Structural Adjustment
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Word count: 1985

Abstract:
Structural adjustment policies and programs are economic reforms that the International Monetary Fund and the World Bank require of highly indebted countries to implement as a precondition for further loans. In 1980, in response to the emerging worldwide debt crisis, the World Bank extended its first structural adjustment loans, specifically to Bolivia, Kenya, Philippines, Senegal, and Turkey, which the International Monetary Fund supported through its own related loan programs. Sociologists, activists, politicians, and protestors worldwide have criticized structural adjustment for undermining democracy and for its social, political, and economic costs. Many sociologists view the profound restructuring of economies caused by these policies as a key building block of neoliberal globalization.

Main Text:
Structural adjustment policies and programs are economic reforms that the International Monetary Fund (IMF) and the World Bank require of highly indebted countries to implement as a precondition for further loans. The loans that require such reforms are called structural adjustment loans. In 1980, in response to the emerging worldwide debt crisis, the World Bank made its first structural adjustment loans, which the IMF supported through its own related loan programs. Basically, structural adjustment means the re-organization of the economies of highly-indebted countries, so that they might repay their existing foreign debt and potentially have sustainable growth. Sociologists, activists, politicians, and protestors worldwide have questioned whether structural adjustment realizes these aims and have criticized structural adjustment for undermining democracy and for its social, political, and economic costs. Many sociologists view the profound restructuring of economies caused by these policies as a key building block of neoliberal globalization.

Historical background of structural adjustment
From its beginning in 1944, the IMF has provided loans to national governments to cover balance of payment disequilibria, when their economies did not earn adequate funds from exports to cover the costs of their imports. At the same time, the World Bank began by offering loans for specific development projects, such as dams or roads. After long battles for independence from the colonial powers, many former colonies soon joined these two institutions to gain access to loans. In order to industrialize rapidly, these new countries sought loans not only from these institutions but also from foreign commercial banks. These so-called developing countries sought out markets for their industrial goods, but they encountered trade restrictions by US and European governments and only nascent markets for their goods in the other developing countries. As a result, developing countries accumulated foreign debt.

During the 1970s, this situation worsened. As the Organization of Petroleum Exporting Countries (OPEC) dramatically increased oil prices, advanced industrialized countries like the United States and European countries raised interest rates to cope with inflation, went into severe economic recession, and further curtailed imports, including those from developing countries.
Developing countries’ export revenue did not cover the increasing costs of petroleum and of imports more generally. Furthermore, developing countries had to pay back their existing foreign debts and could not find new loans to make up for lost export revenue because commercial banks stopped providing these loans to developing countries. By the early 1980s, numerous countries were simultaneously unable to pay back their large foreign debts, causing a worldwide debt crisis.

In response to the lack of commercial loans, the IMF and the World Bank stepped in and provided new loans, but with significant conditions. In 1980, the World Bank extended its first structural adjustment loans, specifically to Bolivia, Kenya, Philippines, Senegal, and Turkey (Balassa 1989). These structural adjustment loans differed from earlier loans because structural adjustment loans required the reorganization of major aspects of national economies and governments, through the privatization of state companies, liberalization of trade and capital flows, and the deregulation of national economies. In 1986, to support World Bank programs, the IMF established its own structural adjustment facility (SAF) to provide special balance of payments assistance to low-income countries going through structural adjustment. In contrast to the World Bank’s loans to adjust entire economies, these IMF loans sought to adjust or change the supply of money within national economies in order to reduce inflation and stabilize the economies, by altering exchange rates and interest rates. The IMF and the World Bank provided their loans in installments, so that, if the structural adjustment policies were not implemented or not realized properly, the loans could be stopped. Once countries implemented structural adjustment policies, then they were allowed to renegotiate their debt with other governments and commercial lenders. As a result, the IMF and the World Bank became the international lenders of last resort, and their structural adjustment programs became requirements for future loans from most governments and other lenders.

Basic components of structural adjustment
The idea of structural adjustment had a long history prior to the debt crisis. For decades, economists had called for structural adjustment but in a different form from that realized by the World Bank (Hagemann 1990; Silva and Teixeira 2008). These economists studied the “structure” of national economies, by which they meant the industrial composition and budgets of these economies. They sought to understand these structures in order to transform colonial-era economies based on one or two agricultural commodities into diversified industrialized economies that might provide economic growth, expanded employment, and economic development. These economists also understood that countries would trade with each other and thus all countries, including advanced capitalist countries like the United States, had to adjust in relationship to each other to share the benefits and the costs involved.

However, in the 1980s and 1990s, the World Bank imposed structural adjustment only on developing countries and formerly socialist countries, not on advanced capitalist countries, with the main goal of creating the conditions for countries to repay their foreign debt. There were two basic paths to doing this. First, governments had to create trade surpluses by increasing exports and reducing imports, so as to accumulate hard currency to pay back loans. To increase exports, governments restructured their economies to emphasize specific export-oriented industries. They focused especially on textile production, food processing, clothing production, and tourism, as well as agricultural cash crops, such as house plants and flowers. To lure foreign investors, governments wrote new foreign investment laws and created export processing zones as special industrial areas free of some national laws, such as minimum wage guarantees, and with tax
benefits for investors. To increase exports and reduce domestic demand for imports, governments also devalued their currencies to make their exports cheaper abroad and imports more expensive at home. The structural adjustment of economies to become more export-oriented and attract foreign investment to pay back debt is a central aspect of structural adjustment policies.

Second, governments had to create surpluses in their national budgets to collect money to repay loans. They created these surpluses by cutting government spending and increasing government revenue, which is known as austerity, the second central aspect of structural adjustment. Governments cut their services to their citizenry and generally reduced the size of government through privatization, subcontracting, or the discontinuation of programs. They ended subsidies, such as those that reduced basic food prices. The state accumulated new revenue by selling state-owned companies and by expanding and enforcing domestic taxation, as well as by charging for previously free services like primary education. Structural adjustment policies imposed both austerity and the reorganization of economies in line with the preferences of investors abroad.

By 1990, structural adjustment policies had a standardized character, which economist John Williamson called “the Washington consensus” (Williamson 1990). By “Washington,” Williamson meant “both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks.” As a one-size-fits-all program, the Washington consensus incorporated a broad range of, often contradictory, goals: debt repayment, macroeconomic stability, major economic structural change, economic growth, integration in the global economy, and economic development. In response to widespread criticism, the World Bank offered an alternative, known as the Post-Washington Consensus, to ameliorate the social, political, and economic costs of structural adjustment, though this alternative also remains controversial.

Sociological approaches to structural adjustment
After religious and ethnic strife, the austerity and economic globalization forged by structural adjustment drive some of the largest mobilizations in the developing world, which have, in some cases, even toppled governments (Almeida 2014). Sociologists have critically examined the consequences and goals of structural adjustment. They view the profound restructuring of economies, which reduces the economic role of states and privileges the interests of foreign corporations and bankers over local constituents, as a key building block of neoliberal globalization.

Sociologists have criticized structural adjustment policies for weakening or eradicating the role of the state in the economy. Development and economic sociologists have argued that the state, in fact, has a significant and positive role to play in markets. Peter Evans (1995) demonstrated that Brazil, India, and South Korea – the Newly Industrializing Countries (NICs) – did not succeed economically by liberating markets from state intervention or by weakening the state but rather by the state taking an active role in the creation of new industries and new markets. Thus, sociologists have understood structural adjustment policies as impeding the necessary role of the state in economic development. Furthermore, sociologists have shown how the reduction in state expenditures on social programs have undermined public health, educational attainment, and environmental protections, placing the costs of adjustment overwhelmingly on the poorest and least powerful in societies (Babb 2005; McMichael 2004).
McMichael (2004) has examined how structural adjustment reorganized economies worldwide. The required opening of developing countries’ economies to foreign trade, without the reciprocal opening of advanced industrial economies, put the state enterprises and private companies of developing countries into competition with large multinational corporations. With liberalized foreign investment law, multinational corporations then could buy privatized state enterprises and bankrupted private companies, integrating them into subservient positions within international production networks. In contrast to former colonies taking part in structural adjustment with all the countries of the world, these developing countries must limit themselves to their own adjustment to their dependent place in production networks controlled elsewhere. These international production networks intensify global inequality today.

Structural adjustment policies also have anti-democratic consequences. As state actors implement reforms that are highly unpopular at home, these actors come to depend on the support of international constituencies, such as the IMF and the World Bank, as well as private investors and multinational corporations. States become less willing to respond to domestic popular demands. Babb (2001) has argued that countries involved in structural adjustment policies often privilege the interests of bankers and corporations over those of their own citizens and particularly those of low-income citizens. As a result, both state sovereignty and democratic participation are weakened or undermined.

Sociologists have asked what the real aims of structural adjustment are. Taken at face value, the primary goal in the eyes of the World Bank and IMF is to create the conditions to repay foreign debt with economic growth as a potential secondary aim. Hoogvelt (2001) and Robinson (2008) have argued that structural adjustment policies as imposed by the IMF and the World Bank realized elite capitalist interests in obtaining raw materials and low-wage labor in developing countries. According to this view, structural adjustment has re-subordinated developing countries and former socialist countries to the demands of the advanced capitalist countries.

SEE ALSO: Development: Political Economy; Economic Development; International Monetary Fund; Neoliberalism; Political Economy; World Bank.

REFERENCES


