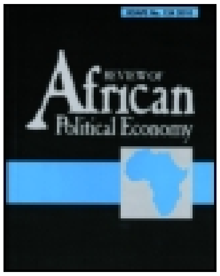

Review of African Political Economy
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/crea20

Why structural adjustment is necessary and why it doesn't work

Gavin Williams

Published online: 24 Feb 2007.

To cite this article: Gavin Williams (1994) Why structural adjustment is necessary and why it doesn't work, Review of African Political Economy, 21:60, 214-225, DOI: 10.1080/03056249408704057

To link to this article: http://dx.doi.org/10.1080/03056249408704057

Review of African Political Economy No.60:214-225

ISSN 0305-6244; RIX #6006

Debate

Why Structural Adjustment is Necessary and Why It Doesn't Work

Gavin Williams

Whence Structural Adjustment?

During the 1980s, most of the countries in Latin America, Eastern Europe and Africa, with different forms of governments professing very different ideologies, found themselves trapped by levels of debt to international public and commercial banks which were far beyond their capacity to finance. Consequently, they came to depend on IMF and World Bank approval to persuade commercial banks to reschedule their debts and maintain lines of commercial credit. Across several continents, state economic policies required the external approval of the international receivers, the IMF and the World Bank.

The inability of governments to secure their fiscal bases and to satisfy the multiplicity of demands of their various constituents undermined their legitimacy and led to the emergence of popular movements demanding democratic reforms, and encouraged some regimes to embark in haste on strategies to transfer power to elected successors. The collapse of communist power discredited communist one-party regimes and their imitators in Africa. They also reduced the inclinations of the western powers to continue their military, political and financial support for authoritarian, and sometimes bankrupt, anti-communist regimes in Africa and Latin America. The twin slogans of 'democracy' and 'the market economy' provided an ideological flag for the short-lived 'New World Order' proclaimed by the Bush regime as it bombed its – and Britain's – former Iraqi clients into submission.

The origins of 'structural adjustment' programmes go back well before this latter-day enthusiasm for 'free enterprise', 'free trade' and 'the market economy', let alone for a new 'democratic' dispensation. Indeed, in some cases the attempts to carry through programmes of structural adjustment have engendered opposition to dictatorial regimes and led to their relinquishing power.

To take the critical example of Poland, attempts to reform the price structure in the face of international debt led to the workers insisting on their right to cheap meat, and the formation of Solidarnosc. The military government could suppress political opposition but it could not resolve the fiscal crisis of the Polish state or the crisis of industrial production. Hence the invitation of the Jaruzelski regime to the opposition to form an elected dyarchy, one key moment in the ultimate collapse of communist authority in Poland and elsewhere in eastern and central Europe. Whereas foreign bankers had previously looked to authoritarian regimes to enforce fiscal discipline and bring the workers under control, democratisation was now widely seen as necessary to legitimate the economic sacrifices which were to be demanded of people in the name of economic reform.

In 1975 Robert McNamara told the board of governors of the World Bank that commercial bankers (he had his friend David Rockefeller of Chase Manhattan Bank in mind) wished to see a shift in the balance of international lending from the public to the private sector. Chase had burned itself with loans to Zaire and Zambia during the copper boom of the early 1970s and was now looking to public lenders to help them recover their debts. The World Bank did not, however, check the appetite of governments for loans on commercial terms, without the constraints imposed by the IMF and the World Bank, nor the willingness of commercial banks to go on lending money to 'sovereign' debtors who were blatantly unable to meet their commitments. The scissors of an international recession and rising real interest rates did the rest.

McNamara did address a critical hiatus in the international financial arrangements established at Bretton Woods. The IMF was set up to provide short-term loans to governments faced with balance of payments problems to allow them to restructure their economies without resorting to the protectionist trade policies and recurrent devaluations which had marked the depression of the 1930s. The World Bank, the International Bank for Reconstruction and Development, had found a niche for itself in providing long-term development loans, mainly to pay for transport, telecommunications and irrigation projects – later for agricultural development projects – to the countries of Latin America, Asia and Africa. Neither the IMF nor the World Bank was empowered to provide long-term loans to countries facing chronic balance of payments problems and rising international debts. The World Bank had rejected the earlier proposals of the Pearson Report to allow programme loans, untied to the costs of specific projects.

This was the problem which the Brandt Report was set up to address. Its controversial proposal for a new World Development Fund to provide long-term 'programme' loans to governments made it easier for McNamara to convince the governors of the World Bank to allow the Bank to offer 'structural adjustment' loans instead. Brandt, and structural adjustment loans, were set up to resolve the problems of funding debt relief to indigent governments. They also created an opening for the Bank and the IMF to take a far more directive approach to the economic policies of its client regimes.

Origins of the Debt Crisis

Wherein lay the origins of the pervasive debt crises confronting military dictatorships in Latin America, one-party regimes in Africa and communist governments in eastern Europe? These debts are not only the result of fiscal irresponsibility and political corruption, though these certainly exacerbated government debts and, in some cases, generated holdings of foreign assets by political rulers and their associates which matched their government's unrequited debts. The problems of international debt are the necessary consequence of the dominant strategies of industrialisation and development in Latin America and Africa in the post-war period, strategies which were emulated – indeed epitomised – by the policies of the Gierek regime in Poland in the 1970s.

Following the advice of nationalist and social democratic economists, in Poland governments sought to change the structures of their economies from dependence on primary exports – minerals, crops and livestock – to pay for the imports of industrial goods, by investing the earnings from primary exports in the developments of local industries. The division of responsibilities between state corporations and private firms, and between local and foreign capital, varied from country to country. The key elements were protective tariffs to encourage local industries and persuade foreign capital to invest directly in production to maintain or gain access to local markets; public funding of investments in infrastructural projects and in basic goods industries, often funded by foreign loans; and most critically, the use of the foreign exchange earnings of agriculture and mining to pay the import costs of the industrial sector. To these were to be added the rising costs of meeting the widening demand for public spending on education, health and other services.

As long as local industries tended to import more machinery, raw materials, and skills than they generated from export earnings, they continued to depend on agriculture or mining to pay for their imported inputs. Typically, in Latin America, Africa, and India – though not in east Asia, the new industries produced goods for protected national markets rather than competing in international markets. Ironically, then, the more rapid the growth of the industrial sector, the greater the strain on the balance of payments say why this follows. In this way, policies of import-substituting industrialisation, far from reducing dependence on the export of primary products, made governments ever more dependent on rising agricultural or mineral exports. This in turn made them ever more vulnerable to the volatility of export earnings and, arguably, a tendency for the terms of trade to turn against primary producers in the long term, the very problems which had justified the strategy of import-substituting industrialisation in the first place.

These problems of enhanced export dependence are common to all countries following strategies of 'import-substituting' industrialisation, though their capacities to deal with these problems, and the policies they have adopted in response to them vary considerably from one case to another. After the oil price rise of 1973, international commercial banks found themselves with large sums of money in hand, and limited opportunities to invest them. Third world governments needed cash to pay the rising import costs of their development strategies and to meet their increased bills for oil imports. Commercial banks offered money without the strings imposed by the international financial institutions – but at a price: loans, denominated in dollars, would carry flexible interest rates set in relation to the London inter-bank rates. Governments, whatever their assets and liquidity, were 'sovereign debtors', unable to go bankrupt. Governments of developed countries guaranteed export credits so that they too became responsible for commercial debts. Consequently, the commercial banks and government agencies supplied large amounts of short- and medium-term credit to governments who had no evident way of paying for them, especially when real interest rates rose and the price of primary exports fell in the 1980s.

Some African Examples

Export-led Growth: In some African countries, notably Kenya and Cote d'Ivoire, the expansion of agricultural exports in the decades following independence provided a market for an expanding industrial sector. It also funded the foreign exchange costs of rising import demand generated, directly and indirectly, by the industrial sector and by ambitious public spending on education, roads and various construction and development projects. In Kenya this was made possible by lifting the colonial prohibitions on smallholder cultivation of high-value crops, notably coffee and tea. In Cote d'Ivoire, the availability of uncultivated forest land in Cote d'Ivoire and migrant labour from Burkina Faso (previously Haut Volta), assisted by the low prices and falling production of cocoa in, neighbouring Ghana, allowed Cote d'Ivoire to expand cocoa production and displace Ghana and Nigeria as the world's leading producer. Further, much Ghanaian cocoa crossed its land borders to be sold for CFA francs and appear in the cocoa export statistics of Cote d'Ivoire and Togo. In Kenya the shilling enhanced its value relative to the currencies of its immediate neighbours and, until recently, maintained a stable and fairly realistic exchange rate. The Bank of France maintained the franc exchange rate of the CFA franc, which allowed Cote d'Ivoire, and other countries in the franc zone, access to a convertible currency.

It was not possible to sustain the expansion of agricultural exports indefinitely. International demand for coffee, tea and cocoa is limited, and vulnerable to recession in the developed country markets for which there is considerable competition from established producers and new entrants. New opportunities could be found for exports of tropical fruits and fine vegetables, but these too are constrained by increasing competition for limited markets. The very success of their export sectors allowed countries like Kenya and Cote d'Ivoire to borrow money abroad from commercial banks to cover their balance of payments deficits. This left them exposed to the high rates of interest on their debts as these accumulated. In Kenya, fiscal profligacy and high-level corruption have lead to successive devaluations of the shilling. The countries of the CFA franc zone have yet to confront the consequences, in rising import and therefore living costs, of devaluation.

South Africa has a far longer history, and a far higher level, of industrialisation than Kenya or Cote d'Ivoire. Mining, agriculture and industry all expanded on the basis of coercive labour policies. South Africa, too, relied on primary commodity exports, primarily gold, diamonds and other minerals, to fund the foreign exchange costs of its industrial growth, including its arms sector, as well as its foreign wars. Consequently, rapid industrial growth added to rather than relieved its balance of payments problems and its vulnerability to the volatile, and recently stagnating, markets for most of its exports. This was exacerbated in 1985 by its inability to gain access to new credit from international banks to meet the debts contracted to commercial banks in the previous decade. The 'new South Africa' inherits a legacy of a sharply devalued currency, high inflation, bloated bureaucracy and international debts – combined with claims from the majority of the population for access to better education, more housing and expanding employment opportunities. The examples of Kenya, Cote d'Ivoire and South Africa demonstrate the scope for – and the limitations of – strategies of industrial growth, financed by primary exports.

Export-led Decline: The most successful tropical African economies in the colonial period were those, such as Ghana and Uganda, in which the expansion of agricultural exports by peasant producers had brought prosperity to producers and revenues to the state. British colonial governments used the monopoly powers of state marketing boards, during and after the second world war, to buy these crops cheap and sell them dear on the world market. In this way, they exacted from their colonial subjects a tribute of net dollar earnings as a contribution to post-war British reconstruction and as a support for the pound sterling. The Korean war boom allowed governments to improve prices to producers while taking an ever larger share of the value of exports or themselves.

This exploitation of peasant producers was justified by arguments for stabilising prices and regulating markets. Subsequently, the marketing board surpluses were recommended as a source of finance for spending on infrastructure and investment in industry. When African politicians inherited the accumulated funds of the commodity marketing boards, they were used to fund public development programmes, private investments and party political activities. Politics became a contest among political – and military – leaders to control the allocation of public revenues to themselves, their clients and their regional and institutional constituencies. Rising claims on government revenues rapidly outran the declining earnings of the marketing boards. Falling prices were passed, as far as possible, to producers, thus discouraging production for official markets and new planting of tree crops.

In Ghana socialist, liberal, and several military governments all used the cocoa marketing boards as sources of revenue and instruments of patronage and presided over the decline of export production. In Nigeria, mineral oil offered an alternative source of state revenue to export crops. Government pricing and exchange rate policies saw a dramatic decline in the volume of agricultural exports. In the cases of groundnuts and palm oil – for both of which crops in Nigeria was the world's largest producer in the early 1960s – exports fell to zero in the 1970s. Mineral oils exports only offered a temporary respite. Nigeria became, in effect, a monocrop export economy, vulnerable to the limited international market and volatile prices for oil; politics turned on the capacity to appropriate, distribute and spend state oil revenues. In the long-term, the colonial marketing boards for export crops, and the political battles to control them made a major contribution to the destructive combination of political instability and declining exports which have wreaked various sorts of havoc on the peoples of Uganda, Nigeria, Ghana and Sierra Leone.

Socialist Alternatives

Capitalist development strategies in Africa appeared to deepen dependence on foreign markets and foreign capital, and to exacerbate inequalities. Socialist policies seemed to offer an alternative path of development. They justified direct control by party leaders and state officials of a large share of exports and imports, banks and credit, food marketing, and industrial production. The state would take responsibility for directing development, and protect its subjects from exploitation by foreign capital and local middlemen. In Tanzania, under Nyerere, the ruling party extended central bureaucratic direction of the economy throughout the rural areas by means of a policy of 'decentralisation'. The ideology of *ujamaa* (familyhood) justified ordering people to planned villages and abolishing marketing cooperatives in favour of a hierarchy of state marketing and processing bodies. Tanzania briefly became Africa's most favoured recipient of externally-funded development projects. However, state marketing and pricing policies discouraged farmers from producing crops for official markets. Government had to buy crops from areas with high transport costs and turn to imports to meet its commitment to provide maize meal to urban consumers. The expansion of schools and health centres began to be undermined by lack of money to pay for equipment, drugs and adequate salaries. State investments were focused on industries and large farms with operated with high import costs which could not be sustained. The strategy of 'socialism and self reliance' produced bureaucracy and dependence.

The Tanzanian state was more muted in its ideological stance and policies than more radical nationalist regimes, such as Guinee, Guine-Bissau, Mozambique, or Ethiopia, which claimed 'scientific socialist' or 'marxist-leninist' credentials. The Mozambican government repeated many of the damaging policies previously imposed in Tanzania. Even if allowance is made for the effects of external intervention and civil war, the policies of these more radical regimes were generally more repressive and economically even more disastrous than Tanzania's. Their failures were far exceeded on both counts by the ravages of several regimes with no pretentions to socialism, some of which, notably (Zaire), continued to be sustained by military and financial support from western governments and international financial institutions. They left them just as bankrupt and, by the late 1980s, needed to turn to the Western powers and international financial institutions to for economic support.

Managing the Crisis

As we have seen, there were significant differences in the course of economic development in different countries. It is, nevertheless, possible to identify certain general directions of policy which were adopted to some degree in most states in Africa – and in several countries elsewhere. The responsibilities assumed by the 'development state' encouraged an expansion of the range and extent of government activities, and state regulation of currency exchange and of external and internal trade. Government employment increased, without a concomitant improvement in the quality and provision of services or the production of goods. Measures such as selective tariffs and import controls were adopted to reduce luxury imports in favour of 'national' priorities. Governments tried to increase production of food and other crops by supplying cheap fertiliser and other inputs on credit, often with World Bank funding and without increasing the producer prices for crops. Staple food prices were subsidised to give urban consumers some protection from rising prices without raising wages. Governments regulated or took over trade to protect producers and consumers from being exploited by middlemen.

Central to the strategies of African governments for directing their economies was to control the convertibility of the national currency and maintain its exchange value as a means of reducing inflation. Overvalued currencies inflated the demand for imported goods and necessitated direct control of commodity imports.

The results of these policies were predictable. Governments increased their budget deficits and put more money into circulation. Foreign trade and balance of payments deficits increased. Imported goods, including industrial inputs, became scarce and expensive, when they were available at all. Foreign exchange was used to import scarce consumer goods rather than to pay for the industrial inputs for which it was allocated. Lacking access to necessary inputs, factories produced below their capacity and raised unit costs further. Official purchases of staple foods and export crops fell. Crops and currencies were smuggled out of countries, and industrial goods into them (sometimes through the territories, and to the benefits of their neighbours). The prices consumers had to pay for goods inflated sharply. The purchasing power of wages and salaries declined, in turn reducing the market for goods and services provided to employees. Rural people were often doubly penalised, by low prices for crops and high prices for, or sheer unavailability of, consumer goods. These were only partially mitigated by smuggling and black markets. The high transaction costs of 'parallel markets' had to be met by producers and consumers.

As governments extended their activities beyond their own administrative and political capacities, and as they provoked protective responses from their subjects to the impact of their policies, states progressively reduced their control of their economies and societies – and tried to hold on ever more firmly to such levers of power as they still held.

The Political Economy of Tribute Taking

The most marked consequences of increased state regulation of the economy were not the inefficiencies which it undoubtedly promoted in the allocation of resources, but in the ways it decided who would be able to get what resources, and who would be excluded. Access to resources came to be a function of people's political, and often also their geographical, distance from government. In Africa, as elsewhere, government contracts provided a valuable means of rewarding friends and of converting public revenues to private profits. State licensing of imports and trading activities created monopolistic advantages, at local as well as national levels, for public officials and their clients. The profits of 'parallel' trade accrued to favoured traders and their official protectors. Licences to import goods or to change money at the official exchange rate became veritable licences to print money. Government policies made it possible to realise the ambitions of earlier generations of con-men: to take a sum of money and double it.

The extension of state control over economic activities originated for a variety of reasons, which cannot all be summed up as 'rent-seeking'. It certainly did create a range of opportunities for 'tribute taking'. These rewards accrued to a variety of beneficiaries among whom politicians, public officials, civil and military, large-scale farmers and favoured businessmen were prominent. People lower down official hierarchies protected their own interests by emulating their betters, taking their own 'dash' on their transactions with the public and usually passing on a share to their superiors.

In some countries, urban consumers had access to staple food at subsidised prices. This could be maintained by keeping producer prices low – thus reducing sales through official channels; or by increasing the state's budget deficit. Alternatively, food could be imported, typically at prices artificially reduced by overvalued exchange rates, as a result of dumping by EC and US exporters, or as food aid. Once the money ran out, and free food was no longer available, governments were forced to revalue their currencies and raise food prices sharply. Cheap food policies made food expensive; they can only benefit urban workers and other consumers temporarily. They are hardly equal participants in the 'development coalition' to whose interests Robert Bates attributes interventionist policies.

Increasing the range of ways in which governments regulated economic activities may not have originated corruption, but it certainly rewarded it massively. It is extraordinary that any socialist economists should defend policies, such as discretionary state controls of imports and of internal markets, which enable the powerful to become rich, and the rich and powerful to tax the poor, to subsidise themselves, to monopolise markets, legally or illegally, and to gain privileged access to increasingly scarce resources. It is remarkable that state policies of cheapening imports from abroad and restricting trade across the borders of African countries should be defended in the name of economic independence.

Liberal economic policies are necessary to match market prices, more or less, to the costs of production and to bring internal prices into line with border prices. As Karl Marx, a well-known student of Adam Smith well understood, the 'law of value' works through the exchange of commodities in competitive markets. Far from overcoming the inequalities and instabilities generated by a market economy, state interventions have tended to exacerbate them – as the most vulgar marxist theory of the state would lead one to expect.

Logic of Structural Adjustment

When governments found themselves unable to pay for their current imports – even for the most essential items, or to pay the interests on their foreign debts or raise new loans, or to secure commercial trade credits, they were forced into the arms of the international receivers of bankrupt governments, the International Monetary Fund (IMF) and the World Bank. The international financial institutions not only controlled the available sources of money but also, in the light of the abject failures of governments' own policies, offered the only plausible strategy for economic reform (The World Bank's own part in funding previous policies and augmenting governments' debts was simply deleted from its institutional memory).

Typically, governments agreed initially to adopt austerity programmes, cutting government expenditure – and thus wages and employment, raising prices and reducing subsidies. The burdens of austerity fell particularly on people dependent on wages and on public services. Most governments reluctantly reduced the dollar exchange rate of their currencies without leaving them to the market. Governments were very reluctant to surrender control over imports and currency exchange, their remaining levers of economic power, and the continuing source of enrichment for those in power.

Finally, bankruptcy compelled governments to accept the direction of the international financial institutions as the necessary price for rescheduling their commercial debts and their access to international credit. More or less willingly African governments adopted variants of the 'structural adjustment programmes' on offer from the IMF and the Bank. These entailed moves in the direction of liberalising external trade and of commodity prices and internal trade, cutting back government spending, reducing subsidies on food and fuel, privatisation of parastatal enterprises, raising charges for education, health and other services, and lowering wages and removing measures to protect employment.

Central to the whole strategy of structural adjustment is devaluing the currency. This is intended to encourage legal exports and constrain demand for imports. It is necessary if imports are to be liberalised and licences replaced with tariffs, and for government to regain control over unofficial currency and commodity markets. It is essential to eliminate the opportunities which rationing overvalued currencies, and imported goods, creates for the corrupt enrichment of those who control the allocation of foreign exchange. Therefore, partial devaluations do not partially solve the problems created by overvaluation, but leave them unresolved.

Under IMF and World Bank direction, governments set up foreign exchange markets, which allowed recognised bidders to participate in an auction of foreign exchange – in some cases augmented by funds from the international financial institutions themselves. One outcome of this procedure, in Ghana and Nigeria for example, was a multiplication of banks, who acquired their assets through the auction. In Nigeria, government sought to protect the exchange rate by managing the auction. It then tried to divert part of the demand for foreign exchange to an official parallel market, supplied by non-oil exports and foreign exchange imports. Banks obtained money at auction at, say, N10 = $1, and then recycled it on the parallel market at $1 = N15. Eventually, the government was forced to float the naira, producing a sharp fall in its exchange rate.

A radical devaluation is the essential key to any strategy of structural adjustment, but is not sufficient, even to itself. If people are to be persuaded to hold a currency, and to invest in the production of goods sold for that currency, it must be stable, as well, as convertible. Otherwise, anybody who is able to do so will spend or convert it as fast as possible, pending a further devaluation.

Consequences of Devaluation

A sharp devaluation immediately raises the costs in local currency of imported goods at the official exchange rate, that is what it is designed to do. It also raises the local price of exports, in so far as the change in the exchange rate is passed on to producers.

If levels of income and government spending are increased proportionately (by raising wages and circulating money, to compensate for rising prices) effective demand for foreign imports and therefore currencies rise, and the exchange rate falls. If the currency is not fully convertible, the gap between the official and the black market rate widens. Rigorous controls on wage rises, government spending and the supply of money and credit are therefore necessary for devaluations to work to produce a stable, and ultimately a convertible, exchange rate.

Governments are consequently compelled to cut back on public spending, and to seek new sources of revenue. It is therefore not surprising that they have tended to reduce spending on health and educational facilities, even if they recognise that these are essential to meet the needs of an expanding population and to lay a basis for future economic growth. In theory, these services could be protected by reducing government spending elsewhere, notably on army salaries and military equipment. This is unlikely to happen quickly, especially in a situation of political instability or even transition to democracy's democratic governments, too, have armies to contend with.

People who are better placed by virtue of their money, position and influence to get access to these facilities will command a larger share of fixed or declining public resources for themselves and their families. The result is that people generally pay more for health and education, and for fuel, water and sanitation. The majority are very unlikely to get better services in return and quite probably will have worse. If structural adjustment is to work, it cannot have a 'human face'.

The implications of structural adjustment policies for manufacturing are contradictory. Their major benefit is to allow producers to purchase – at a higher price than before – the imported materials they need without going through the maze of import and exchange controls and their attendant costs in time and money. Firms are thus able to make better use of their productive capacity. The cost of competing imports rises but local firms lose the protection provided by imports controls – and may not be in any position to match international prices or quality, even with a measure of tariff protection. The level, and the share, of imported inputs in their own costs rises unless they can find local substitutes. These problems are generally greater the more capital-intensive and technologically-advanced the production process.

Some firms may find new niches for exporting their products cheaply, if they are allowed access to international markets. High interest rates, combined with stagnant or declining markets and rising import costs, discourage most firms from investing in new plant, and further raise the prices at which they profitably sell goods. Structural adjustment policies have tended to lead to a partial and uneven recovery of industrial production. Recovery is likely to be most marked in industries able to switch to local inputs and where demand remains resilient in the face of declining incomes – textiles and beer, for example. The twin constraints of limited demand and rising costs made it difficult to go beyond partial recovery to sustained growth.

Structural adjustment policies increase the current costs of reproducing labour-power, at the same time as requiring reductions in real wages. Transport costs rise. So do the costs of schooling and health facilities. Wages are no longer sufficient to pay rents and meet food and clothing bills. In the circumstances, strikes are likely to be ineffective. Other forms of withdrawing labour may not – moonlighting, absenteeism or just not working very hard. This is not a case of over-adjustment, as the World Bank has suggested; it is a direct result of the adjustment strategy.

Class Inequalities and Structural Adjustment

The costs of structural adjustment, and the measures necessary to sustain it, fall most heavily on urban wage and salary earners, particularly those paid for out of the public purse, and on consumers of public services. They fall indirectly on the self-employed, who can, to some extent, pass on the costs of rising prices to their customers, but who are confronted by declining markets and increasing competition. Conversely, in an agrarian economy, structural adjustment benefits producers of food and other crops by raising local prices, both for exports and for food imports. Since rural producers were least likely to have access to imported or manufactured goods at official prices, or to have their fair share of public provision of schooling and health facilities, they have less to lose from devaluation than their urban brothers or sisters.

Meanwhile, those who made money from the previous regime can now repatriate their foreign earnings and spend their wealth on goods which are freely imported, for those who can afford them. Better still, they must be encouraged to invest their money and talents. Privatisation of parastatal firms opens entrepreneurial possibilities for those with access to money and official influence, in Africa as in Britain and Eastern Europe.

The success of structural adjustment in an agrarian economy depends on the transfer of incomes to agricultural producers in order to encourage them to increase production. Consequently, at least in the short term, there must be a reduction in the incomes of some other group, specifically of urban wage earners.

There is an alternative solution to reducing the incomes of the poor – in theory. That is to tax the benefits which accrued to the rich under the old system, and to tax away a share of the gains of the beneficiaries of the new. It is not simply possible to maintain the incomes of, and the provision of services to, the poor and even the not-so-poor, while allowing the rich to enjoy the benefits of their gains, ill-gotten or otherwise. Few African countries have any capacity to tax the rich at all. Direct taxes are generally levied only on wage and salary earners. Governments could go back to taxing export farmers instead – in Ghana they still do – but that would contradict the whole purpose of the strategy. Ultimately, the successes and failures of structural adjustment do not turn on the issues, important as they are, of 'factor pricing', 'market failure' and 'economic efficiency' to which neo-classical economists devote their attention, but on the central questions of the classical tradition – to paraphrase Ricardo 'the distribution of resources among the ... classes of civil society', or perhaps as Harold Lasswell famously put it, 'Who gets what, when, how.'

The Long Run

Over time, a successful devaluation will generate increased production of goods for export and for home consumption, thus releasing foreign exchange resources for other purposes and reducing inflationary pressures. By increasing both the use of existing capacity and encouraging investment in the development of new productive capacity, it will improve conditions for all. Some of these improvements are immediate i.e. higher prices for export farmers. Other changes take time to work their way through the system. In the mean time, wage earners' incomes fall, funding for public services decreases, industrial production is constrained by high import costs and limited demand. As old avenues for tribute taking are closed off, new ones are opened up.

Governments find themselves confronted by demands from a range of different groups seeking to protect, or to enhance, their access to resources in a situation of scarcity. Rising import costs and local inflation put pressure on government budgets. Politicians, army officers and state officials continue to appropriate public resources before they lose power or the money runs out. Students protest against rising costs of education. Workers and salary earners seek to recover at least part of the incomes they have lost to rising prices and to protect their jobs. In several countries, sharp increases in food and fuel prices, following devaluation and/or the reduction in subsidies, have brought workers, and sometimes students, out on the streets, with broad support from the urban public, in opposition to the sacrifices imposed on them by corrupt and authoritarian governments.

Governments consequently relax fiscal policies to maintain their own activities, reward rulers and their clients, and buy off popular anger. They may give priority to paying the salaries and enhancing the perks of the military – or at least that part of it on whom they rely to keep them in power. They lose political credibility and their capacity to direct the economy. They are forced to retreat from their policies of liberalisation, or to watch a further decline in the value of the currency and an additional push to the inflationary spiral. Reversing policies does not protect the currency from collapse or prevent prices from rising.

In Africa, as in Eastern Europe, authoritarian governments lost legitimacy as a result of their inability to continue to manage economic decline and international bankruptcy. Western powers began to withdraw support from right-wing regimes, such as those in Kenya and Malawi, in the name of democratic principle, when they no longer appeared able to maintain political order. In a number of countries, the demand for multi-party democracy brought together coalitions of diverse political, regional and class interests which had been excluded from power. Where they were successful in removing the old regime, as in Benin and Zambia, they often found that the state cupboard was bare. They were expected to implement the structural adjustment programmes their predecessors had left for them without the means to meet the diverse expectations of their constituents.

Any government seeking to implement structural adjustment is forced to maintain strict control of fiscal policy, and thus direction of the making and execution of public policy. It has to find ways of resisting demands to provide resources and, in particular, to restrain the ability of trade unions to restore some of the lost purchasing power of their wage packets, and to oppose measures to reduce subsidies on food, fuel, transport and other necessities. These imperatives lead governments to adopt authoritarian measures and to limit the formation of social and political organisations autonomous of the state. Structural adjustment is therefore not easy to reconcile with the development of democratic politics.

The costs of structural adjustment policies are immediate, and for most people their benefits can only be realised in the long run. The long run results of state policies are usually not the outcomes originally planned, but arise from the complex interactions of responses to the initial policies and the dynamics these generate. The short-term priorities of private interest and political management undermine the achievement of long-term goals.

Structural Adjustment and the Debt Problem

Structural adjustment lending originated as a means of providing long-term loans to heavily indebted governments. The inability of African governments to pay their debts forced them to accept the strategies of economic reform imposed on them by the international financial institutions. Ironically, the obligation of governments to service debt payments makes it impossible for structural adjustment policies to succeed.

Countries embarking on structural adjustment programmes confront a backlog of demand for imports of industrial inputs and of consumer goods. Liberalisation allows people to purchase imports which were previously unavailable or controlled by official monopolists, but they are now more expensive and their costs keep up the rate of inflation. People's demands for food, fuel, clothing, health or education cannot be met if the currency is to be stabilised at its new value and the cycle of successive devaluations and rising inflation is to be broken.

These problems can only be solved by a sustained net inflow of foreign exchange. This provides the means to pay for the import of materials, spare parts and machinery needed to bring factories back to their productive capacity. It supplies the incentive goods needed to encourage farmers to expand production for legal markets. By increasing the supply of goods, it mitigates tendencies to inflation which can otherwise only be constrained by cutting demand and consequently reducing production.

Foreign investors are unlikely to sustain net new investments. Over the last two decades, they have preferred to take their money up front, in hard currencies, by acting as contractors to governments, preferably on aid projects or with export credit guarantees to protect them. They have seen little advantage in investing in activities which generate profits in unconvertible currencies, and when they have done so have devoted considerable ingenuity to finding ways to reconvert their foreign assets into internationally exchangeable forms. Convertibility and stabilisation of currencies is necessary to encourage foreigners – and nationals holding assets abroad – to invest in African countries. The limited attractions for such investors mean that foreign investment depends on the problems of structural adjustment policies being solved. It can only make a marginal contribution to them.

No solution to these problems is compatible with a continued net outflow of foreign exchange, to international financial public and commercial banks, to service debts. Debt rescheduling does not address this problem. It does not create the conditions for the repayment of debt, but defines the conditions under which countries will be permitted not to repay their debts. It only increases the unpaid – and unpayable – principal and renegotiates creditors claims on the export earnings of debtor countries. 'Debt for equity' swaps exchange unpayable debts for claims on real assets. The major purpose of arrangements to reschedule, swap and write down debts may be to provide a framework to enable creditors to redefine their imaginary assets. Which is where we began.