

Structural Adjustments in the Global South

Mains: GS - II - International Relations

Why in News?

In a recent paper published in *BMJ Global Health*, economists and public health researchers argue that the institutions that implemented the structural adjustment programmes now owe reparations.

What about the Structural Adjustment Programmes (SAP)?

- **SAPs** - These are *economic policy reforms* imposed by the International Monetary Fund (IMF) and the World Bank *on developing countries* in exchange for loans, particularly since the 1980s.
- **Objectives**
 - To balance government budgets and reduce inflation.
 - Shift from inward-looking, state-led development to export-oriented, market-driven economies.
 - Improve debt repayment capabilities.
- **Origin of SAPs**
- SAPs emerged during the debt crises of the late 1970s and 1980s.
- **Heavy borrowing** - Many developing countries had borrowed heavily in foreign currencies to finance imports and industrial development.
- **Rise in Interest rate** - When the United States Federal Reserve raised interest rates in the late 1970s, debt repayments became far more expensive for poorer countries, causing decades-long progress to unravel.
- **Dollar dependency & Repayment Burden** - The countries that had borrowed in U.S. dollars suddenly faced expanding repayments in a currency they had no control over.
- **IMF-World Bank Intervention** - To prevent governments in the global South from defaulting on loans owed to American banks, the U.S. used the IMF and World Bank to roll over those debts.
- In return, they imposed strict economic reforms as conditions that would come to be known as structural adjustment programmes, or SAPs.
- **3 SAPs Conditions**
 - **Austerity** - Slash/Cut public spending on healthcare, education, food subsidies, and social security, so that the money saved could flow back to creditors.
 - **Privatisation** - By transferring public services and state-owned industries to private capital.
 - **Deregulation** - By deregulating industrial policy, tariffs, capital controls, and

labour protections.

- **Limited Choice** - Countries had a limited choice to refuse.
- Defaulting on loans was risky, and the institutions pushing these conditions controlled international finance.

What about the historical background of SAPs & its growth globally?

- **Historical Context** - After independence, many Global South nations used industrial policy and public investment to escape colonial economic patterns that *kept labour and resources cheap for Western firms*.
- **SAP Reversal** - The SAPs effectively reversed these gains, lowering wages for southern labour and re-opening vulnerable markets to the global North.
- **The 1960s-70s Growth Phase**
- **Pre-SAP Era (1960-1980)** - The 1970s were a good decade for the global South.
- **Rising incomes** - Between 1960 and 1980, real per capita income grew across Asia, Africa, and Latin America.
- **Post-colonial investments** - Countries that had recently thrown off colonial rule were investing in public healthcare and education, protecting their industries, and organising production around national development.
- **Structural Adjustment Era (1980s onward)**
- Beginning in the 1980s, the International Monetary Fund (IMF) & World Bank began structural adjustment programmes across Asia, Africa and Latin America.
- **Long-term Impacts** - Decades later, many countries in the impact regions continue to struggle with weak public health systems, stagnant incomes and high levels of poverty.

What is the social & economic outlook of global south before & after SAPs?

- **Economic Growth Impacts**
- **Before SAPs** - Averaged annual growth rate was around 3.2%.
- Decline during SAP era - But growth slowed sharply, falling to a mere 0.7% during the era of structural adjustment in the 1980s and 1990s.
- **Income Loss** - The South collectively lost an average of \$480 billion per year in potential national income during this period.
- **Regional Effects**
 - **Latin America** - Real income per adult fell nearly 15% after 1980 and did not recover to previous levels until 2006.
 - **Sub-Saharan Africa** - Incomes fell nearly 20% before eventually recovering decades later.
 - **Jamaica** - Trade and exchange-rate liberalisation in the early 1990s caused food prices to rise sharply after currency depreciation.
 - **China** - Extreme poverty rose during a phase of market-oriented reforms linked to World Bank adjustment policies.
- **Health Consequences**
- **Child & Maternal Health Impacts** - A 2017 review found that SAPs imposed by the IMF, World Bank, and African Development Bank had a strong negative impact on child and maternal health.

- **Sub-Saharan Africa** - An additional 85.62 child deaths per 1,000 children and an additional 360 maternal deaths per 1,00,000 live births.
- **In Kenya** - 3,05,000 excess infant deaths occurred between 1986 and 2010 relative to the pre-adjustment trend.
- **Mechanisms**
 - **Cut in government spending on health** - Led to the closure of facilities, and limited the hiring of doctors and nurses.
 - **Currency devaluation** - Made imported drugs and medical supplies more expensive.
 - **Privatisation & user fees** - Reduced access to essential services, and
 - **Wage losses** - Made families more vulnerable to disease in the first place.
- **Financial Outflows**
- Structural adjustment also enabled large financial outflows from the global South.
- **Capital Flight** - The removal of capital controls allowed foreign companies to repatriate profits at up to \$250 billion a year.
- **Trade Deregulation** - Enabled further outflows exceeding \$1 trillion per year, mostly to evade taxes.
- **Domestic Impact** - Surpluses generated within developing countries that were no longer available for reinvestment in public services or domestic development.

What are the ways used to compensate for the loss that occurred & their challenges?

- **Responsibility for repair** - The IMF and World Bank, as the primary architects of these programmes, should bear responsibility for repair.
- **Ways to calculate compensations**
 - To quantify wage losses, cuts to public services, and capital outflows attributable to SAPs, adjusted for inflation and due interest.
 - To calculate losses to national income against a counterfactual in which the adjustments were never imposed.
 - Focus specifically on welfare impacts, such as poverty & mortality, to provide compensation that restores people to the social indicators they would have reached had SAPs never existed.
- **Obstacles to Compensations**
- **Sovereign Immunity** - The IMF and World Bank enjoy sovereign immunity, shielding them from lawsuits through normal channels.
- **Governance Structure Imbalance** - The Global North, with a mere 15% of the world's population, controls nearly 60% of the voting power in both institutions.
- The *U.S. alone holds a veto*.

What lies ahead?

- **Reforms Beyond reparations** -
 - Must abolish SAPs on all future lending,
 - Democratise both IMF/World Bank governance, and
 - End their immunity to ensure accountability and prevent recurrence.
- If such transformative changes cannot happen from within, these institutions should

be replaced entirely.

- **Alternatives** - Including the *BRICS New Development Bank & Asian Infrastructure Investment Bank*, established by and for the global South - *neither attaches* structural adjustment conditions to finance.

References

1. [The Hindu | Toll of structural adjustments on the global South and a case for accountability](#)
2. [Investopedia| Structural Adjustment Programs](#)

