Saps policies: negatives impacts

economic policies for developing countries that have been promoted by the World Bank and International Monetary Fund since the early 1980s by the provision of loans conditional on the adoption of such policies. Structural adjustment loans are loans made by the World Bank. They are designed to encourage the structural adjustment of an economy by, for example, removing " excess" government controls and promoting market competition as part of the neo-liberal agenda followed by the Bank. The Enhanced Structural Adjustment Facility is an IMF financing mechanism to support of macroeconomic policies and SAPs in low-income countries through loans or low interest subsidies.

SAPs policies reflect the neo-liberal ideology that drives globalization. They aim to achieve long-term or accelerated economic growth in poorer countries by restructuring the economy and reducing government intervention. SAPs policies include currency devaluation, managed balance of payments, reduction of government services through public spending cuts/budget deficit cuts, reducing tax on high earners, reducing inflation, wage suppression, privatization, lower tariffs on imports and tighter monetary policy, increased free trade, cuts in social spending, and business deregulation. Governments are also encouraged or forced to reduce their role in the economy by privatizing state-owned industries, including the health sector, and opening up their economies to foreign competition.

Argument: structural adjustment program flawed because of premature financial liberalization. It is resulted from (1) the lack in governing the financial liberalization (2) lack of government role in regulating the mechanism (not jump in to the market).

Globalization and SAP what is that

Impact of SAP: Positive and Negative impact of SAP that imposed to developing countries. Which one is heavy?

One factor is the premature of economic liberalization.

One point is that its strategy by reducing the role of government through decreasing government spending, but at the same time by reducing governance and role of government, it creates imbalances. Unregulated trade and economic liberalization creates bigger problems and issues especially poverty. Cut government spending especially in health and education will reducing service for the poor.

Example: Indonesia.

Globalization

Structural Adjustment Program (SAP). While its aim is to strengthen macroeconomic policy within a country, it also creates negative impacts.

First impact that we had seen is Poverty. Despite reducing poverty through macroeconomic policy, it creates imbalances and bigger gaps. It is less effective in reducing poverty.

Government plays important role. The problems that happen is lack of ownership. Lack of government willingness to reform the policies/policies change. Promise based aid signals both a divergence preferences between recipient and donor.

SAP was inappropriate in Asian especially because they are newly industrialized countries.

Structural adjustment — the standard IMF/World Bank policy package which calls for slashing government spending, privatization, and opening up countries to exploitative foreign investment, among other measures — has deepened poverty around the world. In the two regions with the most structural adjustment experience, per capita income has stagnated (Latin America) or plummeted (Africa). Structural adjustment has also contributed to rising income and wealth inequality in the developing world.

Here’s how various structural adjustment policies increase poverty:

Privatization — Structural adjustment policies call for the sell off of government-owned enterprises to private owners, often foreign investors. Privatization is typically associated with layoffs and pay cuts for workers in the privatized enterprises.

Cuts in government spending — Reductions in government spending frequently reduce the services available to the poor, including health and education services (though the IMF and World Bank now say they preserve health and education spending).

Imposition of user fees — Many IMF and World Bank loans call for the imposition of “ user fees” — charges for the use of government-provided services like schools, health clinics and clean drinking water. For very poor people, even modest charges may result in the denial of access to services.

Promotion of exports — Under structural adjustment programs, countries undertake a variety of measures to promote exports, at the expense of production for domestic needs. In the rural sector, the export orientation is often associated with the displacement of poor people who grow food for their own consumption, as their land is taken over by large plantations growing crops for foreign markets.

Higher interest rates — Higher interest rates exert a recessionary effect on national economies, leading to higher rates of joblessness. Small businesses, often operated by women, find it more difficult to gain access to affordable credit, and often are unable to survive.

Trade Liberalization — The elimination of tariff protections for industries in developing countries often leads to mass layoffs. In Mozambique, for example, the IMF and World Bank ordered the removal of an export tax on cashew nuts. The result: 10, 000 adults, mostly women, lost their jobs in cashew nut-processing factories. Most of the processing work shifted to India, where child laborers shell the nuts at home.

The 1980s were marked

by severe strains in the international economy. External financing slowed to a trickle for many countries while

primary commodity prices dropped sharply. Thus, most of the developing countries had balance of payments

problems and that as a result the IMF lending rose to unprecedented levels during the late 1980s.