CHAPTER II
STRUCTURAL ADJUSTMENT PROGRAMS AS THE INSTRUMENTS FOR THE THIRD WORLD COUNTRIES DEVELOPMENT

In this chapter, I would like to discuss Structural Adjustment Programs as the conditions to sustain the development in the Third World Countries. It will start by discussing the history and the roles of IMF as the International Organization that suggested Structural Adjustment Programs in the developing countries. Then, it will discuss how SAP is able to solve the economic problems in the Third World countries.

A. History of Structural Adjustment Programs

Discussing about the history of Structural Adjustment Programs could not be separated with the IMF that suggested SAP itself as the instrument for the Third World countries economic development. The International Monetary Fund or known as IMF is an international financial organization which consists of 189 member states today. The objective of IMF are to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. IMF was conceived at a UN conference in Bretton Woods, New Hampshire, United States, in July 1944 and established in 1945. A repetition of the competitive devaluations that had contributed to the Great Depression of the 1930s encouraged the 44 countries at the conference to create an institution for economic cooperation. (IMF, 2017) The Great Depression is a condition when the global economic rate decline drastically in a short period due to declining stock prices around the world.

The Bretton Woods Conference in July 1944, produced and ratified the draft of the Articles of Agreement of the International Monetary Fund which later became the forerunner of the Bretton Woods system implementation in International trade as well as signify the birth of the new world economic order through the Neo-liberalized economic system ideology. The draft includes (Sanford & Weiss, 2004):

1. Promoting international monetary cooperation
2. Promote exchange rate stability.
3. Expanding and improving a balance international trade.
4. Create resources from funds available to member countries.
5. Assisting to build multilateral payment systems and eliminating restrictions on Foreign Exchange.
6. Reducing imbalance international transactions

As an international economic institution IMF become a framework to make any decisions and policies regarding international financial and monetary issues. The ideology of IMF of course has a strong influence of neo-liberal economic ideology. There are two elements of the IMF's Ideology. First, IMF is based on uniformity and equality for the whole member countries. Second, the IMF policies are created and implemented as the objective of monetary and fiscal stability (IMF, 2017).

In order to overcome economic and developmental problems in the world, then the concept of foreign aid came as one of solutions and efforts that can be done. IMF as an institution the international economy has the power to provide loans to the proposing member country. Foreign loans are provided in the framework of financing projects development of third world countries. This loan then becomes an opportunity for a Third World country to practice autonomy from the official financial community. The Third World country, then, is able to help their development program.

Foreign aid from IMF hopefully will be able to encourage global trade cooperation. In the 1970s, many private banks in Western Europe and North America began to increase their participation in terms of foreign loans to world countries such as the United States, South Africa and Asia. The foreign loans are given in the framework for improvement of infrastructure facilities, work, health and education services significantly. The intention of the loan is encouraging the Third World countries to transform their society status, from agrarian society to industrialist society.

Then, most of new independent countries, especially African countries have imposed a big number of foreign loans from private banks and western countries. As consequence, many of them were forced to sale or barter the loans with their natural resources. Unfortunately, most of them could not afford to pay the existing foreign debt. A series of economic crises in the 1970s caused a worldwide recession in the 1980s, which plunged many developing countries into debt traps (Ismi, 2014)

In response to the debt crisis, in 1985, Secretary of the Treasury of the United States James Baker initiated a new policy of Structural Adjustment Programs. This policy is based on so-called the Washington Consensus. Under this new policy, countries that want to get loans from IMF and the World Bank must commit to re-construct or reform their economic policies especially on export growth, reducing the role of state in the market, and privatization of public sectors (Greenberg, 1997).

The SAP believes that the role of state in the economy must be reduced, open the economic as an essential component of the neo-liberal consensus; reduce or abolish all rules, privatization of state or public companies and move from industrialization of import substitution to export-oriented strategy. Where in the wider context requires the Government of a country that obtains debt to reduce government spending in order to control inflation; liberalize imports and remove all obstacles to foreign investment; privatization of state-owned enterprises; reduce the value of the currency and reduce or eliminate all regulations protecting local workers (Sulaiman, Migiro, & Aluko, 2014).

B. The Principles and Programs of Structural Adjustment Programs

Structural Adjustment Programmes (SAPs) is an economic reform policy package which was suggested by IMF and World Bank for developing countries. This program was created as the requirement for the receiver countries to be able pay off the debt. The term of adjusment policy should be implemented through privatization and liberalization economic policies. As result, the recipient countries must open their economy in order to ensure the sustainability of economic progress, economic and trade integrations, and foreign competitiveness in the global market (Sulaiman, Migiro, & Aluko, 2014, p. 41).

The SAP was introduced when in 1980, developing countries were unable to pay back loans taken from Western commercial banks which had gone on a huge lending binge to Third World countries during the mid to late1970s when the rising oil prices occurred. The World Bank and the IMF imposed SAPs on developing countries which needed to borrow money to pay back their debts. The World Bank's SAPs, first instituted in1980, enforced privatization of industries (including necessities such as healthcare and water), cuts in government spending and imposition of user fees, liberalizing of capital markets (which leads to unstable trading in currencies) market based pricing (which tends to raise the cost of basic goods) higher interest rates and trade liberalization. SAPs evolved to cover more and more areas of domestic policy, not only fiscal, monetary and trade policy but also labor laws, health care, environmental regulations, civil service requirements, and energy policy and government procurement. (Ismi, 2014)

As we know that the IMF was not created for the purpose of elimination of Third World countries debt, but in order to resolve global economic difficulties, both institutions then involved and has an important role in solving the Third World country's debt crisis in 1982. Thus, IMF and World Bank introduced SAP as the instrument to solve the third World countries debt crisis.

With the imposition of its own SAPs in 1986, the IMF became one of the most influential institutions in the world. Until the 1980s, IMF involvement with Third World countries was only a little but after the debt crisis, the role was greatly expanded in imposing austerity conditions on countries in financial difficulties. Classical IMF stabilization programs involve: a standard set of policies aimed at reducing current account deficits. These invariably include a contraction of the money supply and fiscal austerity measures aimed at reducing excessive demand in the domestic economy; demands for strict anti-inflationary monetary policy, privatization of public enterprises, trade liberalization and dismantling of foreign exchange controls; more flexible labor markets and reducing the size of the public sector. This has meant cutbacks to education, health care and the social sector, and the elimination of subsidies and marketing boards for agricultural products as well as the privatization of such basic services as potable water, health care and education. (Ismi, 2014)

SAPs are designed to accelerate the practice of export productivity growth, privatization and liberalization, and exploit the efficiency of the free market. SAP usually requires a country to abolish the price control and subsidy of the government and devaluate the value of the currency in the country against the dollar. The key element of SAPs is classical neoliberal economic features. This concept assumes that the most productive economy can occur if individuals are allowed to have freedom as much as possible to engage in economic activities to achieve the full benefits of their work (Rapley, 1825). In line with neoliberal economic principles, economic activities in the Third World countries requires to find their way out of debt and poverty by improving natural resources export, agricultural development of monoculture industry for exports activities, and investments in infrastructure, as well as for the purpose of export activities, which will affect the cuts spending on health, education and welfare.

SAP also encourages the receiver country to privatize state enterprises (privatization), and the removal of constraints on foreign and capital investment. The policies in SAPs generally cover four maintenance reforms in the form of (1) economic reform, (2) trade liberalization, (3) government reform and (4) private sector policy reform. Economic reforms by SAPs include restrictions on growth of money and credit, the power of currency devaluation and reform financial sector. This structural adjustment program as well as introducing such revenue-generating measures program creates services that are affordable for poor society. The reformation of trade liberalization is done through high tariff elimination, rehabilitation of export infrastructure and increase in production prices. Government reform is organized through excessive government salary cuts. SAPs also emphasize for the removal of excessive and inefficient institutional activity in addition to public company privatization and reform administration and public institutions. Control over pricing and government monopoly becomes important to do as an effort SAPs in reforming private sector policy. (Mingst, 2004, p. 261)

Privatization and deregulation are combined to eliminate bureaucracy, improve efficiency and productivity, improve quality, and reduce costs both on consumers through cheaper commodities or services and indirectly through tax deduction. The sustain improvement in productivity should provide a higher standard of living for everyone in a country. This is based on the assumption that best poverty eradication can be guaranteed through free market and free trade. (Harvey, 2007)

SAPs are conceptualized to provide awareness that the key problem in Third World countries is economic development. It includes the weak of public sector management resulting in the loss of public corporations and generating state trust as a bad land for investment to grow. Thus, SAPs increased productivity sector, free market development, controlling the budget deficit, privatizing public sector companies and services, and eliminating subsidies. Structural Adjustment Programs in Third World countries encourage countries and market to be more efficient in order to accelerate economic growth. SAPs give countries a secondary role and priority to free markets in order to increase production activities on the unrestrained individual initiative (Rapley, 1825), because freedom in the market ensures individuals are responsible for their own actions (Harvey, 2007).

At the end, SAPs are the most important policy framework that have influenced overall economic development strategy in Third World countries especially in Africa. To accelerate the economic growth in Africa, SAPs encourage programs of fiscal austerity plans, such as inflation prevention, privatization of state-owned enterprises, trade liberalization, currency devaluation, and general deregulation of government roles including fiscal and labor market. SAPs are trying to attract foreign investment into many sector that have a significant contribution to the African economy. In the agricultural sector, SAPs in Africa encourage countries to focus on the production and export on primary commodities such as cocoa, cassava, and coffee to earn foreign exchange. In the manufacture sector, SAPs encourage the export oriented industries and the utilization of domestic inputs. Thus, the economy can growth and able to attract foreign investment.

Through SAPs, IMF believes that the suggested programs for Third World countries are able to improve economic development. By liberalizing the economic policy and deregulations of government role, it will give as much as possible freedom of individuals to be more responsible for their own actions. Moreover, free market and free trade can a guarantee for poverty eradication in Third World countries.