

Imf structural
adjustment programs
and the neoliberal
view economics
essay



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Indeed the emergence of economic theories for centuries has greatly influenced the direction of world development (Yang, 2003). Economic theories may have been the backbone of every fundamental global change that strongly navigated policies of nations including the framework of global institutional development.

One of the major global institutional transformations took place in Bretton Woods 1944 which established the International Monetary Fund (henceforth the IMF). The IMF has a role amongst many of facilitating international monetary cooperation, international trade, exchange rate stability and assist countries with an imbalance of payments (McQuillan & Montgomery, 1999).

From 1976 - 2000 the IMF have implemented adjustments program prerequisite to their help to countries which is known as the Structural Adjustment Programs (henceforth SAPs). The SAPs, which is said to have a Neoliberal approach, primarily aims to adjust the structure of a country's economic system (Mohan, 2009). Nevertheless after years of IMF's SAPs many found the programs fail to reach its expected goals. Therefore it triggered debates on whether IMF SAPs are necessary and what really caused these failures; are the theories underlying these programs wrong, outdated, or it is merely the implementation that is inaccurate.

This essay will attempt to scrutinize the issue of what went wrong with the IMF SAPs by investigating the relevant theories behind it, providing insight to what are the ongoing debates, and comparing IMF role in Asia and Latin America. It is suspected that the IMF SAPs is indeed proof of theory misused by power. It is never good to adopt the same economic thought without

adjusting it to reality. Thus there is no generic prescription for an economic crisis.

The essay will begin with a brief background on the relationship of the IMF, SAPs, and its economic approaches to clearly identify theories and views that constitutes IMF and its programs. It will continue to discuss the debates that have been emerging regarding the IMF program and its role in developing economies which will be made clearer by the case of IMF SAPs in Latin America and Asia. In the end the essay will provide a conclusion based on the discussions and analysis.

IMF's Neoliberal View and SAPs

The IMF was one of the three institutions established in the Bretton Woods conference in 1944. The conference was a response to the global crisis in the 1930s (Bird, 2001) caused by the collapse of the classical approach (Regil, 2001). At that time, the economics view have shifted from classical development economics favouring capitalism and division of labour to a government intervened market approach, structural change oriented, and productivity based put forward by the Neoclassical theory and Keynes (Yang, 2003).

It was not surprising to find that the Bretton Woods institutional framework was also structured in accordance to Keynesian believes which lead to the designing of IMF responsibility of aiding countries with financial problems to maintain economic growth and employment (Bird, 2001). Thus it can be implied that the IMF is actually a Keynesian designed institution that would

naturally feature and work best for a Neoclassical-Keynesian oriented policy framework.

However, The Keynesian approach of the IMF only lasted till the 1970s along with the collapse of IMF's fixed exchange rates system (Vasquez, 1997) and the obsolete Keynesian economics (Bird, 2001). The world then moved to the Monetarist and Austrian view that greatly advocated to keep government involvement at the minimum which came to be known as the Neoliberal approach (Mohan, 2009).

This shift in the economic view have caused many political leaders of the developed world to question the role of a " Keynesian" organisation such as the IMF (Bird, 2001) because in a Neoliberal view, multilateral lending agencies in fact will hinder prosperity (Vasquez, 1997). This unsureness of the IMF role and the eagerness to advocate Neoliberalism have transformed the IMF, through the Washington consensus, as an institution to " open economies" (Taylor, 1997; Vasquez, 1997) especially the economy of its major clients; the developing countries (Killick, 1984).

In accordance to its changing role in 1970s the IMF thus attempts to address the needs of the developing countries by inventing new lending facilities which is then known as the SAPs (Mohan, 2009). The lending scheme are considered structural adjustment programs because they are attached to a certain conditionality that adopts the monetarist view focusing on the demand side of economies (Bird, 2001) but using the Neoclassical way of structural changes and productivity progress (Yang, 2003).

Without a doubt SAPs is a very powerful tool for the IMF to promote the Neoliberal view. The basic mechanism of SAPs is to give financial assistance to a country that declares bankruptcy and announces its inability to repay outstanding debts thus requesting for financial aid (McQuillan & Montgomery, 1999). The IMF then will offer financial assistance to the country with a condition that the country implements periodical plan of structural adjustments with a condition that the country makes structural changes and adopting Neoliberal views in their policies (Killick, 1995).

The prescription of SAPs is usually in the form of balancing budgets by reforming the trade protection and price incentives to make use of resources more efficiently (Easterly, 2005). In more detail SAPs would generally include policies such as removing tariff barriers, devaluation of national currency, financial liberalization, austerity policies such as removing subsidies, increasing tax, and privatization of state owned enterprises (Mohan, 2009). The IMF believes that this prescription will assist them in achieving the goals of their SAPs; rescuing countries from financial distress and promoting prosperity (Killick, 1995).

These prescriptions are by and large conditioned to every country requesting assistance. The only consideration given is utilizing a financial programming developed by IMF economist Jacques Polak. The programming helps the IMF “craft” SAPs by analysing a country’s monetary sector subject to its balance of payments to determine what adjustments are necessary (McQuillan & Montgomery, 1999).

Therefore it can be said that the fate of a country's economy merely rely on a simple financial programming developed by an economist not familiar with any of the country's specific characteristics and takes account only macroeconomic conditions (Taylor, 1997). The use of this financial programming prevails many years after it was established gaining critiques on how little development have been done in the programming (McQuillan & Montgomery, 1999).

This may be one factor that has made the IMF SAPs very rigid in implementation. This rigidity is said to be harmful to the socio-economic structure of countries (Kanji, Kanji, & Manji, 1991; Mohan, 2009). Thus many debates arises on how effective is the SAPs programmes in helping the countries as well as the question of how effective the program is in achieving its initial goal; prosperity.

Debates on IMF SAPs

The rigidity of SAPs and its minor evidence of success have elicited many debates amongst academics and practitioners with more against rather than supporting IMF programs. The debates evolve around the issues of aggressive Neoliberal conditionality, the generic implementation of SAPs, country sovereignty, the effect on the socio-economic structure of a country, and the transparency of the IMF itself.

Stiglitz (2002), critiques heavily the fact that the IMF programs are too generalised and is not specifically designed to solve a certain problem. The loan conditions impose the same rapid liberalization without considering the pace of the reform pushing countries further to crisis. He argues that

sequencing liberalization will facilitate the establishment of proper institutional foundations supporting liberalization. He further critiques that these conditionality lending programs have taken a country's sovereignty by forcing austerity policies which is incorrect for certain cases.

Stiglitz also argues that the conditionality in SAPs have actually created an adverse effect because it indicates to the market that the countries are not reliable and thus further decreases international confidence and increases crowding out of capital. This is rather ironic considering that the countries first motivation to turn to IMF SAPs is increase solvency and gain international confidence.

Sachs (1999), taking the same view as Stiglitz, considers that the measures taken by the IMF is too generic without acknowledging past performance of the countries. Sachs also argues that the generic terms of SAPs concurs that any country in this program must be lacking of fundamental economic ability. This gesture will not result in the calm of the market.

Sachs goes further to critique three institutional aspect of the IMF. First, he emphasizes that the IMF has too much power over many countries with its monopolistic responsibility for economic policies in most of the developing world. Second, he underlines the ignorance of the organization by not engaging directly to the countries. Thus it will be helpful to undertake independent evaluations of the staffs. Third, Sachs highly recommends the IMF to be more transparent and making its operations and decision making publically in order to obtain academic and professional inputs.

Supporting IMF institutional reform is a recommendation by Taylor (1997). He suggests the IMF should trust countries more and should assume that they are capable of managing their economies. By doing so, the IMF should change their policy decision mechanism from a centralized IMF decisions to ones in consultation with the country's experts. Taylor also highlights the fact that IMF staffs have always been distant to their clients and even the IMF experts did not observe directly the country they are working on. Instead the staff are working and talking amongst themselves not realising the true issue of a certain country.

Vasquez (1997), in his article that attempts to view the IMF from a debtors perspective, criticize that the IMF's Neoliberal view is contradicting to its Keynesian institutional framework. This contradictory contribute to hamper policy development in the world. He also stress that structural changes is also seen as ineffective because it actually flourishes governments and investors to be complacent to the IMF assistance. Vasquez also underlines that the IMF decision making is largely political rather than economical. Therefore the results will always be bias in terms of economic indicators.

Easterly (2005) provides an empirical analysis on the effect of SAPs on economies. He investigates twenty top recipients of the structural adjustment fund which repeatedly obtains assistance. He finds that the programs did not accomplish a high macroeconomic policy adjustments and growth outcome. He argues that the repeated nature of these loans actually suggests that the program have a limited effect and provides evidence that the program is unsuccessful and leads to disastrous results. He

acknowledges from his results that putting conditions on programs have an adverse effect in enhancement of policies and growth potential.

Mohan (2009) and (Kanji, et al., 1991) emphasizes that although there are benefits of the IMF SAPs there lies a higher degree of inequality in social distribution caused by it. They argue that only at the macroeconomic level the SAPs is able to show positive results while as a trade off the socio-economic structure of a country is ruined and poverty increases. Both papers highlight that the program threatens national sovereignty and promote Neoliberalism at any cost.

Despite the large critiques that oppose the IMF methods, some acknowledge that the IMF does have some positive effect. Bird (2001) attempts to gather all information on the debates on the IMF SAPs issue and finds similar views. First there needs to be a reform in the IMF but not necessarily abolishing it. Second there should be more transparency of the programs and policies underlying the programs. Lastly there should be a clear separation between the IMF and its sister institution the World Bank to create more sound international policy coordination.

Goldstein (1989) on the other hand argues strongly that the IMF positive effects are critiqued heavily not because it is not performing in reality, but the effects of an IMF program is hard to capture in an empirical setting. He continues to underline many failed to appreciate IMF's methods because they fail to take account a much worse possibility if there were no IMF programs. To his understanding countries that requests to an IMF program indicates is fundamentally not performing hence the bad performance is not

due to the IMF but their mistakes in the past and inability to properly oblige to the IMF program conditionality.

IMF SAPs in Latin America and Asia: Generic Solutions for Different Conditions

In 1980s, Latin America received huge funding through SAPs when it encountered a debt crisis along with a deteriorating global economic environment leading to high interest rates and poor exports (Bird, 2001). The large amount of aid by the IMF, regardless of how the Latin American country's performance in the past, is validated by the notion that the fall of the Latin Americans will trigger global financial instability (McQuillan & Montgomery, 1999). This strengthens the argument that IMF bailout decisions are seldom political rather than economic.

Known as a region which is extremely volatile, Latin America's economy is characterised with high inflation rates, significant macroeconomic instability, and records of unsuccessful fiscal and monetary policies (Hutchison & Noy, 2003). This makes them a regular user of IMF programs or usually known as the term "recidivism" (Bird, Hussain, & Joyce, 2004) with the highest number of IMF programs per country over the period of 1952 - 1999 in the world (Hutchison & Noy, 2003). This tendency was shown to be true when the IMF once again bailed out Mexico in 1994 (Vasquez, 1997).

Usually "recidivist" borrowers have low reserve holding, large current account deficit and capital outflow, low terms of trade, large debt service and external debts ratios, low investment rates, low per capita income, and weak governance (Bird, et al., 2004). Others say that the Latin America

became recidivism because of the low completion rate caused by the difficulties of stabilization in Latin America due to the high external disturbance (Hutchison & Noy, 2003).

Therefore it is clear that Latin America have problems with its economic and political fundamentals, making it understandable that the region is constantly a regular “ patient” of the IMF. Nevertheless, although the SAPs has destroyed industrialization in Latin America by prescribing them to run a high interest and demand reducing policies, there were still positive outcomes (Bird, 2001).

Asia is a completely different story to Latin America in terms of economic performance. In the 1980s recession Asia was the region that did not experience stagnation like others (Bird, 2001). The Asian countries were performing tremendously through the last three decades with rapid growth and managing to increase incomes and reduce poverty significantly (Stiglitz, 2002).

In 1997 the Asian nations were hit by a major crisis that is nearly as devastating and as global as the Great Depression (Stiglitz, 2002). It started with the collapse of Thailand Baht which continued with devaluation of the currency urged by the IMF. Alas, the suggestion on the contrary triggered a contagion effect to its neighbouring countries such as South Korea, Malaysia, Philippines, and Indonesia (McQuillan & Montgomery, 1999). Not long after that, most affected East Asian countries joined the IMF program and received the same austerity treatment and following that was tremendous instability

(Stiglitz, 2002). Only Malaysia was able to avoid the worst when it rejected the IMF's generic structural changes (McQuillan & Montgomery, 1999).

This strengthens the case that despite Asia's strong fundamentals, similar measures to Latin America are taken, such as running a high interest and demand reducing policies (Stiglitz, 2002). However, the IMF consistently argues that the Asian countries are similar to Latin America because initially their government is "rotten". This may be true and have been known long before the crisis by investors (Passel, 1999). Nevertheless, the Asian region was still able to have high savings and invest which resulted in their rapid growth over the years and therefore should not be treated the same as countries with weak fundamentals (Stiglitz, 2002). The Asian crisis was not a fundamental crisis but the result of crowding out of capital (Sachs, 1999).

The case of Latin America and Asia suggest that the IMF SAPs does really imply generality and does not take into account important indicators that cause the problem. The mistake of taking the same measures in Asia by the IMF is considered very fatal and as a result has cost many lives of those in the bottom tier of the Asian countries.

Conclusion

The IMF SAPs is by far is the most obvious example of misuse of power and economic theories. Starting from its establishment that was greatly influenced by Keynesian thoughts to its current Neoliberal views (Vasquez, 1997), the IMF has always been very faithful in adopting the "latest fashion" of economic thinking depending on the politics in power. The SAPs, that many regard as a political tool, have definitely succeeded in promoting

Neoliberal views with power that IMF has over half of the developing world (Sachs, 1999).

Some consider the IMF program as correct and timely and does not see the need to abolish them (McQuillan & Montgomery, 1999) and that the countries are underperforming in the first place which justifies the difficulties in observing positive effects of the program (Goldstein, 1989). However, many also recognize that the IMF programs have not been achieving its goals. This is mainly caused by the rigidity of its conditional terms that makes IMF programs seem to be a generic prescription that does not take into account the condition of the countries (Sachs, 1999; Stiglitz, 2002; Taylor, 1997; Vasquez, 1997). Apart from that, the result of this rigidity have been ineffective to macro indicators (Easterly, 2005) and too costly in terms of the socio-economic structure of a country (Kanji, et al., 1991; Mohan, 2009).

The lessons from Asia and Latin America also prove that the IMF recommended similar prescriptions to different conditions which results in disastrous outcomes. This stresses the point that not every crisis can be resolved with a single theory. Different measures and analysis should be taken in consideration and a combination of all theories that existed should generate the best solution.

It is sad to see, regardless of the immense critique on the issue and how it devastated the world's most vulnerable, people in power have stood by and done so little to fix this problem. Keynes is probably correct in implying that people in power will always use economic theories to somehow drive the

world despite of how invalid the theories are to the current condition and how it affects many innocent lives. Indeed he has foreseen the future when he said that the world will always be ruled by little else.