

Chapter Three

Structural Adjustment Policies in Developing Countries

Introduction

Since the rise of the extremely conservative economic policies of Reaganism and Thatcherism in the beginning of the 1980s, neoliberalism has become the dominant policy in both the economic and political domains (Chase-Dunn 2000; Brecher 1997: 311; Gilpin 2000: 84). This happened in tandem with the globalization of financial markets, an unprecedented mobility of capital, and the growing and far-reaching effects of debt crisis in less developed countries. Largely championed by the administrations of Ronald Reagan and Margaret Thatcher in the United States and Britain, the neoliberal principles that shape structural adjustment programs gained prominence in international financial institutions in the 1980s. As Welch and Oringe (1998: 1) note, Neoliberalism resurrected nineteenth-century economic liberalism, along with its unending faith in the power of unregulated free markets to create unending economic expansion. The benefits of this economic growth would, in turn, “trickle down” to all levels of society.

The principal agendas of this ideology are asserting the dominance of market forces, integrating the global economy, and transforming production systems and labor markets around the world. In the language of neoliberalism, the term “globalization” refers to the increase of economic integration across national boundaries. Sklair (1991; 1999) sees the process as a complex concatenation of worldwide cultural, political,

demographic, and economic changes.¹ The most direct impacts of globalization are economic, and were therefore deliberately accelerated by most national governments; by international institutions, such as the IMF and the World Bank; and by transnational corporations (TNCs). In short, “international trade and the decentralization of manufacturing made global economic processes important factors in the internal economic lives of individual states” (Waters 1995: 2). In addition, globalization threatens to westernize and to homogenize the world’s diverse cultures (Robertson 1992).

The Negative Human Impacts of Globalization

It is impossible to ignore the continuous economic decline, worsening of social services, and widespread poverty in many of these countries, particularly since the beginning of the 1980s. As Brecher and Costello (1994: 5) have observed:

Poverty, unemployment, inequality, corporatization of government, economic stagnation, and environmental degradation are nothing new. For the past two centuries, the main vehicles that people have used to address such problems have been national governments and national social movements. But as corporations have become increasingly global, and as supranational institutions like the IMF, World Bank, and GATT have become increasingly powerful, these vehicles have grown less and less effective. The powers that people have established in the national arena have been largely outflanked by globalization. The result can be a pervasive feeling of powerlessness in the face of unaccountable global forces.

¹ See also Streeten 2001: 167-173; Waters 1995:1-4.

The United Nations (2001: 9) has pinpointed several negative trends that have been exacerbated or directly caused by recent neoliberal globalization, including the following indicators:

- 968 million people lack access to safe water (1998).
- 2.4 billion people lack access to basic sanitation (1998).
- 34 million people are infected with HIV/AIDS (end of 2000).
- 2.2 million people die annually from indoor air pollution (1996).
- 854 million adults are illiterate, 543 million of them women (2000).
- 325 million children are not receiving primary and secondary educations, 183 million of them girls (2000).
- 1.2 billion people live on less than \$1 a day (1993 PPP US\$), 2.8 billion on less than \$2 a day (1998).
- 163 million underweight children are under age five (1998).
- 11 million children under five dying annually from preventable causes (1998)

The economic and social gap between the poor South and the rich North has steadily widened since the implementation of global neoliberalism. In its 1999 *Human Development Report*, the United Nations emphasized that one third of the labor force of developing nations was either unemployed or underemployed, the worst unemployment rate since the 1930s worldwide depression. This report also called attention to the growing gap in wealth. “In 1960, the combined incomes of the richest fifth of the world’s

population were 30 times greater than those of the poorest fifth.” By 1998, this wealth gap had expanded to more than twice 1960 levels. In other words, following the introduction of globalization and neoliberalism, the South experienced increased unemployment and saw itself falling further and further behind the North in terms of wealth.

As globalization has progressed, wealth and resource has increasingly been concentrated in the rich countries. By 2001:

The richest 20 percent of the world’s population receives 83% of the world’s income, while the poorest 60% of the world’s people receive just 5.6% of the world’s income. The richest 20% of the world’s population in Northern industrial countries uses 70% of the world’s energy, 75% of the world’s metals, 85% of the world’s wood, and 60% of the world’s food. This 20% minority is also responsible for producing about 75% of the world’s environmental pollution (Danaher 2001: online).

Thus, while the poor South shoulders an excessive amount of the world’s poverty and unemployment, the industrial North consumes an inordinate amount of its resources and provides the vast majority of its pollution.

There are many negative impacts of the development of the global economy. Amin (2000) demonstrates how liberal globalization leads to militarization in relations between imperialist powers and developing countries. According to Amin (2000), the United States’ global strategy has supported two complementary principles: its iron grip upon “TNC capital,” and its establishment of the United States as the sole military hegemon in the world. Ultimately, in Amin’s construct, this positioning of the United States takes precedence over all other treaties and relationships, be they allies like

NATO, or potential economic competitors, like China (see also Petras 2000). This perspective is not solely the province of disaffected voices in developing countries. It is worth remembering Henry Kissinger's famous statement that "Globalization is only another word for U.S. domination" (Amin 2000: online).

While globalization creates riches for TNCs and developed countries, it creates a wide variety of problems for developing countries, including, widespread poverty, "rising unemployment, falling real incomes, mass layoffs, cutbacks in public services, deteriorating working conditions, elimination of small farms and businesses, accelerating environmental destruction, loss of democratic control over their governments and societies, and eradication of restrictions on foreign investments" (Brecher and Costello 1994: 4-5; see also Danaher online; Tabb 2001: 60-65). This last problem is among the most vexing, as it represents the fundamental inequality inherent in globalization. These restrictions, including old-fashioned regulation, were originally established by the national capitalists of each country to protect themselves from foreign competition.

Globalization has severely affected the most vulnerable groups in developing countries, particularly women, children and ethnic groups. Ward states that "growth in the number of informal-sector and women workers is the centerpiece of global restructuring" (Ward 1990: 2; see also England 1993: 6). Capitalists and TNCs use informal sector workers, particularly women, to maximize their profits, depending on the absence of any legislation to protect them. Baca Zinn et al. (1994) assert the importance of studying gender relations in the light of global processes and inequalities. They

highlight the irony inherent in the fact that these women, predominantly from underdeveloped rural regions, work in *maquiladora* factories and similar concerns, assembling products for export to more technologically-advanced, developed countries. Far from being an isolated phenomenon, this problem seems to be endemic across the developing world, occurring in Central America, Mexico, the Caribbean, and Asia (See also, Anderson and Collins 173; Chavetz, 1997). The irony is that, whatever cultural barriers separate these women, they have one thing in common: they are all exploited by the developed world, and they all service its needs.

Through the global assembly line and TNCs, women in the peripheries and those who immigrate to core countries find themselves accepting harsh and unfair work conditions and woefully inadequate salaries. Dickinson (2001: 102) contends that “this global economic process is not about gradually equalizing wages or offering expanded ‘opportunities’ to a new generation of girls in the semi periphery and periphery. Ultimately global development is about establishing new forms of inequality and re-stratifying world labor.”

The other negative impact of globalization on women is what one can call “global sexual tourism.” This is, in short, the process of actively encouraging wealthy men to travel to another country to indulge in sexual practices. It is a growing problem for many Southeast Asian countries, which seem inclined to ignore the moral and social implications of the sexual exploitation of women in their pursuit of first-world currency (ILO 1998: online).

By prioritizing the needs of TNCs, globalism encourages governments to deemphasize the needs of their citizens. Thus, instead of using the economy to solve social problems, governments were spurred to neglect human issues. According to Brecher (1997: 309), “the new corporate agenda promoted deregulation, privatization of government functions, acceptance of high unemployment, gutting of the welfare state, and government encouragement for wage reductions and corporate attacks on labor.” Sklair discusses this process further, arguing that the increase in market-mediated exchanges on a global scale is accompanied by a decrease in the sovereignty and effectiveness of individual states (Sklair 1999). Global competitiveness is generally blamed for the increasing pressure exerted on governments to relax their labor, tax, environmental, and social regulations.

Brecher and Sklair seem to suggest that the major institution most threatened by global economic forces is the modern welfare state. The welfare state protects against the harmful repercussions of free trade and unregulated capital flow; its erosion is a clear indication that international capital has become more important than the needs of citizens.

Brecher and Costello (1994: 29-30) highlight this undermining of the ability of governments in developing countries to pursue development, full employment, and other national economic goals. They take this process further, arguing that trade agreements, including NAFTA and GATT impinge upon the sovereignty of independent states, limiting their abilities to regulate their own economies and even legislate business practices within their borders. Koc explains that, while the nation-state “is still an

important actor in the international arena, the pressures of the global economy...have increasingly limited its sovereignty, set restrictions on withdrawing from world markets...and led to its gradual weakening. In fact, while liberalizing the economy, Thatcherism was “at the same time was attempting to restore the authority of the state” (Koc 1994: 274).

The double standard of globalization aims to weaken developing nation-states, while maintaining the power of the state in core countries. According to Koc (1994: 274), the neoliberal agenda needs developing states that are able to control their own citizens and suppress internal resistance to the economic global agenda. At the same time, these states must be weak players on the international stage, dependent on core countries.

In addition, globalization has disproportionate geographical impacts. Because technological advances disproportionately benefit certain places in the world, the global economy increasingly concentrates power. Thus, the “death of distance” is a misnomer; as technology advances, it seems to increase, not decrease, the social and cultural distance between the core and the periphery. Therefore, globalization does not end poverty around the world; rather, it worsens the dire economic situation of many of developing countries (see Dicken 1998: xiv). Robinson (2001: 21) adds that, as the global economy increases specialization, it also increases unbalance. This does not solve the issue of disproportionate wealth and poverty, but exacerbates it, as states enter into master/servant relationships.

Since the 1980s, economic globalization has led to an unprecedented movement of capital around the world, with little regard to national boundaries. Thus, as Chase-Dunn (2000) argues, while powerful nations have traditionally emphasized their support of industry, globalization has allowed corporations to effectively integrate their interests into a conglomeration of exploitation that truly knows no boundaries. Since the 1980s, the global economy has witnessed the birth of what Robinson (2001: 5) calls a “transnational capitalist class” (TCC) which goes beyond the national borders to establish a global class. He demonstrates that:

The old international alliance of national bourgeoisies has mutated into a transnational bourgeoisie in the new epoch, and this transnational bourgeoisie has become the hegemonic class fraction globally... What distinguishes the TCC from national or local capitalists is that it is involved in globalized production and manages globalized circuits of accumulation that give it an objective class existence and identity spatially and politically in the global system above any local territories and polities” (Robinson 2001: 5 and 7).

The main point here, according to Robinson, is that the world has witnessed the rise of the new ruling class, which depends mainly on its economic power and ability to transfer capital from one place to another around the world. Moreover, as it is no longer tied to one nation-state, this economic hegemon has no fixed responsibility and is not directly accountable to any government.

One should not ignore the role of national bourgeoisies in supporting the world ruling class and benefiting from alliance with it. Robinson (2001:7) argues that the formation of a “world ruling class” represents the amassing of formerly competing national interests into what are effectively international monopolies. National classes in

developing countries have collaborated with developed countries, applying the new policies of structural adjustment and neoliberalism. The elites in the peripheries have their own interests in supporting global neoliberalism and in applying structural adjustment policies. Consequently, the real function of international financial institutions, such as the World Bank and the International Monetary Fund, is not to support development in developing countries, but rather to support the integration of the ruling elites of these countries into the global economy.

Tabb (2001: 64-65) explores this integration in the academic arena, noting that elites in developing countries traditionally send their children to core states for their education, and these children return versed in the language of their economic masters. He particularly notes the results of this process during the Reagan and Thatcher years, when these scions returned preaching the gospel of neoliberalism, specifically free-market economics, deregulation, privatization, and the benefits of technological advances. Privatization is particularly notable, as it gave these children the means to amass considerable personal fortunes.

The advent of the neo-global economy, supported by the alliance between local bourgeoisie and the transnational capital class, rendered the post-World War II new world of Bretton Woods meaningless, mainly from the point of view of transnational corporations, whose central purpose was to maximize financial benefits, regardless of

their drastic effects on other social sectors.² The Bretton Woods system was designed to promote financial stability around the world and guarantee free trade among nations. It primarily sought to end the protectionist national policies of 1930s. Although the Bretton Woods system supported free trade among nations and denounced any protectionist regulations, it did nothing to limit the power of core nation-states, to mold the global economy to suit their needs (Dicken 1998: 80). In fact, it fueled global industrialization; while this gave all nations the power to influence the market, the vast majority of this power, as always, resided in the hands of core states (see also Skidmore 2000).

Keynesian models of national development have been discarded. The interventionist and protectionist role of the state in the economy and its central role in regulating economic conditions have been denounced, mainly by the International Monetary Fund, the World Bank, and creditor governments (Jilberto and Mommen 1996: 1-27; Tabb 2001: 51-61). To decrease the role of the state in the developing countries, neoliberalism creates a new tool to control these countries, structural adjustment policies (Weissman 2001: 84-98). With the dominance of the global neoliberal ideology, a new agenda for the developing state evolved.

² The Bretton Woods system was a result of an international conference, held in 1944 in Bretton Woods, New Hampshire, which led to the establishment of two international financial institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (later renamed the World Bank). The main aims of this conference were to “stabilize and regulate international financial transactions between nations, based upon a fixed currency exchange that was [wedded to the US Dollar].” In addition, this conference tried to achieve free trade between nations, supported by the General Agreement on Tariffs and Trade (GATT) (Dicken 1998: 22; see also Jilberto, Alex E. Fernandez and Andre Mommen: 6-7; Tabb 2001: 59; Gilpin 2001: 315-316; Al-Sayyid 1997: 115-116).

Neoliberalism and Structural Adjustment Policies

Since the 1980s, structural adjustment policies have been the main instrument of neoliberalism to coerce developing countries to change their restrictions upon foreign investments and force them to decrease the role of the state. Weisman (2001: 85) identifies the primary tools used by structural adjustment policies to accomplish these goals: “privatizing government-owned enterprises and government-provided services, slashing government spending, orienting economies to promote exports, liberalizing trade and investment rules, raising interest rates, increasing taxes, and eliminating subsidies on consumer items such as food, fuel, and medicines.” One of the main aims of structural adjustment programs was to reduce the intervention of the state in the economy, particularly in financial activities and production. The IMF and the World Bank assert that the role of the state in the economy is to provide a framework for the facilitation of production and the promotion of efficient prices (Damian 2000: 7-8). This overtly neoliberal agenda makes it clear who is truly the master of these ostensibly development-oriented tools: international corporations.

In a neoliberal economy, the increase in market-mediated exchanges on a global scale should be accompanied by a decrease in the capacity of individual states to control business activity. As Robinson (2001: 4) put it, “the nation-state is no longer the institutional framework or ‘container’ for such processes as capital accumulation, class formation, and development... This involves a shift from international relations and processes to transnational relations and processes.” To enforce this aim, structural

adjustment was presented as a necessary strategy for developing countries. “Less state, more market” (Rapley 1996: 3) has been the essential thrust of the structural adjustment strategy. Proponents of structural adjustment not only insist on reducing the effective role of the state development, but also prioritize the dismantling of its welfare policies. The main target here is the dual roles of the *etatist* state. The two central elements of the neoliberal consensus are the belief that the role of the state in the economy should be drastically reduced and that the economy should be opened to the outside world. Consequently, neoliberals demonize the welfare state, holding it responsible for the economic failures of the 1970s. This enabled them to place restrictions upon governmental economic intervention as a cure-all for economic downturns (Gilpin 2001: 84). By controlling the nation-state in the developing countries and applying the policy of structural adjustment, international institutions, such as the IMF and the World Bank, have played an essential role in guaranteeing the repayment of the developing countries’ debts (Waters 1995:91).

Structural Adjustment Policy and the Debt Crisis

The widespread recession of the 1980s, which was accompanied by massively escalating oil prices, led to what has been known as the “debt crisis,” which originally broke out in the 1982 and entrapped all of Latin America and Sub-Saharan Africa (Bagghi 2000). Jilberto and Mommen (1996: 5) outline the seeds of this crisis: as developing countries received increased oil revenue in the early 1970s, they were able to borrow

more money. A decade later, when interest rates rose and they had to repay their debts, declining incomes forced them to massively reduce social welfare programs to service their debts (see also Fieldhouse 1999: 234-235). While the debt crisis decreased the capacity of less developed countries to maintain their own methods of development, it increased the leverage of international capital and institutions to interfere in their economic policies. Thus, these institutions could force lesser-developed countries to apply the inconsiderate regulations of structural adjustment policies.

The debt crisis of the 1980s became the main catalyst for the rise of neoliberalism and its agenda of structural adjustment policy and privatization. The debt crisis, which was internationally recognized in August 1982 with the development in Mexico, spread throughout less developed countries, especially in Latin America and Africa.³ It is important to bear in mind that neoliberalism and structural adjustment policies were not designed to help debtors, but rather to help their creditors. After Mexico informed the United States in 1982 that it could no longer service its huge debt, the U.S. Secretary of the Treasury, James Baker, initiated structural adjustment (Gilpin 2001: 314).⁴ Danaher

³ For more information about the 1982 debt crisis, see (Bagghi 2000: online; Gilpin 2001: 313).

⁴ “Throughout the 1980s and 1990s, the United States has been a principal force in imposing Structural Adjustment Programs (SAPs) on most countries of the South. 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 the structural adjustment programs of the main IFIs, namely the World Bank and the International Monetary Fund (IMF), as well as those of 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” (Welch and Oringer 1998: 10).

(online) further outlines the shortsightedness of structural adjustment policies, arguing that, while they enable developing countries to repay their debts, they also hurt the majority of the citizens with “lower wages, reduced social services and less democratic access to the policy-making process.” Therefore, if the main aim of applying structural adjustment policies is to guarantee the inflow of debt repayment from the debtors into creditors, from the poor countries to the rich countries, a subordinate aim is ensuring the liquidity of capital investment from the core.

Two Phases of Structural Adjustment

World Bank-IMF sponsored structural adjustment programs have two phases. The first phase is short-term macro-economic stabilization; the second is the implementation of necessary structural reforms. Structural Adjustment policies aim at increasing exports, supporting the private sector, reducing inefficiencies and government protection, decreasing inflationary tendencies, boosting foreign trade exchange, shrinking social service expenditures, and improving the balance of payments. These policies are accompanied by wage and price stabilization and austerity programs.

Many factors, including low growth, poor export performances, high debt burdens, and financial imbalances, force less developed countries to accept the harsh conditions of the International Monetary Fund, the World Bank, and creditor governments. Because of this, structural adjustment programs have been adopted by many countries around the world. Under the prescription of the International Monetary

Fund and the World Bank, less developed countries can either “privatize public sector or commercialize their activities by subjecting them to competition and reducing subsidies” (Jilberto and Mommen 1996: 25). Jilberto and Mommen (1996: 6-7) note that, “by 1986 most African countries had embarked on structural or financial recovery programmes, with or without the help of the Bretton Woods institutions. Notwithstanding this export-led growth strategy, the countries of sub-Saharan Africa were unable to transform their economies. Their foreign debt more than doubled between 1982 and 1990, reaching US\$164 billion.”

Since the 1980s, structural adjustment policies have negatively affected many developing countries around the world, including Africa, Latin America, and Asia. These policies have affected also many Eastern European countries (The World Bank and Structural Adjustment: online; Stewart 1995).

In 1992, the bank’s lending for structural adjustment programs totaled 5847 million or 27% of its total commitments. More than 70 countries are subjected to 566 IMF and World Bank stabilization and structural adjustment programs in the last 14 years. These countries were told that the structural reforms were essential for sustaining growth and economic stability. Faced with the threat of a cut off of external funds Aid needed to service the mounting debts incurred from western private banks in the 1970s, these countries had no choice but to implement the painful measures demanded by the Bank (The World Bank and Structural Adjustment: online).

The IMF, the World Bank, and other creditor governments supported this policy, which they felt would spur economic growth. So did many scholars and journalists. For example, *New York Times* columnist Thomas Friedman described these pro-growth policies as “the golden straight-jacket.” In his view, increasingly manifest rewards of

engagement encouraged nations to restrict unilaterally the scope of government action.

Friedman (1999: 86-87) contends that:

To fit into the Golden Strait-jacket a country must either adopt, or be seen as moving toward, the following golden rules:

- making the private sector the primary engine of its economic growth, maintaining a low rate of inflation and price stability, shrinking the size of its state bureaucracy maintaining as close to a balanced budget as possible, if not a surplus;
- eliminating and lowering tariffs on imported goods, removing restrictions on foreign investment, getting rid of quotas and domestic monopolies, increasing exports;
- privatizing state-owned industries and utilities, deregulating capital markets, making its currency convertible, opening its industries, stock, and bond markets to direct foreign ownership and investment;
- deregulating its economy to promote as much domestic competition as possible;
- eliminating government corruption, subsidies and kickbacks as much as possible;
- opening its banking and telecommunications systems to private ownership and competition;

- and allowing its citizens to choose from an array of competing pension options and foreign-run pension and mutual funds (as quoted in Griswold 2000: online).

Thus, by gutting its regulatory structures, by limiting its ability to regulate activities within its borders, and by destabilizing its economy, a developing country might enjoy the so-called “blessings” of the neoliberal global economy.

The Negative Impacts of Structural Adjustment Policies in Different Countries

Many less developed countries in Latin America, Asia, and Africa, suffered from the Bank/IMF’s painful measures. Friedman’s Golden Strait-jacket resulted in many catastrophic outcomes. “A study by the UNICEF found that government spending on education fell by more than 50% during the adjustment period. It also noted that per capita expenditure on health dropped in real terms below the 1980 level in over half of sub-Saharan African countries” (in, Al-Sayyid 1997: 106-107; and see also Cornia et. al., 1987). Stewart (1995: 166) contends that, while the World Bank and IMF attempted to redress the social-welfare failures of Structural adjustment after 1987, it has done too little, too late. In short, it has failed to address these problems, except on an extremely facile level.

Fiscal austerity measures, which included raising taxes and shrinking government spending, reduced outputs and increased the ratio of unemployment. The privatization of public utilities, transportation, and banks has been accompanied by layoffs. In short,

these policies served the main aim of structural adjustment programs: supporting free markets and trade liberalization while reducing the role of the state in the economy.⁵

In different countries around the world, the application of structural adjustment programs weakened both economic development and the performance of the state. For example, policy measures launched by the Indian government in the 1990s, which were part of the structural adjustment program, included the following measures:

- Devaluation of rupee by 23%.
- New Industrial Policy allowing more foreign investments.
- Opening up more areas for private domestic and foreign investment.
- Part disinvestment of government equity in profitable public sector enterprises.
- Sick public sector units to be closed down.
- Reforms of the financial sector by allowing in private banks.
- Liberal import and export policy.
- Cuts in social sector spending to reduce fiscal deficit.
- Amendments to the existing laws and regulations to support reforms.
- Market-friendly approach and less government intervention.
- Liberalization of the banking system.
- Tax reforms leading to greater share of indirect taxes (quoted from The World Bank and India: online).

In short, the Indian government adopted almost the entire slate of structural adjustment policies.

⁵ See Gilpin (2001: 314-315); Stallings (1992: 43-44)

These measures harmed the majority of India's poor people. For the mass of the population, these structural adjustment programs meant "high inflation, costlier food, rising unemployment, worsening poverty and growing destitution" (Bidwai 1995: online). On the other hand, from the point of view of India's elites, structural adjustment programs "are the beginning of a new era of globalization and consumerism marked by the triumphant return of Coca-Cola, the entry of Baskin-Robbins ice cream, Kellogg's cereals, Kentucky Fried Chicken, Ray-Ban glasses and brand-name jeans, sustained by an unprecedented boom in executive compensation and a new credit card cult" (Bidwai 1995: online).

In the early 1980s, under the pressure of its debt, and the starvation of a significant percentage of its 8 million-person population, Somalia was forced to apply the policies of structural adjustment. This was truly disastrous: "under adjustment, Somalia's debt stock rose from \$1639 million in 1985 to \$2444 million in 1990. Services in this period reached \$379 million. The debt stock/GNP ratio was 283% in 1990. In other words, the country became totally dependent on its creditors with per capita GNP in that year was \$96 while the debt burden on each Somalian reached \$281. Almost 100% of the debt was related to official creditors" (Somalia: online). Structural adjustment programs lead to cuts in food subsidies, increased food imports, and encouraged the export of high value-added products, such as fruits, vegetables, and cotton at the expense of domestic crops. In addition, this program devalued the Somalian Shilling, and drastically affected health and education programs (Somalia: online). For example, "health expenditures in

1989 were 78% lower than in 1975. Between 1981 and 89, school enrollment fell 41%. About 25% of primary schools were closed down due to lack of books and other educational materials” (Somalia: online). In short, structural adjustment turned a debt-crisis into a social disaster, leading to a fight for the very survival of Somalia.

In Latin America, neoliberalism has played an influential role in changing economic regulations to benefit the transnational corporations and members of the upper class, such as businessmen and landlords. Ward (1997: 13) determines three reasons for the rise of neoliberalism in Latin America: disappointment with import substitution, exacerbated by the debt crisis, the fact that a large number of the economists in Latin America went to school at colleges in core countries, and economic coercion by the U.S. government, the IMF, and the World Bank, a group that Ward refers to as “the Washington Consensus.”⁶

The Mexican case sheds light on the way that neoliberalism, the debt crisis, the global economy, and free trade agreements have worked together to affect less developed countries. Depending on its oil reserves during the 1970s oil boom, the Mexican government accumulated a sizable external debt, which rose from US\$ 29.3 billion in 1976 to US\$ 78.2 billion in 1981 (Damian 2000: 22). As Damian notes, this had a brutal

⁶ Tabb (2001: 59) demonstrates that, “the global institutions now set policy for a majority of the world’s nations in the former communist countries and the Third World. The IMF lends money to debtor nations on strict conditionality that allows the fund to restructure their economies. The World Bank’s structural adjustment programs involve similar guidance and encourage the same sort of subordination of domestic policies, especially those fostering protectionist measures and subsidies. Both operate within the terms of what is called the Washington Consensus, which insists on liberalization of markets, privatization of state enterprises, and other policies designed to encourage foreign investment, including devaluation and deregulation.”

effect upon Mexico's economy: "In 1982, inflation climbed to an annual rate of almost 100 per cent, external debt rose to US\$ 86 billion (nearly 90 per cent of GDP), and real GDP declined by 0.6 per cent-in per capita terms, annual GDP growth declined by -2.6 per cent in that year" (Damian 2000: 24). During the 1980s, mainly because of the drastic effects of this debt crisis, Mexico experienced what Latin American social scientists call a change in its "development model." Instead of clinging to the import-substitution industrialization model⁷, which had characterized its industrialization since the 1930s, Mexico became an open economy, in which a new legal and institutional framework limited economic intervention by the state. Under the new model, the market replaced regulation, private ownership replaced public ownership, and competition, including that from foreign goods and investors, replaced protection. In addition, the Mexican government signed the North American Free Trade Agreement (NAFTA) on 1 January 1994, linking Mexico with Canada and the United States. Through this agreement, Mexico was integrated into the international market more than ever before (Ward 1997: 102-103).

In 1982, the Mexican government began its negotiations with the IMF, and the De la Madrid administration (1982-1988) began an immediate program for economic

⁷ To read more about the replacement of the import-substitution industrialization model, see Otero 1996; Ward 1997; Damian 2000. "The import substitution regimes in Latin America conceded local autonomy. Their elites embraced the globalist alternative insisted upon by creditors, the U.S. state apparatus, and the international financial institutions. In East Asia, state-led development regimes were forced to open their economies and foreign ownership increased. These countries had, through decades of successful development, forbidden foreign ownership in the financial and other key sectors of their economies. They were forced to open their economies on foreign terms" (Tabb, 2001: 62).

reordering, aiming at a medium-term recovery. As Damian (2000:24) notes, this led to a classic neoliberal pattern of reduction of welfare services and increase in private investment, combined with government regulation of imports and bank credit. By 1985, three years after it began, this had yielded disappointed results, leading to a huge growth in debt payments and the suspension of the inflow of foreign investment. Mexico's adoption of adjustment policies led to the intense centralization of wealth, as Mexico privatized many of its national industries and deregulated its economy. This became, in effect, a subsidy paid by the poor to the wealthy. The economy collapsed in 1994 (Heredia and Purcell 1997: online).

Unfortunately, Mexico's adjustment policy affected the more vulnerable groups because of their dependence on public spending, which was drastically cut. For example, during the eighties, the health budget as a percentage of overall public spending fell from 4.7 percent to 2.7 percent. While the World Bank acknowledged in a 1990 staff appraisal report that the Mexican government was probably not spending enough money on health care, it argued that Mexico needed to find other ways, including privatization, to pay for these programs. This report makes it very clear that the World Bank's priority was debt repayment, not the health of Mexico's underclass. The poor who relied on these services were hardest hit by these cuts, since they could not afford private alternatives. "One result was that, between 1980 and 1992, infant deaths due to nutritional deficiencies almost tripled compared to the rates of the seventies. In September 1995, the Salvador Zubiran National Institute on Nutrition reported that 80 children under the age of one die

each day in Mexico due to malnutrition. With 30,000 such deaths each year, Mexico has fallen to near the bottom of UNICEF's rating of countries' effectively addressing malnutrition" (Heredia and Purcell 1997: online; see also Bello 1999: 37-42).

In addition, the structural adjustment program in Mexico squeezed small producers, increased unemployment and poverty, caused severe declines in wages, and skewed income distribution. The reform policy in Mexico has led to catastrophic results and severe economic problems for the majority of poor Mexicans. Furthermore, they have also led to political instability, as evidenced by the Zapatista uprising, which has dragged on since 1994 (Damian 2000: 236).⁸

Conclusion

This section focused on India, Somalia, and Mexico to demonstrate that, since the 1980s, structural adjustment programs have had catastrophic results in many developing countries. On the economic level, applying structural adjustment policies have caused rising prices, increased imports, enlarged debts, and expanded corruption. All indications point to the fact that poverty, hunger, illiteracy and income inequality had all increased between 1980 and the mid-1990s, during the introduction of structural adjustment

⁸ Brecher and Costello (1994: 6) demonstrate world resistance to many aspects of globalization and neoliberalism, including "international trade agreements, austerity "shock therapy" and "structural adjustment" programs, loss of rights, reductions in living conditions, and other consequences of globalization and neoliberalism." They refer to many kinds of resistance which include "an unusual coalition of environmentalists, trade unionists, farmers, consumer advocates, and other citizen activists formed in the United States, Mexico, and Canada to oppose NAFTA."

programs. The middle class and the poor suffered from this economic deterioration more than any other social classes in these countries.

These policies have weakened state-led growth policies, which widely implemented import-substitution industrialization. Although the state-led growth model faced many problems, it succeeded in raising living standards and facilitated social services for the most vulnerable groups in the developing countries. Shrinking the state's commitment to serve the interests of the poor and the middle class modified the *etatist* state in the developing countries, bringing it into line with the desires of the IMF and the World Bank, and imprisoning it in the vicious circle of debt.

In addition, structural adjustment policies have led to a decrease in the sovereignty and efficiency of individual states in peripheral countries. This erosion of state sovereignty has allowed international institutions to impose their policies, regardless of the impact upon the developing countries. "For example, while many of the Southeast Asian countries were recently mired in recession or depression, the Chinese economy steadily grows. This is partly because China's currency is not freely convertible, its financial system is domestically owned and controlled by the state, and there is little foreign ownership of equities" (Weisbrot: online). Because of its ferociously-protected autonomy, China did not have to undergo the horrors of structural adjustment.

Structural adjustment policies have severely weakened the autonomy of developing countries where they have been implemented; their once-sovereign states are no longer allowed to design and implement their own economic policies for the benefit of

the majority. While this has strengthened new classes, such as new businessmen and other interest groups, it has had a devastating effect upon the general population. This has caused the introduction of a new role for developing states: that of *repressive peacekeeper* challenged to control public resistance to and reaction against the negative impacts of structural policies. Rather than supporting democracy in developing countries, structural adjustment policies have forced the majority of these countries to depend on their oppressive forces, such as the army and police.