

Structural Adjustment Policies¹

Lourdes Benería

1. The origins

Structural adjustment policies (SAPs) refer to high-powered austerity programs implemented in many countries across the globe since the early 1980s and propelled by international financial loans tied to IMF/World Bank conditionalities. From Africa to Asia, Latin America and Eastern Europe, over one hundred countries have applied similar packages, despite significant differences in their economies. Earlier versions of this type of policies had been part of stabilization plans imposed by the IMF during the post-World War II period on countries with chronic balance of payments problems. What was new with SAPs was their wider scope and their connection with the foreign debt problem that developed in the late 1970s and early 1980s. The accumulated debt was the result of a variety of factors: a) the oil crisis of the 1970s; b) the very lax lending policies that resulted from the accumulation of petrodollars in international banks; c) the rise in interest rates in the United States in the late 1970s; d) the withdrawal of large amounts of funds from indebted countries resulting from fears of devaluation and the growing trade and balance of payments deficits; and e) the falling prices of commodities exported from Third World countries which further intensified these external economic shocks.

Two of the first SAP packages were adopted by the Philippines in September 1980 and Mexico in August 1982, both under the close guidance of the IMF and the World Bank. The public announcement by the Mexican government that it could no longer meet its debt payments and the importance of Mexico as one of the largest Latin American countries made this case particularly significant. Hence, the Mexican package was viewed as the response of the international financial community to the prevailing fear of the financial crisis that could have developed if many governments defaulted. The package consisted of a set of tough policies adopted as condition for the new loans -- amounting to \$5.3 billion and put together with help from the IMF, the World Bank, the US government and international commercial banks; the goal was to return to economic health and generate resources that would help pay the debt. Thus, the standard set of policies which would have tremendous consequences

¹ Dictionary entry, in Janice Peterson and Margaret Lewis, eds., *The Elgar Companion to Feminist Economics*, Cheltenham, UK, and Northampton, USA, Edward Elgar 1999.

for the lives of millions of people during the 1980s and 1990s was adopted without public discussion, setting the model followed subsequently by other countries across the globe.

2. The policies

Since their inception, SAPs were inspired by the neoliberal model associated with the "Washington Consensus," that is, an emphasis on the market as the main allocator of economic resources and a corresponding decrease in the role of government. Although some details might have varied from country to country, the basic characteristics can be summarized as falling in four major policy areas:

First, a common starting point is the adjustment in the area of foreign exchange, beginning with currency devaluation in order to deal with normally overvalued currencies. This leads to an automatic increase in the price of imports, followed by that of domestic prices and inflationary trends.

Second, drastic cuts in government spending are used not only to reduce deficits in the public sector but also to shift resources and economic activity from the public to the private sector. They are also used to decrease aggregate demand in order to stem inflation. The cuts reduce or eliminate government services and subsidies, such as in education, health and other sectors, that contribute to the social wage, particularly of low income groups. Another aspect of the reduction of the government's role in the economy is the process of privatization of public firms. Although privatization might serve the important function of reducing the domestic deficit and eliminating inefficient and even corrupt activities in the public sector, it has also played a significant role in the imposition of the market over welfare and human development criteria in the functioning of the economy.

Third, SAPs have been used to stimulate deep economic restructuring through market deregulation, including labor and capital markets. This in turn creates strong pressures to restructure production, which leads to the introduction of new technologies, reorganization of labor processes and an emphasis on efficiency and "modernization."

Fourth, this process is reinforced by trade liberalization and the easing of rules regulating foreign investment, increasing the degree of globalization of the economy and emphasizing the production of tradables over non-tradables. This reinforces the need to strive for more efficient

production so as to be able to compete in international markets and reverse the external debt problem.

To sum up, orthodox SAPs represent deep economic and social changes amounting to: a) increasing productivity levels even though, at least during the initial stages, at lower real wages; b) eliminating waste and inefficiency while "rationalizing" the economy according to the signals dictated by an expanding market; c) achieving a higher degree of openness to foreign competition and integration in the global economy through trade and financial liberalization; d) altering economic and social relations and shifting the distribution of resources, rights and privileges towards social groups benefiting from the market; e) responding to the needs and interests of international capital and powerful global and domestic interests, including the large financial institutions, transnational corporations and international organizations such as the World Bank and the IMF; and f) reaching the final objective of returning to acceptable levels of economic growth and stability.

3. Impact and critiques

Almost two decades after the initial SAPs were adopted, have these goals been achieved? In the short run, the impact of SAPs is felt strongly throughout the economy and among all social groups. Higher import prices affect producers and consumers although trade liberalization may result in cheaper prices for some imports. At the same time, those linked to exports and the financial sector see their fortunes grow. Government budget cuts and foreign competition generate unemployment in some sectors and often force many domestic producers out of the market, with subsequent multiplier effects. All of these can result in negative rates of growth. As in the case of "the lost decade" in Latin America during the 1980s, the average per capita GNP for the region as a whole was 8% less in 1989 than in 1980 --equivalent, in real terms, to its 1977 level (ECLAC, 1990). This is accompanied with shrinking household budgets for a large proportion of the population, downward social mobility, increasing poverty rates and other social ills (Taylor, 1988; ECA, 1989; ECLAC, 1995). At the same time, higher unemployment rates place downward pressure on wages which, together with inflationary pressures, contribute to the deteriorating position of labor.

These negative effects are justified with the expectation that, in the long term, they will reverse the initial problems and result in a more efficient economy with positive growth. The record shows that in many ways this has been the case, although at high social costs. In such cases,

macroeconomic indicators have led to optimistic evaluations, with renewed economic activity and positive growth rates, inflationary tendencies under control, high levels of net foreign investment, significant increases in trade and buoyant stock markets (The World Bank, 1992-94; ECLAC, 1995). At the same time, case studies at the micro level and reports on people's daily lives portray a more negative view, documenting hardships of survival, gender and class biases, social tensions and increasing economic and social inequalities --implying that even optimistic macro results do not trickle down easily to the population at large (Cornia et al, 1987; Elson, 1991; Benería and Feldman, eds., 1992; Sparr, 1994; Floro, 1995).

Thus, two major critiques of SAPs have emerged. The first emphasizes the social costs of adjustment and their gender dimensions; the second calls attention to its effectiveness in the long run:

a. One of the initial critiques of SAPs was published by UNICEF (Cornia et al, 1987). It included empirical studies documenting the harder and longer-than-expected social costs of adjustment and argued in favor of an "adjustment with a human face." Although it did not underline any specific gender bias, subsequent research showed the extent to which SAPs have not been gender-neutral. Feminist critiques emerged, pointing out ways in which the hardships of adjustment were unequally distributed, displaying not only a bias against specific groups of people --mostly a class bias-- but also a gender bias. Empirical research has shown that gender biases are due to different reasons. First, given the division of labor and women's role in the household, austerity programs and shrinking budgets intensify women's domestic and reproductive work (Moser, 1993; Floro, 1995). In this sense, greater efficiency and lower costs of production might in fact represent a transfer of costs from the market to the sphere of the household (Elson, 1991). Second, budget cuts in essential services such as health, education and housing tend to affect specially the poor and to increase women's responsibilities in family care (Benería, 1992; Lind, 1992; Barrig, 1996). Third, lower real incomes force new household members to participate in the paid labor force -- particularly women and the young, given their lower participation rates-- often under the precarious conditions of the informal sector (Tripp, 1992; Moser, 1993; Manuh, 1994). Fourth, low wages in the export sector, particularly women's wages in labor intensive industries, is a significant factor in keeping exports competitive (Standing, 1989; Çagatay et al, 1995b).

All of this implies that macroeconomic policies are not neutral as normally assumed. As Diane Elson (1991) has argued, apparently neutral

concepts such as productivity increases and resource-switching assume that human resources are free and can be transferable between different activities at no cost and that "households and people will not fall apart under the stress of the decisions that adjustment requires" (p. 168). To be sure, these critiques of SAPs have been subject to debate on the basis that they have been made from case studies that could not be generalized. In addition, the critiques are more conclusive for some countries and regions, such as Latin America, than for others (Sahn et al, 1994; ECLAC, 1995). However, the accumulated evidence of many studies makes a strong case for the feminist critiques, which even skeptics have admitted.

In addition to analyzing the gender dimensions of the impact, feminists have also emphasized that existing gender inequalities might be an obstacle to efficient allocation of resources and the success of SAPs. For example, empirical work on sub-Saharan Africa has shown that farmers might not respond to policy incentives as a result of constraints set up by the traditional gender division of labor (Palmer, 1991; Çagatay et al, 1995b; Elson, 1995). Likewise, some of the social investment funds set up in many countries to deal with the most urgent problems of adjustment have missed the opportunity of tapping women's skills and providing sources of livelihood for them due to the dubious assumption that funds going to men will automatically benefit women and their families (Benería and Mendoza, 1995).

b. A different set of critiques of SAPs is based on its mixed results and impact on long-run sustainability. Structural adjustment has succeeded in solving the debt problem for the international financial community, keeping debt payments flowing. At the country and regional level, however, the debt continues to represent a burden for its citizens (Beneria, 1996). It has been argued that many countries and regions have moved from a debt crisis to a crisis of development, with low or unstable growth rates and vulnerable economic and social conditions (ECLAC, 1995). The Mexican crisis of 1994 typified this problem. Despite several years of optimistic trends in the early 1990s, Mexico had to be rescued again by the international community, with a financial package that surpassed the \$50 billion mark, ten times larger than the 1992 package (Benería, 1996). Likewise, the 1997 South East Asian economic crisis raised similar issues, particularly the dependency on unregulated external capital, this time in economies viewed as having provided a successful development model (Bello, 1997; Kohr, 1998).

Likewise, this critique points to the precariousness of the economic and social model promoted by SAPs. It underlines the growing evidence of economic

and social inequalities which feed social tensions and contribute to growing crime rates, urban squalor and environmental degradation. This has led some authors to view these trends as leading to a "socially unsustainable" development model, not only in countries in which SAPs were originally implemented but also in cases of more recent implementation, such as in Eastern Europe (ECA, 1989; ECLAC, 1995; Slomczynski and Shabad, 1997).

4. Was/is there an alternative?

One of the common responses to critiques of SAPs is that there was no alternative given the economic conditions of many countries. Thus, the 1980s and 1990s witnessed a standardization of adjustment policies despite the different conditions prevailing in their economies. The implementation of similar packages in the Eastern European countries since 1989 and in South East Asia since the outburst of the 1997 crisis also illustrates this trend. Hence, alternative paths to adjustment were not given an opportunity. In Mexico, for example, the IMF-inspired package adopted in 1982 prevailed over the more structuralist "managed adjustment" policies promoted by a different team of economists working with the Ministry of Industry (Singh, 1991). The alternative package included a series of trade and exchange rate controls, bank nationalization and direct negotiations with international commercial banks; its aims was to deal with the crisis without creating shocks and painful adjustments. It also included the formation of a common front of Latin American countries to negotiate the debt collectively so as to increase their bargaining power (Benería, 1996). Thus, the historical opportunity to try an alternative path was missed.

An alternative strategy would include policies to induce growth and efficiency as well as equity, including a more equal distribution of the debt burden. In this sense, feminist economics has made an important contribution to a discussion of alternatives, suggesting for example how the more prevalent gender analysis at the micro level has macroeconomic implications along the following lines (Benería, 1995; Çagatay et al, 1995; Elson, 1995):

First, alternative policies should not assume that people have an infinite capacity to bear the costs of adjustment. The literature has illustrated the tremendous endurance of people, but at the high costs of suffering and depletion of human resources. Second, the hidden costs of adjustment should be taken into consideration, including health-related problems, discontinuities in children's schooling due to women's work intensification, infrastructure and ecological deterioration, increased crime

and violence, and others. Third, alternative packages should include two types of policy: a) short-run compensatory measures to deal with the most urgent needs resulting from SAPs, and b) longer-term transformative measures --such as distributive policies focusing on property rights and income, changes in the share of paid and unpaid work among men and women, educational and retraining programs, and productivity increases in agriculture and other sectors involving women workers. Fourth, there should be a clear recognition of the significance of unpaid work for the economy, particularly if we are to view macroeconomic models as a tool to design policies for the provisioning of needs and maximization of social welfare and not just as a way of maximizing efficiency and economic growth. Fifth, gender equality can also contribute to achieving macro objectives. Thus, anti-discriminatory policies might result in a more efficient allocation of resources. For example, given the empirical evidence showing that women's control of income contributes more than men's to household welfare and family nutrition (Dwyer and Bruce, 1988; Elson, 1991), income schemes addressed to women can meet both efficiency and anti-discriminatory goals.

These contributions of feminist economics have also resulted from an effort at engendering macroeconomics at the conceptual and practical levels (Çagatay et al, eds., 1995a). With an emphasis on understanding gender relations and addressing gender inequalities, different authors in this project have demonstrated the usefulness of such an approach for growth theory, resource allocation and distribution, labor market analysis, public finance, time allocation and policy initiatives, among others. Still at an incipient stage, a similar effort at engendering international trade is also a recent contribution of feminist economics to our understanding of the effects of SAPs (Joekes and Weston, 1994). Although originated among gender and development circles, this body of work has wide relevance for feminist economics in general; further research should include theoretical and empirical work on the centrality of gender in macroeconomics and international trade.

5. References

Barrig, Maruja (1996), "Women's collective kitchens and the crisis of the state in Peru," in J. Friedmann, R. Albers and L. Autler, eds., *Emergences: Women's Struggles for Livelehood in Latin America*, Los Angeles UCLA Latin American Studies Center: 59-77.

Bello, Walden (1997), *Addicted to capital. The ten-year high and present day withdrawal frame of Sout East Asia's economies*, University of the Philippines, Center for Political Studies Issues and Letters, Vol. 6, Nos.9-10.

- Benería, Lourdes (1995), "Towards a Greater Integration of Gender in Economics," in Çagatay et al, eds.: 1839-1950.
- (1996), "The Legacy of Structural Adjustment in Latin America," in L. Benería and M. J. Dudley, eds., *Economic Restructuring in the Americas*, Ithaca, NY: Latin American Studies Program, Cornell University: 3-30.
- Benería, Lourdes and Shelley Feldman (1992), *Unequal Burden; Economic Crises, Persistent Poverty and Women's Work*, Boulder: Westview Press.
- Benería, Lourdes and Breny Mendoza (1995), "Structural Adjustment and social Investment Funds: The Case of Honduras, Mexico and Nicaragua," *The European Journal of Development Research*, Vol. 7, No. 1, June: 53-76.
- Çagatay, Nilufer, Caren Grown and Diane Elson, eds. (1995a), special issue on "Gender, Adjustment and Macroeconomics," *World Development*, Vol. 23, No. 11.
- (1995b), "Introduction" to special issue, *Ibid*: 1827-1838.
- Dwyer, Daisy, and Judith Bruce, eds. (1988), *A Home Divided: Women and Income in Third World Countries*, Stanford University Press.
- ECA (Economic Commission for Africa) (1989), *Adjustment with Transformation*, ECA/CM 15/6/Rev..3. Addis Ababa: United Nations.
- ECLAC (Economic Commission for Latin America and the Caribbean) (1990), *Transformación Productiva con Equidad*, Santiago de Chile.
- (1995), *Social Panorama of Latin America*, Santiago de Chile.
- Elson, Diane (1991), *Male Bias in the Development Process*
- (1995), "Gender Awareness in Modeling Structural Adjustment," in Çagatay et al: 1851-1868.
- Floro, M. Sagrario (1995), "Economic Restructuring, Gender and the Allocation of Time," in Çagatay et al, eds.: 1913-1930.
- Joekes, Susan and Ann Weston (1994), *Women and the New Trade Agenda*, New York: UNIFEM.
- Kohr, Martin (1998), "IMF policies in Asia come under fire," *Third World Economics*, No.176, 1-15 January.
- Manuh, Takyiwaa (1994), "Ghana: Women in the Public and the Informal Sectors Under the Economic Recovery Programme," in Sparr, ed.: 61-77.
- Moser, Caroline (1989), "The impact of recession and adjustment at the micro level: Low income women and their households in Guayaquil, Ecuador," *The Invisible Adjustment: Poor Women and the Economic Crisis*, New York: UNICEF.
- Palmer, Ingrid (1991), *Gender and Population in the Adjustment of African Economies: Planning for Change*, Geneva, ILO.
- Sahn, David, Paul Rorosh and Stephen Younger (1994), "Economic Reform in Africa: A Foundation for Poverty Alleviation," Cornell University Food and International Nutrition Program, Working Paper No. 72.

Singh, Ajit (1994), "Employment and output in a semi-industrial economy: modeling alternative policy options in Mexico," in A. Dutt and K. Jameson, eds., *New Directions in Development Economics*, Aldershot: Edward Elgar.

Slomczynski, Kazimierz and Goldy Shabad (1997), "Systemic Transformation and the Saliency of Class Structure in Central Europe," *European Politics and Societies*, Vol.II, No.1 (Winter).

Sparr, Pamela, ed. (1994), *Mortgaging Women's Lives. Feminist Critiques of Structural Adjustment*, Zed Books.

Standing, Guy (1989), "Global feminization through flexible labor," *World Development*, Vol.17., No.7:1077-96.

Taylor, Lance (1988), *Varieties of Stabilization Experience. Towards Sensible Macroeconomics in the Third World*, New York: Clarendon Press. Oxford.

The World Bank, *World Development Report* (1992-94), Oxford University Press.

Tripp, Aili Mari (1992), "The Impact of Crisis and Economic Reform on Women in Urban Tanzania," in L. Beneria and S. Feldman, eds.: 159-180.

UNDP (United Nations Development Program) (1995), *The Human Development Report*, Oxford University Press.