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ARE THE STRUCTURAL ADJUSTMENT PROGRAMMES SUCCESSFUL?

H.W. SINGER*

The answer to the question "Are the Structural Adjustment Programmes Successful?" raises a number of difficult statistical and analytical problems. How would a country subject to a structural adjustment programme have done without the programme? This is a question of counterfactual evidence, not subject to rigorous proof or disproof. The method preferred by the Bretton Woods Institutions is to compare countries with a programme to countries without a programme, or "strong adjusters" which have stuck with their programmes to "weak adjusters" which have abandoned or failed to implement their programmes. But the two groups may differ in other relevant respects. There is also the well-known difficulty of establishing causation: are countries successful because they implemented programmes or were they able to implement programmes because they were successful? Finally, there must be a doubt whether the successful countries were successful because of the programmes or because of the supporting finance which accopanied the programmes: Would the countries have been successful if they had just got the finance and would the countries without a programme have been successful if they had got the finance?

Before this question can be answered we must obviously make a number of distinctions. A structural adjustment programme may be called successful if it achieves the objectives of the programme itself, but may not be successful from the point of view of optimum development of the country. This would be the case if the objectives of the programme differ from what is in the best interest of the development of the country. To give a few examples: the objective of the structural adjustment programme may be the integration of the economies of the adjusting countries into the world economy, through outward orientation and alignment of domestic prices with international prices; but the best possible development strategy for a country may call for greater emphasis on the domestic market and for a degree of protection or even a period of relative insulation from external influences. Or the objective of structural adjustment programmes may be to stabilise the balance of

* Professor Sir Hans W. Singer is Emeritus Professor at the University of Sussex and Professorial Fellow of the Institute of Development Studies at the University of Sussex.

payments position and thus enable a country to service its foreign debts; but this would not necessarily be the development priority of the country itself. The 'Washington Consensus' under which the Bretton Woods Institutions (BWI) operate holds that there can be no such conflicts. Integration into the world economy, 'getting prices right', by aligning domestic prices with international prices, maintaining a good international credit rating by servicing foreign debts and attracting foreign investments by maintaining a sound balance of payments position, etc., – all these are 'fundamentals' which are held by the Washington Consensus to be in the best interests of development at any time and under any circumstances. Thus the question whether an adjustment programme is successful in terms of its own objectives as defined by the Washington Consensus is different from the question whether the Washington Consensus contains the right recipe for development of all countries at all times.

A key objective of the structural adjustment programmes inspired by the Washington Consensus is to extend the role of the market and reduce the role of government intervention by way of planning and regulation as well as direct production. This emphasis on 'market friendliness' has both international and domestic aspects. It is based on the assumption that the market is right: there are no market failures or if there are, they are less serious or can be more easily rectified than government failures. This is perceived to be in contrast to the bad old ways of the 1950s when the reverse assumption was made, i.e., that government failures could be disregarded in comparison with market failures. The international aspect of market friendliness consists in the acceptance of international prices as the benchmark of comparative advantages and measures of competitiveness; this places emphasis on the selection of the correct exchange rate so that the assumedly correct market incentives of international prices can feed through into the national economy, resulting in proper emphasis on the production of tradeables as against non-tradeables. Tradeables of course include not only exports and potential exports but also import substitutes and potential import substitutes. This is recognised in theory although in practice the emphasis tends to be on exports rather than on import substitution. Similarly, allocation of resources, non-tradeables as well as tradeables, must be governed by market prices. 'Getting prices right', in the sense of having prices as close as possible to what a free market would produce, are held to be the key to sustainable growth.

Critics might question this model on various grounds. First of all, international prices are not always free market prices and as such suitable benchmarks for countries undergoing structural adjustment. For example, international cereal prices can hardly be said to be the result of free market forces; rather they are artificially low as a result of agricultural subsidies to farmers in Europe and the US resulting in large surpluses overhanging the market and putting downward pressure on prices. Thus countries deciding their domestic priorities for domestic food

production *versus* imports on the basis of international prices would allocate less to domestic production and rely more on food imports than true free market principles would suggest. This is sometimes acknowledged by accepting food security as a desirable objective in itself, apart from market friendliness, but this is really an acknowledgement that there are important market failures in this area.

Secondly, critics would point out that in developing countries, and especially in the poorer developing countries, the institutions and qualifications necessary for the operation of domestic markets are simply not there. This lack refers to essential infrastructure such as roads, telecommunications, etc., and also to the lack of an entrepreneurial and business class with the necessary information, access to credit, etc., to organise production in response to price incentives. The structural adjustment programmes,and even more the IMF stabilisation programmes, are based on the assumption that the first and most essential step is to get the macroeconomic fundamentals right and supply will respond to the right environment and proper price incentives and thus lead to sustainable growth. This seems to neglect some of the structural obstacles to supply response. The emphasis on the macroeconomic and demand side is further reinforced by the cross-conditionality between the IMF and World Bank under which the World Bank structural adjustment programmes will not apply unless and until the IMF stabilisation targets have been fulfilled. The World Bank had acknowledged this difficulty by putting increasing emphasis on 'capacity building' and 'institution building'.

Thirdly, many critics are not ready to accept the blanket proposition that government failures are more important than market failures. This seems to disregard the above-mentioned weaknesses of market structures in developing countries. It also seems to disregard the great variety of circumstances in different developing countries. A more realistic picture would be to say that we would find a great variety of circumstances in different countries: reasonably good governance combined with promising market structures; good governance but poor market structures; poor governance but promising markets, and poor governance as well as poor markets. In the latter situation, which may be widespread among the poorest countries, it seems not particularly useful to approach structural adjustment from the point of view of 'getting government out of business'. Altogether the doctrine of market superiority may have been developed more on the basis of conditions in advanced industrial countries rather than developing countries. Moreover, it is not easy to square with the experience of such successful East Asian economies as Korea and Taiwan, or for that matter with the earlier experience of successful industrial countries such as Japan (although the World Bank in its recent study of the East Asian Miracle has done its best to squeeze their experience into the paradigm of the Washington Consensus).

Fourthly, critics are also doubtful about the priority given to internal causes of underdevelopment or balance of payments difficulties over and above external or

international sources. Such an emphasis is inherent,when poor governance and harmful government intervention is treated as the main culprit. The World Bank and IMF tend to reply that, while international factors such as deteriorating terms of trade, protectionism in industrial countries (e.g., in textiles and agriculture), debt burdens, etc., may be important, they must be accepted as facts of life beyond the control of developing countries. However, there are two related replies to this: (a) that the Bretton Woods institutions were not created to force countries to adjust themselves to an unfavourable international environment, but rather to change the international environment for the better; (b) the Bretton Woods institutions are criticized for not putting corresponding pressure on rich countries and balance of payments surplus countries to undergo the same degree of structural adjustment expected from developing countries which are in a much weaker position to undergo the rigours of structural adjustment. This also is contrary to the original intentions: for example, in the original documentation for Bretton Woods Keynes had proposed an international tax on balance of payments surpluses and the IMF is supposed, in theory, to exert the same degree of 'surveillance' over all member countries, rich as well as poor, surplus as well as deficit. The World Bank in its turn was set up on a purely project basis without having any business in the area of conditionality or structural adjustment. A further point of the critics in this area is that such external obstacles as deteriorating terms of trade for countries exporting primary products are by no means entirely external or exogenous. Rather, as discussed later in this paper, the country-by-country approach adopted in structural adjustment negotiation results in a fallacy of composition leading to downward pressure on commodity prices, to the benefit of importing countries where low commodity prices help to control inflation.

So far, we have looked at the objectives of structural adjustment. We now turn to consider the question raised in the title of this paper, i.e., whether these programmes were successful, while accepting their objectives. In other words: were these programmes successful in terms of their own objectives?[1]

Perhaps the most authoritative statement by the World Bank, both on the methodology of measuring the success of SAPs and the actual results of such measurements, is in the proceedings of a World Bank Symposium on Adjustment Lending Revisited, held in September 1990.[2] In the key contribution to this symposium , 'World Bank Supported Adjustment Programs: Country Performance and Effectiveness by Vittorio Corbo and Patricio Rojas, the following four criteria are singled out as indicators of country performance: rate of real GDP growth; ratio of

[1] The rest of this paper, which answers this question, has previously been published under the title 'Structural Adjustment Programmes: Evaluating Success', in: Trade, Aid and Development, eds., Jan Willem Gunning, Henk Kox, Wouter Tims and Ynto de Wit, Macmillan 1994.

[2] See, V. Corbo, S. Fischer and S.B. Webb, Adjustment Lending Revisited: Policies to Restore Growth, (Washington, DC: World Bank, 1992).

domestic saving to GDP; ratio of investment to GDP; and ratio of exports to GDP. Countries under SAPs, or 'early-intensive adjustment lending (EIAL) countries' are compared with other (less intensive) adjustment lending (OAL) countries and also with countries which have received no adjustment loans (NAL countries).[3] The records of the three categories of countries (EIAL, OAL and NAL) for the periods 1981-1984 and 1985-88, as compared with a pre-SAP base period of 1970-80, are then contrasted and taken as tests of the success of SAPs. This is the essence of the procedure, although the technique is more sophisticated than indicated here, since selected indicators of policy stance as well as external shocks (such as deterioration in terms of trade and rising real interest rates) are also taken into account.

What can we say about this methodology? The countries without SAPs – the NAL countries – are used as a control group for the countries with SAPs, among which again the countries with less intensive SAPs – the OAL countries – serve as a control group for the countries with more intensive SAPs – the EIAL countries. This method of cross-country comparison is clearly superior to the alternative method of inter-temporal comparisons of countries with SAPs. This inter-temporal method would compare a given country before and after SAPs, and attribute any change to the impact of the SAP. This is clearly unsatisfactory and subject to all the hazards of counterfactual evidence. A change in the performance of a country in the post-SAP period compared with the pre-SAP period may be due to any number of factors, and it is naive to assume that in the absence of a SAP there would have been no change in the relevant performance criteria. The control group method actually adopted makes a less stringent assumption, i.e., that without the SAPs the performance criteria of countries undergoing SAPs would have been the same as for countries without SAPs. Even this is a risky assumption – one would have to be sure that the SAP countries are in all relevant respects fully comparable to the non-SAP countries. Such relevant respects would include in particular size of countries, regional distribution of countries, degree of urbanisation or industrialisation, trade-intensity, technological capacity, to name only a few. But while the method is still risky it seems the best we can do, and in any case the assumption of other things being equal between SAP and non-SAP countries can be tested and to some extent corrected for (as indeed the World Bank now does in its new more sophisticated approach to measurement of SAP success evidenced in the symposium).

If we first look at the results obtained for the four selected performance criteria, we would expect to establish a clear demonstration of success of SAPs is a smooth transition up the ladder of adjustment as it were, i.e., the OAL countries with mild adjustment doing better than the NAL countries without adjustment and the EIAL countries with intensive adjustment doing better still than the OAL countries. In fact, we find that this is true only for one of the four main indicators, namely the ratio of

[3] Ibid., pp. 23-39.

exports to GDP. If we look at the median values (which in view of the limited number of countries in each group seem more appropriate than average values) we find that the NAL countries suffered a fall in the export ratio in 1985-88 compared with 1970-80 of 6.3 percentage points, the OAL countries had a smaller fall of 2.5 percentage points, whereas the EIAL countries showed an actual increase in the ratio by 2.3 percentage points. So far so good – leaving aside for the moment the question whether the ratio of exports to GDP is in fact a good indicator of 'success'. But none of the other three indicators gives such an unequivocal picture of success.

One other indicator – presumably the most important single indicator of success – namely the rate of GDP growth, shows at least a partial picture of success. Compared with the non-adjusting NAL countries which showed a decline of 2.4 percentage points in the rate of growth, both categories of adjusting countries did better. However, as between the mildly adjusting OAL countries and the intensely adjusting EIAL countries the former did distinctly better than the latter, losing only 0.5 percentage points of growth as against 1.9 per cent for the intensely adjusting countries. So the picture of success is somewhat blurred, but perhaps broadly one can count this as another indicator of success.

However, the two other indicators show unequivocally an opposite picture of failure, in the sense that the adjusting countries did worse than the non-adjusting countries. Admittedly for the ratio of domestic saving to GDP the differences are slight: a loss of 1.5 percentage points for the NAL countries, 2.1 per cent for the OAL countries and 3.4 per cent for the EIAL countries. For the ratio of investment to GDP, on the other hand, the differences are not only in the opposite direction to those indicating 'success' but the differences are also very sharp: again of 0.2 per cent for NAL countries, a loss of 3.7 per cent for OAL countries and a loss of no less than 7.3 percentage points for the EIAL countries. All this is on the assumption that high ratios of saving and investment are a good thing and can properly be treated as performance indicators.

So the overall picture given by the four indicators is at best mixed, with two pointing in one direction and two in the other. The result most clearly pointing in the other direction concerns the ratio of investment to GDP; the negative finding in this respect has also been confirmed by other researchers and is accepted by the World Bank researchers. However, they then immediately raise the question whether the ratio of investment is in fact a proper performance indicator and argue that this finding 'should be interpreted carefully'.[4] It is argued that such a careful interpretation might show that the reduction in investment was in the area of 'low-efficiency public (and private) investment programmes' and that the efficiency or quality of investment must have improved since the lower rate of investment goes together

[4] Ibid., p. 33.

with better growth of GDP.[5]

All this is fair enough, but should not the same argument that the findings 'should be interpreted carefully' also be applied to the indicators where the picture is favourable to the success hypothesis? For example, is a high ratio of exports to GDP really an indicator of success? The figure does not tell us anything about the terms on which the higher export ratio has been achieved. Has the increase in exports been part of a general export drive which has led to weak prices and adverse terms of trade? Have the increased exports been in the nature of cash crops at the expense of local food supplies and local food security? Have the exports required a high percentage of imported inputs so that their contribution to overall import capacity has been negligible? Have the export proceeds been absorbed in increased debt service so that they are not available to finance developmental imports? Careful interpretation must be general, not selective.

The finding of a negative impact of World Bank policy-based lending on the rate of investment is also confirmed by the even more recent analysis by Mosley, Harrigan and Toye.[6] However, since they – contrary to the World Bank symposium – do not find any clear evidence for a positive effect on GDP growth, they cannot share the World Bank's explanation that the decline in the rate of investment has been overcompensated by an increase in the efficiency of investment. This is an imputation by the present author – matter of efficiency of investment is not dealt with explicitly by Mosley, Harrigan and Toye.

We are now coming to a particularly serious question concerning the success of SAPs. The data show reasonable GDP growth for 1985-88 for the intensely adjusting countries (3.7 per cent median growth, compared with only 3.1 per cent for the OAL countries and 2.2 per cent for the NAL countries). But in welfare terms what matters is GDY (Gross Domestic Income) rather than GDP, i.e., GDP adjusted for changes in terms of trade. Now another table shows that the terms of trade of the intensely adjusting countries resulted in a loss of income in 1985-88 relative to 1970-80 of no less than 6.0 per cent of GDP. Hence the GDY figure would show a very different result from the GDP figure. Admittedly, we are now shifting the debate from the relative performance of adjusting countries to their absolute success or failure, but as Frances Stewart rightly pointed out at the World Bank Symposium, absolute performance may be more significant than relative performance.

The terms of trade losses are in fact shown among the data in the Corbo-Rojas

[5] The reference to 'low-efficiency public (and private) investment programmes' is revealing – why not private (and public) investment programmes? Or at least 'public and private programmes' without the brackets? I think we do not have to look very far for an answer to these questions.

[6] P. Mosley, J. Harrigan and J. Toye, Aid and Power. The World Bank and Policy-Based Lending, (London and New York: Routledge, 1991). The reference is to Volume 1, Analysis and Policy Proposals: 'if adjustment lending has hidden benefits, it also has a hidden cost. This is the downward pressure which it has exerted, in conjunction with IMF stabilisation programmes, on the level of investment in developing countries', (p. 303).

study discussed at the World Bank Symposium. However, they are introduced and treated as 'external shocks'. This begs the question whether terms of trade changes are in fact external or whether they are not to some extent endogenous to the adjustment process. The SAPs, especially when taken in combination with IMF stabilisation programmes, typically include a number of measures such as exchange rate devaluation, designed to increase 'outward orientation' which in the IMF/World Bank picture is a good thing in itself. Yet the data for recent years clearly show that the increased outward orientation has been at the expense of deteriorating terms of trade. Certainly exchange rate devaluation (if it succeeds in raising the volume of exports) would normally be expected to have that effect. It should be added, however, that in the context of the World Bank study, i.e., in comparative terms of adjusting relative to non-adjusting countries, the terms of trade deterioration is actually greater for the non-adjusting countries than for the adjusting countries. This fact does not really dispose of the possibility of endogenous terms of trade effects; the outward orientation and pressure to export inherent in stabilisation/adjustment programmes would also affect the non-adjusting countries which export products competitive with those of adjusting countries. All this will be difficult to disentangle and any attempt to do this may lead us into a statistical quagmire but this is no reason to disregard such spill-over effects and interdependencies.

Beyond this looms still another question: in looking at statistical associations between SAPs and performance indicators we have to ask ourselves which is cause and which is effect. It may seem natural in the type of comparative analysis presented by the World Bank authors to take it for granted that adjustment is the cause, and GDP growth, savings ratios, investment ratios and export ratios are the effects. But this is not necessarily true. It is conceivable that a good performance in respect of growth rates and savings/investment/export ratios makes countries 'creditworthy' in the sense of qualifying for support through additional programme lending which in turn is subject to SAP conditionalities. This would mean that a good past performance is causal for the attraction of SAP lending and other external capital flows, and good past performance, in turn, may plausibly be assumed to have some association with subsequent performance. Such considerations would considerably blur the cause/effect relationship. In any case, it is a well-established principle that correlation or association does not tell us which is cause and which is effect. All such complications are presumably well known to the World Bank analysts, but one would think that they should work in the direction of considerable caution in treating the performance indicators as success indicators for structural adjustment.

SAPs are a form of programme lending and thus provide additional finance as well as exacting policy changes. This additional flow of finance to adjusting countries is then further amplified through bilateral donors and non-official sources taking the World Bank loans as a 'seal of approval' and increasing their own lending

or investment to adjusting countries. This does not, of course, mean that non-adjusting countries do not also attract World Bank loans, both programme and project, as well as other external finance, especially if the reason for their non-adjustment is good domestic policies and absence of external troubles. But there seems a need to extend the scope of statistical analysis to cover such problems. It will be easy to disentangle statistically what part of any improved performance is due to the loans *per se* and what part to the conditionality attached to these loans. Presumably the World Bank would argue that there is no need to make such a distinction because the loans and the conditionality form an integral whole. Yet, when we are concerned to isolate the effects of the required structural reforms the distinction does seem relevant and important.

It has previously been pointed out that the control group of non-adjusting countries may not be an ideal statistical control group since they are also affected by the adjustment of adjusting countries. This observation can now be extended: the adjustment of adjusting Country A also affects the performance indicators in adjusting Country B and vice versa. All the countries in the statistical sample are interdependent. Underlying this statistical point is a major analytical doubt concerning the SAPs: the SAP approach is on a country-by-country basis and what is more makes the 'small country assumption', i.e., that the country is without market power and faced with perfectly elastic demand for its exports. In other words, it is assumed that the structural changes in, say, trade policy or foreign exchange policy leading to outward orientation and improved export performance do not affect the overall situation of developing countries, e.g., their terms of trade, trade access, commodity prices, etc. While this is clearly doubtful when dealing with individual countries with a significant market share in specific commodity markets or – less likely – in the market for manufactures, it becomes patently unacceptable when dealing with many countries simultaneously, although with each of them on a country-by-country basis. The IMF and World Bank themselves now show signs of recognition of the 'fallacy of composition' involved in the small country assumption for the case of many simultaneous country SAPs. This recognition is emerging in the case of major primary commodities such as cocoa where the supply side of the market is shared by a limited number of countries, each of which has a significant market share. However, the doubts expressed in the professional literature are much wider than this.[7]

To take account of these wider doubts, it would be necessary to change the whole country-by-country framework of SAPs. It would be necessary either to negotiate SAPs simultaneously on the basis of a global macro-economic model for estimating overall impacts, or else in the negotiation of country SAPs to take much more

[7] See, D. Evans et al., Trade Reform and the Small Country Assumption, in: I. Goldin and L.A. Winters, eds., Open Economies: Structural Adjustment and Agriculture, OECD Centre for Economic Policy Research, (Cambridge University Press, 1992).

account of the impact on other developing countries before recommending specific adjustment measures. The present procedure may be said to be at the same time both too country-specific and not country-specific enough. It is too country-specific in the sense that the negotiation is country-by-country with insufficient attention to the impact on other countries; and not country-specific enough in the sense that the individual country programmes tend to recommend more or less the same type of measures and the same ingredients for the individual country SAPs. Although it is not easy to be statistically precise, it appears that the bulk of the country SAPs are identical to each other in the type of measures recommended. This can be taken as prima facie evidence that the programmes are too much inspired by a common theory or ideology and as a result take insufficient account of country specificities and differences. Thus, the question mark over the use of non-adjusting countries as a control group for measuring the success of SAPs is only a part of a much broader question-mark hanging over the whole SAP process as presently operated.

A spirited criticism of over-generalised SAPs has come from Gerald Helleiner, one of the participants in the World Bank Symposium:

> Unhappiness with 'global' prescriptions has rarely been as vociferous as it has become in recent years in the context of the 'conditionality' attached to IMF, World Bank and other official lending. The IMF and the World Bank usually deny that they employ a single 'model' for all their member countries. Whether these institutions, qua institutions, do or do not, there can be little doubt that within them, generalised prescriptions abound.[8]

A further question arises from the relationship between the World Bank and the IMF. Given the present rules and pracitce of cross-conditionality, it must be assumed that practically all the adjusting countries in the World Bank analysis have been subject to IMF stabilisation programmes. This may also be true of some of the non-adjusting countries, but clearly to a much lesser degree. The question then arises: to what extent are the observed results of SAPs attributable to the SAP or to what extent are they attributable to IMF stabilisation? If one assumes that the non-adjusting countries were free of IMF stabilisation programmes, then one could say that the observed results measure the combined impact of World Bank and IMF programmes. In that case perhaps the distinction would not matter too much, since both organisations follow similar policies. However, the World Bank Symposium does not draw any distinction, either among the adjusting or the non-adjusting countries, between those also subject to IMF programmes and those not subject to such programmes.

[8] G.K. Helleiner, Outward Orientation, Import Instability and African Economic Growth: An Empirical Investigation, in: S. Lall and F. Stewart, eds., Theory and Reality in Development, (London: Macmillan, 1986), p.139.

Meanwhile, the Fund has undertaken its own series of empirical studies to examine the effects of Fund-supported programmes. The macro-economic performance criteria used by the Fund are partly overlapping with those used by the Bank, although with more emphasis on the balance of payments and rate of inflation. The IMF empirical results, like those of the bank, include the impact on GDP growth rates but with a different result. The Fund analysis admits that the Fund programmes 'involve some cost in terms of a decline in the growth rate',[9] but also that 'the negative effects on growth were reduced when the evaluation period was lengthened'.[10] The Bank analysis, on the other hand, claims a positive effect on GDP growth (although as pointed out this result is somewhat blurred). If both these analyses are correct they would form a coherent picture: the impact on GDP growth of IMF stabilisation programmes, which usually precede World Bank SAPs, is at first negative, then this negative effect is gradually reduced and, by the time the World Bank SAP takes over, is converted into a positive effect. While consistent, this result cannot be said to be firmly established by the empirical data.

This last consideration raises the question of sequencing of Fund and Bank programmes respectively. The normal sequencing is of a Fund stablisation programme first, mainly directed towards reducing inflation and improving the balance of payments, later followed by a Bank SAP. This sequence is based on the theory that you first need demand-reducing stabilisation as the only sound basis for subsequent sustainable growth, and when that is achieved you turn to the supply side for the institutional and trade policies designed to encourage efficiency and growth. In other words the underlying theory is one of *reculer pour mieux sauter* - retrench or step back first in order to move or jump forward.

However this theory is subject to some doubt. The initial retrenchment carries a danger of becoming cumulative or irreversible. It may also conflict with the idea of improving long-term supply-side efficiency. For example, if the initial retrenchment leads to an increase in poverty and malnutrition, this certainly would not be helpful in improving the efficiency of the future labour force, especially when it is accompanied by cuts in education and health services. There is now increasing criticism of the present sequencing, and the World Bank is urged to come in with its supply-side measures and financial support earlier and more strongly, and perhaps even reverse the traditional sequencing. As Gerald Helleiner stated at the World Bank Symposium: 'there does not seem to be agreement as to the universal productivity of the new general advice on the sequencing of reform'.[11]

In a detailed study of 'sequencing in the agricultural sector, with special reference to sub-Saharan Africa, Lawrence Smith and Neil Spooner criticise the

[9] M.S. Khan, 'Macro Effects of Fund-Supported Programmes', IMF Staff Papers, 37, (June 1990), p.222.

[10] Ibid.

[11] Helleiner, Outward Orientation, p. 181.

poor sequencing of adjustment policies at the sectoral, market and micro-levels'. They also comment on the priority sequencing given to stabilisation and attribute this to 'the influence of the IMF and its insistence on the pursuit of an orthodox stabilisation policy'.[12] Their general judgement on the performance of SAPs in sub-Saharan Africa is that it has been at the best patchy and in many cases disappointing.[13]

The priority in sequencing given to IMF stabilisation and the improvement of the external balance is connected with the fact that almost invariably in the 1980s the need for structural adjustment and SAP lending has arisen from the debt crisis – the inability of developing countries to service their debts in full. To some extent, the whole purpose of SAPs is to enable countries to resume debt servicing, although possibly on the basis of reduced debt, with agreed debt reductions and debt rescheduling going hand-in-hand with the SAP. In so far as resumed debt servicing is the effect and purpose of structural adjustment, it could be said that the beneficiaries are the creditors rather than the developing countries. No doubt there would also be beneficial effects for the adjusting country in that it becomes more creditworthy for future lending and investment as a result of debt service resumption, and the developing countries share a general interest in protecting that mysterious entity 'the world financial system' from disruption and collapse. It is also true that the resumption of debt service under SAPs hopefully comes from resumed and sustainable growth rather than further squeezing of consumption, domestic investment or imports. However, the fact remains that to the extent that the increase in GDP or in exports goes to finance debt service, there is no immediate or direct impact on the welfare of the adjusting country. The essential purpose of exports must be to provide finance for development-essential or welfare-essential imports. It is noteworthy that the World Bank analysts use the ratio of exports to GDP as a performance indicator and not the ratio of imports to GDP. In the latter case they would probably have found a negative impact of SAPs, but they could then have explained away this negative finding by assuming that this represents efficient import substitution – import substitution made efficient by the adjustment of the exchange rate, removal of price distortions, reduction of inflation, etc. Such an explanation would be as plausible as the one used in respect of the negative finding concerning the rate of investment. In fact, however, it will almost certainly be found in country analysis that the import squeeze generally did not represent efficient import substitution, or any other kind of import substitution,but went together with a decline in domestic production of the relevant tradeables.

Dealing with African and other low-income countries, Helleiner finds 'no

[12] L.D. Smith and N.J. Spooner, The Sequencing of Structural Adjustment Policy Instruments in the Agricultural Sector, in: C. Milner and A.J. Rayner, eds., Policy Adjustment in Africa: Case-Studies in Economic Development, Volume-I, (London: Macmillan, 1992), pp.61-80.

[13] Ibid., p.61.

statistically significant link between the change in export share of GDP and growth. Indeed, the sign on this relationship is consistently negative.' On the other hand, when the change in export shares was replaced by the change in import shares, the finding is modified at least to the limited extent that 'although in some estimated equations the sign was now positive, the relationship with growth was still statistically insignificant'.[14]

The link with the debt crisis and the potential benefits of adjustment for creditors and the 'world financial system' should serve to direct our mind to a basic problem of the SAPs, i.e., that they are unilaterally and asymmetrically applied to indebted developing countries in balance of payments deficit, while they are not applied to richer creditor countries, especially those with a balance of payments surplus. This is of course inevitable, given the linkage between SAPs and policy-based World Bank lending, but all the same it is wrong and incompatible with effective global macro-economic management. In his original proposals for Bretton Woods, Keynes was emphatic in prescribing symmetrical adjustment for surplus as well as deficit countries. In fact in conditions of recession and unemployment (as today) he wanted the adjustment pressure to be put more on surplus than on deficit countries. For this purpose, he advocated a tax of one per cent a month on balance of payments surpluses, the proceeds to be recycled to the deficit countries.[15]

In so far as the need for adjustment arises from the debt crisis, the responsibility for letting the debts accumulate so merrily during the 1970s must surely be shared between the improvident lenders, the industrial countries mal-adjusting to the OPEC shocks and the improvident borrowers in the mal-adjusting developing countries. The IMF, in spite of the mandate for 'surveillance' in its Terms of Agreement – and the World Bank have of course no means, either political or financial, to put symmetrical or more than symmetrical pressure on creditor and surplus countries. They might argue that it is useless to rake over the history of the debt crisis and allocate responsibility: the debt crisis and the world recession are facts of life to which the developing countries will have to 'adjust'. But the Keynesian counter-argument to thi would be that the Bretton Woods institutions were set up, not to enforce the facts of life on developing countries, but to change the facts of life.[16]

The four performance criteria of GDP growth and the ratios of saving, investment, and export are limited to some major macro-economic aggregates. They lack

[14] Helleiner, Outward Orientation, p.146.

[15] See, H.W. Singer, The Vision of Keynes: The Bretton Woods Institutions, in: E. Jensen and T. Fisher, eds., The United Kingdom, The United Nations, (London: Macmillan, 1990), pp.235-245.

[16] See, H.W. Singer, Lessons of Post-War Development Experience: 1945-1988, IDS Discussion Paper 260, (1989).

a 'human face' as pointed out as early as 1987 in the well-known UNICEF study.[17] GDP growth tells us nothing about income distribution and the numbers living in poverty. In any case, the World Bank itself has now come to be more and more insistent that the pattern of income growth may be more important than the rate of growth. The 'positive' effect of adjustment on the savings ratio could in fact be the result of increasing inequality of income distribution, given the association between propensity to save and income levels. One could also be sufficiently Keynesian to be doubtful about the usefulness of higher savings in periods of recession and unemployment (although this doubt would not be shared by the IMF and World Bank with their priority on reducing inflation). As for the export ratio, some doubts have already been expressed about possible negative welfare implications.

In line with the UNICEF volume and also with recent thinking in the UNDP Human Development Reports, the macro-economic aggregate indicators might well be replaced or supplemented by indicators with a more human face. Admittedly the World Bank itself, following the UNICEF criticism, has become more and more concerned with the social dimensions of adjustment, and the World Bank Symposium itself included discussion of the social impact. But the thinking still seems to be largely in terms of dealing with social impacts in terms of compensatory measures and secondary action to provide 'safety nets'. The essential measure of success or failure of SAPs is still seen in terms of the four macro-economic aggregates. Underlying this approach must be some version, however more sophisticated and more qualified, of the old 'trickle-down' approach, or at least the idea that you must first bake the cake before you can distribute it. The trouble is that the way you bake the cake determines the possibility of distributing it.

The Managing Director of the IMF, Michel Camdessus, singled out neglect of the 'social pillar' as the major weakness of adjustment approaches. In a recent address to the UN Economic and Social Council in July 1992 he stated:

> We still have to make a major effort to see to it that the social aspects of our strategies are dealt with on a co-ordinated basis, with suitable structures and means of financing. For the moment, we are a long way from that: the attention given to these problems has been disjointed or sporadic, the social component of our interventions – and I mean all of us, bilateral and multilateral donors – is financially inadequate, comes too late, and sometimes is disorganised.[18]

[17] G.A. Cornia, R. Jolly and F. Stewart, eds., Adjustment with a human face: Protecting the vulnerable and promoting growth, Oxford: Clarendon Press, 1987.

[18] Quoted from IMF Survey, 3 August 1992, pp. 255-256.

The upshot of all this must be to emphasise the great uncertainty and lack of unambiguous knowledge about the impact of the instruments in the orthodox repertoire of SAP measures. In these circumstances there is case for being less self-confident in prescriptions. Instead there is a good case for considering alternative approaches, and evaluating their results without ideological prejudice.

University of Sussex
U.K.