction and Jubilee 2000, there are still Third World countries which spend a lot of their revenue on debt[8]. If it had not been for the debt, this money could be spent on structural social expenses, such as health care and education. Especially if the economy of the country, and thus its budget revenue, is growing. But that is not the point in SAPs policy or (PRSP) Poverty Reduction Strategy Papers, which are successors of SAPs in IMF and WB policy. The reason for promoting SAPs was to make Third World countries able to repay their debts and to spur rapid economic growth which should ideally lead to the well-being of all their citizens in the future. Major assumptions of SAPs included price controls, restraining of wages, cutting public expenditure, privatizing state enterprises, eliminating trade barriers, promoting exports, and encouraging foreign investments[9]. These steps, according to IMF and WB, should ensure a boost to economic growth. Indeed, they did exactly that in the Far East and in Eastern Europe, which benefited from neo-liberal economy at the beginning of their structural and economical transformation. Tanks to liberal economy Asian Tigers survived major crises in the late 1990’s, and countries like Poland, the Czech Republic, Lithuania, Estonia, Latvia, Slovakia, Hungary and Romania were able to access the European Union. This historic evidence shows that there is no better way for Third World countries to achieve economic stabilization.

It has been argued earlier in the essay that loans are not the best way to make Third World countries in Africa and South America wealthy. On the other hand, making them implement SAPs may be taken for an intervention in the countries’ affairs, conflicting with their sovereignty, as many academics will argue[10]. However, that is just part of the truth. Giving non-repayable loans or reducing those already taken by these countries would also affect their sovereignty as it would lead them to total dependence of Western countries’ good will. This could be called a re-colonialism of developing countries. Giving them money would lead their already ineffective economies to stagnation. In fact, the only way to sovereignty of a country is its stable and strong economy. Thus, poor countries from Third World have to concentrate on improving their economies rather than increasing their social expanses. It may sound cruel, but pursuant to the last century’s debt crisis nobody will give such sums of money to those countries anymore. Politics is beyond morality and the Western world has, arguably, no interest in sending aid money to e.g. Sub-Saharan countries, especially when there is still no guarantee that it will used in the right and planned way. On the other hand, the only way for ensuring a well-planned usage of financial support would be the assistance of Western countries in spending the funds. This, however, might again be perceived as an intervention in the affairs of young and weak countries of e.g. the Sub-Saharan region.

Apart from the Far East countries quoted as cases of successful implementation of neo-classical economy models, there have also been countries from South America and Africa which benefited from liberalizing their economies. A good example of that is Mexico, a country which actually started the debt crisis in the late 1970’s when it defaulted on paying high debt installments. Nowadays, thanks to liberal economy and the membership in the North American Free Trade Agreement (NAFTA), Mexico is developing fast. There is also visible improvement in living standards of Mexico’s citizens[11]. Although some writers connect big unemployment in the farming industry in Mexico precisely with NAFTA membership, it can also be considered to be an effect of lower corn prices on the global market[12]. Contrary to some academics’ opinions[13], Mexico gained on liberal economy and on strategic economic partnership with the richer country of the USA. Although Mexico still suffers from dissatisfying development sustainability level, it is considered to be a country with large potential for success resulting from SAP-related policies[14].

These policies are not an automatic cure for all developmental problems of Third World countries. How long the period of “pain” will last depends largely on governments’ determination to implement SAPs. The most common reason for the significant length of such periods, not accompanied by improvements, in countries such as Bolivia, Kenia or Tanzania,[15] is related to governments’ unwillingness to fully implement SAPs for fear of not being reelected. Cuts in social spending would surly thwart their chances for reelection[16]. One question that needs to be asked, however, is whether intensive adjustment-lending countries are gaining better economic position because of SAPs. There is a wide front of academics who will argue that SAPs cannot be linked with any improvement whatsoever[17]. However, Mukhopadhyay[18] points out that “[…] recent studies of structural adjustments highlight two results: intensive adjustment-lending countries performed better than non-adjustment-lending countries and other adjustment-lending countries during the late 1980s […]”. These findings show that the speed of development have depended on the governments’ determination to implement SAPs in their domestic economies.

Such determination is also crucial for the achievement of one of the most important aims to be assisted by SAPs. These programmes, leaving aside their tangible developmental targets, are designed also to introduce new culture and new patterns of behaviour in Third World countries. Arguably, the societies of the Third World should learn how to survive in the world of capitalism as sovereign states, taking responsibility for their bad decisions (in this case, debts). Citizens should also learn that their fate depends on themselves, and that they cannot count on welfare all the time. Some academics in Western countries argue that the countries of the South deserve the same amount of welfare as the citizens of developed countries[19]. They tend to forget that Western democracies’ way to development was very long and not assisted by such welfare means. Third World simply cannot afford these provisions at the moment.

One has to allow also for several factors when thinking about SAPs integration into Third Worlds domestic economies. A lot of these countries still do suffer from post-colonial legacy. Thus, it is not easy for them to accept economic sovereignty and enter the path to development. It is not hard to believe that changing their mentality from colonial consciousness to faith in economic self-determination will be witnessed at least by a few generations.

What is more, one can hardly disagree that the Cold War had tremendous effect on the South. For a long period of time, the countries of the region were reassured that irrespective of their sovereignty their Western or Eastern “big brother” would always help them in reward for strategic coalition with either side of the permanent conflict. That must have left its dependence stamp on the Third World’s consciousness[20].

As there is no possibility to examine all the matters of interest in an essay of this size, these points should be treated as food for thought rather than as comprehensive analysis. It has been the thesis of the present essay that structural adjustment programmes have been a “short term pain for long term gain. “Long term gain” can be described as a strong, independent domestic economy which could allow sustainable profits for the whole society in every Third World country that implements the programmes. In order to prove that thesis right, the examples of SAPs’ beneficiaries were quoted, with special reference to Mexico and liberal economies of Eastern European countries, as well as and the Asian Tigers. These examples amply show that SAPs are not merely theoretical economic solutions, but indeed empirically proven ways towards development and economic growth. “Short pain”has been described as a period of social unsustainability which can be as short as determined the governments are to incorporate SAPs into their states’ economies. Other advantages of SAPs discussed in this essay have included factors that can help with instilling a permanent change in the economic consciousness of Third World’s citizens. Although it cannot be said that SAPs are the only way for the developing world to escape poverty and the dependence on the First World. Yet, in light of the above presented analysis, it is the shortest way to relative wealth and high development.

Bibliography

Crisp, B. “The socioeconomic impacts of structural adjustment”, International Studies Quarterly, 43, (1999), pp.533-552.

Floudas, D. A., Rojas, L. F. “Neka RazmiŠljanja o NAFTA i tragovinsoj inetegraciji na americČkom kontinentu rezime”, International Problems, 4, (2000), pp. 371-389.

Henriques, G., Patel, R. “NAFTA, Corn, andMexico’s Agricultural Trade Liberalization”,AmericasProgramSilverCity,InterhemisphericResourceCenter, 28, (2004), pp. 1-8.

Isbister, J. Promises not kept: poverty and the betrayal ofThird Worlddevelopment (Houndmills, Palgrave Macmillan, 2003), p.180-193.

Marks, S. The ebbing of European ascendancy (London,Arnold, 2002.), p. 121-272.

Mazur, R. E. “Realization or deprivation of the right to development under globalization? Debt, structural adjustment, and poverty reduction programs”, GeoJournal, 60, (2004), pp. 61–71.

McGregor, S. ”Structural Adjustment Programmes and human well-being”, International Journal of Consumer Studies, 29, 3, (2005), pp. 170–180.

Mukhopadhyay, H. “Structural Adjustment Programmes: some new findings”, Review of Development Economics, 2(2), (1998), pp. 191-210

Somers, J. “Debt: cancellation by installments”, In From the local to the global: key issues in development studies, edited by Gerard McCann and Stephen McCloskey, (London , Pluto Press, 2003), p. 145.

[1] McGregor, S. ”Structural Adjustment Programmes and human well-being”. *International Journal of Consumer Studies*, **29**, 3, (2005), pp. 170–180.

[2] McGregor, Structural, pp. 170–180.

[3] Crisp, B. “The socioeconomic impacts of structural adjustment”. *International Studies Quarterly*, 43, (1999), pp.533-552.

[4] Mukhopadhyay, H. “Structural Adjustment Programmes: some new findings”*. Review of Development Economics,* 2(2), (1998), pp. 191-210.

[5] Mazur, R. E. “Realization or deprivation of the right to development under globalization? Debt, structural adjustment, and poverty reduction programs”. *GeoJournal,* 60, (2004), pp. 61–71.

[6] Marks, S. *The ebbing of European ascendancy.* (London, Arnold, 2002.), p. 121-272.

[7] Somers, J. “Debt: cancellation by installments”. in *From the local to the global: key issues in development studies,*edited by Gerard McCann and Stephen McCloskey, (London , Pluto Press, 2003), p. 145.

[8] Somers, Debt, p. 146 -147.

[9] Mukhopadhyay, Structural, p.193.

[10] McGregor, Structural, pp. 170–180

[11] Floudas, D. A., Rojas, L. F. “Neka RazmiŠljanja o NAFTA i tragovinsoj inetegraciji na americČkom kontinentu rezime”. *International Problems,* 4, (2000), pp. 371-389.

[12] Henriques, G., Patel, R. “NAFTA, Corn, and Mexico’s Agricultural Trade Liberalization,” *Americas Program Silver City, Interhemispheric Resource Center, 28, (2004), pp. 1-8.*

[13] McGregor, Structural, pp. 170–180.

[14] Floudas, Neka, p. 371-389.

[15]Mukhopadhyay, Structural, p. 193.

[16] Crisp, The, p. 533 – 552.

[17] Isbister, J. *Promises not kept: poverty and the betrayal of Third World development.* (Houndmills, Palgrave Macmillan, 2003), p.180-193.

[18] Mukhopadhyay, Structural, p.191.

[19] Crisp, The, p. 533 – 552

[20] Isbister, *Promises,* p.180-193.

—

Written by: Maciej Osowski
Written at: Aberystwyth University
Written for: Dr. Rita Abrahamsen
Date written: 2007

About the author:

Maciej Osowski has a M Psych degree in Work and Organizational Psychology from Adam Mickiewicz University Poznań. He was a member and Branch President of Conservative Liberal Koliber Association. He is currently a student of International Politics/Intelligence at Aberystwyth University.