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Structural Adjustment Program in Lesotho

Bethuel Setai*

Résumé: *L'objet de cet article est d'évaluer le programme d'ajustement structurel tel qu'il est appliqué au Lésotho. Le programme a été mis en place en 1988 par le gouvernement du Lésotho et le Fonds Monétaire International et devait, dans sa première phase, couvrir la période 1988-1991. Il avait pour objectifs de réduire les dépenses budgétaires, d'augmenter la production et de promouvoir les exportations. Le programme a été rendu nécessaire par les déficits chroniques de la balance des paiements et du budget. La grande faiblesse du programme réside dans le fait qu'il ne fait pas état des mécanismes par lesquels l'économie s'ajustera et, dans ces conditions, il est très peu probable que les déficits seront résorbés. Les politiques les plus crédibles sont celles qui restructureront le budget de telle sorte que les mécanismes de feed-back des dépenses du budget et de la balance des paiements deviennent modérés. En outre, à moins qu'un désinvestissement ne soit opéré et que le gouvernement consacre plus de temps à l'élaboration de la politique et qu'il reconsidère l'accord de l'union douanière de l'Afrique australe dans le but de le restructurer profondément, les perspectives d'industrialisation du Lésotho ne sont pas bonnes.*

The purpose of structural adjustment programs in broad terms is to reduce government intervention, encourage private initiatives and promote exports to pay for imports and debt servicing. Structural adjustment measures are normally prompted by chronic balance of payments and budget deficits in the face of rising inflation and increasing unemployment. Lesotho fitting this description, recently accepted the International Monetary Fund's (IMF) structural adjustment program (SAP) which is expected to run from April 1988 to March 1991 in the first instance. The objective of SAP is to correct both the budget and the balance of payments deficits and to promote private initiatives, production and exports. The IMF's short run concern is that the civil service is too large, subsidies to parastatals are a drain on the budget, external loans are too high and borrowing from external banks is excessive. Borrowing from local banks at high interest rates is also seen to be undesirable. Consequently, the country can only prosper if these trends can be reversed and enough savings can be generated for the promotion of industrial growth.

The purpose of this paper is to evaluate the structural adjustment program for Lesotho focusing on her industrial development. This program is still new so that our analysis is somewhat counter factual. Our comments are base on the Fourth Five-Year Development Plan 1986/87 - 90/91 which

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was drawn when the negotiations with the International Monetary Fund and the World Bank were started and other publications of the said institutions as well as government ones.

Industrial Structure

Lesotho is completely surrounded by South Africa and is only 30,000 sq. kms. in size, compared to South Africa's 1.2 sq. million kilometers of land mass. With 1.5 million people, Lesotho is also dwarfed by South Africa's 35 million population. And the kingdom's per capita gross domestic product in 1985 amounted to a mere $270 - less than a sixth of South Africa's $1,666.

Lesotho's small economy is inextricably linked to that of South Africa in several ways. First, together with Botswana and Swaziland, Lesotho is a member of the Southern African Customs Union (SACU). Under this Union, members maintain a common tariff against non-members and permit "free trade" among one another. The SACU is advantageous to the kingdom in that it represents a major source of government revenue. Annex 1 indicates that in 1985/86 the country received M161.1 million from customs and these receipts are expected to almost double to M228.7 in 1990/91 with or without structural adjustment. Customs revenue receipts average over 50% of total revenue sources of the country.

The migrant labor system serves as another key link between Lesotho's economy and that of South Africa. Some 140,000 citizens of the kingdom - about 60% of the total work force are employed in South Africa's coal and gold mines. Their earnings contribute to government coffers through customs payments and sales taxes collected on purchases made possible by their remittances to dependants back home. These two links and others play an important role in the success of development strategies adopted by Lesotho.

Since independence in 1965, the growth of the industrial sector has been erratic. Promoted by the Lesotho Industrial Corporation (LNDC), a parastatal, industrial effort concentrated on light import substitution and assembly type export promotion activities. The import substitution industries concentrated on food and beverage production and because of their capital intensivity have accounted for a disproportionate share of value added in the manufacturing sector as well as high cost per job created. On the other hand, the export oriented industries have been relatively successful and more labour intensive compared to import substitution ones mainly because they are concentrated in clothes, shoes and umbrella manufacturing. Currently LNDC is sponsoring in partnership with foreign entrepreneurs - 53 enterprises of which 32 are export oriented and 17 are in import substitution.

The small industries sector is promoted by Basotho Enterprise Development Corporation (BEDCO). It focuses on developing Basotho entrepreneurs particularly its domestic market. The Fourth Five-Year

Development Plan reports that this sector has registered some growth, accounting for 63 of the 67 new licences issued in the past five years. It should, however, be noted that these enterprises operate in the informal sector. Overall, the Plan reports that the manufacturing sector has generated 3,500 new jobs in the last five years at the cost of M2200 per job at 1984/85 prices.

The contribution of the manufacturing sector to GDP has stagnated at 5% since 1980 as indicated in Annex 2. Its real growth rate which was estimated at 11% in 1982/83 fell to -8.7% in 1983/84 rising slightly to 2.1% in 1984/85. The import substitution performance of Lesotho was measured and is reported in Annex 3. The results indicate that the performance of the sector has been negative over the period 1970/71 to 1980/82 suggesting that overall, this effort has not been successful.

The Budget Outlook

The fiscal effort required to service the debt can best be measured by the ratio of debt service to GDP. According to the Policy Framework Paper this ratio averaged 6% between 1983/84 and 1987/88 including interest and amortization. The World Bank[1] projections indicate that debt service as a percentage of total government expenditure is currently 9% and is expected to rise to 15% by 1987. According to the World Bank[2] the government deficit in 1986/87 was estimated at 15% of GDP, jumping from the 4% and 13% levels in the two previous years. These ratios reflect increasing expenditures, sharply rising interest payments on the national debt, payments to loss making parastatals and budget overruns by departments as well as recurrent costs that are increasing at a rate of 17%.

It is expected that without structural adjustment, government expenditures will rise from M321.9 million in 1985/86 to M639.8 million in 1990/91 as indicated in Annex 1. The expenditures will generate a deficit of from M68.8 million in 1985/86 to M188.5 million in 1990/91 without structural adjustment, which will fall to M98.5 million in 1991 with structural adjustment as indicated in Annex 4. These projections are given without indicating mechanisms or how the economy will adjust. This is in fact the major weakness of the program because a closer analysis of the relationships between the budget and the balance of payments indicate that expenditure feedback mechanisms will make it very unlikely that the projected changes will happen.

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1 World Bank, *Lesotho Country Economic Memorandum*, Report No. 6671.650, May 28, 1987:34).

2 Ibid. p. 27.

Structural Program

It is expected that the deficit will be reduced by both revenue increasing and expenditure reducing measures. In order to increase revenue, the tax base will be enlarged to cover public enterprises currently exempted, and income tax structure will be revised to allow for increased revenue collection. The collection of sales taxes will be improved by strengthening collection and reporting procedures particularly at the border with South Africa. However, given the open borders between Lesotho and South Africa, these rates cannot be increased by much beyond the current 12% without triggering illegal cross border trade. Sales taxes are already taxed two times. First, imported consumer goods assessed sales taxes in South Africa and the same rate is imposed again in the Lesotho market. These taxes will be regressive for the most part in that the poor will be unable to avoid them. However, the rich and people who have cars, and can travel with ease, can avoid them by buying in the neighbouring Bantustans where consumer goods are tax free.

According to the Fourth Five Year Development Plan, the size of the civil service is 11,492 with an average vacancy rate of 27%. Plans are underway to reduce the civil service and those targeted are daily paid and contract employees. But Annexes 1 and 4 indicate that despite these retrenchments, salaries will remain high. The success of these measures will depend on the extent to which fringe benefits will be controlled as well as wage and promotion freeze. More revenue may be saved through strict control on the use of consumables and utilization of government property.

The program requires that interest payments be controlled in order to reduce them. The first measure will be to accept non concessional loans and to avoid paying high interest rates. Some of the outstanding loans will be paid out of new non concessional loans where they can be raised and the shortfall will be carried by conditionality funds. Outside the external debt, some debt is from local banks including RMA capital markets. The interest rates in the RMA market are comparatively high because they are set by South Africa.

The monetary authorities in Lesotho are not obliged to set their interest rates according to RMA ones. They can keep an independent interest rate policy. Possibilities of capital flight are not an immediate problem because the commercial banks are highly liquid. Funds cannot shift easily to the RMA markets to take advantage of the interest rate differences because by law Lesotho banks can only deposit up to 25% of their funds in the South African capital markets. Increasing interest rates would mean that the banks are increasing the cost of idle funds. At the moment, this seems to be the tendency, because in 1985 when South Africa increased its prime rate to 25% to attract short term funds, Lesotho did likewise with the effect of increasing the cost of these funds.

High bank liquidity reflects two problems. First, the lack of bankable projects. Secondly, the monies held by the banks is short term deposits belonging mainly to migrant workers. By law, they can draw on these deposits at any time and even though the average balance is very high at any one time, the bankers are always fearful of a bank run in the event South Africa repatriated the migrant workers. The deposits are not insured because of high insurance rates and because these funds are idle, it would not be worthwhile to carry high insurance policies against them. As a result, keeping them in low risk accounts seems like a prudent policy at the moment. Restructuring may require separating out the accounts to free some monies for investment purposes. New institutions, such as investment banks may be considered. In order to achieve the program targets of reducing interest payments, from a projected rise of M59.3 million in 1990/91 compared to M44.5 million over the same period under structural adjustment changes at the policy level will also be necessary.

The cost recovery in government ministries is less than 5%, down from 15% in the past according to the Fourth Five Year Development Plan. The target to increase cost recovery from a 15% to 400% range through increasing user fees in health, education water, energy supply and grazing lands may work if applied selectively, without causing additional hardships. However, increasing cost recovery for public utilities may increase average costs to industry and may particularly cause a hardship on small entrepreneurs. If these rates are higher than those charged in South Africa, potential investors may be discouraged. Similarly, sales taxes on cars may be increased and if these are beyond certain critical ceilings, people may register their cars in South Africa, evoking some SACU clauses. In fact, it seems that many user charges that can be avoided at little cost, will be avoided and in some cases, protection will be granted under the SACU agreement. For example, under the agreement, South African registered heavy duty trucks as well as light ones can travel freely in Lesotho without special permission or payment of duties. On the other hand, only light Lesotho vehicles can travel in South Africa, but heavy duty trucks are not allowed except in very special cases. Does this not then suggest that reforms at the SACU level must be part of the restructuring program? Could this be an oversight on the part of the International Monetary Fund?

New taxes will include income taxes on more than 140,000 migrant workers employed in the South African mines. The migrant workers are about 50% of the country's labour force and currently, their contribution to government is indirect and it takes several forms: first, normally by agreement with the South African mining companies, the mine workers are allowed to spend 40% of their earnings in South Africa and the remaining 60% is sent home and is eventually remitted to the migrant worker in the form of domestic currency. The 60% in South African currency is the money remitted to the worker's family or is held for the worker until he returns. The money serves the function of supporting families, contributing to the sales tax through purchases of family members, adding to customs revenue through imports and finally easing the domestic unemployment problem.

All factors considered, income tax on migrant earnings would be an unreliable tax base since recruits are determined by employment conditions in South Africa where unemployment is increasing. At any one time, there are more blacks unemployed compared to whites in South Africa. In 1984, there were 14,128 whites unemployed while blacks were 492,000, Asians 18,650, and coloureds 63,000. These trends greatly influence the recruitment patterns.

An interesting point is that income is taxable up to M4,000.00 and taxing them would have implications on tax policy in that the taxable ceiling will have to be lowered for every body. In the event this is not done, tax avoidance will occur as some migrants will change their addresses to South African ones while others may smuggle themselves across the border to avoid authorities. If this proves to be cumbersome, there may be outright civil disobedience. The danger signals are clearly there and must be avoided.

Perhaps, if the objective is only to collect revenue, the much regressive poll tax could be considered. Otherwise, if the objective is to reverse the brain drain, such migrants could be taxed heavily. Already, Lesotho is experiencing high levels of the brain drain in that many educated people are leaving the country to work in industry and as teaching professionals in South Africa's Bantustans. To the extent that migrants are to be taxed, this group could be taxed heavily as a deterrent to migration and a way to force them to pay for the education they received in Lesotho.

A recent study[3] established that those accounting for the brain drain are not political but are economic refugees. They migrate to the Bantustans for purposes of increasing their earnings. Migration may be economically rational, but in terms of the priorities of the region, political considerations come first. Prah contends that these migrants, together with many others from elsewhere particularly, Ghana and Uganda, help sustain the apartheid system through their expertise. This may seem paradoxical for Basotho because they are nurturing the system that indirectly caused them to leave home. So that in their case, taxation should have several objectives. In the first place, it should make it unprofitable for them to migrate. And secondly, as part of restructuring they should be encouraged through negative

3 Prah, K., "Economic Refugees of the Bantustans: Ghanaians and Ugandans in the South African Homelands", *Southern Africa: Political and Economic Monthly*, vol. 2, No., 2, November 1988, p. 16.

incentives to return home so as to participate fully in the restructuring programme.

A comparison of revenue increasing and revenue reducing measures indicates that the deficit will be controlled mainly through the collection of revenue. Annexes 1 and 2 indicate that collection of both income and sales taxes is expected to increase. But, while revenues are expected to increase, the high expenditure items are projected to fall by small margins. These high expenditure items are indicated in Annexes 5 and 6 as recurrent expenditures, and salaries. Interest payments will add to savings because they will decline but net lending is expected to increase.

A comparison of salaries in Annexes 5 and 6 suggest that very little savings will be realized. Salaries will be M221.9 million in 1990/91 without SAP, compared to M210.7 million with SAP over the same period. Curtailing subsidies to parastatals may also have little effect. Public expenditure on industry is very small relative to total government expenditures accounting for about 2% of the total in the most recent five years[4].

The budget deficit is complicated further by the balance of payments deficit. Lesotho imports 90% of its consumer goods from South Africa but its exports have failed to match imports causing chronic current account deficits particularly against South Africa. The exports fell markedly in 1980 with the closure of diamond mines which contributed 60% to the country's total exports. Consequently, the percentage of imports covered by exports fell from 11% in 1987/89 to 8.4% in 1981/82 after the closure of the mines. Also, given the openness of Lesotho's economy, highlighted by the GNP/GDP ratio which was 1.8 in 1975, 1.7 in 1980 and 1.9 in 1986[5] it can be expected that with increased revenue, the propensity of government to import will increase.

The financing of imports is expected to be made through loans and the remaining balance will be financed under SAP stand by arrangements over a three period as follows: SDR3.0m in 1988/89; SDR4.4m in 1989/90 and SDR2.1m in 1990/91. Some of the funds will pay for the development of an export infrastructure and other areas of need as the government may determine[6].

The Expenditure Feedback Mechanism

The balance of payments and the budget sustain deficits through expenditure feedback mechanism. The feedback is triggered through the customs receipts

4 World Bank, *Public Expenditure Priorities in Lesotho*, Report No. 7243.LSO, September, 1988, p. 40.

5 World Bank report, 1987, op. cit. p. 14.

6 IMF, *Lesotho/IMF Policy Framework Paper* 1988/89-1990/91, Washington D.C., 1988.

paid out by South Africa. The first of the three payments is based on a two year projected estimate of a tax yield the second payment, called the first adjustment corrects for errors when more information is available and the third factor is called the stabilization factor whose propose is to insure that duty payments average 20% and fluctuate around this figure with an effective floor of 17% and a ceiling of 23%.

The customs revenue to Lesotho depends on three factors which are the average duty rate, the level of imports and the rate of growth for imports. The average duty is determined by South Africa as explained above while the level of imports and their rate of growth are determined by Lesotho. If the rate of growth of imports is expected to be high, the first estimate will be high. The rate of growth of imports is usually based on the expected rate of growth of migrant earnings and capital investments in Lesotho. To maximize customs revenue it is necessary to maximize migrant labour and to embark on projects with a high import content. The cost of revenue benefits may be explained by the lack of policies that protect small domestic entrepreneurs using local resources against competition with South African producers because such entrepreneurs are not seen to make a contribution to customs revenue. But in the long run an opportunity is being lost to develop a chance for a broadly based domestic tax structure.

The expenditure feedback seem like a permanent feature of the economy which will be difficult to break. But a start can be made by first setting a criteria for controlling expenditures as well as building revenue reserves. Without such criteria, unplanned expenditures will remain a feature that will always cause expenditures to deviate from revenue receipts. Initially expenditures could be targeted not to exceed receipt from internal sources and the first estimate of the customs revenue. Yields from the first adjustment and the stabilization factor could be targeted for contingencies while tax revenues could be targeted for recurrent expenditures.

Manufacturing Strategies

Industrialization is constrained by many factors and limits for adjustment are narrow. First, Lesotho will continue to depend on external resources for its investment program but unfortunately, these resources feed into the expenditure feedback mechanism. In recent years, the share of gross domestic investment financed by foreign savings declined from a peak of 35.6% in 1982 to -3.1% in 1985.

This situation is not expected to improve over the program period and efforts will be intensified to reduce subsidies through an intensified divestment program. Most industrial projects are joint ventures and by their nature involve the government in a lot of bureaucracy. The joint venture model[7] takes one of the following five forms: equipment and services industry, assembly work, component manufacturing, agro-industry, and brand name consumables. The first four forms attract foreign companies with external markets while the fifth tends to attract import substitution industries targeting local markets. As an example, in equipment and services the expatriate company provides the design and guidance, and markets the end product. The local partner performs the labour intensive part of the manufacturing process and is responsible for quality and delivery. Under branded name, producers may target the local market such as an example of beer manufacturing. This model is time consuming as it involves government agencies in drawing out negotiations. And, since this model puts an emphasis on project approach, little time is left to concentrate on macro economic policies.

Most economists argue that Lesotho must maintain an attractive incentive package to remain in competition with South Africa. For example, Thompson[8] made a comparative study of incentive packages in SACU and concluded that those offered by Lesotho were not competitive and suggested that they be raised. However, since this study was preliminary and indicative, it is safe to conclude that the relative attraction of these incentives packages has not been established. Some industrialists[9] have claimed that they were attracted to the country by incentives, but there is no way of determining whether they would have come if incentives were not available. It is likely that Lesotho may not be any worse off by adopting a conservative policy toward granting incentives. The tax holidays which will be retained during the program period suggest that the government will again be involved in a lot bureaucracy and will be left with little time to concentrate on much needed policy reforms.

Instead of concentrating on subsidy packages such as the ones that require cash transfers, efforts should be focused on policy initiatives. In the first instance, the SACU agreement should be scrutinized clause by clause to seek options at the disposal of Lesotho. In the past, the government has concentrated on studying clauses that pertain to revenue accruals. It is now imperative, that the country take advantage of SAP to employ expertise to look into the entire agreement and to determine areas of opportunities. It is likely that some aspects of this agreement are not always understood. For

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7 Decaux, B., "The Industrial Sector in Lesotho", Maseru, *Lesotho Development Corporation*, March 28, 1980, p. 41.

8 Thompson, J., *A Comparative Study of Incentives Offered to Foreign Manufacturing Investment in Lesotho and Nearby Countries*, Maseru, Lesotho Development Corporation, 1980.

9 Kirk, R.M., "Industry in Lesotho", *Central Bank of Lesotho Quarterly Review*, vol. 3, No. 1, March 1984.

example, in 1976, the Ministry of Finance was forced to pay into the customs union pool, millions of Rands for a TV assembly plant that failed. The funds were paid on importation of equipment and inputs that were not used but were imported from outside SACU. Payment was required under Article 4. Under Article 4 Lesotho cannot import intermediate goods duty free from outside SACU while South Africa can do so. Article 4 contradicts Article 6 which allows a member country to impose infant industry protection. It would seem as if a better understanding of the agreement could have saved some money because this industry might have been introduced under Article 6 and also provided with Article 7 status described below. The agreement clearly has many ambiguities which must be understood or rewritten.

In addition, since the target market was SACU, the project could not go ahead because of the restrictions in other clauses. Under Article 6 a member of SACU cannot set up an industry if such an industry already exists in one of the member countries. At this time, Swaziland already had an assembly plant of its own and South Africa was contemplating starting one making it difficult for Lesotho to enter the market. In other cases, Article 7 requires that the specified industry prove that it would supply 60% of the market in the first instance before it can receive protection under SACU. Given her resource constraints, Lesotho cannot meet these requirements and no industry can within a short period of time. Lesotho has not taken advantage of Article 6 partly for fear of retaliation and partly, because of inability to identify import substitution industries that show the potential to succeed under such protection. But how much of this reluctance may be due to not understanding the agreement, should be one of the tasks of SAP to determine.

Another aspect of Article 4 is that Lesotho does not qualify for duty free import of inputs into industry. Duty free where Lesotho is concerned, is defined in Article 4 of the agreement to include only imports intended for disaster relief, those under technical assistance agreements as well as those tied to international obligations. Consequently, Lesotho cannot purchase inputs from alternative sources outside SACU. She must buy from South Africa. Further, Lesotho is land locked and it depends on South African ports for access to the sea. However, Lesotho exports must be carried on South African rolling stock which have proven to be unsatisfactory because of what is seen by Lesotho to be deliberate delays, wastage and costly. Road permits are often refused.

The political equation plays an important role in defining the relationship between the two countries. Politically, South Africa otherwise known for its racist policies would like to see Lesotho cooperate openly while the latter fearful of political isolation would not. Lesotho must continuously strive to balance its foreign policy between economic cooperation with South Africa and policies of nonalignment internationally. Consequently, its survival as a nation is largely contingent on its economic ties with South Africa, but, it must not be seen as an appendage of the minority ruled state if it is to retain recognition within the international community. This tendency to balance the two constituencies has left the country in a dilemma and without a definite economic policy. Lack of an articulated economic policy has made her an unwitting victim of South Africa's economic policy in most respects. While Lesotho is playing a balancing game, South Africa maintains a strong economic policy intent on keeping Lesotho as a market for raw material and finished goods as the clauses of the SACU agreement indicate.

Exchange Rates

The leverage of monetary control will be left to South Africa during the program period. Lesotho has a monetary authority which partially fulfils the functions of a central bank. Money supply is controlled by South Africa and the Lesotho Loti exchanges on a one to one basis with the Rand. For each Loti in circulation, there must be a Rand held against it at the South African Central Bank. The South African Rand is legal tender in Lesotho while the Lesotho Loti is not legal tender in South Africa. This arrangement has had its advantages and disadvantages. The benefit of membership to Lesotho is that the Rand and the Loti circulate and exchange freely in Lesotho suppressing the need for foreign exchange particularly for intra-RMA trade. The disadvantage is that the fortunes of the Loti rise and fall with those of the Rand often increasing the debt service burden of Lesotho, without increasing exports. Since 1980, the Loti/US dollar exchange rate depreciated from M0.80 to M2.8 in 1986 as a result of the depreciating rand caused by political unrest in that country. In addition, the substantial nominal depreciation of the rand have not reduced imports from South Africa.

In addition to the secular depreciation of the Rand, Lesotho is disadvantaged by the fact that the Rand is a dual exchange currency divided into a commercial and a financial Rand. As a commercial Rand, it exchanges at commercial rate and as a financial Rand it exchanges at a discount of up to 40%. The financial Rand is applicable only to investment in securities and its transactions are limited to the Johannesburg Stock Exchange. Since Lesotho does not have a developed money market she is unable to attract capital on these terms.

Lesotho could correct the financial Rand anomaly by establishing one of her own and calling it the financial Loti. This should work in the same manner as the financial Rand, but instead of trading at the stock market, it should be traded internally through the Lesotho Monetary Authority. The advantage to Lesotho is that she could be in a position to attract small investors and also take advantage of SADCC wide projects that may be attracted by discounted exchange rates. And since the debt service capacity of Lesotho has been adversely affected by the secular depreciation of the

Rand, Lesotho could consider establishing bilateral exchange rates with her creditors that would keep her exchange rate favourable and independent of events in South Africa. Effectively, she could have a three way exchange rate: the commercial Loti which could exchange on one to one basis with the Rand, a financial Loti, which could be at par with the financial Rand, and a bilateral Loti reserved for trade which could have a value higher than that of the commercial Rand.

Lesotho is currently involved in a multi-million dollar water project. The objective of the project is to develop water and electricity exports to South Africa. Exports are expected to start in ten years. The restructuring program could begin now to determine how these exports will affect the value of the Loti relative to the Rand and to establish methods of payment that would put the Loti at an advantage.

Future Prospects

Economic restructuring must address two important issues which are macro-economic policies and divestment. Macro-economic policies should be focused on moderating the expenditure feedback mechanism of the budget and the balance of payments. Government intervention in the economy has had its advantages but may now have reached its limits. In the first instance it was required to set up the necessary infra-structure which was not there at the time of independence. The infrastructure included roads and serviced sited among other initiatives. The benefits of these initiatives were directed at parastatals and linkages with the broader private sector were not developed. Instead, the thrust of the parastatals was narrow because the focus was also narrow. The established incentives were intended to promote the growth of the parastatals and they were often exempted from paying taxes and other costs for as long as they could justify that they would promote employment, an objective that carries a high premium with the government.

The employment objective has come at a high price. First, the joint venture model already described above is time consuming and often extends the time of production to an average of five years from the time negotiations start to the time production actually begins. In addition, because this model is export oriented, by absorbing all the government resources, the government has lost opportunities to develop policies that would promote local enterprise. Most government officials find production for export comfortable because it can be achieved in isolation without requiring policy changes which would most inevitably call for negotiations with South Africa. Since these industries are assembly type, inputs are imported, assembled into the final product and exported.

The preoccupation with negotiating joint ventures and allocating subsides has left few resources for the government to concentrate on broader macro economic policies. This, therefore, makes a strong case for government to adopt new industrial strategies that would include divestment and promote mixed participation in the economy on set criteria. The advantages of divestment are that direct budget subsidies would be reduced; the expenditure feedback mechanism would be moderated as the need to maximize customs revenue would not be there and the possibility of broadening sources of the sales tax could be available as the economy's indigenous direct cash subsidies could be rationalized to apply only to a few categories. The incentive strategy should aim at providing non cash subsidies to save on recurrent costs and to reduce dependence on government hand outs. Industries could be limited to subsidies of low interest loans, fewer tax holidays, but plenty of investment credits to promote capital accumulation.

The cost of divestment may be reflected in distributional effects. Given the size of Lesotho and its proximity to South Africa, the divestment program tends to attract foreign investors especially in import substitution activities. LNDC started its divestment policy in 1978 when it sold its equity in some companies. In the first five years of the program, companies put up for sale have been bought by foreigners. The main reason being that Lesotho does not have well trained managers and entrepreneurs with enough funding. In cases where the companies sold are export oriented, foreigners have an edge over local entrepreneurs because they have a better knowledge of foreign markets[10].

The benefits of divestment must be weighed against the costs. If the divestment program is to be undertaken, controls must be instituted to ensure that local entrepreneurs participate fully. The government could explore divesting out to management, the chamber of commerce, cooperatives and vocational schools. The divestment program should be selective so that enterprises with greatest social benefits continue to enjoy direct government support.

Restructuring pricing strategies may improve the participation of farmers. The current pricing structure tends to subsidize the middlemen at the expense of both the producers and the consumers. Producer prices are low and they do not always cover the cost of production. The mark-up on inputs to farmers and the mark down on their produce greatly lowers their gains which are distributed to the marketing boards and the milling companies. The consumers do not benefit because their prices are determined by imports. The import market is dominated by a few chain stores which charge

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10 K. Nowacki, "Parastatal Development Corporations Policies in Regard to Localization of Industrial Growth in Particular Through Divestment in the Kingdom of Lesotho", Maseru: *Lesotho Development Corporation*, project LES/81/001, 1981, p. 11.

monopoly prices. These prices, when marked up by sales taxes reduce the welfare of consumers. As a result of the distortions caused by the pricing structure, farmers tend to engage in market avoidance by being involved in illegal cross border trade.

Wool is one of the major exports of the country. But the wool exporters are in dilemma in that their export markets in Europe prefer unprocessed wool. These markets prefer it with the fat which they use to produce other by products such as toiletries. Restructuring the product and developing new markets may be another task to be undertaken during the structural adjustment program. Wool production is fully indigenous.

Rolling Plan

In order to gain control of the budget, the government should consider introducing rolling development plans. The advantage of a rolling plan is that it would enable the government to monitor the performance of the economy over a short period of time and the need for contingency expenditures would also be reduced. Conditionality funds could be used to cover the costs of selective divestment and to conduct studies that would recommend appropriate macro-economic policies. The recommended macro-economic policies should focus on moderating the expenditure feedback mechanism between the budget and the balance of payments. In addition, policies that could pluck unnecessary leakages should be put in place. Renegotiating substantially the SACU agreement may be advisable in order to open up market alternatives for Lesotho. Issues such as the right of transit are outstanding otherwise future industrial options will remain narrow.

Annexes

Annex 1 : Government Financial Operations Without Structural Adjustment

	85/86 Actual	86/87 Est.	87/88 Proj.	88/89 Proj.	89/90 Proj.	90/91 Proj.
Total Exp.	321.9	360.8	420.5	488.6	561.2	639.7
Revenue & Grants	253.1	273.2	308.4	357.2	401.8	451.1
of which: Revenue	243.1	259.7	292.0	338.1	379.9	426.2
Customs	161.1	144.3	157.6	183.5	204.4	228.7
Sales Tax	19.8	42.0	49.1	56.7	64.5	72.9
Income Tax	17.9	21.5	25.3	29.5	33.9	38.6
Company Tax	7.5	10.0	11.8	13.7	15.8	18.0
Other	36.7	41.9	48.2	54.7	61.3	68.0
Grants	10.0	14.0	16.5	19.1	22.0	25.0
Total Exp.	321.9	359.7	409.1	475.8	547.8	625.9
Recurrent Exp.	224.2	269.7	320.9	373.2	430.1	492.2
of which: - Salaries	108.4	123.1	145.3	169.3	194.7	221.9
- Interest	20.8	29.7	37.7	43.3	50.8	59.7
- Other	95.0	116.8	137.9	160.6	184.7	210.6
Capital Exp. & Net Lendg.	97.8	75.0	88.3	102.6	117.7	133.8
Deficit (-) Surplus	-68.8	-87.1	-112.1	-131.4	-159.3	-188.5
Net Financing	68.8	87.1	112.1	131.4	159.3	188.5
Foreign Financing	29.8	27.6	36.9	44.2	51.7	62.6
Borrowing	57.9	45.8	55.3	64.2	73.7	83.7
Amortization	28.1	18.1	18.4	20.0	21.9	21.2
Domestic Financing	39.0	59.5	75.2	87.2	107.6	126.0

Source: ***Fourth Five Year Development Plan 1986/87 - 90/91*****. Maseru: Ministry of Planning, 1987, p. 91.**

**Annex 2 : Industrial Sector's Contribution to GDP
1980/81 - 84/85 (Million Maluti)**

	1980/81	1981/82	1982/3	1093/84	1984/85
Manufac. at current prices	11.0	13.5	19.2	19.1	22.3
Handicrafts at current prices	3.7	4.4	5.0	5.8	6.6
Total	4.7	17.9	24.2	24.9	28.9
Total as % of GDP	4.57	5.14	6.38	5.59	5.62
Total in 1984-85 prices	23.3	25.9	31.0	28.3	28.9
Real growth rate of ind. sec.	-	11.1	19.7	-8.7	2.1

Source: Ministry of Trade and Industry in *Fourth Five Year Development Plan, 1986/87 - 90/91*. Maseru: Ministry of Planning, 1987, p. 44.

Annex 3 : Import Substitution in Lesotho Economy - 1974/75 - 1980/83

Period	Q	M	S	U	ΔU	ΔQ	ΔUxS	ΔUxS/DQ
1974-75	98.00	96.10	194.10	0.50	0.00	0.00		
1975-76	111.00	139.50	250.50	0.44	-0.06	13.00	-20.65	-1.59
1976-77	143.30	191.00	334.30	0.43	-0.08	45.30	-31.62	-0.70
1977-78	186.40	228.40	414.80	0.45	-0.06	88.40	-28.64	-0.32
1978-79	249.80	266.10	515.90	0.48	-0.02	151.80	-12.53	-0.08
1979-80	267.10	338.50	605.60	0.44	-0.06	169.10	-45.22	-0.27
1980-81	321.70	386.60	708.30	0.45	-0.05	223.70	-43.48	-0.19
1981-82	348.50	509.00	857.50	0.41	-0.10	250.50	0.00	

Q = Domestic Production   D = Final Domestic
M = Imports   E = Exports
R = Intermediate Demand   S = Q + M = Total Supply

1. $\Delta S = \Delta R + \Delta D + \Delta E$ = Change in total supply
2. $U_1 = Q_1 / S_1$ = Ratio of domestic production to total supply in the base year
3. $U_2 = Q_2 / S_2$ = Ratio in the next period
4. $\Delta Q = U_1 (\Delta R + \Delta D) + U_1 (\Delta E) + (U_2 - U_1) \times S_2$

where $U_1 (\Delta R + \Delta D)$ = change in domestic output of intermediate goods and final domestic demand on the assumption of a constant U_1

$U_1 (\Delta E)$ = change in domestic output for exports on the assumption of a constant U_1

5. $(U_2 - U_1) \times S_2$ = change in domestic supply output as a proportion of total supply to
6. $\dfrac{(U_2 - U_1) \times S_2}{\Delta Q}$

Expression (5) is the Chenery measure of import-substitution while expression (6) is that of Desai

Source: *Annual Statistical Bulletin*, 1981/82/83, Maseru: Ministry of Planning and Statistics.

Annex 4 : Government Financial Projections Without Structural Adjustment

	85/86 Actual	86/87 Est.	87/88 Proj.	88/89 Proj.	89/90 Proj.	90/91 Proj.
Revenue & Grants	253.1	274.7	321.3	385.7	448.6	518.5
of which: Revenue	234.1	259.7	299.0	353.9	405.9	463.3
Customs	161.1	144.3	157.0	183.5	204.4	228.7
Sales Tax	19.8	42.5	54.1	67.8	82.8	98.4
Income Tax	17.9	21.5	26.1	31.1	36.4	42.3
Company Tax	7.5	10.0	11.9	13.9	16.0	18.3
Other	36.7	41.9	49.4	57.6	66.2	75.5
Grants	10.0	14.0	22.3	31.8	42.8	55.2
Total Exp.	321.3	360.7	416.4	478.2	543.6	616.5
Recurrent Exp.	224.2	269.7	311.5	355.7	402.4	455.1
of which: - Salaries	108.4	123.1	142.8	163.5	185.6	210.7
- Interest	20.8	29.7	33.2	37.0	40.7	44.5
- Other	95.0	116.8	135.5	155.2	176.1	199.9
Capital Exp. & Net Lending	97.8	91.2	104.8	122.5	141.2	161.4
Deficit (-) Surplus	-68.8	-87.1	-95.1	-92.4	-95.3	-98.5
Net Financing	68.8	87.1	95.1	92.4	95.3	98.5
Foreign Financing	29.8	27.6	33.7	37.1	40.7	45.7
Borrowing	57.9	45.8	52.0	57.1	62.0	66.9
Amortization	28.1	18.1	18.4	20.0	21.9	21.2
Domestic Financing	39.0	59.5	61.5	55.4	54.9	52.0

Source: *Fourth Five Year Development Plan 1986/87 - 90/91.* Maseru: Ministry of Planning, 1987, p. 92.

Annex 5 : Projected Expenditures Without Structural Adjustment 1986/87 - 1990/91 (Million Maluti)

	85/86 Actual	86/87 Est.	87/88 Proj.	88/89 Proj.	89/90 Proj.	90/91 Proj.
Total Exp.	321.9	360.8	420.5	488.6	561.2	639.7
Recurrent Exp.	224.2	269.7	316.3	367.5	422.3	481.8
Salaries	108.2	123.1	145.3	169.3	194.7	221.9
Interest	20.8	29.7	33.2	37.7	42.9	49.3
Other	95.0	116.8	137.9	160.6	184.7	210.6
Cap. Exp. & Net Lending	97.8	91.2	104.2	121.1	138.6	157.9

Source: *Fourth Five Year Development Plan 1986/87 - 90/91*. Maseru: Ministry of Planning, 1987, p. 90.

Annex 6 : Summary of Projected Expenditure 1986/87 - 1990/91 With Structural Adjustment (Million Maluti)

	85/86 Actual	86/87 Est.	87/88 Proj.	88/89 Proj.	89/90 Proj.	90/91 Proj.
Total Exp.	321.3	360.7	416.4	478.2	543.6	616.5
Recurrent Exp.	224.2	269.7	311.5	355.7	402.4	455.1
Salaries	108.4	123.1	142.8	163.5	185.6	210.7
Interest	20.8	29.7	33.2	37.0	40.7	44.5
Other	95.5	116.8	135.5	155.2	176.1	199.9
Cap. Exp. & Net Lending	97.8	91.2	104.8	122.5	141.2	161.4

Source: *Fourth Five Year Development Plan 1986/87 - 90/91*. Maseru: Ministry of Planning, 1987, p. 92.

Of Economic Masquerades and Vulgar Economy: A Critique of the Structural Adjustment Program in Nigeria

A. O. Adeoye*

Résumé: *Dans cet article, l'auteur estime qu'au Nigéria, les hypothèses sur lesquelles le programme d'ajustement structurel est fondé sont vulgaires, superficielles, déroutantes, fausses et particulièrement inappropriées. Concrètement, les gains suivants sont prévus: une augmentation de la productivité dans l'agriculture, une plus grande auto-suffisance, des gains plus importants de nairas, un rééchelonnement de la dette, une promotion des exportations, une plus grande efficacité dans l'allocation des ressources et une discipline financière. Cependant, après trois ans d'application, les seuls résultats visibles sont la détérioration de l'économie. Le programme d'ajustement structurel a échoué parce qu'il n'a mis l'accent que sur le superficiel à savoir les forces du marché, la dévaluation et la libéralisation du commerce et a ignoré les problèmes structurels de l'économie. En réalité, le programme d'ajustement structurel est un programme capitaliste bien emballé et exécuté par la bourgeoisie pour recoloniser la formation sociale nigériane. Il est par conséquent important d'essayer une stratégie alternative pour laquelle il faudra avant tout abroger le programme d'ajustement structurel. Ce nouveau programme appliquera la planification à la base et aura pour objectif de restructurer fondamentalement la propriété et les rapports de force. En outre, le taux d'échange du naira doit être revu et le taux du service de la dette extérieure fixé à un minimum de 10%.*

The Promises of the Structural Adjustment Program

Experts in the field of economic theory have told us that cyclical crises are intrinsic to the capitalist mode of production and that such a conjunctural crisis in world capitalism became noticeable in the 1970's and 1980's. This cycle reached acute proportions between 1980 and 1983 when all capitalist countries without exception were afflicted by a deep depression. Whenever they occur, such crises are usually transmitted to the so called Third World or less developed countries (LDCs) because of the extraverted nature of their economies[1].

The Nigerian economy was not insulated from the aforementioned crisis in world capitalism, it being a dependent capitalist formation. The socio-

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1 Eskor Toyo, "Recovery from Economic Decline: Lessons for a Developing Economy", *Africa Development* XII, 3, 1987, contains an excellent review of the literature.

economic indicators point to fundamental external and internal disequilibria: foreign indebtedness, high rate of inflation, increasing capacity under utilisation in the industrial sector, declining agricultural productivity and growing food dependency reflected by the rapid increase in food import, worsening economic welfare conditions of the masses, rapid decline of the rate of growth of the GDP, etc[2]. The intensification of the crisis in the early 80's was reflected at the level of the political 'instance' by the frequent violent regime changes[3].

Successive governments responded to the situation in varying ways. However, the manner in which they did it did not fundamentally alter the character of the state capitalist model of accumulation that dominated the post civil war Nigerian development process into the 1980's in which the state assumed a 'controlling' role in the accumulation process[4]. The profligacy of the second republic hastened the process of economic collapse and in April 1983, the Shagari government applied for an International Monetary Fund (IMF) extended fund facility. The successor Buhari military regime equivocated and prevaricated on the question of whether to take the loan and implement the conditionalities until it was overthrown by the Babangida coup of August 1985 which installed the present administration[5].

We may note in passing that the concept of a Structural Adjustment Program (SAP) entered the vocabulary of the nations political economy since the Shagari administration first applied for the loan. He had earlier (in April, 1982) got the National Assembly to enact the Economic Stabilisation Act in which certain IMF-style measures were taken[6]. Although the Buhari regime initiated negotiations with the IMF and implemented some of its conditionalities, it refused to accept the concept of devaluation, and vigorously pursued 'counter-trade'. For these two reasons, the talks got

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2 The origin, nature and character of the Nigerian Economic crisis is provided in A. Abéba et al, *The Nigerian economic Crisis: Causes and Solutions*, Zaria, 1985; A. Oyejide et al, *Nigeria and the IMF*, Heinemann, Ibadan, 1985, chapter 5.

3 The economic factor was the *raison d'être* for the coups of 1983, 1985 and the failed coup of 1986.

4 For details, see B.U. Ekuerhare, "Recent Pattern of Accumulation in the Nigerian Economy", *Africa Development*, IX, 1, 1984; Idem, *Privatisation and Accumulation Process in the Nigerian Economy*, (commissioned paper presented at the Nigerian Economic Society national seminar on 'Privatisation of Public Enterprises in Nigeria', Nigerian Institute of International Affairs (NIIA), Lagos, Thursday, 4th February, 1988.

5 A bird's eye view of the policy reaction of successive governments to the crisis is provided in B.U. Ekuerhare, *Nigerian Economic Crisis and Economic Policy Profiles*, (lecture delivered to the Nigerian Economics Students Association, Bendel State University Chapter, Ekopma, May 23, 1988.

6 Reference here is to the economic stabilization Temporary Provisions Act of 1987. The first order was issued in January 1983 and this banned several categories of imports and raised the tariff on others.

stalled. Meanwhile, the imperialists had tightened the noose on the country as all credit lines for Nigerian imports were shut. They also insisted on an IMF supervised SAP before any concessions could be made. The economic crisis intensified and the regime collapsed soon after under the pressure of imperialism. On assuming office, Babangida promised to break the deadlock. Those who interpreted this to mean a vote for the IMF loan were soon proved right. But the way and manner the regime was able to mask its true intentions and carry the people along by first sponsoring a national debate on the desirability of the loan and thereafter parading the SAP as a home made alternative to and *ipso facto* distinct from the rejected IMF package is one of the masquerading elements to which we shall return later[7].

In the event, therefore, the SAP represented the regime's policy response to the deepening economic crisis. It was packaged in the tense atmosphere of the economic emergency declared in October 1985, and delivered in the budget of 1986 and the President's special address to the nation on June 26, 1986[8]. The subsequent budgets of 1987, 1988 and 1989 can appropriately be called the SAP budgets as they address the specific projects envisioned. As presented in the June 1986 address, the SAP was programd to commence in July of that year and run till end June 1988. But the indications now are that the terminal date has been postponed indefinitely. The key objectives of the SAP are: (1) to restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports; (2) to achieve fiscal and balance of payment viability over the period; (3) to lay the basis for a sustainable non-inflationary or minimal inflationary growth; (4) to lessen the dominance of unproductive investments in the public sector, improve the sectors efficiency and intensify the growth potential of the private sector[9].

The policy package to achieve these are an admixture of (a) demand - management policies (monetary and fiscal) meant to reduce the 'excess'

7 The desirability or otherwise of Nigeria obtaining the loan was thrown open for national debate by the new regime and a monitoring committee was set up. The loan was overwhelmingly rejected as contained in a presidential broadcast to the nation on December 12, 1985. Full text of this is found in *Business Times* (Lagos) December 16, 1985, p. 13. The debate is summarised in A. Oyejide, op. cit. chapter 4. The debate was one of the earliest populist measures taken by the regime to seduce the people and enhance its legitimacy.

8 Full text of the address which formally introduced the SAP is found in *The Nigerian Tribune*, Monday, June 30, 1986, p. 5. But see also the SAP document, Federal Republic of Nigeria, *Structural Adjustment Program, July 1986 - June 1988*, Government Printer, Lagos, 1986.

9 Ibid.

liquidity in the economy; (b) expenditure switching policies to discourage imports and promote exports[10]. The following policy matrix stand out:

- substantial devaluation of the Naira through the Second-tier Foreign Exchange Market (SFEM)[11] in a bid to find a 'realistic' exchange rate for the 'overvalued' national currency;
- drastic cuts in government spending and the rationalisation of the public sector through privatisation and commercialisation of public enterprises, removal of subsidies on products and government services, reduced government capital allocations and retrenchment;
- trade liberalisation;
- deregulation of the Economy through reduction of administrative controls and greater reliance on market forces in the allocation of national resources;
- tariff reform to promote industrial diversification;
- credit squeeze and increased taxation to improve governments revenue base;
- the seduction of foreign capital investment through debt rescheduling, servicing and tax reliefs[12]. These measures were expected to lead to the attainment of the national goal of "economic recovery, social justice and self-reliance" enunciated in the SAP budgets of 1986 and 1987 and the SAP statement of June 1986. Laudable objectives these are. Any wonder then that the designers and implementors of the SAP strategy gleefully paraded the program as being fully 'autonomist' in deviation?

Theoretical Adequacy

But it has since been established that its prognostications were founded on the logic of the requirements of international finance capital controlled by the IMF and the World Bank (WB). It has roots in the ideological and theoretical position of these agencies. To understand the theoretical basis of the SAP strategy, one must first understand what can be called the IMF/WB paradigm founded on classical/neo-classical economic liberalism. We may restrict ourselves to one of the clearest statements on this - the 1981 WB

10 F.O. Egwaikhide, *The Structural Adjustment Program in Nigeria: A Critique* (mimeo. Nigerian Institute for Social and Economic Research - NISER - Ibadan, 1988, now forthcoming in *Ife Social Science Review*) pp. 13-14.

11 The Second-tier FOREX structure gave way to one FEM in July 1987 when the two windows were merged.

12 In addition to the SAP Bible already referred to, see also Chief Olu Falae, *Two Years of SAP in Nigeria: Achievements, Problems and Prospects* (paper read at the International Symposium on Development Strategies for 3rd World Countries, Bejing, China, April 18-21, 1989, excerpts in *The Punch* May 23, 1989. Chief Olu Falae, then Secretary to the Federal Military Government and now the Minister for cabinet Affairs, is one of the leading apostles of this controversial SAP strategy.

report on its study of the capitalist crisis in sub-Saharan Africa titled *Accelerated Development in Sub-Saharan Africa: An Agenda for Action.* Also called the *Berg Report* (after its author), it ascribed the economic crisis to government policies that are biased against agriculture, exports, free trade and private enterprises. Why and how this came to be was not worthy of explanation. Nevertheless based on this diagnosis, the report recommended *inter alia* the stimulation of agricultural exports, reduction of governments direct economic role and relaxation of state control of the economy, the elimination of impediments to free external trade and payments, the encouragement of domestic and foreign private investors notably the Transnational Corporations (TNCs), etc. Central to these monetarist prescriptions was the assumption that the invisible hand of the market would ensure the greatest good for society[13].

Nigeria's SAP package is a rehash of these standard prescriptions. Yet the IMF/WB paradigm does not distinguish between developed and underdeveloped economies when offering these 'palliatives', even when these were derived from the experience of the former. It is as clear as day light that the IMF/WB paradigm was born with an 'original sin' which continues to afflict it: it was abstracted from and designed for industrialised economies, not the underdeveloped ones. It is only in this sense we can appreciate the short term nature of its prescriptions which are meant to restore equilibrium to a developed economy undergoing a period of stress. So also the primacy accorded the 'free market', trade liberalisation and other measures, as dealings between more or less equal partners in a perfect market situation was assumed. Hence the measures are more relevant to the developed economies. When applied to the peripheral formations, these self same measures can only amount to wrong medicine: remedies for other diseases. This explains the self-contradictory nature of the conditionality reforms in those social formations and their congenital inability to provide an escape route from depression or lead to recovery.

The Nigerian economic crisis was the direct outcome of the dependent character of the accumulation process that dominated her political economy. The IMF-style SAP strategy tends to ignore this fundamental fact - of the reality of the extraverted and dependent nature of the accumulation process. The dependent production and reproduction patterns imposed constraints on

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13 The Berg Report is taken from J. Ohiorbenuan, "Recolonising Nigerian Industry: the First Year of the Structural Adjustment Program" in A.O. Philips and E.C. Ndekwu (eds.), *Structural Adjustment in a Developing Economy: The Case of Nigeria*, NISER, Ibadan, 1987. For more on the IMF/WB Paradigm, see Eskor Toyo, op. cit. pp. 37-38; *Development Dialogue* No. 2, 1980, special issue on "The International Monetary System and the New International Order", and *IDS Bulletin* vol. 13, No. 1, 1981 special issue on "Monetarism and the Third World".

the supply side, hence the low productivity of the economy, especially the low level of capital formation. The specific characteristics of this accumulation process such as the preeminent role of the state as the agent of capitalist accumulation, the weakness of the material base of the indigenous private capitalists, the dominance of the economy by foreign private capitalist interests as represented by the TNCs, the dominance in both cases of commercial over industrial capital. The dominance of primary export as chief FOREX earner, all have roots in the nation's economic history and were and continue to be at the heart of the crisis.

All these have important theoretical implications which can only be presented here in summary form:

- the dependency syndrome[14], the dominance of production, distribution and exchange processes by TNCs, the preoccupation with primary export production as engine of growth, reveal clearly that we are dealing with a relationship between unequal agents under grossly imperfect conditions. Consequently, the central role accorded 'free market forces', trade liberalisation and the like in the SAP strategy becomes illogical, meaningless and absurd. Besides it has also been theoretically recognised that markets must be regulated to be of social utility since the 'invisible hand' may not provide an effective resource allocative machinery for maximum welfare in an economy, or between priority sectors and sectors which may not be of priority to the national economy[15].
- the SAP's 'recovery' measures are uncomfortably anchored on a short term view of the crisis as evident from its demand management, short term Keynesian solutions. That SAP was projected to last for two years reflected a lack of appreciation of the magnitude of the problem. This short sightedness has yielded *ad hoc* policies aimed at the symptoms, instead of long-term structuralist ones aimed at the roots of the problem, and it explains the persistence of internal and external disequilibria.

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14 On the dependency syndrome and its constraints to development, see Theotonio Dos Santos, "The Structure of Dependence", *American Economic Review*, LX, 2, 1970; I. Wallerstein, "The Three Stages of Africa's Involvement in the World Economy" in P. Gutkind and I. Wallerstein (eds.). *The Political Economy of Contemporary Africa*, Beverly Hills, London, 1973. The mechanics of imperialist exploitation of the peripheral formations are discussed in D.W. Nabudere, *The Political Economy of Imperialism*, Zed Press, London, 1977, especially section 4, and 5; B. Onimode *et al*, *Multinational Corporations in Nigeria*, Les Shyraden Nigeria Limited, Ibadan, 1983. The class dimension is specifically addressed in B. Onimode, *Imperialism and Underdevelopment in Nigeria: The Dialectics of Mass Poverty*, Zed Press, London, 1982. Also of interest is J. Ohiorhenuan, *State Failure, Market Failure and Nigerian Industrialisation*, (Department of Economics seminar paper, University of Ibadan, January 1989).

15 E. C. Ndekwu, "Theoretical Holes in SAP", *The Punch*, March 24, 1987, p. 5.

- reduction in government spending or drastic whittling down of government presence is definitely illogical. In the special circumstances of the LDCs, government is the prime mover of the economy. Government is the major employer of labour. Therefore its expenditure is crucial for the promotion of private spending. It is also an indispensable source of investible funds. The implementation of the policy of less government in economic affairs inevitably leads to loss of jobs, reduction in incomes and general economic depression. Privatisation, debt- equity swap and the like are a direct invitation to foreign capital judging by the weak nature of local private capital. The advocacy of minimal governmental presence can only further entrench foreign capitalist domination of her economy.

The verdict we return to therefore is that the key premises and assumptions upon which the SAP strategy is founded are banal, superficial, misguided and false. The theory of the SAP is grossly inadequate for Nigeria, and if pursued, the goal of economic recovery, social justice and self-reliance will continue to elude the nation.

Empirical Validity

Our fear seems confirmed by the empirical evidence and it dramatically illustrates the futility of applying the wrong medicine to an ailment. But it is true, of course, that government and its agents have been celebrating the alleged 'gains' of the SAP- in utter disregard for the stark realities. The following are the supposed 'gains' of the SAP:

- increased productivity in agriculture, rise in rural income owing to the devaluation - induced rise in producer prices, rise in rural employment, etc.;
- increased self-reliance through reduction in food and consumer goods imports and use of local substitutes;
- local sourcing by industries inducing backward linkages, especially in the agricultural sector, growth of artisan technology, inculcation of maintenance culture, etc.;
- enhanced Naira earnings for government due to the massive depreciation of the Naira;
- the seduction of foreign investment through debt rescheduling, attraction of fresh loans, etc.;
- export promotion of both agricultural and non agricultural goods thereby diversifying foreign exchange (FOREX) earnings;
- increased efficiency by all and sundry in the allocation of resources, financial discipline, etc. The 1989 budget listed 10 of such gains

which were given lavish treatment[16]. But the 1990 budget admitted that 3 years after SAP, the economy deteriorated in 1989 in 8 major areas, namely;

- severe inflationary pressures were experienced;
- high lending rates hindered investment;
- high transport cost;
- decline in the rate of growth of the GDP;
- decline in industrial capacity utilisation; (6) marked depreciation of the Naira;
- disturbing rate of unemployment; increased debt burden, which makes one to wonder when government and its functionaries still talk about the 'gains' of SAP - what really are these gains, and from whose point of view? Do they reveal a fundamental restructuring of the extraverted character of the accumulation process or a movement away from dependent capitalism for something qualitatively different? Are they bringing us closer to the goal of economic recovery, social justice and self-reliance? To answer these questions we shall now examine the impact of the SAP medicine on the economy and society. In doing this, only broad tendencies will be indicated. The references provided will guide the reader to additional information.

Agriculture[17]

The stimulation of agricultural exports as a source of FOREX is one of the cardinal aims of the SAP. Little has it dawned on government that the capacity of commodity exports to generate FOREX is very low indeed. The price inelasticity of primary products (as against industrial and capital goods) on the world marked and falling world prices for primary exports have combined to ensure that. Despite increased agricultural production and commodity exports, the cheapness of these products has ensured that the sector's relative contribution to FOREX earnings remain as low as ever[18]. Soon after the inauguration of SAP, the deregulation of primary commodity marketing led to an astronomical rise in producer prices for the traditional cash crops like cocoa, cotton, groundnuts and food crops like maize. Government continues to parade this as one of the gains of SAP, but the

16 These can conveniently be reduced to 7 as we have done.

17 Except otherwise stated, this section is based on E.J. Usoro, "Development of the Nigerian Agricultural Sector Within the Framework of the Structural Adjustment Program"; S.O. Titilola, "The Impact of the Structural Adjustment Program (SAP) on the Agriculture and Rural Economy of Nigeria"; M.I. Obadan, "The Theory and Practice of the Second-Tier Foreign Exchange Market in Nigeria: Nine Months After", all in A.O. Philips and E.C. Ndekwu (eds.) op. cit.

18 During the first six months of 1988, oil contributed over 97%, non oil 2.3%. See *The Guardian*, Sunday, July 23, 1989, p. 2.

indications are that the so called agricultural or rural boom is an illusion afterall. But the producer prices actually declined in relative terms, for crops like maize and cotton owing to soaring production costs. This inflationary trend has discouraged internal demand for the crops notably from agro-based industries which are unable to pay the devaluation induced sky-high prices for them. It is even doubtful whether the price boom does necessarily lead to a rise in the standard of living of farmers owing to

(a) the stagflationary impact of SAP on agricultural inputs, social services like health and education, transportation;

(b) the fact that a large proportion of the revenue accrue to foreign and local merchants who control the teleological inputs, marketing outlets, etc.[19]. Thus whatever prosperity may have arisen from the SAP induced agricultural boost was very much limited to certain zones, certain crops, and largely to those engaged in agricultural commerce rather than those engaged in actual production. The question is not just one of how much a farmer gets for his crop, but also more importantly how much Naira he has to pay for a cutlass, fertilizer, transport, tractor, a lantern, kerosene, a blanket, books, uniform and fees for his children, drugs for himself and his family, etc[20].

Table 1 on next page shows the composite consumer price indices (CPI) in the rural areas of Nigeria, and illustrates the inflationary trend. The CPI for all items increased by about 55% within 3 years. It even worsened as it rose to 931.6 within the first quarter of 1989.

Table 2 also on next page shows the prices of major agricultural inputs in Oyo State, an important grain and cocoa producing area. It reveals that the prices of major inputs, especially those not subsidised, like tractors, increased astronomically between 1985 and 1989.

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19 S.A. Oni, *The Impact of Structural Adjustment Programs on Nigerian Rural Life* (paper presented at the National Conference on the Impact of SAP on Nigerian agriculture and rural life at NISER Ibadan, November 26-29, 1989).

20 Y.B. Usman, "The 1990 Budget and our Future", *The Guardian*, Sunday, January 21, 1990.

Table 1 - Rural Consumer Prices Indices in Nigeria (1986-1988) (1975 = 100)

Components	1 1986	2 1987	3 1988	c/o change between 1-3
All items	504.90	558.80	781.60	54.80
Food	482.30	526.40	808.90	67.72
Drinks	432.10	471.10	490.20	13.45
Tobacco & Kolanuts	692.20	802.80	865.80	25.10
Accommodation, fuel/light	358.40	373.00	345.50	-3.60
Household goods & others	717.60	855.20	876.30	22.12
Clothing	725.40	810.90	894.10	23.26
Transport	432.80	494.00	575.50	32.97
Other services	881.50	1,084.50	1,164.80	32.14

Source: CBN Annual Report and Statement of Account 1988.

Table 2 - Trends in Prices Paid for Major Inputs Purchased by Nigerian Farmers (Oyo State)

Item	1 1985	2 1988	3 1989	c/o change between 1 & 2	c/o change between 1 & 3
Fertilizer (NPK Naira per bag)	6.00	10.00	15.00	66.67	150.00
Improved Maize seeds (Naira per kg.)	0.70	1.50	2.50	114.30	275.10
Labour (Wages per day)	5.50	7.00	10.00	27.27	81.81
Herbicide (per litre Atrazine)	15.00	30.00	35.00	100.00	133.00
Tractor					
MF 265 (63 HP)	16,675.00	135,00.00	315,000.00	709.0	1,639.00
Hoes	5.50	8.00	12.00	62.50	118.18
Matchets	11.00	19.00	30.00	72.72	172.72
Knap sack sprayer	20.00	200.00	655.00	900.00	3,175.00
Adrex 40	35.00	60.00	75.00	71.43	114.28
Gamalin 20	20.00	45.00	58.50	125.00	190.00

Source: S.A. Oni, "The Impact of Structural Adjustment Programs on Nigerian Rural Life", (paper presented at the National Conference on the Impact of SAP on Nigerian Agriculture and Rural Life at NISER Ibadan, November 26-29, 1989).

The boom associated with cocoa, SAP's 'golden crop' and success story turns out, on a closer look, to be largely artificial and hence ephemeral. A situation where the local price exceeds the world market price calls for extreme caution and sombre reflection, for the boom tended to mask the massive capital flight that was going on[21]. This is more so when the world market price of cocoa has not witnessed any appreciable increase since the era of SAP. Instead, the price for Nigerian cocoa actually fell at a point due to widespread adulteration encouraged by the deregulation of the cocoa business. But the vicissitudes experienced by the cocoa sector illustrates the dramatic futility of the reliance on commodity export production as engine of growth and development. The cocoa boom has come and gone[22]. Stories about suicide attempts by disillusioned cocoa farmers are frequently heard in Nigeria's cocoa belt. This instability apart, another development in this sector is the gradual shift of emphasis from non tradeables to tradeables as farmers want to cash in on the apparent boom in cash crop production. This trend if not checked, would aggravate the food crisis in the country. The abandonment of certain government sponsored farm projects geared towards food production should also count as a negative trend.

In spite of the primacy accorded agriculture in the SAP strategy, the pattern of FOREX allocation continues to exhibit the previous pattern of relative neglect. As admitted by government in the 1989 budget, this sector got 90.45% of total FOREX allocations in 1987. The figure stood at 0.6% in 1988. The stagflatory impact of the SAP remains the most potent threat to this sector. It explains the paradox so far witnessed in this sector: of increased agricultural productivity leading to increased cost of food, of declining farmers incomes and the like. Indeed, there is no cause yet for celebration.

Prices and Incomes

Owing to decades of dependent capitalist accumulation inaugurated since colonial times, production process in Nigeria is import dependent and FOREX intensive. Generally, capital goods constitute the bulk of Nigerian imports, with raw materials constituting its most important component. Given this background, it is easy to understand why certain SAP measures,

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21 Governor Olabode Goerge of Ondo State - the leading cocoa producing region in Nigeria - complained about this when he accused foreign merchants of being too eager to pay prices higher than the prevailing world market rate as a way of siphoning part of their profits abroad. See *Daily Sketch*, March 19, 1988.

22 Before SAP, local market price for cocoa was ₦1,800/ton in 1986. With the abolition of the commodity boards and SAP - induced deregulation, the price rose to ₦2,000, reaching ₦7,700 in October 1988, ₦15,000 by December 1988, reaching an unprecedented ₦27,000 in March 1989, then crashing to ₦7,000 in May and to between ₦4,000 and ₦6,000 in January, 1990. The international price per ton was US$1,000 in 1986; US$1,007 in November 1987; US$1,485 in March, 1988, and between ₦15,000 and ₦17,000 in 1989. This Information is compiled from various sources such as Central Bank of Nigeria annual reports, newspapers, *UBA Monthly Business and Economic Digests*. See also Bisi Ojediran, "Cocoa Pods Split Doom for Farmers" *The Guardian*, February 20, 1989, p. 7.

in this instance devaluation, high tariffs and excise duties in conjunction with government's removal of subsidies on petroleum products and social services, are putting pressure on the prices of both imports and locally produced goods and services[23]. We have already seen the consumer price index. Government sources put the inflationary rate at 38.8% in 1988 and 47.5% in 1989, and admit that these are slightly higher in the rural areas. But independent sources estimate that the inflationary rate had hit the three-digit mark within one year of SAP[24] and has been escalating ever since.

It is obvious that contrary to the Philosophy of SAP, the inflationary trend is due to cost push, mark-up push, rising energy and transport costs and not demand - pull factors. The SAP macro-economic objective of laying the basis for a sustainable non-inflationary or minimal inflationary growth has become a chimera. Indeed, the stagflationary impact of SAP does pose "the danger of elongating and complicating eventual economic recovery" as "the cost of development may become so high that development would elude Nigeria for a long time"[25]. This inflationary trend, together with the extremely reactionary wage policies of government, has meant the rapid deterioration of the real incomes and standard of living of Nigerians. The consequent immiserisation and pauperisation of Nigerian masses is graphically illustrated by an emerging trend: hunger, malnutrition and diseases derived from them, the trade in kids for food, and other manifestations of the rising poverty line, no longer make headline news in the country, just as the infant mortality rate continues to rise. They have become a way of life, a necessary price so that SAP may succeed[26].

The Industrial Sector

This sector, which is so vital in any drive towards economic recovery and self-reliance is also hard hit by the run away inflation that has engulfed the economy. The negative tendencies observed for this sector are as follows:[27]

- the exponential growth of cost of living index and the attendant fall in purchasing power have brought about a drastic fall in aggregate demand for industrial goods. This, together with the cost-push

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23 D.O. Ajakaiye, "The Structural Adjustment Program for Nigeria: Its Impacts on Prices and Incomes", in Philips and Ndewu (eds.), op. cit.

24 See for example, M.I. Obadan, op. cit., p. 42.

25 A.O. Philips, "A General Overview of SAP" in Philips and Ndekwu (eds.) op. cit. pp. 5-7.

26 The ravaging effects of SAP on the rural sector of Nigeria's low income groups are brought out in N. Igiebor, "Life Less Abundant: Life of Typical Rural Families in Nigeria", *Newswatch* sp. issue October, 1988.

27 See B. Onimode, "Technology and Political Economy", J. Ohiorhenuan, "Recolonising Nigerian Industry ...", M.O. Kayode, "The Structural Adjustment Program (SAP) and the Industrial Sector", in Philips and Ndekwu (eds.) op. cit.

inflation, now confront local manufacturers with the problem of unsold stocks;

- as a consequence, installed capacity utilization in this sector remains very low when compared to that recorded for the 1981-85 quadrennium. Table 3 shows the trend. Though capacity utilization picked up at the onset of SAP to 38%, it never attained the level reached in the earlier quadrennium, and it fell drastically again in 1989 to 31%. It is expected to worsen in 1990.

Table 3 - Trends in Industrial Capacity Utilization (Percentage)

1982	n.a.	1986	36.4
1983	47.8	1987	38.0
1984	39.9	1988	40.7
1985	n.a.	1989	31.0

Source: Content analysis of Central Bank of Nigeria (CBN) Annual Report and Statement of Account for the various years.

- local sourcing of inputs has recorded appreciable improvement only in industries where local substitution is possible. Such inputs have come mainly from the agricultural sector. The most successful examples are the confectionery and brewery subsectors, but these can hardly be regarded as the hub of the industrial sector. The import dependency of the sector for machinery, chemical raw materials, etc. remains a basic reality;
- these developments have had a collapsing effect on the sector, notably the small scale industries, whose problems are compounded by the astronomical prices of local raw materials induced by agricultural commodity exportation. Hardest hit are the cocoa processing plants, the textile industry, etc.;
- trade liberalization, FOREX allocation and the existing tariff structure all have encouraged the importation of finished goods and this poses a threat to local manufactures;
- the crippling effect of devaluation has hampered the export drive in this sector as locally produced goods appear rather uncompetitive in the world market.

Employment Creation

To consider the impact of the SAP in this area is almost superfluous, since retrenchment was a principal instrument of the SAP. It has to be mentioned here if only to raise certain economic and moral questions. What, for example, is the goal of an economic recovery program of economic development or even of economic planning? Does it have people - I mean the welfare of people - as a goal or is it just a matter of statistics and figures? With the SAP regime, economic planning lacks this people oriented goal, for planning seems to be done as if people do not matter. But we do know that employment generation is central to any program of economic recovery since unemployment is a manifestation of disarticulation within the economy. Two contradictory developments are noticeable in government's handling of the issues:[28]

- the implementation of short run policies of massive retrenchment in the public sector through nationalisation, commercialisation and the winding up of some government owned companies and parastatals. The private sector reeling under the weight of the SAP - induced burden already highlighted, but also to enhance their profitability, capitalised on the situation to implement a similar policy;
- government soon 'discovered' the presence of millions of unemployed people, including thousands of high school graduates and resorted to ad-hoc measures to create employment. This led to the birth, in the 1987 budget, of the National Directorate of Employment (NDE) which operates through a 4-core program, namely

(a) the Youth Employment and Vocational Skills Development (Aka National Open Apprenticeship) Scheme in which thousands of unemployed youths are taught certain skills with which to become self-employed;

(b) small scale industries and graduate scheme under which loans are given out to university and high school graduates and products of the vocational scheme to operate self-owned small scale industrial enterprises;

(c) agricultural sector scheme whereby loans are given to graduate farmers in the hope that additional employment would thereby be created;

(d) special public works scheme under which high school and university graduates are directly employed to do public work with the inducement of a monthly stipend lower than what their counterparts earn in the civil service. While some of these projects are laudable, their implementation leaves much to be desired. The Banks have been routinely criticised by government for refusing to cooperate with the small scale industries and agricultural scheme. What is more, the stagflation in the economy has tended to severely obviate the significance of the loans expended. Although the public works program may have offered temporary relief to people who are hard pressed for cash, its capacity for sustained employment generation is doubtful. This is because public works would not increase the capacity utilization within the economy, neither would it address the problem of supply constraint, these being the two critical

28 Mike Kwanashie, "Structural Adjustment: Capital Accumulation and Employment", ibid.

factors accounting for the low productivity of the economy and its inability to cope with the rate of growth of the labour force[29]. But the self-employment concept which pervades the NDE scheme reflects the growing significance of the 'capitalist ethic' rapidly promoted by the government and now canonised in the doctrine of privatisation.

The creation of the NDE is to all intents and purposes a token measure to appease the angry public. Its impact on the economy remains rather insignificant and the unemployment situation continues to deteriorate. In its first year of operation, about 80,000 direct jobs were created by the body, out of which 50,000 were engaged in the vocational scheme, 20,000 in public works, 7,000 farmers were given loans expected to generate additional 7,000 seasonal jobs during harvesting annually while 561 cottage industries expected to employ 4,000 people were developed. Yet the unemployment figure was estimated at 3 million, excluding the thousands retrenched that year by both public and private enterprises[30]. With an estimated 1.6 million being pumped annually into the unemployment market, the figure would probably stand at nothing less than 10 million today. As seen above, the dominance of the vocational and public works 'employees' has severely constrained the ability of the NDE to generate sustained employment. Yet, despite the huge 'profits' being realised by government from the foreign exchange market (FEM) and those being declared by industries and financial houses, notably the TNCs, we have not witnessed a massive recall of retrenched workers[31].

Social Justice

Two issues are at stake here namely the social cost of the SAP and the spread of the SAP burden. Both are tied up with government's commitment to social justice as a goal of the SAP. One major pattern that has emerged in this is the astronomical hike in the cost of social services provided by government and its agencies. Institutions like the National Electric Power Authority (NEPA), the Nigerian Telephone (NITEL), the airways and social services like education and health have been priced out of the reach of the

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29 Ibid, p. 203.

30 *UBA Monthly Business and Economic Digest*, vol. 10, No. 12, Dec., 1987, pp. 3 and 9.

31 The widespread anti-SAP riots which ravaged the country in May/June 1989 and which left scores of people dead was greeted by government with a hastily assembled 'SAP relief package' which provided 65,000 jobs to various categories of workers, 62,000 of which were to be created through the NDE. Compare this with the retrenchment figures revealed in a cursory look at Nigerian Newspapers for a few establishments during the first half of 1989: construction industry 151,000; railways 2,000; airways 2,500; Flour Mills Nigeria Ltd. 32,000; Nigerian Ports Authority 2,000. Add this to the estimated 1.6 million pumped into the unemployment market during that year, and we see that the 'relief package' is a pindrop in the ocean.

vast majority of Nigerians. Government officials have openly declared that these utilities and conveniences are not meant for the poor! A second trend is the virtual collapse of vital social services, most affected being the health sector. The trend which became noticeable in the 1980s whereby hospitals became "mere consulting clinics"[32] has even worsened under the SAP due to broken down equipment which cannot be replaced owing to the FOREX component involved, drastic expenditure cuts by government, as well as the flight to Europe, America and the oil-rich middle eastern countries by medical personnel[33]. Third, the resultant burden created by those developments is highly skewed, as among the social classes in favour of the dominant compradorial, bureaucratic and technocratic elements[34]. The system has been operated in a manner that caters exclusively for their interests. Some of the bad habits for which they were known - wasteful consumption patterns and lifestyle, insatiable taste for exotic imports - remain unaffected by higher costs. They are cushioned from the ravages of the SAP owing to their comfortable financial positions and the official perquisites they enjoy. What is more, they were not retrenched, they being the designers and implementors of the SAP. And this is the very class whose extraverted demand profile brought about the distortions in the economy. We may contrast this situation with the not so fortunate vast majority of Nigerians - the poor mass of peasants, workers, students, the unemployed, etc. - who alone seem to be carrying the burden of the SAP. The implementation of other policies like privatisation will further widen this socio-economic disparity and entrench the dominance of the bourgeois and parasitic elements in society. The goal of social justice seems to have either been forgotten or entirely discarded in deference to the wishes of the IMF.

Investment

Also devastating has been the impact of the SAP on the investment climate. The deregulation of bank credit, the general cash squeeze in the economy arising from governments restrictive fiscal and monetary policies, brought about an astronomical increase in the lending rate from about 13% in 1987 to above 35% in January 1990[35]. This has tended to act as a major disincentive to invest. Government measures have been more effective in checking expansion than in initiating recovery, for in a depressed economy,

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32 This was one of the reasons given for the overthrow of the Shagari regime in 1983 in the coup broadcast by then Brig. Sani Abacha, now a Lt. Gen. and member of the ruling body AFRC.

33 *The Guardian*, October 11, 1987 reported the grim findings of its survey on the health sector.

34 Bankole Oni, "The Structural Adjustment Program and Unemployment: An Evaluation" in Philips and Ndekwu (eds.) op. cit.

35 *Daily Times*, February 22, 1990, p. 1.

it is very risky to borrow and invest at very high rates of interest[36]. Besides, the investment pattern continues to worsen the trend whereby in their loan disbursement, the banks have generally favored merchandising enterprises over productive ones owing to the former's profitability, lower risk level and quick maturing periods. This has accentuated the dominance of merchant capital over industrial capital in the nation's political economy and hence the dependency syndrome.

In terms of foreign investment, though the SAP was expected to generate capital inflow, it has had the opposite effect of intensifying capital flight as capital exports continue to exceed inflows. The escalation of the debt service, the fast trading activities of merchandising interest groups as those in commodity export, the huge profits made by TNCs which they are allowed to repatriate at will, illustrate this trend. Government's frustration and desire to court foreign investment at all cost has led to the ongoing experimentation with the debt-equity swap.

Self-reliance

This is another objective of the SAP which seems to have been advocated only on paper. In practice, it has been promoted under the watchful eyes of the IMF and the WB. In his book *The Debt Trap: The IMF and the Third World* (1974), C. Payer had warned that:

> *The Fund does not advise nations on how to stand on their own feet economically but coaches them on how to qualify for increased quantities of new credit*[37].

The truth of this is borne out by the vicious cycle which the debt-trap has initiated. Nigerians have watched in consternation as government secures from time to time (after passing through some secretly administered performance test) fresh foreign loans to service old ones and to fund the FEM to enable the country import more foreign goods! Meanwhile, the debt continues to cumulate. Government sources put the total foreign debt at $US12.34 billion in December 1985. This rose to $29.120 billion in

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36 Obadan, op. cit.; Toyo, op. cit. p. 37; Onimode "Technology and Political Economy"; Ohiorhenuan, "Recolonising Nigerian Industry"; Egwaikhide, op. cit. p. 23.

37 Quoted in Egwaikhide, op. cit. p. 26. On The Debt Trap in Africa, see B. Onimode, "The Debt crisis: Imperialism's Silent War of Re-colonisation in Africa", *Journal of African Marxists*, No. 11, 1989; Isebill Grunn, "The Re-colonisation of Africa: International Organisations on the March", *Africa Today*, 30, 4, 1983.

December, 1989, meaning that it is more than doubled within only four years[38].

Thus from the available empirical evidence, the SAP has merely unleashed unprecedented but avoidable hardship on the Nigerian masses without fundamentally addressing the basic problem of the economy, namely the distortions and constraints created by internal disarticulation and external articulation. All it has yielded is the reproduction of the international division of labour and of dependent production patterns that guarantee the dominance of private capitalist and imperialist interests in the nation's political economy. Yet, government and its spokesmen have developed the habit of referring to SAP as a 'giant stride', a revolution in economic planning and development. At a point, they perfected the art of disinformation, first by proclaiming that there was no alternative to SAP and by equating SAP with the alternative strategy recommended for Africa by the UN Economic Commission for Africa (ECA)[39]. Indeed, SAP is a revolution, but a revolution of regressions! During this 'revolutionary' era of SAP, the nation's per capita income declines from $US 874 in 1985 to less than $200 in 1988, a decline that prompted the World Bank to reclassify the status of the country from 'middle income country' to 'low income country'[40].

Policy Effectiveness: SAP, Imperialism and the Class Struggle

The failure of the SAP-IMF model of economic recovery in Nigeria and in other LDCs confirms the ineffectiveness of that strategy as it concerns peripheral capitalist formations[41]. Having looked at the theoretical limitations of the SAP strategy and its counter productive results, we are now better placed to attempt a characterisation of the SAP strategy. Perhaps

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38 See the budgets for 1986 and 1990. The rate of increase is even more revealing in Naira terms. Based on the ruling foreign exchange rates, the foreign debt increased from a mere ₦11.39 billion in 1985 to ₦100.8 billion in 1987 and reaching over ₦250 billion by December 1989.

39 Curiously, seminars and conferences organised by the Nigerian left to articulate a socialist alternative to SAP have remained *defacto* banned. On two occasions, security forces were drafted to disperse participants, while the organisers were hounded into jail. For the alternative policy recommended by the ECA which in fact stands SAP on its head, see UNECA, *African Alternative Framework to Structural Adjustment Programs (AAF-SAP) for Socio-Economic Recovery and Transformation*, 1989.

40 Oni, op. cit. pp. 9 and 27.

41 See Norman Girvin, "Swallowing the IMF Medicine in the Seventies", *Development Dialogue* No. 2, 1980; Girvin *et. al.*, "The IMF and the Third World: The Case of Jamaica 1974-80", ibid.; N. Nzongola *et al*, *Africa's Crisis*, Institute for African Alternatives (IFAA), 1987; IFAA, "The IMF, World Bank and Africa", (Report of a conference on "The Impact of the IMF and World Bank Policies on the People of Africa", City University, London, 7-11 September 1987.

we should begin by acknowledging Karl Marx's methodological injunction: the need to shatter the obviousness of immediate appearances. Marx had in the mid 19th century identified a group of economic theorists who, as practitioners of "Vulgar economy" were often mesmerised by the "false appearance" and the "illusion" of things and hence were unable to uncover the real socio-economic relations concealed by those appearances. For Marx, the science of political economy requires that we capture the essence of reality concealed by the apparently chaotic appearances[42]. The minimum requirement of scientific practice therefore is to transcend the epiphenomenal and uncover basic structures, fundamental realities and root problems. This, the apostles and intellectual pundits of SAP have failed to heed. With their single minded focus on the superficial that is the level of market relations (or the sphere of circulation) through such mystifying notions like "realistic exchange rate for the Naira through FEM", "market forces", "devaluation", "trade liberalisation", while at the same time hoping through such magic formulas to achieve the goal of economic recovery without confronting the structural problems of the economy, the theorists of the SAP are practitioners of Vulgar economy *par excellence.* Consequently, the SAP is a product of Vulgar, not scientific, economic thought. It is akin to attempting to rectify the foundation of a structure by undertaking repairs at the summit. The very attraction of the SAP strategy is a reflection of the intellectual poverty prevailing at the citadel of power, "as inane eclecticism, and anxious concern for career and income descending to the most Vulgar opportunism, have taken its places"[43].

The advocacy on paper of the laudable goals of economic recovery, social justice and self reliance by these 'economic masquerades'[44] only helps to mask their hidden agenda. Specifically, two aspects of the issue are central in our further characterisation of the SAP, namely class consciousness and the ideological question. Our treatment of the SAP burden has sufficiently established the SAP strategy as a class inspired program run by the ruling bureaucratic and compradorial elements to further consolidate their stronghold on society. In the event, therefore, the real

42 Norman Geras, "Essence and Appearance: Aspects of Fetishism in Marx's Capital", *New Left Review*, 65, 1971; D. McLellan, *The Thought of Karl Marx*, 2nd edition, Macmillan, 1980, pp. 89, 154.

43 F. Engels, *Ludwig Feuerbach and the End of Classical German Philosophy*, Peking, 1976, p. 60. His characterisation of the decline of scientific thought in Post 1848 Germany fits into the contemporary Nigerian situation. Indeed, the SAP strategy has even accelerated the descent towards opportunism in intellectual cycles. Several erstwhile radicals - left wingers and social critics generally - have been incorporated into the system through lucrative appointments.

44 A. Aboyade, "Economic Masquerades" (second annual lecture series of the Social Science Council of Nigeria, December 1985).

beneficiaries of SAP are international finance capital, Nigerian bank owners, currency speculators, the TNCs and their Nigerian agents, and adventurist capitalist grabbers from America, Europe and Asia. The most significant development of the period is the boom in the banking sector as attested to by the increased profitability of the business and the mushrooming of scores of 'casino' banks. Before SAP, the total number of banks stood at 45. This increased to 89 in 1989, with another 13 expected to be commissioned in the first half of 1990[45]. Whereas for several sectors SAP means severe belt tightening, for the banks it has meant a prosperous era. Aggregate assets, gross earnings as well as the after tax profits of the banks have been rising in millions in spite of the downturn in the economy[46]. The profits are largely artificial though realised mainly from fast dealings in currency speculation and the like.

The rise of the financial bourgeoisie and the dominance of financial, merchant and speculative capital in the nation's political economy has brought about a basic and fundamental split of the bourgeoisie more than ever before. In fact, one can argue that its lower segments are being proletarianised. In addition, there is a basic struggle between its merchant, financial, industrial and agrarian components. While the first twc, as main beneficiaries of SAP, have been growing, the last two, though the more productive, also happen to be the more adversely affected by SAP and amongst the members are to be found the bitterest critics of SAP. These developments will definitely have implications for class alliance and class action.

The ideological question takes its dynamism from the unfolding class struggle. The inauguration of the SAP under the Babangida regime has witnessed in an unprecedented manner the entrenchment of capitalist values in the Nigerian social formation, an increase in the ownership and control of production, commercial and financial activities by private capitalists in the Nigerian economy. Certain bold, dangerous and class inspired measures like privatisation, debt-equity swap, the war against ideological 'extremism', combine to mark out the regime as "the most courageous and forthright in entrenching capitalist economic, social and political values and relations in Nigeria"[47]. Associated with this is the unrestricted opening up of the economy to foreign capital. As observed elsewhere, the emerging structure of accumulation is being founded on a drastic deemphasis of economic

45 *The Guardian*, February 17, 1990, pp. 1-2. Most of these operate from one main branch which also doubles as the national headquarters. *The President*, June, 1989 reveals the class character of the ownership structure of the banks.

46 Emeka Ogbeide, "SAP Bringing Sunshine into Bank Vaults", *The Guardian*, Sunday, June 26, 1988: p. 12.

47 B.U. Ekuerhare, "Nigerian Economic Crisis and Economic Policy Profiles", op. cit., p. 17.

nationalism and on an enthusiastic promotion of imperialism. The SAP is a neatly packaged capitalist program run by the bourgeoisie for the recolonisation of the Nigerian social formation.

It is instructive to note that whenever the opportunity presented itself - as through the political bureau report of 1987 - the Nigerian masses have always opted for a socialist arrangement[48]. Nigerian governments have consistently refused to consider this model of accumulation, asserting instead their "ideological neutrality" while actively promoting dependent state capitalist accumulation. The Babangida regime is an exception only to the extent that it has unveiled the mask, abandoned the state capitalist model and chosen a worse form of classical state supportive model[49] that leaves the economy entirely in foreign hands.

Conclusion

Now that we have exposed the monstrous swindle that is SAP, our task in this section is to delineate the main contours of an alternative strategy. This demands a complete abrogation of SAP and the institution of a radical program of structural disengagement guided by the following minimum criteria:

- the laying of an enduring and stable foundation for an effective domestic control over the Nigerian development process by delinking domestic demand structure consumption patterns to what can be produced domestically, but also through erecting domestic production structure on domestic endowment;[50]
- the goal of planning must be people centred. Unlike the present practice, planning will respond to the logic of the requirements of the home market and not that of international finance capital. This home market strategy is a prerequisite for sustained autonomous development;[51]
- removal of supply constraints through a fundamental restructuring of property and power relations, of ownership structure of capital and the specific interests it serves. This calls for the nationalisation

48 Federal Republic of Nigeria, *Report of the Political Bureau*, Government Printer, Lagos, 1987. The body was constituted in January 1986 charged with the task of recommending an appropriate form of socio-political and economic arrangement for the country. The committee spent over one year touring the countryside, listening to the people. It came as no surprise when it recommended a socialist arrangement and which government promptly rejected.

49 B.U. Ekuerhare, "Recent Patterns of Accumulation in the Nigerian Economy" op. cit..

50 B.U. Ekuerhare, "Nigerian Economic Crisis", op. cit., pp. 17-18.

51 Y.B. Usman, Nigeria Against the IMF: The Home Market Strategy, *Vanguard*, Kaduna, 1986.

of the means of production, distribution and exchange, associated with proletarian control of the apparatus of state;

- since the 'realistic exchange rate' of currency is not determined by market forces as such, but largely by political and economic considerations based on the national interest, we would expect the government to fix the exchange rate of the Naira at between ₦2.50 - ₦3.00 to one US dollar as advocated by patriotic Nigerians;
- the renunciation of our foreign debts or at least the pegging of the external debt service ratio to the minimum 10%. This would make available investable funds which would go a long way in stimulating the domestic economy.

This minimum program would no doubt give the economy the dynamism required for self-sustaining growth, a dynamism that is presently lacking owing to the external orientation of economic planning and processes. Whichever government will emerge with such a program deserves the support of patriots.

Empowerment or Repression? The World Bank and the Politics of African Adjustment*

Björn Beckman**

Résumé: *Cet article jette un regard critique sur le rapport de la Banque Mondiale publié en 1989 et intitulé "L'Afrique Sub-saharienne: De la crise à une croissance durable: "Etude de prospective à long terme". Pour l'auteur, l'objectif de la politique de la Banque Mondiale est de restructurer l'Etat africain de sorte qu'il puisse soutenir les stratégies à long terme de libération des forces du marché et des potentialités d'entrepreneuriat de la société africaine. Dans ce cadre, il est important de rendre la société civile plus puissante. La Banque Mondiale cherche a affaiblir la résistance populaire et nationaliste au programme d'ajustement structurel, créant ainsi un autre fondement de la légitimité politique. Les politiques du programme d'ajustement structurel par rapport à la légitimité politique de l'Etat sont remises en question.*

Introduction

This is a discussion of the political theory and practice of the market-oriented economic reforms, commonly known as "Structural Adjustment Programmes" (SAP), currently implemented by a wide range of African states, mostly with World Bank and IMF sponsorship.

The focus is on an authoritative report from the World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth: A long-term Perspective Study* published in late 1989. It is a historic document; the first to address the political context of SAP. It signals a qualitative leap in foreign intervention in Africa as well as in the development of transnational state power. The political message is scattered throughout the bulky report, so I begin in part II by piecing together the argument, largely in its own words.

The World Bank is concerned with restructuring the African state in order to make it supportive of its long-term strategy for the liberation of the market forces and entrepreneurial potentials of African society. The report exposes the failure of the African state and explains it with reference to inappropriate notions of state-led modernization borrowed from Europe. There is the need to cut the African state down to size, thereby releasing the creative forces that have suffered under its oppressive deadweight. Civil society and especially the grassroots are to be empowered. But rolling back

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the state and empowering the people is not enough. Africa also needs good governance, rule of law and accountability.

In the third part, I discuss the Bank's message as an intervention in ongoing struggles in Africa, involving both ideological divisions (nationalism versus neo-liberalism) and conflicts of material interests and aspirations focused on the post-colonial state. The World Bank seeks to delegitimise nationalist and popular resistance to SAP and to construct an alternative basis for political legitimacy. It seeks to discredit the opposition, partly by pretending that it does not exist, partly by projecting it as narrow and selfish. The report appropriates some of its ideological armour, including slogans of self-reliance, cultural authenticity, and welfarism. As a strategy of political legitimation it is managerial and populist rather than democratic.

The fourth part situates the World Bank message in the context of the repressive political practices of SAP. I argue that SAP causes the accelerated erosion of the political capacity of the state. SAP faces critical problems of political legitimacy that threatens to block the reforms. I discuss this in terms of the "restructuring of incentives" promoted by SAP. I point to the central role of organized interest groups in opposing SAP and why these "narrow interests" have come to articulate wide popular aspirations. The legitimacy crisis of SAP is reinforced by its dependence on foreign support.

In conclusion, I question the democratic claims made on behalf of SAP and argues that it is resistance to SAP rather than SAP itself that offers a source for democratization. This may have some wider implications for an understanding of where democracy and good governance come from. I stress the critical role of organized interest groups in this process; the disciplining of the state from below; recognizing the balance of social forces and the role of "social contract" for state capacity. I end by reflecting on the alternative programme that is inherent in the resistance to SAP: the reconstruction of the post-colonial nationalist project on democratic lines.

Restructuring the Post-Colonial State

The World Bank Strategy for Africa

The World Bank[1]. report is a major effort to assert World Bank leadership of the "development community", drawing up long-term strategies of economic reform in Sub-Saharan Africa. It is the outcome of extensive consultations with African researchers, private businessmen, public officials and a broad spectrum of the donor community. The ambition is high: "The

1 World Bank, *Sub-Saharan Africa From Crisis to Sustainable Growth. A Long-Term Perspective Study*, Washington: The World Bank, November 1989.

time has come to take up this challenge and to put in place a development strategy for the next generation[2].

The report asserts an "emerging consensus" as the foundation of "a global coalition for Africa" and joint action by donors, ensuring that assistance is strongly biased in favour of countries with "sound and sustained reform programs"[3]. The strategy is long term. Africa's economic problems are so deep-rooted that conventional stabilization programs are inadequate. The challenge is to go beyond stabilization and achieve "a genuine transformation of productive structures"[4]. African producers must become competitive in world markets. Africa must be transformed "from an expensive and difficult place to do business to an efficient one"[5]. Governments need to "go beyond the issues of public finance, monetary policy, prices, and markets to institutions, governance, the environment, population growth and distribution, and technology"[6].

Any long-term strategy, however, depends, according to the Bank, on the success of SAPs. Two-thirds of African countries have embarked on some form of SAP. They are beginning to produce results, but only slowly. "In most instances the process has hardly begun". Too often the efforts have not been maintained. There has been "hesitation and procrastination" and repeated cycles of go-stop-go[7]. The most immediate problem is therefore to ensure the acceptance and consolidation of SAP.

The features highlighted in the report do not represent a new phase replacing SAP. They are policy considerations that should be added if SAP is to lead to "sustainable growth with equity". Some of the features, as population control, are long-standing priorities of the World Bank that are now integrated into the SAP framework. Others, like environment, reflect current concerns within the "development community". References to women participation are sprinkled through the text, adding to a concerned image.

Significantly new, however, and substantively integrated into the strategy is the focus on state failure, grassroots empowerment and good governance. These are the features to be discussed in this essay.

Please note that subsequent references to the World Bank are all to the November 1989 report, if not otherwise specified. It is a shorthand and does not suggest that I think that the bank is of one mind and voice, although the authoritative nature of the report is clear.

2 Ibid., p. 4.
3 Ibid., pp. 14, 185, 193.
4 Ibid., pp. 185-86.
5 Ibid., p. 189.
6 Ibid., p. 1.
7 Ibid., p. 189.

The Failure of the African State

"Underlying the litany of Africa's development problems", says the report, "is a crisis of governance"[8]. By governance it means the "exercise of political power to manage the nation's affairs". The failure of public institutions is "a root cause" of Africa's weak economic performance, asserts the World Bank President Barber Conable in his foreword[9]. Weak public sector management has resulted in loss-making public enterprises, poor investment choices, costly and unreliable infrastructure, price distortions, especially overvalued exchange rates, administered prices, and subsidized credit, and "hence inefficient resource allocation". The quality of government has deteriorated with "bureaucratic obstruction, pervasive rent seeking, weak judicial systems, and arbitrary decision making". Many governments are "wracked by corruption" and "unable to command the confidence of the population at large". Oppression and nepotism are widespread. Redtape and corruption impose heavy costs on the private sector, undercutting its international competitiveness. The break down of the judicial system scares off foreign investors who fear that contracts cannot be enforced[10].

Political decline is exacerbated by development strategies that concentrate power and resources in government bureaucracies "without countervailing measures to ensure public accountability or political consensus". The neglect of due process has robbed institutions of their legitimacy and credibility. The proliferation of administrative regulations have "set the individual against the system". Authoritarian governments "hostile to grassroots and nongovernmental organizations" have alienated the public[11]. State officials serve their own interests without fear of being called to account. Politics is personalized, and patronage is an essential means to maintain power. Leaders assume broad discretionary powers, losing in legitimacy. They control information and co-opt or disband voluntary associations. "At worst the state becomes coercive and arbitrary". Such an environment cannot readily support a "dynamic economy"[12]. "A deep political malaise stymies action in most countries". People do not trust their leaders who they assume to be self-serving. In many countries, this is seen to be at the root of the crisis of governance. Governments fail to rally the people behind the reforms.

8 Ibid., p. 60.
9 Ibid., p. xii.
10 Ibid., pp. 3, 22, 30.
11 Ibid., pp. 3, 22, 30.
12 Ibid., pp. 61, 62, 192.

What went wrong? The World Bank report suggests that at independence, Africa inherited "simple but functioning administrations". But these were not geared to the development role assigned to them by African leaders. The state was enormously expanded. The staff was inexperienced, politicized and inefficient. The state was fragile and unable to cope with the "political stresses of rapid modernization and the unstable external environment of the 1970s and 1980s"[13].

Rolling Back the State

What needs to be done? First of all there should be less state. The state must retreat into areas which it can handle well. The state should facilitate, not control. The deadweight imposed by the state on the private sector must be removed, releasing private initiative. The stigma must be removed from private profits and private entrepreneurship. The state should no longer be an entrepreneur but a promoter of private producers, including foreign private investors who should be welcomed as partners, not discouraged[14].

If Africa wishes to remain competitive, says the Bank, it must abide by "the world wide trend towards privatization". Public services can often be provided more efficiently by private contractors. Inefficient public enterprises should be closed down or privatized. In some cases, the private sector may lack the capacity to take over right now "but in time and with imagination, privatization can work"[15].

The deadweight of inappropriate and foreign, state-centred ideologies must be cast off. Much must be blamed, according to the Bank, on the ideologies of the first generation of African political leaders who believed that the government had to play the dominant role and who distrusted foreign business and the market mechanisms. The new states were poorly rooted in African society. They were "grafted onto traditional societies and were often alien to the indigenous cultures"[16].

Moreover, these leaders believed that development meant achieving Northern standards of living. They had a vision "couched in the idiom of modernization - meaning the transfer of Northern values, institutions, and technology to the South". As a result they opted for "poorly adapted foreign models". Governments drew up "comprehensive five-year plans" and invested in "large, state-run core industries". Non Africans played an "overly dominant role" in elaborating these inappropriate strategies[17].

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13 Ibid., pp. 30 38.
14 Ibid., pp. 45, 55.
15 Ibid., p. 55.
16 Ibid., pp. 16, 38.
17 Ibid., pp. 16, 37.

Thinking was dominated by "the dichotomy between capitalist and socialist development models". By now, "many African governments have reappraised the role of the state". The World Bank holds up "the Nordic development paradigm" as an alternative development model where the state plays an important supportive role but where "the goods-producing and non-infrastructure service sectors are left to the flexibility and incentives of private enterprise and market discipline"[18].

Empowering the People

Rolling back the state, however, is not just a matter of economic efficiency. It is also a strategy of liberating civil society from the deadweight of the state, of empowering the people. "A better balance is needed between government and the governed", says the World Bank President. A retreat of the state improves the balance - empowers the people. The retreat should go hand in hand with the fostering of grassroot organizations capable of promoting grassroot entrepreneurship. Development must be more bottom-up, less top-down[19].

The aim should be to "empower ordinary people to take charge of their lives". They should participate in designing and implementing development programmes in order to "channel the energies of the population at large". By removing administrative restrictions and providing positive support, "the latent local capacity can readily be tapped". The objective should be to "release private energies and encourage initiatives at every level"[20].

Governments should listen more to their people. A more pluralistic institutional structure, including nongovernmental organizations and stronger local government should be fostered. At the grassroots level this means village and ward associations. "Such groups and communal actions can build on the African tradition of self-help". Also chiefs and other traditional leaders should be drawn upon. "A common mistake", says the report, "is to ignore local leadership, often on the grounds that it is exploitative". The Bank claims that there is little empirical evidence to support such view. "On the contrary, studies show that working with existing leaders produces more effective development programs". Not just grassroots, but also "intermediary" organizations as local nongovernmental and cooperative unions have an important role to play in the empowerment of the people. They create links both upward and downward in society and "voice local concerns more effectively than grassroots institutions", bringing "a broader spectrum of ideas and values to bear on policy making"[21].

18 Ibid., p. 186-87.
19 Ibid., p. xii.
20 Ibid., pp. 1, 4, 55, 59.
21 Ibid., p. 59, 61.

The challenge is to build on this solid indigenous base, with a bottom-up approach that places premium on listening to people and on genuinely empowering the intended beneficiaries of any development program[22].

"History suggests", says the report, that "political legitimacy and consensus are a precondition for sustainable development". It implies above all a "highly participatory approach" which involves ordinary people, "especially at the village level, in the decisions that directly affect their lives"[23].

Good Governance

Rolling back the state and empowering the people are not enough. Africa needs "not just less but better government". "Private sector initiative and market mechanisms are important but they must go hand-in-hand with good governance". It requires "a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public". Unless governance in Africa improves, economic reforms will not go far, nor will much external aid be forthcoming. The state has "an indispensable role in creating a favourable economic environment". "Capacity building" needs to be pursued at every level of government, including reforming the civil service, installing effective economic management in the public sector, and strengthening local government[24].

SAP cannot work without a well-functioning state. The economic reforms are frustrated by lack of effective implementation. "The fundamental weakness in these programs is the lack of local capacity, both private and public, in their design and execution". They are often conceived by outsiders and not adequately internalized and do therefore not inspire commitment. The political environment must inspire the confidence of the private investors, local and foreign. Apart from providing "reliable and efficient infrastructure" the state must be able to establish "a predictable and honest administration of the regulatory framework, to assure law and order, and to foster a stable, objective, and transparent judicial system". Ultimately, good governance requires a concerted attack on corruption. Leaders must become more accountable to their peoples and funds must be seen to be properly administered. Corruption can be countered by eliminating unnecessary controls, reducing the scope for "rent seeking", by "transparent procurement

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22 Ibid., p. 191.
23 Ibid., p. 60.
24 Ibid., p. xii, 5, 15, 54-59.

procedures, scrupulous and prompt accounting, and the publication of audits". Those misusing public funds should be vigorously prosecuted[25].

Intermediary, nongovernmental organizations have an important role to play. They can exert pressure on public officials for better performance and greater accountability. Public debate should be encouraged. "A free and vigilant press - all too rare in Africa - is as important for good governance in Africa as elsewhere"[26].

The failure of the judicial system to "protect property and enforce contracts" has discouraged investment, foreign and local. The lack of a reliable legal framework has exacerbated uncertainty and unpredictability. "The rule of law needs to be established", including the independence of the judiciary and the "respect for the law and human rights at every level of government"[27].

What does the argument pieced together above mean as an intervention in the politics of structural adjustment? How can it be situated in relation to the contending forces of such politics?

Constructing Political Legitimacy

The Fictitious Consensus

The World Bank claims that its proposed strategy represents a growing consensus: "Fortunately disagreements in practice are few". It suggests that whatever differences existed in the past (they are not specified) have greatly narrowed during the 1980s. "Whatever the political vantage point, there is a broad understanding". The remaining problems are essentially "technical" which "professionals will continue to debate" without in no way diminishing the "broad consensus on objectives"[28].

Who is included in this consensus? The focus of the argument shifts between the "development community" and the affected societies. There is a particular concern to mobilize a united front of "donors" behind SAP, ensuring that countries who show good behaviour are rewarded and those who don't are punished.

To achieve this united front, particular effort is devoted to prevent the desertion from the hard-line by such donors that have a past record of being "soft" on the state/market divide. The surprising propagation of the "Nordic development model"[29] may therefore be taken as an ideological bate, not so much for impoverished, non-industrial African nations, as for such

25 Ibid., pp. 6, 15, 55,61-62, 192.
26 Ibid., pp. 6, 61.
27 Ibid., pp. 9, 30, 192.
28 Ibid., p. 185.
29 Ibid. pp. 186-87.

soft-hearted donors, being thus reassured that they trail behind the Bank on a respectable track

Who on the African side is covered by this consensus? The controversies surrounding SAP are neither acknowledged nor addressed. The report avoids entering into any direct argument with opposing views such as those expressed in the Lagos Plan of Action[30], the Abuja and Khartoum Declarations[31]; and the UN Economic Commission for Africa's *Alternative Framework* for SAP[32]. With little justification, the report even claims that it tries to "reflect the evolution" of the views embodied in these documents. It appropriates for its own purposes some of the ideological planks of the opposition, such as "respect for African values" and "self-reliance"[33].

The consensus that the World Bank seeks to conjure is fictitious. It dodges the core conflict between its own neo-liberalism and the nationalist and structuralist concerns of the critics, especially at the African end. The assertion of a growing consensus serves to isolate and belittle the opposition to SAP. Far from being insignificant, this opposition is wide- spread and keeps on causing obstruction. It is responsible for much of the "hesitation and procrastination" over which the report complains[34]. Indirectly, this is also recognized when the Report speaks of the failure to "internalize" SAP, the failure to overcome "political malaise", and the difficulties of achieving a consensus locally because of "vested interests" and hostile "intellectual and ideological positions"[35].

The World Bank report is an ideological intervention. The Bank is the principal contender, challenging on a neoliberal platform, the state-led, nationalist development ideology that, in the view of the Bank, has distorted development thinking in Africa since independence. It intervenes in conflicts between social groups with different stakes in the reforms and the changing structure of incentives and class relations that they generate. It seeks to shift the balance of forces in favour of political coalitions, nationally and internationally, that are capable of sustaining SAP.

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30 OAU, 1980, Organization for African Unity, Lagos Plan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa, Addis Ababa.

31 ECA 1987, UN Economic Commission for Africa, The Abuja Statement: The Challenge of Economic Recovery and Accelerated Development. Abuja.
ECA, 1988, The Khartoum Declaration: Towards a Human-Focused Approach to Socio-Economic Recovery and Development in Africa. In ECA *Annual Report*. New York: UN.

32 ECA, 1989, African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation. Addis Ababa.

33 Ibid., p. 2.

34 Ibid., p. 189.

35 Ibid., pp. 62, 192-93.

By extending the time-perspective, looking "beyond SAP", the Bank side-tracks the controversies surrounding the current practice and impact of SAP. It allows for the painting of an attractive future scenario of "growth with equity", including a vision of increases in public welfare expenditure, in stark contrast to the social inequities and cuts currently protested by the opposition. The picture of a consensus, where disagreements are minor and technical, and where the real challenges lies "beyond", is a confidence trick. It conceals the ideological role of the report in enforcing SAP in the face of intellectual and popular resistance.

The political crisis of the African state is also the crisis of SAP. This explains why the World Bank sees itself obliged to enter the deep waters of political theory. The poor capacity of the African state to handle resistance to SAP casts serious doubts on the political feasibility of the reforms. The Bank seeks to boost this capacity, not by addressing the objections of the opposition, but by seeking to undercut its political and ideological legitimacy. Simultaneously, it seeks to construct new forms of popular legitimation under the banner of "empowerment".

Delegitimising Nationalism

Nationalism is the potentially most dangerous ideological and social force confronting SAP. It draws on the history of resistance to foreign political domination, cultural humiliation, and economic exploitation. Anti-colonialism and anti-imperialism has demonstrated its capacity in the past to generate cross-class alliances, uniting members of an aspiring bourgeoisie, patriotic professionals, technocrats, intellectuals and workers committed to radical strategies for national emancipation. Such alliances have been capable of arousing broad popular support.

From a nationalist perspective, SAP is a foreign imposition. The "conditionalities" linked to the foreign finance that goes with SAP are the hallmark of rising neo-colonialist domination. The liberalization of foreign trade and foreign exchange regimes deprives the state of the means of directing scarce resources to areas of priority for national development. It is seen as a capitulation to a world market that works in favour of the strong and at the expense of the weak. There is little trust in nationalist quarters in the notion of "comparative advantage". The withdrawal of state support for a fledgling industrial sector, state or private, means abandoning the effort to lay a foundation for an alternative to the colonial and neo-colonial division of labour.

The World Bank tries to turn the table on the nationalists by questioning their national credentials, suggesting that they merely are the mouthpiece of foreign and inappropriate ideas of modernization and socialism, uncritically borrowed from outside and often implanted by foreigners. They portray the post-colonial state project as poorly rooted in African society, indigenous culture, and traditional leadership[36].

In its attempt to discredit economic nationalism, the Bank brandishes a stereotype of post-colonial development that exaggerates the foreign and "socialist" features. It claims that governments drew up "comprehensive five-year plans" and invested in "large, state-run core industries"[37]. This is misleading. Most industrial investments were in simple import substitution, often in crude assembling, very little in "core-industries". Few plans were "comprehensive" and few had any major role as steering instruments.

The Bank tries to discredit the large state sector by depicting it as the child of socialist ideology, hostile to private capital and foreign capital in particular. This again is misleading. The state sector has been large also in the majority of African countries that have had a predominantly capitalist orientation. Foreign capital, having other reasons for avoiding risks in small African countries, have often favoured joint ventures with the state and management agreements. State companies have played a strategic role as patrons for an aspiring indigenous bourgeoisie. Marketing boards, for instance, have been valuable source of finance and monopolistic protection for a local merchant class.

In projecting a stereotyped image of the ideological illegitimacy of the post-colonial state, also confessing to a collective guilt on the side of the "development community" for having been uncritically supportive of the developments leading to failure, the Bank obscures the long-standing involvement of that "community" in struggles over ideology and strategy in Africa and the third world in general. The Bank, for instance, has been deeply engaged in projecting the success story of Ivorian capitalism, with its strong state involvement in promoting world market oriented expansion. It has sponsored a wide range of state development finance companies, acting as "trustees" for an emerging capitalist class, such as the NNDC and the NIDB in Nigeria.

With the world wide and local shift in the balance of forces in favour of capitalism, nationalism, not socialism is the principal enemy to the global market project of the World Bank. The "failure of socialism", however, is useful as a means of delegitimising nationalism.

Delegitimising "Vested Interests"

While nationalism is the principal ideological force confronting SAP, wage earners make up the most coherent and potentially disruptive social group in the opposition block. They are acutely affected by the "restructuring of

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36 World Bank 1989, op. cit. pp. 37, 38, 60. 61.
37 Ibid., p. 16.

incentives" enforced by SAP, including cuts in public sector employment, the fall in domestic industrial production, removal of price and rent controls and subsidies, and the rise in the cost of imports. While the fall in real wages predated SAP, the reforms have offered more of the same, along with accelerated retrenchment. Wage earners are those most affected by public service cuts and increases in fees as they are those who depend most on access to public transport, education, health, electricity and water supply, in the reproduction of their everyday existence.

The deflation of the wage-earning economy reinforced by SAP has also hit hard at sectors of the economy directly or indirectly dependent on wage-earners' income, including a large petty commodity and petty service producing sector. The urban informal sector is particularly badly hit because of its greater dependence on imports, both for consumption and trade. But also rural producers, both agricultural and non-agricultural, have faced a drop in the demand for their goods and services, except in some pockets where export production has faced favourable world market conjunctures.

Again, it may be argued that much of this deflation of purchasing power and markets predated SAP and that further deflation was inevitable because societies were "living beyond their means". While this may be true, the hardship experienced by those affected are bound to have serious political repercussions, threatening the implementation of SAP. The need for reform does not settle the issue of its direction and design. Nor is it obvious who was actually living beyond whose means.

The World Bank report offers future relief from current hardship. But the report also attempts to undercut the significance and legitimacy of the resistance to SAP. It conveys a picture where, on the one hand, every one - almost - is to gain from SAP, while on the other hand, those who don't, apart from being few, are portrayed as having illegitimate claims. In the world view of the World Bank, "the individual" is pitted against "the system"[38]. The individual is bound to gain from the reforming of an oppressive, inefficient, and corrupt system.

Resistance is portrayed as emanating from narrow, self-seeking elements, "the vested interests that profit from the present distorted incentives and controls"[39]. "The vast majority" of the population working in agriculture and the informal sector will enjoy "a significant increase in income and consumption". The squeeze would mainly affect the consumption of "the top 5% belonging to the formal modern sector" and the recipients of "rents", that is, those with illicit earnings from public office[40].

38 Ibid., p. 22.
39 Ibid., p. 192.
40 Ibid., p. 46.

The report lumps together corrupt officials and the mass of wage earners as the illicit beneficiaries of the old, distorted order. It is not clear what is "top" about the employees in the formal sector, especially after decades of decline in real earnings and with a majority unable to provide basic sustenance for their families from their wages. The reference is clearly not to the top earners within the formal sector. On the contrary, the Bank argues that incomes at the top must be raised in order to secure adequate incentives, while at the bottom wages should be allowed to find their true market level.

Mass redundancies and a continued decline in real wages are principal grievances, allowing the opposition to SAP to rally on a platform of social justice and equity. Even here the Bank tries to turn the table on the opposition, drawing on standard neo-liberal arguments. The most equitable policies, according to the Bank, are those that foster enterprise development because that will spur job creation which is in the interest of all. Minimum wage legislation and "other restrictive labour regulations" that prop up wage levels therefore stand in the way of equitable development because they discourage the expansion of employment[41]. Central to the World Bank argument is the linking of two perceived divisions, that between state and civil society, on the one hand, and the one between wage and non-wage economies on the other. The wage economy is treated largely as an adjunct to a parasitic state sector, while true civil society seems to flourish primarily in the non-wage economy. Pitting the one against the other is problematic because of the actual integration of the wage and non-wage economies, at the level of the individual producer, the household, the extended family, and the community. From the point of view of securing political legitimacy of SAP, it becomes particularly problematic that the best organized and most articulate elements of actual civil society tend to be found in the wage sector, in the trade unions and professional associations and in urban based community organizations with a strong wage-earner component. Moreover, wage earners and professionals, such as teachers, midwives, and students, although a tiny minority, also play an important role in community politics in rural areas.

Empowerment as Legitimation

In the face of nationalist and popular resistance, the theoreticians of SAP - along side the attempt to delegitimise resistance - seek to establish an alternative basis of popular legitimacy. The notion of grassroots empowerment seems central to this exercise.

On the one hand, empowerment is seen as the liberation from an excessively interventionist state: the creative force of the grassroots will be

41 Ibid., p. 191.

set free. On the other hand, it stands for participation and mobilization; the active involvement of local communities in development projects. The two aspects shade off into each other. It is not clear when "empowering ordinary people to take charge of their own lives" merely stands for the freedom of local entrepreneurs and when it involves participation in some institutionalized collective decision-making.

Concepts like participation and mobilization are ambiguous. They have a political-democratic as well as managerial side. The latter dominates the World Bank report. The emphasis is on "releasing" and "tapping" local energies and capacities. The concern is less with popular power, in a political sense, than with ensuring that development programmes are better attuned to local demands. Agricultural extension officers, for instance, should be responsive to the farmers' needs; they should listen, not command[42]. The primary concern is with development, not with democracy. Empowerment is encouraged because it is good for development. It is revealing that when the report counters allegations that local (traditional) leaders are exploitative, they end up claiming that they are efficient to work with[43]. Empowerment is for the prospective beneficiaries of development in order to ensure that projects are well rooted in local society[44]. This has been a long-standing managerial concern within the "donor community". Such empowerment does not address the scope for resisting state policies by those who see themselves as losers rather than beneficiaries.

Without addressing the link to state power, empowerment is primarily a means of securing local support and cooperation. In the face of popular resistance, however, empowerment also becomes a means of claiming popular legitimacy. But empowerment is for those who implement SAP, not for those who oppose it. It is a managerial populism that fits well with the populist political practices of the regimes implementing SAP.

World Bank style empowerment is poor compensation for the lack of popular political support for SAP. It may even help in justifying repression - in the name of the empowered grassroots - against the "vested interests" that resist SAP.

Adjustment with a Democratic Face?

"Empowerment" may be a poor substitute for democracy. But the World Bank claims also to be in favour of an open debate, human rights, the rule of law, and accountability. Does it not suggest that it takes democracy

42 Ibid., pp. 4-5.
43 Ibid., p. 31.
44 Ibid., p. 191.

seriously? Does it herald the coming of a new phase of SAP - "Adjustment With a Democratic Face"?

The Bank responds, just as it has done in the case of the "Human Face" debate, to criticisms against SAP for being associated with repressive political practices, the suppression of opposition, and public argument[45]. Such criticisms become increasingly embarrassing the more successful the Bank is in tightening its grip over policy by rallying the international development and financial communities behind SAP. The more responsibility the Bank appropriates for overall state policies, the more exposed it becomes to criticisms of the repressive political framework within which these policies are pursued.

Even so, the World Bank's venture into political liberalism is steeped in a managerial and developmentalist mould. It criticizes policy makers for being "reluctant to allow open discussion of economic policy issues". It argues that a "broad and vigorous debate" is vital if options are to be understood and consensus achieved[46]. The context is that of enlightened management rather than democratic politics. It suggests consultation, not contestation.

Allowing policy to be publicly debated does not make an authoritarian regime more democratic. In its account of Nigeria's "lessons of adjustment", the World Bank report claims that "after intensive public debate" the government adopted a programme to liberalize the economy. What it does not mention is that the debate was predominantly hostile to the programme that was adopted. A proposed loan from the IMF was rejected because it was, correctly, suspected to be tied to such a programme. But "public opinion" was crudely cheated. The government, while abstaining from the IMF loan, went ahead with the substance of the programme, now with World Bank funding[47].

The Bank's commitment to the virtue of "vigorous public debate" is not convincing. The tactics displayed in the report shows little evidence of such a commitment, with its fictitious consensus mongering, dodging real issues of division, reducing major political divisions to technical ones, and ignoring or delegitimising opposition to its policies. Are other aspects of the Bank's

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45 Bangura, Y., 1986, "Structural Adjustment and the Political Question". *Review of African Political Economy*, 37;
Bangura Y. and Beckman, B., 1991, "African Workers and Structural Adjustment. With a Nigerian Case Study". In Dharam Ghai (ed.), *Social Impact of Crisie and Adjustment Experiences from Africa and Latin America*. London: Zed.

46 World Bank, 1989, *op.cit.*, p. 193.

47 Olukoshi A., 1989, "Impact of the IMF-World Bank Programme on Nigeria". In Bade Onimode (ed), *The IMF, the World Bank and the African Debt. The Economic Impact.* London: IFAA and Zed.

political liberalism more credible? "Scrupulous respect" for human rights is mentioned as something to be desired but without consequence for the argument. The report is more substantial when it comes to the rule of law. The perspective that dominates, however, is that of the private investor, especially the foreign one. Without the rule of law, business confidence in general and the sanctity of contract in particular cannot be upheld.

Is not the plea for accountability a plea for democracy? The suggestion that "leaders must become more accountable to their peoples"[48] is sufficiently modest to be acceptable by any president-for-life. On one occasion the report links accountability with representative government: public auditors should be responsible to a representative legislature[49]. This is the closest the report comes to a democratic argument, yet modest enough to accommodate one-party assemblies and representation by appointment. Generally, accountability is treated more as a managerial problem, not a democratic one.

Good governance, says the Bank requires enlightened leadership that makes a "systematic effort to build a pluralistic institutional structure", that is determined to respect the rule of law and to protect the freedom of the press and human rights[50]. Fine! How come that the politics of SAP is so repressive? Where does good governance and democracy come from?

Resistance and Repression

The Erosion of Political Capacity

The effort to construct political legitimacy must be seen in relation to the weakness of the political arrangement meant to secure the implementation of SAP and the political practices by which it is accompanied. Those practices, say the critics, are authoritarian and repressive, not liberal. In Ghana, a show-case of adjustment, early openings in democratic directions were stifled in the interest of authoritarian control as SAP gathered momentum[51]. In Senegal, the authoritarian features of one-party dominance were

48 World Bank, 1989, *op.cit.*, p. 15.

49 Ibid., p. 192.

50 Ibid., p. 61.

51 Hansen, E., 1987, "The State and popular struggle in Ghana, 1982-86". In Anyang' Nyong'o (ed), *Popular Struggles for Democracy in Africa*. London and New Jersey: Zed and UNU;
Kraus, J., 1989, "The impact of Ghana's stabilization and structural adjustment programs upon workers and trade unions". Draft Paper to African Studies Association, Atlanta;
Akwetey, E., 1990, State, Unions and Structural Adjustment: A Comparative Study of Ghana, Tanzania, and Zambia, Project Proposal submitted to SAREC. Stockholm: Department of Political Science.

reasserted in the face of the political tensions precipitated by economic reform[52]. Zambia illustrates the vacillations and repressive reflexes of a regime under cross-pressure from domestic opposition to SAP and international financial and aid agencies[53].

In Nigeria, adjustment is accompanied by widespread opposition. Regime strategies show a mix of repression and concessions, including efforts to co-opt oppositional forces into the ruling block. SAP has been banned from the agenda of public debate. Only those groups who have declared their support for SAP have been allowed to participate in the process of transition to civilian rule[54].

These are scattered evidence that need further empirical investigation[55]. A *prima-facie* case, however, can be made that SAP breeds repression. It seems as if adjusting states lack the political capacity to implement SAP in the face of heavy opposition without recourse to repression. The deepening economic crisis has undermined steering ability. The "restructuring of incentives" brought about by SAP makes it difficult to sustain the political coalitions underpinning the state; SAP drives wedges into pre-existing alliances; it undercuts the structures of interest mediation previously managed by the state; it obstructs ideological legitimation. External conditionalities contribute to the accelerated erosion of political capacity. Repression "compensates" for the "capacity gap".

By political capacity, I mean ability to construct and maintain a working political coalition capable of sustaining the implementation of state policy. It includes capacity to exercise control over the state apparatuses (not just presiding over them); to maintain an upper hand at the level of ideological contestation ("legitimacy"); to secure the necessary minimum of cooperation (non-obstruction) from autonomous centers of power in society; and - in particular - capacity to contain opposition within bounds compatible with state policy.

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52 Bathilly, A., "Political development in Senegal". *Journal of African Marxists*, 11;
Diouf, M. and M. C. Diop 1989, "La revanche des élèves et étudiants sur l'état et la société civile 1978-1988". Paper to AKUT (1989) Conference, Uppsala.

53 Akwetey, E., 1990, *op.cit.*

54 Bangura, Y., 1986, *op.cit*; 1989, "Crisis, Adjustment and Politic in Nigeria" Outline of a Research Programme. *AKUT* 38. Uppsala;
Ibrahim, J., 1989, "The state, accumulation and democratic forces in Nigeria". Paper to AKUT Conference "When Does Democracy Make Sense? Political Economy and Political Rights in the Third World with European Comparison". Uppsala, October;
Mustapha, A. R., 1988, "Ever decreasing circles: Democratic rights in Nigeria, 1978-1988". Paper for CODESRIA Project on Nigeria. Oxford: St Peter's College.

55 Beckman, B., 1990, Structural Adjustment and Democracy: Interest Group Resistance to Structural Adjustment and the Development of the Democracy Movement in Africa. Research proposal submitted to SAREC. Stockholm: Department of Political Science.

The erosion of political capacity did not begin with SAP. It has a long pre-history, specific to each country[56]. It is closely related to the ability of the state to deliver goods, services, and other values to constituencies of relevance to its power base. It is affected by shifting world market conjunctures for primary exports. Inability to reduce state expenditure in the face of declining earnings compounds the crisis of the export base, loading it with overheads which it is unable to support. Even in cases where export earnings are maintained, public economies run into crises of reproduction, with a declining ability to meet demands placed on the state. Foreign and domestic borrowing sustain state spending temporarily, but inflationary deficit financing creates new demands and tensions.

The pattern of cumulative fiscal crisis is well known. For our purposes, it suffices to point to the outcome: a general decline in the ability of the state to sustain a pattern of public spending that historically had provided the backbone of its identity and political capacity.

The decline accelerated during the late 1970s and 1980s. It opened up for foreign policy intervention on an unprecedented scale with indebtedness and aid as stick and carrot. The World Bank speaks of a "free fall", a process gone out of control[57]. The choice of metaphor seeks to justify the drastic intervention. It delegitimates the domestic policy process and rules out alternatives. Either you grab the life line thrown to you or you stand condemned for having allowed the nation to continue the free fall into the abyss.

The Restructuring of Incentives

The economic crisis that precedes SAP is accompanied by sharp political tensions. Inflation eats into real wages, shortages multiply, employment opportunities dry up, public services decay. The political demands that dominate public agitation before the introduction of SAP focus on the restoration of real incomes, the expansion of employment, the resuscitation of public services and better access at reasonable prices to imported consumer goods. Consumers agitate for price controls and producers, including farmers, manufacturers, transport owners, press for special allocations and state subsidies for imported inputs.

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56 Sandbrook, R., 1985, *The Politics of Africa's Economic Stagnation*. Cambridge: CUP; Dutkiewicz, P., and Williams, G., 1987, "All the king's horses and all the king's men couldn't put Humpty Dumpty together again". *IDS Bulletin* 18:3; Beckman, B., 1988a, "The post-colonial state: Crisis and reconstruction". IDS Bulletin 19:4. Also in Edinburgh, Center of African Studies, *African Futures: 25th Anniversary Conference*.

57 Jaycox, K., 1990, Public Lecture by the World Bank Vice President for Africa. SIDA's U-Forum. Stockholm, 18 April. Author's (BB's) own notes.

Very little of this is offered by SAP. In the contrary, the logic of SAP is to deflate the wage and public service economy. It is to be reduced to levels considered compatible with existing resources. It seeks to remove the inflationary impact of public sector deficits. But even more importantly, it seeks to bring about a "systemic change", a shift in incentives away from a presumably inefficient and low productive wage and public sector to the benefit of a more efficient and productive private sector.

Trade liberalization and devaluation brings back imported goods on the shelves but at even less affordable prices. This too is deliberate. The aim is to improve the competitiveness of the local economy in the world market. Devaluation makes imports more expensive and exports more competitive. The deflation of the wage and public service sectors helps by cutting social overheads and allowing wages to find their "true market levels". If it works, SAP is supposed to bring expanded exports and employment, especially in the informal economy, and in the long run, both an improved fiscal basis for the state and higher income for everybody. In the meantime, however, it has little to offer to the constituencies that have historically developed in relation to the post-colonial state. It is pointless to speak of the just "vested interests", suggesting that those constituencies are primarily made up of former beneficiaries. It is not merely a question who got what out of the state in the past, but a whole pattern of expectations focused on the state. This pattern is shaped by those who feel discriminated against and hope to benefit as much as by those who actually do.

Expectations on the state as a source of income, employment, and welfare is not specific to wage-earners and urban dwellers. Rural communities may feel that they have got less out of the state in the past but this does not turn them into a constituency for "rolling back the state" and "empowerment". They want more of the state, not less. More roads, schools, health stations, pumps, jobs, contracts, cheap seeds, fertilizers, etc. "Modernization" to them is not a fanciful "Western" idea, inappropriately "borrowed" by misguided nationalists. It represents deeply entrenched popular expectations.

Such expectations are concretized in specific demands and community agenda. However, misplaced some of the priorities may seem, there is no doubt about the popular commitment that goes into the Modernization of a "home area", as defined within the shifting parameters of communal competition. Communities value "representatives" as far as they voice such demands and "deliver" when in office. This is the stuff that politics is made of. Ruling groups reproduce themselves in power through complex coalitions and alliances in response to such community agendas; more or less manipulative and divisive, more or less committed to popular welfare. Contenders, in their turn, mobilize alternative coalitions and seek to disrupt existing ones.

SAP affects the capacity of ruling groups to sustain existing patronage relations and respond to and manipulate sectional claims. This may be partly compensated for by special programmes "to sweeten the bitter pill". Such "alleviation" measures, however, do not remove the conflict between neo-liberal strategy and popular conceptions of what the state is for. The logic of SAP is to further weaken the motivation of the state to respond to the popular demands that have been built into the process of post-colonial state formation. SAP is disruptive of the political coalitions and alliances which have been constructed in the course of that process. This is not primarily a question of an urban based/biased coalition losing out in favour of a rural/agrarian one. While SAP in some cases shifts income differentials between certain urban and rural producers in favour of the latter, all popular expectations on the state, urban and rural, are frustrated by SAP. Although the purchasing power of some urban groups may fall more rapidly than that of some rural ones, both are upset by the declining ability of the state to deliver what is expected from it.

Interest Groups and the "Silent Majority"

The problem is compounded by the cracking up of the structures of domination erected by the post-colonial state in relation to organized interest groups in society. Trade unions and professional associations cause particular problems to SAP in this respect[58]. They have the "vested interests" in the public sector economy, both as producers and consumers. But they also have an organized base from which to challenge SAP.

African governments have in the past shown varying degrees of success in their efforts to subdue and control such organized interest, by restrictive legislation and by co-opting, buying-off or imposing leaders. Such statist-corporatist arrangements come under severe strain under SAP. The capacity of co-opted leaders to mediate the relation between the state and their member constituencies deteriorates. They face a dilemma of either distancing themselves from SAP or losing whatever may remain of credibility in the eyes of the members. They are increasingly unable to constrain the rising forces of unrest from below.

Professional groups, like lawyers, doctors and university lecturers, have traditionally steered cautiously close to state power. They too face a combination of external and internal pressures pushing them into resisting SAP. The crises in their domains of operation, for instance the disintegration of hospitals and schools, combine with the impoverishment and declassation

58 Beckman, B., 1990.; Bangura, Y., and Beckman, 1991, *op.cit.*

of their members (cf. Nigeria's "lumpen lawyers") in precipitating confrontation with the state[59].

Interest group opposition is regarded as particularly illegitimate by the advocates of SAP. It is seen as coming from a small, privileged minority, pursuing narrow self-interests at the expense of the mass of the people, the poor, the underprivileged, the unorganized, the "silent majority". Interest groups are accused of taking undue advantage of being better placed, more organized, more articulate. Governments therefore feel justified in applying repressive policies against such organizations. In doing so, they draw support from neo-liberal theories as well as from populist positions about "labour aristocracies"[60] and "urban bias"[61].

Interest groups are "self-seeking", but in defending their interests they also tend to see themselves as guardians on the public institutions and the national developmental and welfarist aspirations of the post-colonial state. In that sense, they become a mouthpiece not just for their own corporate interests but for broad popular concerns about the state and future of social services and public development projects. This is what happened, for instance, when Nigerian doctors went on strike in protesting the terrible conditions in the nations hospitals which had been starved of essential inputs. They received wide public sympathy, even if they also had their own "conditions of service" in mind[62].

Moreover, interest groups are obliged to enter into wider alliances in order to fend off attempts by the state to isolate, control and repress them. Governments and their backers underestimate the capacity of interest groups to offer both leadership and backbone to wider popular movements against the state. It is because of this capacity, not merely because they defend the interests of an entrenched and privileged minority, that interest groups are in a position to obstruct SAP.

Legitimacy and Foreign Intervention

The crisis of political capacity is also a crisis of ideological hegemony, of legitimacy. SAP hits at those social forces who have developed the most advanced national consciousness and identity and whose fate is most closely

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59 Jega, A.M., 1991, "Professional Associations and SAP in Nigeria". In A. Olukoshi (ed). *The Politics of Structural Adjustment in Nigeria.* London: James Currey. Forthcoming.

60 Waterman, P., 1983, *Aristocrats and Plebeians in African Trade Unions? Lagos Port and Dock Worker Organization and Struggle.* The Hague: The Author.

61 Bates, R., 1981, *Markets and States in Tropical Africa, The Political Basis of Agricultural Policies.* Berkeley: UCP;
Bienefeld, M., 1986, "Analyzing the politics of African state policy. Some thoughts on Robert Bates' work". *IDS Bulletin* 17:1;
Bangura and Beckman, 1991, *op.cit.*

62 Jega, A. M., 1991, *op.cit.*

linked to the nationalist project. The national and welfare values that are central to the ideological legitimation of the post-colonial state are now most credibly defended by the anti-SAP forces.

The crisis of legitimacy is exacerbated by externally determined conditionalities and foreign funding[63]. Foreign intervention is open, explicit, and humiliating. The general mood of the "development community" is brazenly interventionist. There is "disappointment" and "loss of confidence" in African political leadership, contributing to a decline in respect for national autonomy. Donors and bankers feel free to justify intervention with reference to their own notions of desirable development, rather than the development objectives of national governments[64]. They see themselves as trustees for the "common man", the "silent majority".

Foreign paternalism reinforces the authoritarian logic of SAP. Regimes are urged to show courage and commitment in face of local obstruction. Steadfastness is applauded and rewarded. At critical points, funds are rushed in to prop up faltering regimes and provide additional funding for "alleviation" measures. An illustration: in 1986, while deliberating over a loan to Nigeria, the World Bank Board was cautioned by the Nordic Executive Director that quick disbursement would reduce the Bank's "leverage" vis-a-vis the Nigerian government. The Senior Vice President Stern, however, urged the Board not to hesitate because experience had shown that many governments were "put out of action" if "radical and political sensitive reforms" were not swiftly supported[65]. The changing mood of the development community mirrors the erosion of state legitimacy that has taken place within African countries. But it is also a deliberate strategy to encourage this process of delegitimation in order to weaken institutional resistance to SAP. The post-colonial state is declared redundant or irrelevant[66]. Moreover, there is in addition the unintended delegitimation that comes with foreign intervention. The state institutions on which the international reformers depend for access and implementation are

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63 Mkandawire, T., 1991, "Crisis and Adjustment in Sub-Saharan Africa". In Dharam Ghai (ed). *The IMF and the South, Social Impact of Crisis and Adjustment*. London: Zed.

64 Beckman, B., 1988c, Bistand och Demokrati: En kritik av den nya interventionismen (Aid and Democracy: A critique of the new interventionism). DebattSida 2/88. Stockholm SIDA.

65 Nordic Office, 1986, Nordisk Meddelelse 86/325, Nordisk Kontor, World Bank, Washington. Telex to SIDA, Stockholm, 17 October.

66 Hyden, G., 1988, "State and Nation under Stress". In Swedish Ministry of Foreign Affairs, *Recovery in Africa: A Challenge for Development Cooperation in the 90s*. Stockholm: The Ministry;
Beckman, B., 1988b, "Comments on Göran Hyden's State and Nation under Stress". In Swedish Ministry of Foreign Affairs, *Recovery in Africa: A Challenge for Development Cooperation in the 90s*. Stockholm: The Ministry.

undermined. The political crisis of the post-colonial state is simultaneously the political crisis of SAP.

Conclusions: Democracy and Social Contract

Empowerment for Some, Repression for Others

African leaders are advised by the World Bank to be tolerant and strive towards consensus and free debate. They should be accountable to their peoples and respect the rule of law and human rights. The liberal political message contrasts with the illiberal political practices of SAP. The imposition of SAP enhances political repression. The interventions of the "development community" reinforce rather than alleviate that tendency.

How can the liberal message of the Bank be situated in relation to these illiberal practices? First, the political liberalism of the message should not be exaggerated. A managerial perspective dominates. Empowerment has more to do with releasing the presumably dormant and repressed entrepreneurial talents and energies of "civil society" than with democratization. Similarly, accountability and the rule of law are related more to the development of an enabling environment for private investment than to the establishment of a democratic political order. While the managerial perspective dominates, the Bank simultaneously attempts to construct political legitimacy for SAP on a pluralist platform. The Bank responds to the erosion of the political capacity of the state which obstructs the implementation of SAP. SAP reinforces this process by further alienating the welfarist and nationalist aspirations that are attached to the post-colonial state.

The World Bank intervenes in an ongoing conflict within African society over strategy and state power. The Bank itself is one of the principal protagonists. It is partly a struggle of ideology, with neo-liberalism and nationalism as the main contenders. It is also a conflict of concrete social forces on the basis of their positions in the political economy and how they are affected by crisis and adjustment. The empowerment of the new order is juxtaposed to the "vested interests" of the old. The Bank seeks to undermine the legitimacy of the opposition by belittling, discrediting, and ignoring it. The "vested interests" are pitted against the "common man"; urban privilege against rural poverty. The dichotomies distort and obscure the nature of the social and political conflicts precipitated by SAP. In the new order of legitimacy, chambers of commerce and industry figure prominently while trade unions are conspicuously absent. Empowerment is for those who support SAP, not for those who oppose it.

Central to the legitimation exercise is the construction of a fictitious consensus encompassing the international "development community" and all except a small illegitimate minority within Africa itself. There is no recognition of contending forces. The liberalism of the Bank has no place for politics and contestation. It comes close when it speaks of the importance of "countervailing power", the absence of which explains, according to the Bank, why "state officials in many countries have served their own interests without fear of being called to account"[67].

The "countervailing powers" envisaged by the Bank, however, are all part of its managerial world of consensus and policy-making. It recognizes "intermediary organizations" because they create links "upward and downward" and bring "a broader spectrum of ideas and values to bear on policymaking". Professional associations of bankers, doctors, lawyers, accountants are useful because they are means of releasing "private energies and encouraging initiative at every level"[68]. It advises the state to engage in "systematic consultation with organized interest groups such as chambers of commerce and industry" in order to enhance accountability and responsiveness[69]. The non-recognition of divisions and contestation serves to conceal the partisanship of the Bank. The effort to assert ideological hegemony is part of the repressive political logic of SAP.

Where Does Democracy Come From?

The pluralism of empowerment stops short of democracy and is compatible with the current repressive political practices of SAP. The democratic claims on behalf of SAP, however, just as the claims to welfare, lie primarily in the future, beyond the current phase. A four volume study on democracy in the Third World sponsored by the US National Endowment for Democracy argues that "statism must be rolled back" if democracy is to have a chance: "the increasing movement away from statist economic policies and structures is among the most significant boosts to the democratic prospect in Africa"[70]. The vision is of a civil society that once liberated from an oppressive state, gives life gradually to the actors and institutions that ultimately will make the state accountable to the people. An enabling environment for entrepreneurs and market forces is therefore simultaneously enabling the future agents of democracy[71].

It is an attractive vision, especially if one is convinced about the virtue of the liberal economic reforms. In this case, democracy comes in the bargain; as a bonus. It is also attractive for those who are all in favour of democracy, in principle, but who may feel that Africa is not yet quite ripe

67 World Bank, 1989, p. 60-61, *op.cit.*
68 Ibid. p. 59-61.
69 Ibid., p. 5.
70 Diamond, L.; Linz, J.J. and Lipset, S.M. 1988, *Democracy in Developing Countries*. Vol II: *Africa*. Boulder & London: Lynne Rienner & Adamantine.
71 Hyden 1988; Beckman 1988b, *op.cit.*

for it, and that some reasonably efficient authoritarian management is the best bet for the meantime[72]. The vision is more disturbing when such promotion of an "enabling environment" goes hand in hand, as suggested above, with the suppression of organizations of "civil society" that can make claim to give voice to public grievances and that seek to defend some measure of autonomy *vis-a-vis* the state, such as trade unions and professional associations. Are today's democrats to be suppressed in the interest of those of tomorrow?

Where do democrats come from? What will make states more democratic, accountable, and respectful of law and human rights? In concluding this essay, I will argue that it is resistance to SAP, not SAP itself, that breeds democratic forces. SAP can be credited with having contributed to this development, not because of its liberalism but because of its authoritarianism[73]. The democratic forces grow from the confrontation between the state and organized social groups in society. The impetus comes from groups that feel threatened by the state and seek to resist repression. Organized groups, such as trade unions and professional associations play a particular important role.

The policies of SAP reinforce authoritarian and repressive tendencies in the state's mode of dealing with organized interests in society. In resisting SAP, interest groups seek to secure greater autonomy from the state. The confrontation enhances their stake in a pluralist political order. While in pursuit of the material interests of their members, interest groups enter into alliances in defence of autonomy and rights of organization. Demands for democratic reforms at the level of the state, including the reform of legal institutions and procedures, become tied to the defence of such organizational rights. They serve as a bridge between the material grievances of members and the question of the democratic constitution of the state. Interest group contestation of the legal and political regulation of their mode of operation is central to the process of democratization.

The emergence of democratic forces in opposition to SAP can be placed in a wider context of economic crisis and political reform. Recent developments, not only in Africa but even more prominently in Latin America and Eastern Europe, suggest that authoritarian regimes of both capitalist and socialist orientation are undermined politically by their

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72 Sandbrook 1985, *op.cit*;
Himmelstrand, U. 1989, 1989, Mamdani versus Hyden - Analysis of a Debate. Working Paper for the Project "In Search of New Paradigm for the Study of African Development". Nairobi;
Beckman 1988a, op.cit.; 1989, "Whose democracy? Bourgeois versus popular democracy in Africa". *Review of African Political Economy* 45/46.

73 Beckman 1990, *op.cit.*

incapacity to protect citizens against material decline. The political crisis is exacerbated by popular resistance to economic reforms, e.g. the removal of subsidies, retrenchments, cuts in public services etc., reforms that all tend to bring additional suffering.

Faced with resistance, regimes vacillate between economic concessions and political repression. The scope for either is constrained and the net effect may be long periods of political stalemate, as for instance in Poland, Ghana, Argentina and Zambia. The stalemate blocs economic reform and accelerates economic and political disintegration. As a result, regimes may be obliged to consider a trade-off between economic and political reform. Limited political concessions are offered in exchange for the acceptance of unpopular economic measures. The political capacity of the regimes, however, has further eroded as a result of the stalemate. Their bargaining position is weak. Factional divisions within the ruling power group, prompted by disagreements over the direction of the reforms, heighten the pressure for more far-reaching political concessions. The divisions undermine the repressive capacity of regimes and strengthen the autonomy of non-regime political forces. Repressive solutions become more costly and impracticable.

The dynamics of democratization in this scenario lies in the declining political capacity of authoritarian regimes in the face of growing resistance to its policies. The current move towards multi-party rule in Africa may illustrate this cycle of decline, repression, and concessions in the context of economic crisis and reform. Rather than being encouraged by the "successes" of SAP this process has been hastened by its failure to deliver material improvements to constituencies significant to the reproduction of existing authoritarian regimes.

This may, for instance, explain why the repressive arrangements that so far have sustained SAP in Ghana has come under increasing pressure. The populist institutions under which SAP was imposed are cracking as evidenced by the current democracy debate which is breaking out from the tight reins imposed by the regime. The rise of the Zambian democracy movement, spearheaded by trade unions and defiant of SAP, may point in a similar direction[74]. In Mozambique, the political openings in pluralist direction of early 1990 were preceded by a strike wave, precipitated by workers' grievances against SAP[75].

74 Akwetey 1990, *op.cit.*

75 Hermele, K., 1990, Stick or carrot? Political alliances and conditionality in Mozambique. Paper to CMI/SIAS/UNRISD Joint Symposium on Social and Political Context of Structural Adjustment. Bergen, October.

Towards a Social Contract?

The argument may be extended to the process of state formation. Where does "good governance", rule of law and accountability come from? The World Bank advises leaders to set good examples. They should disabuse themselves of corrupt habits. From its managerial perspective, rule of law and accountability are primarily about enforceable contracts, predictability, and cutting the costs of corruption. The "empowerment" of the business communities and their organizations may be helpful in this respect. What about the wider relation between ordinary people and the state? Who, for instance, is accountable for SAP? Different aspects of the state and the legal system have different constituencies. The protection of contracts and the protection of trade union rights are demanded by different social forces. The pressures for accountability and the rule of law need to be situated in the context of conflicting interests and antagonistic social processes.

Resistance to bad laws and corrupt and arbitrary officials is a motor for the disciplining of the state. As in the case of democratization, the state is moulded by interacting processes of resistance, repression, and concessions. The outcome of may be a "social contract", recognizing the limits imposed by the balance of social forces on the scope for either repression or resistance. Can a social contract be worked out between the state and the organized interests opposed to SAP? Attempts by governments to override, sidetrack, or ignore interest group opposition are self-defeating. The failure of the state to recognize the limits of its own power is a major reason for the stalemate that characterizes so much crisis management in Africa (and elsewhere!). Foreign intervention tends to reinforce the impasse by propping up and shielding regimes from local political pressures. While succeeding temporarily in shifting the balance of forces in favour of ruling coalitions, such interventions simultaneously undermine the process of accommodation that may be required for more lasting solutions.

The World Bank report is part of this intervention, obstructing a social contract. Its own contribution is the effort to de-recognize, de-legitimate the forces opposing SAP. It is as unhelpful to the process of state formation as to that of democratization.

Does the World Bank underestimate the resistance to SAP? Would SAP be alright if the World Bank showed greater understanding and recognition of the forces opposing SAP? Would a social contract be possible if regimes were encouraged to talk to them rather than repress them? It is more reasonable to assume that the World Bank knows what it is doing and that it is as well informed as any of us. It does not "fail" to understand or recognize the opposition to SAP. It is engaged in a deliberate effort to suppress it, precisely because that opposition threatens its own project: the opening up of Africa to the forces of world capitalism. It is a long-standing project. It does not begin with SAP. The World Bank has been in Africa since the early stages of the decolonization process with such a mandate. The current economic crisis has merely created an exceptionally favourable political conjuncture for destroying some of the obstacles that stand in the way.

Any effort to establish a genuine, non-repressive social contract for economic and political reforms in Africa must start from a recognition that resistance to SAP is able to draw on the broad popular aspirations for economic, social, and political emancipation embodied in the nationalist movement. The efforts by the World Bank to reduce opposition to a defence of narrow vested interests and irrelevant foreign ideologies are counterproductive. The Bank may operate on the seemingly comfortable assumption that the post-colonial state project has effectively discredited itself and therefore cannot provide a platform for a viable alternative to SAP. It fails to distinguish between the performance of post-colonial regimes and aspirations of the national movement. The failure of the post-colonial state does not make those aspirations less potent. On the contrary, the frustration experienced in the face of failure is for many a basis for a rediscovery and reassertion of betrayed objectives.

The nationalist, developmental and welfarist visions of the independence movement continues to be a major ideological force in Africa. The reconstruction of a national project on the basis of that ideological tradition is the principal challenge to SAP. Due to the experience of repression and resistance, there is a chance that such a reconstituted national project may be a good deal more democratic in its orientation that either the original post-colonial project, or that of SAP.

African Domestic Structure, Deepening Crisis and the Current Adjustment Program

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Résumé: *Dans cet article, l'auteur étudie la structure de l'économie africaine, la crise croissante ainsi que le rôle du programme d'ajustement structurel actuel dans la solution de cette crise. L'auteur y analyse les rapports entre la crise actuelle et les stratégies de développement mondial depuis les années 1950. Il y étudie également les rapports entre la structure de l'économie africaine et la crise croissante telle qu'elle est modelée et accentuée par l'impérialisme et les multinationales pour en déterminer leur rôle dans la réussite des programmes d'ajustement structurel en cours d'exécution sur le continent. En conclusion, l'auteur estime qu'il est nécessaire d'inclure la dimension "ajustement structurel" dans les réformes en cours en Afrique. Cela est d'autant plus important que les pays européens comptent mettre en place un marché interne unifié en 1992.*

Introduction

In this paper we look at the African domestic structure, the deepening economic crisis and the role of the adjustment program being articulated in almost all African countries in addressing the crises. Obviously, a detailed work of this nature will no doubt require a thick volume. However for brevity, we attempt a sketch here. This introduction only provides justification for the work while the rest of the sections looks at the structure of African economy as shaped by imperialism and transnational corporations, the deepening crises, the place of the current adjustment program in the continent and the conclusions.

The number of African countries, from the Mediterranean to the Cape, implementing one or other form of adjustment/stabilization program under the auspices of the IMF and or the World Bank has increased tremendously over the years following the deepening economic crisis since the early 1980s. By January 1987, over 50% of countries in Africa were implementing one type of program under the supervision of the IMF and the World Bank[1]. And with respect to standby arrangements or extended fund

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1 See Onimode Bade, *A Political Economy of the African Crisis*, Institute for African Alternatives, Zed Book Ltd., London 1988, p. 228.

facility, the percentage of such loans taken by African countries increased from 3% in 1970/78 to 30% in 1979/80[2].

Undoubtedly, African countries succumb to the adjustment program and or the extended loans facility with the hope of achieving better resource allocation and higher economic growth rate. Ironically, the greater the number of countries implementing and or taking the adjustment and or the loans as the case may be, the deeper the continent sinks into crisis. The economic scoreboard of the continent registers high food crisis, deplorable mass poverty, decimated disease, pervasive illiteracy, technological backwardness, prostrate external dependency and mounting foreign debts.

Given these scenario, it sounds logical therefore to look at the structure of the African economy, the deepening crisis and the role of the adjustment program being implemented currently in solving the crisis. Besides, a careful examination of the African domestic structure and the deepening crisis will shed more light on the probable solutions to the problems.

World Development-Strategies and the Deepening Crisis: Any Linkage?

The need for any pervasive adjustment like the one being implemented in many African countries was not considered a crucial issue in the 50s and 60s. Adjustment if any, took the form of short term stabilization policies to fine tune the economy. This was due to the global expansion of production and trade that occurred during these periods. Moreover, the world economy was characterized by full employment with little inflation[3]. The industrial economies witnessed increases in output, trade, technological capacity, acquisition of planning experience. This was to be transmitted to the newly independent African countries during these periods.

Though the development strategy which started with great emphasis on physical capital accumulation, later physical and human capital combined and subsequently imports substitution yielded favourable economic environment as pointed out above, it equally led to some problems which manifested vividly in the 70s and 80s. One, there was the development of inegalitarian pattern of development and long term problems with demand for manufactured goods as it was discovered that the source of the increased domestic savings and investment was the inequality of income distribution and squeezing of the agricultural sector rather than the mobilization of latent surplus labour[4]. Two, the excessive emphasis on aid flow (mostly official)

2 We expect the figure to have risen phenomenally sequel to the harsh economic condition since the beginning of the 80s.

3 Singer, W. Hans, 'Lessons of Post-War Development Experience', *Africa Development*, Vol. xiv, No. 3, 1989, p. 1.

4 Ibid., p. 3.

apart from making growth rather exogenous in character equally serves as the root of the current debt problem as private capital inflow constituted the largest shares of aid to the developing countries. Three, the import substitution strategy rather than really substituted for import led to increased demand for intermediate and capital good imports thereby constraining the available foreign exchange especially in the developing countries.

In addition, another problem of the decade relates to the neglect of agriculture. This was as a result of the unjustified passive or negative role ascribed to agriculture namely:

- to provide rural surplus labour as the cannon fodder of industrialization;
- provision of a market for industrial goods, and
- to provide the raw materials for processing by the prominent textile, leather and other industries.

The main reasons for this view on agriculture has been enumerated by Singer[5] as: one, the justified pessimism about relative prices of primary and agricultural products; two, the unjustified belief that technical progress in agriculture would be slower and more difficult than in industry; three, the 'urban bias' injected into development policies by the disproportionate political influence of the urban minority compared with the rural majority and lastly, the overvalued exchange rates typical of countries engaged in import substituting industrialization which not only discourage agricultural export but also encourage competing imports.

Another disturbing feature of the late 60s was the increasing world inflation and the falling prices of agricultural prices as well as the increasing cleavage among developing countries. Apart from the increase in world prices, agricultural prices failed to increase with consequential effect in the LDCs as their main sources of foreign exchange was exports of primary products. Growth turned out to be distinctly faster and easier among middle-income countries than among low income countries. Specifically, during the last five years of the period (1965-70), the per capita income of middle-income countries, at 3.8% per annum increased almost twice as fast as the low income countries at 2.2%[6].

Given these disturbing features and problems of the 'Golden Years' - 1950s and 1960s, one cannot but doubt the possibility of growth in the 70s. The decade witnessed the collapse and disintegration of the Bretton Woods system thereby ending the era of fixed exchange rates and destroyed the

5 See ibid., p. 8.
6 Indeed, the rate of growth of the middle-income developing countries was recorded to have grown slightly faster than that of industrial market economies, see Singer, W.H. op. cit., p. 9.

foundations of even the truncated Bretton Woods which had emerged. This system collapsed as it could no longer cope with the adjustments required when countries started inflating at quite different rates and the payment imbalances between the industrial countries.

However, a major development in the world economy was the quadrupling of oil prices in 1973/74 and 1979/80. One would have thought that these developments would have precipitated a broader assertion in commodity power and a fundamental disorganization of the international economic relations. However, this was not achieved. As expressed by Singer:

> *The way the oil surpluses were recycled through Euro-dollars and the commercial banks of the industrial countries, as well as the new non-Kenesian deflationary response of the industrial countries together ensured that the net outcome would be adverse to the Third World. Not only was the opportunity lost, but it turned into a trap: the term 'debt trap' which became current in the 80s*[7].

In spite of these developments, the developing countries made tremendous progress in terms of manufactured trade. Also, the world economy, except the sub-Saharan countries, witnessed remarkable growth in GDP though found to be sustained by the TNCs (Transnational Corporations) - a development we noted earlier, was precipitated by the preponderance of private capital inflow over the envisaged official aid. This increased growth rate of GNP was equally found to be associated with inflationary pressure and balance of payments problems in the industrial countries while it precipitated increased unemployment and under-employment, increased poverty and greater income disparities in the developing countries - a development which led to the adoption of employment and redistribution as policy objectives not only in the LDCs but also in the developed countries.

The adoption of employment-oriented strategy was as a result of increasing unemployment and underemployment both in the rural and urban areas. The strategy necessitated the concentration of attention on employment - intensive technologies and establishment of small scale industries as it was thought more employment intensive than the large scale production. In addition, with employment moving to the center as the crux of development such human capital aspects as training, skills, health and other factors in productivity were emphasized more than physical capital accumulation[8].

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7 See ibid., p. 13.
8 Ibid., p. 14.

However, this development equally brought in its wake some problems. The employment oriented strategy apart from conflicting with the increasing role of direct foreign investors and multinational corporations, also failed to account for the problems of access to health, education and other social infrastructure. But these problems did not in any way overshadow the positive impact of the strategy. The shift of strategy towards redistribution, with growth which emphasized the cumulative causation of growth and redistribution was an attempt to redress the problems associated with the employment oriented strategy and to enhance its positive impact. This was later to capture the interest of the World Bank in the early 70s - a development which made the institution a leading advocator of redistribution with growth.

In summary and as evidenced from the above discussion, the current deepening crisis especially in less developed countries (LDCs) cannot be totally divorced from the adopted development strategies since the 'golden decades' (1950s and 60s). The adoption of inegalitarian pattern of development, the unjustified passive role ascribed to agriculture, the substitution of private aid for official one and the adoption of import substitution strategy among others helped in no small measures in laying the basis for the current crisis.

African Domestic Structure and the Deepening Crisis: Derivative of Imperialism and Multinational Activities

The burden of the above section of the paper was to show the cumulative nature of the current crisis and the role of the world development strategy in fostering crisis in the LDCs, Africa inclusive, thereby showing that the 'petroleum decline', 'policy' and 'underlying influences' are very superficial ways of understanding the deepening economic crisis in Africa. The continent is part of the capitalist world system. She is a peripheral capitalist or neocolonial continent. And various strategies have been and still being articulated to integrate the continent the more into the capitalist system.

Before the 'Golden decades' 1950 and 1960s, the strategy for initiating the underdevelopment of the Third World have been properly documented by economists[9]. This consisted of the barbarious enslavements of African peoples and the subsequent colonization of the so called 'unoccupied' lands. These mechanisms generated most of the primitive accumulation through open plunder or the extraction of absolute surplus value for launching the Industrial Revolution in Britain, before exporting it to the rest of the

9 See Rodney Walter, *How Europe Underdeveloped Africa*, Dar-es-Salaam, Tanzania Publishing House 1972, Onimode Bade, *Imperialism and Underdevelopment in Nigeria: The Dialectics of Mass Poverty* (London: Zed Books Ltd. 1982; Nkrumah, Kwame, *Neo-colonialism - The Last Stage of Imperialism* (London, Panaf., 1971).

imperialist world[10]. Thus, the expanded reproduction of capital or capitalist accumulation on a global scale and the specific reproduction of neoclassical class structures formed the major source of underdevelopment in Africa. As put by Foller Frobel et. al.:

> *The development of the presently underdeveloped countries is determined by the development of capital in the already developed countries. The relationship between the two groups of nations has evolved in such a way that a large part of the economic surplus of the underdeveloped countries is transferred through a variety of mechanisms to the developed countries. The relationship between the two groups is one of dependency and domination. The functional relations are mediated most visibly through the process of capital accumulation and the expansion of big enterprises of the developed countries. The development of the socio-economic structure, which reproduces the relationship of dependency and domination, derives directly from the production and the extended reproduction of the capitalist mode of production*[11].

This apart, the integration of the African economies into the imperialist orbit made her an extension of the industrial capitalist - countries. In this wise, the capitalist cyclical and existential crises are transmitted usually in more severe form to the African economies. Therefore, the deepening economic crises in the continent could not be attributed to the petroleum crisis, underlying forces, disflationary policies by major industrial countries as claimed by the World Bank[12]. Rather, it should be linked to the crises that the capitalist world has been passing through since 1980 which involves a normal (or conjectural) economic crisis, the contraction phase of a kondratieff decline and the financial and other woes associated with the general crisis of capitalism.

Not this alone and as we mentioned earlier, there was the preponderance of private capital inflow in contrary to the much-hope for Marshall type flow of the external resources which was supposed to supplement domestic savings and prevent balance of payments difficulties. Though the doubts and skepticisms expressed against the positive effect of the injection of the Marshall Plan type, whether bilateral or multilateral, would have had in the

10 See Nabudere Dan, *The Political Economy of Imperialism* (London: Zed Press, 1978), Onimode, Bade, "Critical Issues in the Reproduction of Underdevelopment" in Z. Osayinwese (ed.), *Development Economics and Planning, Essays in honour of Ojetunji* Aboyade, Ibadan University Press, 1983 and Rodney, Walter, op. cit.

11 Quoted from Frobel, Folker et. al., 'The Internalization of Capital and Labour in D.L. Cohen and J. Daniel (es.) *Political Economy of Africa* - Selected Readings, London, Macmillan 1981, p. 12.

12 See World Development Report, 1984, p. 11.

developing countries, have not been put to thorough empirical test/or supported with convincing evidences. But much more convincing is the fact that the substitution of private capital for official aid at concessional terms apart from laying the basis for the current debt problem and making the source of growth of the golden years inevitably exogenous; and often enclave in character rather than representing a truly national capacity[13], equally provided impetus for greater multinational exploitation of the African continent, as it represented direct investment by multinational corporations, often in the form of subsidiaries.

Needless to explore the far historical past, the stagnation of aid in the 80s from the Western countries in the face of increased private capital inflow facilitated both by the maintained credit worthiness of developing countries bolstered by commercial bank lending of recycled OPEC surpluses, and also by the revolution of communications which made internationalizations of operations much easier led to the increase control of the manufacturing industries in developing countries by the foreign firms. Multinational corporations accounted for over 50% of all foreign investments in Gambia, Swaziland, Chad, Somalia and Burundi in spite of the smallness of both foreign investment and manufacturing sector in these countries[14].

Naturally, one would have expected the processing level and value-added to have increased with the rising investment in manufacturing by the multinationals, expectedly, considering their exploitative nature, the reverse is the case. As noted by Onimode[15], most multinational manufacturing in Africa, consists of consumer goods and assembly plants for brewery, sugar and flour mills, textiles, matches, assembly of bicycles, motor cycles, transistor radio, refrigerators, cars etc. with very high import content of over 90% for the turn-key projects like the assembly of completely-knocked-down parts (CKDs).

Thus in view of the nature and character of multinational investments and operations in Africa, the burden of the capitalist industrialization thesis that multinational corporations constitute the 'freewheel' of growth in underdeveloped countries is spurious and untenable. It is facile and untenable for obvious reasons. One, the developing countries are in need of development rather than growth per se. The former is more encompassing and imply a drastic reduction in external dependence. Two, the nonexistence of the conditions necessary for multinational transformation of most African countries have excluded them as model of multinational success. In fact, the

13 See Singer W. Hans, op. cit., p. 14.
14 See Onimode, Bade, op. cit., p. 52.
15 Ibid., p. 55.

second reason accounts for the concentration of the multinational corporations into the potentially rich countries such as Nigeria, Kenya and Zimbabwe[16].

Essentially, the imperialist dependence which has generated surplus drain from the African economies, the extroversion and disarticulation of the continent through the activities of the multinational corporations have created serious distortions and furrows in these economies. One, African economy was made an essentially exchange economy with distinct structures such as:

- the predominance of commercial and trading activities,
- satisfaction of consumption and investment requirements through exchange process based on imports and exports, and
- structural dependence of dominant sectors on export markets[17].

In addition to the exchange oriented nature of the African economy, the production base is not only narrow and weak but also characterized by weak inter-sectoral linkages. The African economy as a matter of deliberate policy and specifically based on the Ricardo's static theory of comparative advantage was condemned to specialize in the production of agricultural and mineral products in exchange for the industrial manufacturers of imperialism. While it can be argued that the specialization on the production of agricultural commodities alone should not have posed serious problem if properly harnessed and developed, the negative impact of the policy, is better appreciated when one notes that the prices of these commodities are dictated by industrial countries. Thus, as a matter of deliberate policy, prices are kept low in order to provide cheap raw materials for imperialist industries - the end products of which are sold to the continent at high prices.

Another visible structure of African economy engendered by the MNCs relates to sectorial and regional imbalances, income, wealth and other structural inequalities and a warped industrialization program[18]. The concentration of the Multinational Corporations (MNCs) on the lucrative sectors (basically for their selfish interests) at the expense of other sectors such as agriculture has manifested in stagnated agriculture, the collapse of the rural economy and food crisis all over Africa. Concern with growth rather than broad based development resulted in uneven and imbalanced socio-economic development. These sharp contrasts existing between

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16 The richness of these countries in terms of natural resources enables the multinational corporations to reap large profits.

17 See Economic Commission for Africa (ECA), *A Framework for Transformation and Recovery in Africa*, International Workshop on Africa's Perspectives and Structural Adjustment, Addis Ababa, Ethiopia, January 5-7, 1989, Chapter 1, p. 4.

18 Onimode Bade, op. cit., 1988, p. 61.

different social classes, between the rich and the poor and between regions of the same country eloquently manifested in further economic and social dislocation and discontent and thus persistent crises in the continent.

Apart from the imbalances that characterized the African economy, its openness and dependency bolstered by the MNCs imposed import substitution development strategy were equally important. The increase integration of most African countries into the imperialist orbit through greater multinational investment, and the investment in manufacturing of semi-luxury and luxury consumer goods in the absence of essential manufactured goods and capital goods manufacturing sub-sector of heavy industries has made the African economy to be highly open and dependant.

This overconcentration on frivolous semi-luxury consumer goods not only engendered perverse imported consumption habits especially among the elite minority, but also occasioned increase share of manufactured import raw materials and capital goods in Africa's total import bill - a deleterious consequence of which has been a drain of the meagre foreign exchange earnings which manifested in chronic balance of payment problems in the continent and low value-added. A related aspect of this product mix is that it panders to perverse inappropriate industrial technology in the continent. The implication of which includes exaggerated demand for capital, especially imperialist capital with its associated costs, the undue dependence on imported technology and serious unemployment as well as under-employment.

The prostrate openness and dependence of the African economy associated with imperialism and MNCs activities are reflected in external leakages in the form of profit repatriation, overinvoicing of imports, underinvoicing of exports, payments for services like shipping, tourism etc., adverse terms of trade, losses of external reserves and other foreign exchange transactions through exchange rate volatility; the leakage abroad of the multiplier and accelerator effects of domestic investment; capital flight and the brain-drain of skilled manpower from Africa to advanced countries due mainly to low and falling incomes[19].

Therefore on account of the critical role of imperialism and perverse activities of multinational corporation in shaping the African domestic structure analyzed above, the economic woes of the continent rather than abating, has been deepening. In particular, the 1980s became a distratrious decade and the continent rapidly acquired the character of a marginalized

19 See Economic Commission for Africa (ECA), *African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation*, AAF, SAP, 1989, p. 5.

'fourth world' increasingly recognized as requiring special action and special criteria[20]. The BERG[21] report was a product of this rising concern.

Essentially, the surface manifestation of the deepening crisis in Africa has been vividly summarized by Adedeji in his statement that:

> *The African continent, in addition to being faced with the rapidly deteriorating food situation and increasing dependence on food aid and food imports, continues to face ominous accentuation of mass poverty, the risk of natural resources depletion and of environmental degradation. Life expectancy at birth remains low, while nutritional deficiency and the danger of physical disintegration remain serious. The continent is plagued with large scale unemployment and inflation, and continues to labour under the crushing burden of inherited alien socio-economic structures and patterns*[22].

In respect of GDP, while 12 African countries had negative annual growth rate of GDP per capita (that is per head of population) during 1960/70, 20 countries had negative annual growth rate in 1970/76 and over the five years 1982/86, the cumulative percentage falls in per capital GNP totalled 16.5% for sub-Saharan Africa. And, for the continent as whole the growth rate of per capita GDP dropped from 3.03% in 1978 to -0.7% in 1988. On the average, per capita income in Africa declined by 0.4% per year in the 70's[23] while for 1960/79, the per capita income growth rate was negative in 8 countries, 0 to 1% in another 10 countries and 1 to 2% in five others[24]. The situation has worsened as the continent's average per capita income which was US$864 in 1978 now stands at US$565[25].

Moreover, the volume of agricultural exports which fell by 20% in the 70s experienced further decline in the 80s as the economic crisis deepened. The declining production of agricultural production manifested seriously in massive food imports into what is a primarily agricultural continent. As documented by the ECA[26] by 1980, each African Country had an average food import bill of US$102 million for cereals and livestock. For non oil

20 See, e.g. Organization for Economic Cooperation and Development (OECD), *Development Cooperation, Efforts and Policies of the Members of the Development Assistance Committee*, Paris, November 1980, pp. 29-50.

21 World Bank, *World Bank Accelerated Development in sub-Saharan Africa: An agenda for Action*, Washington, D.C., 1981.

22 See Adebayo Adedeji, *The Indigenization of African Economies*, New York, Holmes & Meier, 1981.

23 See World Bank, *World Development Report*, Washington, D.C., 1981, p. 3.

24 See World Bank, *World Bank Development Report*, Washington D.C., 1982.

25 See Salim, A.S., 'Challenge of Europe '92 to Africa', *The Guardian*, Wednesday, July 4, 1990, p. 15.

26 Economic Commission for Africa (ECA), *Beyond Recovery: ECA's Revised Perspectives Study of Africa's Development Prospects 1988-2008*, December 1988, pp. 1-20.

producing African countries, the total food import bill which in 1973 was US$1.9 billion rose to US$6 billion in 1980. The share of industry in GDP which showed modest increase in the golden decades fell back drastically in the 1980s. The magnitude of deindustrialization in the continent was terribly high. In sub-Saharan Africa, deindustrialization was astronomical such that the share of industry in GDP was brought below the prevailed level in 1970. Industrial output declined absolutely by 2.8% per annum during the first half of the 1980 decade. The same situation obtains for highly indebted countries and high income oil exporters[27].

The terms of trade shock inflicted upon the continent since 1979 has been described as brutal[28]. The term of trade of African continent already weakened in 1978-80 deteriorated further during 1981-86. The cumulative percentage decline was 34.1% for sub-Saharan Africa and 17.3% for the highly indebted countries. The picture could have been more graphic if the substantial increased cost of borrowed capital both from bank and supplier, from IMF and the World Bank as well as the surcharges were to be added to the term of trade figures. The extent of export collapse is better appreciated when noted that the signatories to the Lomé Convention, mostly Africans, submitted claims for compensation-grants for the poorest and credit for the better off - that were double the available budgeted resources in 1980 and four times these resources in 1981. As rightly pointed out by Helleiner[29], the treaty stabex support scheme for exports earnings was considered imperfect and inadequate even before the current disaster in view of the highly limited conditions under which support would be offered and its failure to offer compensation for the effects of increases in import prices.

The net effect of this has been persistent decrease in average per capita income and worsening balance of payments problem. Inflation become skyrocketed while official development assistance was reduced. The International Development Association credits to Africa and Asia was reduced as a follow up to that of the United States.

Expectedly and in consequence of the above facts, Africa's foreign debts have been piling up with the debt service reaching 4.3% of GNP and absorbing 19.7% of export for the developing countries and 29.6, 27.8% for sub-Saharan Africa and highly indebted countries respectively. Specifically, the total African debt of US$48.3 billion in 1978 has increased to US$230 billion in 1988 and US$250 billion in 1989[30]. external debts in 1987

27 See Singer, W. Hans, op. cit., p. 21.
28 Helleiner, G.K., 'The IMF and Africa in the 1980s, *Africa Development*', vol. viii, No. 3, p. 45.
29 Ibid., p. 45.
30 See Salim, op. cit., p. 15.

exceeded three years export for both sub-Saharan African and the heavily indebted countries[31].

Evidently, for the African continent the constellation of circumstance could not have been worse. These as enumerated by Singer[32] were:

- reduced import volumes by the developing countries with recession and protectionism interacting in the same direction;
- high unfavourable terms of trade, as a result of both high oil prices and a deterioration of other commodity prices in relation to other manufactured imports from industrial countries (the latter increased by high energy costs);
- a reduction and, later, virtual cessation of commercial bank lending and a rise in real interest rate so that debt burdens were increased both through lower export earnings and higher service payments simultaneously;
- a strong appreciation of the dollar in the early 1980s resulting from high rate of interest; and
- spreading 'aid fatigue' among industrial countries due to both the recession and the spread of monetarist neo-liberal ideologies.

All these circumstances with the crisis generated domestic structure created by imperialism and the perverse activities of the multinationals conspired to trap the continent in the crisis of underdevelopment represented by disarticulation, structural distortions, external dependence, low capacity, technological backwardness and mass squalor as well as deepening economic crisis vividly discussed in this paper.

Perhaps the situation could have been a bit different but for the neo-liberal ideology which preached all out outward orientation and market orientation as the secret of successful development that caught the fancy of the bastions of financial powers in the industrial countries and the leading financial institutions.

This neo-liberal ideology assigns a much greater role to the prices and markets as efficient resource allocators as against administrative regulation or control. Likewise, it advocates trade liberalization, massive devaluation for correction of over-valued exchange rate in the economy, privatization of public enterprises, drastic subsidy withdrawal and expenditure cuts in all sectors; credit and wage freeze with increase in interest rates. Clearly, these policy action form the content of the IMF and World Bank structural adjustment program now impressed upon the continent.

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31 See World Bank, *World Development Report*, 1988; Fidel Castro, *The World Economic and Social Crisis Report to the Seventh Summit Conference of Non-Aligned Countries*, Publishing Office of the Council of State, Havana, 1963.

32 See Singer, W. Hans, op. cit., p. 22.

African Deepening Crisis and Structural Adjustment Program: Any Hope for Recovery?

Realistically, given the grim picture of the African continent analyzed above, the insistence on adjustment in the continent is justified as an inescapable necessity though not as a policy foisted on the continent by the international financial institutions. Adjustment is needed to address the real structural problems imposed on the continent through imperialism and the perverse activities of the multinational corporation in order to bring about the permanent development of the region. However, the basic issue is the relevance of the IMF and World Bank orthodox adjustment program being articulated in the continent when viewed along with domestic African structure previously analyzed in the paper.

African domestic economic structure as analyzed earlier on in this paper is basically exchange oriented, narrow and weak in production base, extremely open and highly dependent thereby making it susceptible to external shocks. Significantly, of course, this structure of the African economy has major implications for structural transformation and recovery. The structure constitutes the main areas of Africa's developmental bottlenecks to which strategies, policies and program must be focused to effectuate transformation and recovery in the continent. Two, as earlier indicated, the in-built tendency of the African economy to generate crisis resulting from the distorted economic, political and social structures of the continent vividly demonstrate that African crisis have been derivative crises, transmitted to Africa largely from the crises of the advanced countries.

Given these two facts, it is glaring therefore that the structure which the IMF and the World Bank adjustment policies seek to redress are the financial structures rather than real structures. In the words of Onimode:

> *Those are the ephemeral structures of prices, trade, money and foreign exchange. Yet these are at best subsidiary or auxiliary structures, and not the fundamental structures that generate crises in Africa and the rest of the Third World. The relevant fundamental structures that demand adjustment are those of the capitalist international division of labour, of production, consumption, accumulation, technology and dependency in the poor countries*[33].

In this wise, two issues stand out clearly. One, if the financial balances or disequilibria are eliminated, the fundamental structures will still remain if not aggravated. Two, the very nature of development or transformation is a

33 Onimode Bade, *A Political Economy of the African Crisis*, Institute for African Alternatives, Zed Book Ltd., London, 1988, p. 291.

disequilibrium process that must create disequilibrium. It follows logically that attention should not be focused on removal of disequilibria or imbalances per se but on the need to increase the pace of development and satisfying the critical needs of the majority of the population in the process[34]. This in fact form the reasoning behind the formulation of the African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation.

Leaving aside the issue above, there is the crucial issue of equity and efficiency in the distribution of the burden of adjustment. As noted by Dell[35], the IMF appears to shrug off its responsibility for ensuring that the burden of adjustment is distributed equitably and efficiently among countries. If the African crises are derivative crises, resulting from the structure and operations of the international capitalist system as mentioned earlier, it amounts to 'high handedness' or 'overkill' to impose adjustment on the economies of the individual debtors and deficit countries realizing the fact that the deficits and debts of these countries constitute the surpluses and credits of others. Symmetry in the adjustment process not only make for equity in the sharing of adjustment burden, but equally serves as basic ingredient of efficiency. As vividly expressed in the economic report of the President, United States:

> *If countries on both the deficits and the surplus side of a payments imbalance follow active policies for the restoration of equilibrium the process is likely to be easier than if the deficit countries try to bring about adjustment by themselves. Deficit countries would in any case be unable to restore equilibrium unless surplus countries at least followed policies consistent with a reduction of the net surplus in their payments position*[36].

But at a time when many are clamouring for symmetry in adjustment burden, the industrial countries are intensifying their protectionist measures and equally reducing their flow of development assistance thereby increasing the burdens imposed on the deficit and debtor countries. Besides, the particular mix of fiscal and monetary policies adopted by the industrial countries in dealing with inflation; and unilateral increase in the rate of interest have aggravated the imbalances in the deficits and debtor countries[37].

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34 Economic Commission for Africa, op. cit., 1989, Chapter 1, p. 11.

35 Dell, Sidney, 'Stabilization: The Political Economy of Overkill', *World Development*, vol. 10, No. 8, 1982, p. 600.

36 See Economic Report of the President, Washington, D.C., U.S. Government Printing Office, 1978, pp. 124-125.

37 Dell Sidney, op. cit., p. 602.

No doubt these policy actions are clear manifestation of the intention of the advanced countries not only to evade their necessary share of the adjustment burdens but also a deliberate effort to perpetuate crisis in the developing countries. For one thing, the intensification of protectionist measures by the advanced economies contrast oddly with the efforts to induce developing countries to rely on market forces in the adjustment process. Increase restrictive measures by the advanced countries means reduced exports of the debtor or deficit countries particularly African countries, and thus dwindling foreign exchange earnings. And in fact if development and free market system were to be highly and positively correlated as assumed in neo-liberal prescriptions, there would be no dichotomy between developed and underdeveloped economies realizing the fact that government intervention in the latter occurred after their independence - most of which happened only recently[38]. Really, based on historical facts there is not a single industrial country that did not employ rigorous protection at some stage in its history. In this wise, any case against regulation, if at all, in LDCs should not be premised on the inherent superiority of market forces but rather on the inability of the developing countries to muster the required administrative resources necessary for extensive or detailed regulation and the difficulty associated with ensuring that regulation are not biased against the majority.

Moreover, liberalization incorporated in the adjustment and justified on the ground that given certain conditions such as perfect competition and free flow of information, free market equilibrium entails the maximization of efficiency in the *Pareto Optimum* sense[39] is unrealistic. Economic efficiency in *Pareto Optimum* sense by reflecting static efficiency alone, that is, neglecting both dynamic and distributional aspects, makes it conceivable for a *Pareto Optimum* to correspond to an inefficient distribution of income. And, in fact considering the peculiarities of the continent emphasis should be on dynamic and distributional efficiency rather than static efficiency. This same domestic structure of the continent rules out the efficient and effective operations of the market mechanism as the prerequisites are clearly not obtainable.

The insistence on exchange rate adjustment and other outward looking policies as means of encouraging export supply and for reducing aggregate demand for imports in LDCs with increased protectionism in the advanced countries shows the outright inconsistency in IMF/World Bank stance. Exchange rate adjustment and trade liberalization set simultaneously together, in the face of inelastic demand for imports will precipitate not only

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38 Ibid., p. 606.

39 Griffin, K.B. and Enos, J.L., *Planning Development*, Addisson Wesley, 1970, p. 29.

increased demand for finished goods (though compatible with the real intention of the industrial countries), but also increased input costs as the continent relies on imported raw materials for their industries, thanks to the imperialist international division of labour and the multinational corporation activities by which the continent is condemned to produce only agricultural products and to rely on imported raw materials for their industries. Moreover, since imports are inelastically demanded and devaluation taking place when the trade balance is initially in deficit, the effects of rising tradeable prices would be a loss in aggregate real income since expenditures on imported goods are likely to offset the possible increased profits to the exporters[40]. Here, income would be leaked through import thereby precipitating the economies to contract.

Besides, the effectiveness of exchange rate weapon in raising the supply and export of tradeable agricultural products in the continent and other LDCs is shrouded in doubts. These skepticisms and doubts have their origins in the elasticity pessimism which have been justified in many countries. What evidence there is suggests that the main impact of change in nominal exchange rates was on the rates of domestic inflation rather than on real exchange rate. Even, when assumed that the supply of these agricultural commodities are relatively elastic, the insistence on exchange rate devaluation by IMF/World Bank by countries exporting identically the same products, seems to be a calculated attempt to set the countries against each other; for as noted by Singer[41], in trying to expand exports simultaneously; this can be self defeating due to the fallacy of composition and the possibility of immiserising growth.

Another crucial issue relating to the adjustment program is its eclectic approach as manifested in the basic assumption that it is possible to temporarily deflate, arrest growth, reduce government expenditure etc. while at the same time gathering strength for a new and hopeful sustained period of growth and development. This belief lacks historical precedence as growth and development are historically viewed as a process of cumulative causation or a system of beneficial or vicious circles or spiral[42]. If growth and development are of cumulative causation based on prevalent thinking, it sounds incongruous to deliberately hold back growth at time (t) with the intention of resuming faster growth and development at time (t+1).

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40 This is basically Krugman - Taylor effect of devaluation. See Krugman, P. and Taylor, L., 'Contractionary Effects of Devaluation', *Journal of International Economics*, vol. 8, No. 3, 1978, pp. 445-456.

41 Singer, W. Hans, op. cit., p. 26.

42 Ibid., p. 24.

This thinking apart from being based on uncertainty, that is, uncertainty about the future, it equally overlooks the possibility of each cutback in growth, expenditure, etc. making it more difficult to resume future growth from such weakened position or even leading to further deterioration in growth rate. In other words, a reduction in growth, expenditure saving etc. today leading to lower growth and development tomorrow. This may be possible when one considers the structure of African domestic economy analyzed earlier in this paper.

Thus, taking cognizance of the problems x-rayed above, it becomes obvious that the IMF and the World Bank adjustment program being currently implemented in the continent will not solve the deepening crisis in the continent. These adverse effects of the program will continue to be deeply traumatic for the continent. These adverse consequences have provoked and will continue to provoke violent demonstrations, coups and counter coups as for example in Nigeria, Sudan, Morocco, Benin Republic etc. As vividly portrayed in the stringency of the conditionalities, the whole intention is to lay the foundation for the repayment of their debts rather than laying the root for sustainable growth. Finally, as summarized by Toyo:

> *The IMF conditionality cannot pull any developing country out of the current depression or provide the basis for such an escape. Everything else apart, the measures cannot create the overseas market for the one leading commodity that the mono-cultural economies of most developing country export, thanks to the imperialist international division of labour by which they are still bound and will remain more tightly bound the more liberal is trade liberalization. This is even more true of a period of depression in the world capitalist economy and a tide of protectionism in Western Europe, Japan and North America in which Nigeria, for example, did 86% of her export in 1984*[43].

These conclusions therefore warrant further exploration of possible alternative solution to the African crisis which forms the core of the next section.

African Sad Story: Is the Continent Doomed?

Perhaps the pertinent question to ask given the circumstances described above is whether or not there are way(s) out of the crisis in Africa. Indeed, as noted in section 4, adjustment is inescapable given the cobweb of problems in which the continent is entangled, however, adjustment cannot take the picture of *reculer pour mieux sauter* (stepping back to gain room

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43 Eskor Toyo, 'Recovery from Economic Decline: Lessons for a Developing Economy, *Africa Development*, vol. XII, No. 3, 1987, p. 39.

for a forward jump)[44] underlying the current adjustment program. The necessary adjustment program must be internally consistent, soundly based in terms of theory, realistic in terms of their underlying assumptions and more importantly provide the basis for delinking the African economies from the capitalist economy.

African adjustment must focus on the development of a coherent and plausible food policy. This is necessary in order to rectify the hopelessly inadequate attention paid to food in the IMF and World Bank adjustment. The importance of the policy is better appreciated when one notes that food accounts for almost 60% of the consumer price index in most African countries and the magnitude of the African food imports discussed in section 3. However, to accomplish this task involves improving access to land, improve allocation of scarce foreign exchange resources to this sector, removal of restrictions on the movement of crops between regions subject to the requirements of national security. This will help in promoting continental integration and an efficient domestic specialization[45].

Yet, the pursuit of food policy should not override the need for export promotion. This however needs to be done without necessary reccurse to inflationary currency devaluation of the orthodox IMF/World Bank adjustment. More emphasis should be paid on the use of other incentives apart from price. But where price incentives are inevitable, efforts should be made to ensure that the supply responses of export producers to the price incentive do not overshoot required level so as to subordinate food production to export production.

Besides food and export promotion, other basic needs such as shelter, alleviation of poverty etc. need to be emphasized in Africa in order to bring about development. The need for incorporating these in African adjustment program is rooted not only on the humanistic and altruistic aspects of development but also on the rational proposition that development has to be engineered and sustained by the people themselves through their full and active participation. As expressed by the ECA:

> *Developments should not be undertaken on behalf of people but rather it should be the organic outcome of a society's value system, its perceptions, its concerns and its endeavours*[46].

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44 Singer W. Hans, op. cit., p. 24.

45 John Loxley, 'The African Framework for Structural Adjustment: An Alternative Approach', paper presented at ECA International Workshop on Africa's Perspectives and Structural Adjustment, Addis Ababa, January 5-7, 1980, p. 9.

46 Economic Commission for Africa (ECA), *A Framework for Transformation and Recovery in Africa: Proceedings of an International Workshop on Africa's Perspectives and Structural Adjustment*, Addis Ababa, January 5-7, 1989, Chapter 2, p. 3.

Moreover, much restructuring of Africans economies will have to be devoted to the industrial sector in view of the various distortions imposed through imperialism and perverse influence of the multinational corporations. Apart from this consideration, the industrial sector constitutes the 'heart' of the African economy and undoubtedly, its development has a serious radiant and repercussionary effects on all other sectors of the economies. As a starting point, industries should be encouraged to source their raw materials locally through incentives and where found expedient, a time table should be drawn for industries within which they should reduce their import content. This will go a long way towards reducing the demand for foreign exchange for the import of raw material inputs. Secondly, the present allocation of foreign exchange resources through the market in an auction seems rather implausible. It only engenders high import of finished goods at a higher cost. Instead, selectivity based on a number of criteria such as number of employment provided, the value added, etc. should be used in the allocation of scarce foreign exchange resources to industry subject to the condition that probable loopholes in the system are properly blocked.

In addition, industries in Africa should be encouraged to develop their local technology. There is an urgent need for the development of artisan technology based on national needs and available resources. This therefore requires the various governments to commit a large part of their resources to research and development (R & D).

Another significant aspect is taxation policies. Available evidences suggest that tax administration is woefully poor in the continent - a situation which have precipitated higher dependence on the industrial countries for aids. thus to reduce this dependence on foreign aids by the continent, attention should be focussed on improving the efficiency and probity of tax collection system. Government may possibly introduce or increase the relative importance of local taxes to be used to pay for locally controlled services in the basic needs area.

Finally, there is the possibility of adjustment through intensified trade cooperation and other forms of economic cooperation among countries in Africa. Unfortunately, while the objective of integration of the African economies in order to achieve collective self-reliance has always guided policy thinking, action and rhetoric in Africa, definitive action has not been taken. The potentials for trade within the continent remain largely untapped. At present most African exports (over 70%) go to the advanced countries thereby enhancing the ability of the latter to dictate the term of trade. The development of a regional markets for the continent's products is pivotal to the attainment of product specialization and transformation, self-sustainment, reduction of trade dependence and the satisfaction of the need of the African people. Moreover, intra-African trade can be helpful in creating technological dynamism, and in providing a basis for improved exports to industrial countries as well as efficient import substitution.

Therefore, in the light of the various suggestions made above, African situation is not hopelessly irretrievable. The continent possesses both the human and material resources to effectuate recovery and transformation with the leaders showing their willingness to do so.

Conclusion

The problems facing the continent since the beginning of 1980 have been described as unique in their abruptness and cumulative impact. It is the uniqueness of the problems that necessitated the international financial institution to impress it upon the continent to adopt structural adjustment program. The adjustment program foisted on the continent on the claimed, though dubious, intention of restructuring and reestablishing the process of growth was however found to be unworkable considering the one structure of African domestic economy shaped principally by imperialism and the perverse activities of multinational corporations.

In the first instance, the economic crises in the continent are basically derivative crises transmitted from the industrial economies as such adjustment of the type being implemented currently cannot and will not solve the problems. Furthermore a continent characterize by weak production base, inelastic demand and supply, technological backwardness, openness and dependency, cannot sustain the kind of adjustment going on in the economy. The current IMF/World Bank adjustment apart from being eclectic in its approach focuses only on the ephemeral structures of prices, trade, money and foreign exchange rather than the fundamental structures which form the core of the real problems.

Moreover the restriction of the adjustment to the developing countries in the face of increased protectionism in the industrial countries as well as the stringent conditionality of the adjustment program demonstrate vividly that the exercise was designed to lay a solid foundation for the repayment of their debts rather than to ensure growth and development in the continent.

In this circumstance, the adjustment will succeed only in perpetuating mass poverty and further crisis. It therefore follows logically that a more internally consistent, soundly based theoretically, and realistic in terms of underlying assumptions, adjustment program should be formulated in the continent. This adjustment should address not only the food and export crops production problem, it must focus on other basic needs of the people.

In addition, the basic structural problems need to be emphasized rather than the issue of financial balances. And more importantly sound tax administration and more intra-African trade need to be encouraged to reduce the continent dependence on the industrial countries not only in terms of aids but also in export and imports. The adjustment project now becomes critical and imperative in view of the challenges of the proposed Europe's unified internal market in 1992. Otherwise, the continent stands the risk of sinking into deeper economic malaise considering the fact that the continent lacks the marketing skills, the information and the technology to adapt to the community's newly harmonized standards.

Africa's Debt Crisis: Are Structural Adjustment Programs Relevant?

Kidane Mengisteab*

Bernard I. Logan**

Résumé: *Cette étude cherche à répondre à deux questions. La première est de savoir pourquoi la crise de la dette a été plus sévère en Afrique même si les chocs auxquels elle a eu à faire face sont les mêmes que ceux auxquels les autres régions en développement ont été confrontées. La deuxième question est de savoir dans quelle mesure les programmes d'ajustement structurel ont été appropriés pour résoudre la crise africaine. Dans la première partie l'auteur essaie de répondre à la première question en indiquant quelques contraintes structurelles fondamentales qui sont plus prononcées en Afrique que dans les autres régions en développement et qui ont rendu les économies africaines plus vulnérable au déséquilibre extérieur. Dans la deuxième partie, l'auteur se livre à une analyse de la capacité des programmes d'ajustement structurel à résoudre les problèmes structurels soulevés dans la première partie.*

The Gravity of Africa's Debt Crisis

Although the debt figures of Sub-Saharan Africa (hereafter referred to as Africa) are not very reliable, the total stock is estimated to be smaller than those of other regions of the Third World. However, Africa's debt crisis is graver than those of other regions in three respects. First, the ratio of Africa's total debt to total export earnings has been rising more rapidly than those of other regions and it had become the highest by 1987 (World Bank, 1988). Secondly, the ratio of Africa's total debt to GNP has grown rapidly to become the highest since 1986 (See Table 1). Thirdly, despite incurring the highest growth rates of borrowing, African economies have grown slower than those in other developing countries.

The gravity of Africa's debt crisis has been somewhat modified by relatively softer terms of debt made possible by the official creditors of Africa. Yet, compared to other developing regions, the debt crisis in Africa is more fundamental and of a more long-run nature, since African economies have grown too slowly to carry the rising level of debt service over time (See Table 2).

Since the early 1980s, the IMF, the World Bank and other aid donors have actively promoted structural adjustment programs, a package of economic reforms that are expected to realign and invigorate debt-ridden

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and slow-growing economies, thereby enabling them to overcome their internal and external disequilibria.

This study has a dual purpose. The first objective, which is discussed in section 2 of the paper, is to identify the structural problems that have made Africa's debt crisis more serious than that of other Third World regions. The second objective, covered in section 3, is to examine the relevance of SAPs in overcoming Africa's structural problems, by analyzing the implications of some of their critical components for the structural constraints that characterize African economies.

Table 1: Average Growth Rates of the Ratios of Total Debt to Export Earnings and Total Debt to GNP (1980-87)

Region	Ratio of Total Debt to Export Earnings	Ratio of Total Debt to GNP
Sub Saharan Africa	21.7	20.4
E. Asia & the Pacific	5.6	10.4
Lat. Am. & Caribbean	10.3	8.4
No. Af. & the Middle East	10.9	3.7

Source: Computed from World Bank, *World Debt Tables 1988-89 Edition*, vol. 1, Washington, D.C., 1988.

Table 2: Average Growth Rates of Total Debt Stock and GNP of Developing Countries by Region

Region	Total Debt Stock 1980-87	GDP 1980-88
Sub-Saharan Africa	12.8	0.4
Asia	12.5	7.6
Latin America & Caribbean	9.1	1.2

Source: World Bank, *World Debt Tables 1988-89 Edition*, Vol. 1, Washington D.C.: World Bank, 1988.

Africa's Structural Problems

A number of international shocks contributed to making Africa's balance of payment and debt problems reach crisis proportions. During the 1973-79 period, oil price hikes and low interest rates prompted a rapid accumulation of large debt. In the early 1980s declining commodity prices and deteriorating terms of trade (World Bank, 1986), rising interest rates (Krum, 1985), and a decline in the net inflows of capital and other resources intensified the crisis. These international shocks do not explain Africa's total debt stock and their impacts are not limited to that continent. However, their repercussions have been generally more serious in Africa than elsewhere. A UN report estimates the impact of the worsening international conditions on African economies between 1979/81 and 1985/87 to be about $6.5 billion annually (see Table 3).

Table 3: Net Deterioration of Africa's* External Financial Position between 1979-81 and 1985-87 (billions of dollars per annum)

Terms of trade losses	2.9
Increased interest payments	2.1
Reduced net credit flow	2.4
Reduced direct investment	0.2
Total deterioration	7.6
Increased official grants	1.1
Net deterioration	6.5

Source: UN, *Financing Africa's Recovery*, New York: 1988, p. 14.
* Excluding Nigeria

Proponents of SAPs have essentially attributed the differential impacts of the international shocks, and the internal causes of disequilibrium of African economies to bad policies. In turn, these policies are attributed to the magnitude of state intervention both in terms of directly owning assets as well as in fixing prices and exchange rates by policy (World Bank, 1981). The relatively large size of the public sector is associated with inefficiency in allocation of resources (Barlett, 1989; Berg, 1987; Nellis, 1986; Vengroff and Farah, 1985; Landau, 1984). The state's intervention in economic policy such as controlling prices, imports, rationing foreign exchange and maintaining overvalued currencies is also viewed as being detrimental to the ability of African economies to grow and to adopt to changing international conditions in general and to agricultural producers and exporters in particular (Balassa, 1984; Marseden and Belot, 1987. The continued intervention by the state, despite the failures of its policies is attributed to either its self-serving nature or to its commitment to socialist ideology (Bartlett, 1989: 304).

It is likely that African economies are generally more interventionist than other (non-socialist) developing countries (World Bank, 1989a:25; Bartlett, 1989; Diamond, 1987:573). Much of the intervention also promotes the interests of state functionaries while impairing the growth of the economy.

Producer price controls, for instance, generally benefit the state itself, the bureaucracy and the industrial sector which, with low food prices, can keep wages low. Urban consumers, who have a stronger political influence than peasant producers also benefit from the price policies of governments (Bates, 1981:11-44). However, the explanation that state intervention is responsible for the African crisis is rather reductionist. African countries differ from other LDCs not only in terms of the magnitude of state intervention but also in a number of other factors, including their modes of production and consequently, their position in the global division of labor. The interventionist state explanation also fails to clarify why African states are more interventionist than other states. Furthermore, as Hamilton points out, intervention in the Third World is not always a hindrance to the development of the private sector as often claimed. SAPs, however, differentiate very little between different types of interventions. For instance, the same policies are recommended for states as different as those of Zaire and Zimbabwe. On the implementation side also, it is not clear why the self-serving state can be expected to implement SAPs although it may implement some cosmetic changes in order to receive the rewards from the sponsors of SAPs.

The Mode of Production Problem

As Hyden (1980) points out, Africa more than any other region of the developing world is dominated by the peasant mode of production which has very weak links with the modern sector[1]. This has very important implications for its economic performance, as well as for its ability to absorb international shocks. The peasantry is a heterogeneous group ranging from the market-oriented middle income segment to the much larger low-income subsistent sector. The first segment is largely integrated into the market system[2]. The second segment, however, while by no means self-sufficient or totally insulated from the exchange (modern) sector is still largely marginalized from the market system.

The subsistent peasantry is a source of cheap labor and sells limited quantities of food and livestock products and buys farm inputs and a small group of basic consumer goods such as clothing, oil and sugar. In such an exchange, the peasantry often faces unequal terms of trade especially when

1 Whether the subsistence sector is simply a residual of the traditional society or a product of marginalization made possible by the capitalist system has generated widespread debates (for details see Schejtman 1988). Despite the disagreements on its causes, the weak links between the subsistence sector and the modern market system is not seriously disputed.

2 Even this segment of the peasantry can be classified into the group that is tied to the international market by producing export oriented cash crops and the group that is only linked with the domestic market.

the state controls agricultural producer prices. Yet, the production of this overwhelming majority of the peasantry is essentially use-value oriented. One indirect indicator of this is the small proportion of the marketed portion of agricultural output which is estimated to be about 12% of total output (Ghai and Smith, 1987:60-67). The exchange the subsistent peasantry engages in also has a limited role in the allocation of resources. In other words, the nature of the subsistent peasantry's exchange is different from the exchange in a capitalist system. For the subsistent peasant, providing the food needs of the family and not exchange value is the predominant determinant of allocative decisions (Ellis, 1989; Wolf, 1966). It is also outside of the public sector where resources are largely allocated via policy. The paradox of the situation is that the subsistence segment of the peasantry is to a large extent, outside the domains of both the market and the state while, at the same time, operating within the socio-economic structures established by the market and the state.

Despite notable differences among individual countries, the size of the subsistent sector is considerable in Africa. As a result, its weak links with the modern exchange sector leads to two types of disarticulation of African economies. One type is that the modern sector is deprived of domestic markets and other linkages with the rest of the economy and operates essentially as an enclave relying heavily on the international market for its growth. Its dependency, in turn, renders the modern sector highly vulnerable to international shocks.

Another aspect of the disarticulation of African economies is the dissociation of the use of available resources from social needs. Political power and economic resources are highly concentrated in the small modern sector. The peasantry is largely deprived of resources. Consequently, it remains relegated to a subsistence level of production, unable to raise its productivity and to participate effectively in the market by translating its needs into demand[3]. African private enterprises, especially the bigger and more modern ones, thus, largely by-pass domestic social needs (the needs of the peasantry) and rely on the international market for their process of capital accumulation. The neglect by many African countries of the non-export sector of their economies, especially the food sector is a clear reflection of this structural problem. Inputs such as fertilizers are concentrated in the export sector. The ratios of the average amount of fertilizers used (Kg/ha) in the cash crop sector to those used in the food sector in 1979/81 were, for instance, 313 to 1 in Mauritius, 63 to 1 in

3 This perpetuates the resilience of the peasant mode of production and consequently, the disarticulation of African economies (for details on the disarticulation of African economies see Samir Amin, 1974).

Mozambique, 56 to 1 in Mali, 53 to 1 in Senegal, 32 to 1 in the Sudan, 25 to 1 in Burkina Faso, 22 to 1 in Madagascar, 20 to 1 in Brundi, 18 to 1 in Liberia, 16 to 1 in Tanzania and 10 to 1 in Cameroon (FAO, 1986).

The neglect of the food sector has often been attributed to policy instruments like producer price controls which certainly contribute to discriminate against that sector. However, price controls do not adequately explain relative differences between the food sector and the cash crop sector since both are generally affected. Even without price controls, it is unlikely that the food sector can compete against the cash crop sector in terms of attracting investment resources. The subsistence sector needs productivity-raising extension services before it can benefit from price incentives and increase its investments. The market-oriented producers, especially the lager holders, also usually choose the production of cash crops over food crops because of their generally higher profitability. The shifting of production from food to cash crops by large numbers of the more successful producers in many developing countries not only leads to chronic food problems but also to the decline of commodity prices by oversupplying the international market.

Basing economic decisions on the international market may certainly represent efficient allocation of resources on the part of individual enterprises. However, in this case, it does not represent a creative organization of national economies that develop internal dynamism since it by-passes the needs of considerable portions of the population. Unlike in the more diversified economies, in Africa, social needs and market guided allocation of resources do not necessarily correspond with each other. The ability of the market to coordinate resource allocation with social needs improves with diversification of the economy. At this stage of their development, however, the failure of the market in Africa, not so much in terms of allocative efficiency but in terms of coordination of available resources with social needs, is evident.

As already noted, the state in Africa has also generally failed to correct the dissociation of resource use from social need. This has been due to lack of political will which results from the lack of representation of the general population in policy-making. State intervention in the allocation of resources has often advanced the interests of the elite and their political supporters, corrupt individuals, and state functionaries (Bates, 1981). Despite state control of the allocation of credits in most African states, for instance, no more than 5% of African farmers are said to have access to institutional credit (Gonzalez-Vega, 1984:120). The pressure to compete with other developing countries in supplying the international market with primary commodities in order to acquire foreign exchange also reduces the ability of the state to divert resources to meet social needs.

Dissociation of resource use from social needs has impeded the expansion of a self-sustaining production base and has aggravated the debt problems of African economies. Food imports have, for instance, become an important drain on foreign exchange earnings (see table 4). By neglecting the food sector, African countries have surrendered an economic activity in which they could participate effectively.

Lack of coordination of the use of available resources with social needs has also contributed to widespread internal conflicts which, in turn, exacerbate the misallocation of resources by making large military expenditures unavoidable. The total military expenditures of African countries and even the ratio of their military expenditures to their GDPs, are still among the lowest in the developing world. The ratios of Africa's arms imports to total imports and exports are, however, higher than those of other developing regions except the Middle East. Arms imports thus represent an important form of leakage of foreign exchange, especially in countries such as Ethiopia, Angola, Somalia and Mozambique (U.S. Arms Control and Disarmament Agency, 1987.

Table 4: Food Imports of Selected African States (Percentage of Export Earnings)

Country	1970	1980	1985
Ethiopia	13.8	25.0	47.6
Ghana	16.9	10.5	34.7
Kenya	16.3	15.4	15.6
Mozambique	-	40.6	-
Somalia	52.9	110.8	90.4
Sudan	21.9	71.8	27.3
Tanzania	12.9	32.3	39.5
Zaire	8.1	10.1	15.5
Angola	-	-	10.6
Cameroon	13.4	9.5	21.0
Ivory Coast	17.5	15.5	14.2
Nigeria	10.3	8.0	12.1
Senegal	46.8	53.4	25.1
Zambia	4.8	11.2	8.6

Source: Computed from World Bank and FAO figures.

Africa's Position in the International Division of Labor

A problem that is related to both the predominance of the peasant mode of production and the disarticulation of African economies is their weak position in the international division of labor. African countries generally inherited the least diversified economies from the colonial era (Mkandawire, 1988:11-12) and they still rely, more than any other region, on non-oil primary commodities for their export earnings. In 1986, for instance, the percentage of exports of non-primary commodities to total exports for 27 Sub-Saharan African countries averaged only 13.8% compared to 43.3% for 13 Asian and Pacific countries (excluding Japan, Taiwan, Singapore, Hong Kong and the two Koreas) and 25.1% for 20 Latin American and Caribbean countries (World Bank, 1989b).

Due to their narrow technological, managerial and production base, African countries also rely more than other regions on foreign sources for technology, capital and a variety of services and consumer goods the imports of which are unlikely to be covered by the exports of a few primary commodities. Relative to other developing countries, African countries also receive less for their exports and pay more for many of their imports for a variety of reasons[4]. Among such factors are inter-firm ties that make it possible for subsidiaries to be overcharged by parent companies for their imports in order to transfer profits and capital out of Africa, relative small size of African markets which prevents economies of scale and limitations of liner routes. Moreover, some of Africa's traditional export commodities have lost their importance due to substitutes. For others, it has become increasingly difficult to maintain favorable prices since African states, together with a large number of other developing countries, often oversupply the international market with commodities that generally have low income and price elasticities.

The neglect of domestic social needs, the resultant excessive dependency on international markets and the reliance on a few primary exports for capital for accumulation have made African economies more vulnerable than other regions to adverse fluctuations in the global economic conditions. Africa's balance of payment problems are thus not simply due to temporary external shocks such as shortfalls in exports or increases in costs of imports. Rather, they result from deep-rooted economic and political structural problems and they are compounded by the frequent adverse international conditions that they face. Overcoming the debt and economic crisis of African countries, thus, requires modifying their position in the international division of labor by coordinating resource use with social needs to transform the subsistent sector and by diversifying their economies.

The diagnosis of the proponents of SAPs pays little attention to the constraints that Africa's structural problems place on the market system. The

4 Yeats, Alexander J., "Do African Countries Pay More for Imports?" *Finance and Development* 27, 2, June 1990, pp. 38-40.

emphasis is largely on the magnitude and inappropriateness of state intervention[5]. Consequently, the prescriptions overestimate the power of the market system in overcoming Africa's economic problems. The inappropriateness of many of the policies that African states have pursued is undeniable, however, the suitability of the policies of SAPs to the transformation of the subsistence sector and to the diversification of African economies, without which a fundamental solution to the debt crisis is not likely, is far from been certain. We now briefly identify the essential characteristics of SAPs and examine the implications of some of their key components for the transformation of the peasantry and the diversification of African economies.

Essential Characteristics of Adjustment Programs

Structural Adjustment Programs (SAPs) are comprised of three different types of policies designed to meet a variety of objectives. One type is expenditure reducing deflationary policies primarily designed to correct budgetary imbalances. These set of policies, which are closely tied not the IMF, include, reduction of public expenditures, credit restraint, wage control and phasing out of subsidies. The second type is expenditure switching policies that are expected to promote export-led growth by diverting productive resources from non-tradeable to tradeable goods. Expenditure switching policies include devaluation of overvalued currencies, export promotion, tax reforms and import decontrols. The third type is institutional reforms that are primarily designed to promote efficiency and to liberalize trade by removing government controls of prices, exchange rates and interest rates and privatization and/or rehabilitation of state owned enterprises.

The general impacts of SAPs on the state and the private enterprise has already generated significant debate. Many argue that SAPs promote the private sector at the expense of the state since they trim the expenditures of the state and reduce its ownership of assets as well as its intervention in setting prices, interest rates and exchange rates. Others argue that SAPs, by bringing the state sector in line with present economic realities, rehabilitate the public sector and strengthen governments (Bates, 1989).

By favoring market over policy in allocation of resources, SAPs lessen state control. However, despite this apparent anti-state nature of the mechanism, many African states have found compliance with some form of adjustment acceptable, often disregarding protests by some sectors of the population, especially workers and urban consumers. One explanation for

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5 It is not clear whether the magnitude of intervention is a cause or an effect since it may itself depend on the degree of disarticulation of African economies and the weakness of their private sectors.

this is that these governments find themselves strapped for external funding. Perhaps a more convincing explanation seems to be that SAPs do not seriously threaten the interests of the high ranking state functionaries. SAPs, by promoting market allocation of resources, generally favor the economic elite and the relatively well off segments of the population. However, the political elite are not likely to find some loss of control intolerable since they can become an economic elite themselves by investing in the privatized enterprises.

The impact of SAPs on the peasantry, especially the subsistent segment, has not yet received much attention. We now examine how peasants fare under SAPs. Since space does not allow for a full treatment of all the components of SAPs, our analysis is limited to the impacts of expenditure retrenchment, devaluation and price decontrols.

Impacts of Deflationary Policies

Transforming the subsistence sector requires downward redistribution of available resources in order to improve their productivity and income and thereby raise aggregate demand for the overall economy. However, the debt crisis and the declines in commodity prices, foreign exchange earnings and resource inflows to the continent have made spending reductions unavoidable for most African countries. Yet, with political will it is conceivable that access to resources for the poor can be provided modestly even with deflationary policies. Some countries, namely Zimbabwe and Botswana, are, for example, said to have undertaken adjustments with serious efforts to minimize reductions in public services such as health, nutrition, education, and support for small farmers and drought victims (Cornia and Stewart, 1987:106-125). In most other African countries, where the state clearly protects the interests of the powerful and wealthy, the downward redistribution of resources is unlikely to materialize especially under deflationary policies. In fact, in many countries deflationary policies have already unproportionately affected the lower economic classes. Infant mortality is on the rise and nutrition, educational facilities, health services, access of small farmers to credits and inputs are on the decline in many African states and thus the exclusion of the peasantry and other lower classes is perpetuated. In other words, the same governments that are responsible for the prevailing political economy of exclusion cannot be expected to implement deflationary policies in a manner that will spare the poorer segments of society from further deprivation.

Thus, while redistribution of resources seems to be possible even under deflationary policies of a certain magnitude, they require the political will and carefully selected policies by the government. SAPs, however, lack a clear mechanism for protecting the poor and for providing access to resources for the subsistence sector. Proponents of SAPs expect that deflationary policies, by fine-tuning the economy, would, in the longer-run, lead to a more vigorous economy and that economic growth would alleviate poverty and transform the peasantry. However, such expectations are overly optimistic as the long-run impacts of spending cuts depend on where the spending cuts are made. Retrenchments in public expenditures on infrastructure, health, education, credits, training, and nutrition are, as Girvan (1986:57) points out, contractions of investments which would lower economic efficiency, employment levels, aggregate demand, and consequently, overall growth even in the long-run[6].

Impacts of Devaluation

Overvaluation of currencies is generally regarded as the most important factor that has contributed to a number of Africa's economic ills, including the debt and agricultural crises. Overvalued currencies are believed to have discouraged African farmers and weaken the competitiveness of Africa's exports[7]. There are several problems with this assumption however. First the claim of overvaluation of African currencies is debatable since the real exchange rates of most African currencies have not appreciated significantly relative to those of other developing regions, and have appreciated substantially less than those of industrial countries since the mid-1960s (Wood, 1988:5)[8]. Secondly, contrary to the claim, exports are not discouraged in Africa. African economies are actually heavily biased in favor of the export sector as evident from their resource allocation patterns. The problem lies in the weakness of the domestic markets and the excessive reliance on the exports of primary commodities which have lost ground in the international market. Both of these conditions render African economies defenseless against external shocks. Targeting resources to the export sector even more without changing the mix of the exported commodities thus represents a perpetuation of Africa's weak position in the international division of labor and continued neglect of the domestic market.

Thirdly, the relationship between exchange rates and balance of payments is controversial both at the theoretical and empirical levels. Many studies such as Edwards' (1989) show a strong relationship between

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6 A more recent World Bank report (1989b) recognizes the importance of creating access to basic resources for the deprived segment of the population to enhancing development. However, it is not yet clear how the implementation of this is to be made an integral part of SAPs.

7 Bates (1989:222), for instance, correctly points out how overvalued currencies led to the smuggling of Ugandan coffee to Kenya and Ghanaian cocoa to Togo and Côte d'Ivoire or to abandoning of cash crop production by farmers in favor of food production. The high degree of overvaluation of the currencies of these two countries in the 1970s was, however, an exception Wood, 1988).

8 Even when they have not appreciated significantly relative to those of other regions, African currencies may be overvalued due to the weak performance of African economies. In this case, however, overvaluation may be an effect rather than a cause.

exchange rates and external balance of payments. There are, however, widespread disagreements on this issue. According to the monetarist approach, for instance, devaluation, has no permanent effect of exports and imports (Weeks, 1989:60). Empirical studies on the impact of devaluation on export performance in Africa are also inconclusive. Studies by Balassa (1987) and Gulhati (1986) show positive association between devaluation and export performance. By contrast, a case study of the Sudan by Hussain and Thirlwall (1986) finds that the impact of devaluation is at best neutral. A study by Bhagwat and Onitsuka (1974) also shows rather insignificant positive results. Of the Sub-Saharan African states included in this study, only 62% showed positive response of exports and 55% showed moderate declines of their imports after devaluation(Bhagwat and Onitsuka, 1974). Moreover, the data for this study were of the 1960s when the terms of trade for primary products were more favorable than they have been since the second half of the 1970s. A study by Mengisteab (forthcoming) also finds no significant relationship between real or nominal exchange rates and export performance for fourteen Sub-Saharan African countries between 1966 and 1983.

An analysis of variance of the performances of exports (X), imports (M), gross domestic products (GDP) and current account balances (CAB) of four groups of African countries, classified on the basis of their devaluation rates between 1980 and 1987, also shows no clear indication that devaluation has impacted economic growth or external balance (see Table 5). The four groups of countries are countries with nominal devaluation rates of over 1000% (GP1), countries with devaluation rates of over 100% and less than 1000% (GP2), countries with devaluation rates of less than 100% (GP3) and group four (GP4) are countries with no devaluations or with revaluations (see Table 5).

The results (Table 6) do not confirm the presumption that the volume of exports will rise with devaluation. The only significant difference is between groups two and three, and in this case, with much lower devaluation rates, group three outperformed group two.

One important reason why the response of exports to devaluation has not been as expected by SAPs is due to the low price elasticity of demand of primary commodities (see Table 7). If only a small number of primary commodity exporters devalue, they can raise the volume of their exports and their export earnings at the expense of other exporters. With SAPs, however, we have large numbers of them devaluing simultaneously in an attempt to increase the volume of their exports in an already oversupplied market. Given the low price elasticities of primary commodities, this condition only leads to a further fall in commodity prices and consequently, to a declines in export earnings.

Table 5: Devaluation Rates and Growth Rates of Exports (X), Imports (M), Gross Domestic Product (GDP and Current Account Balance (CAB)

Country	Devaluation rate in %	X	M	GDP	CAB
GP1					
Ghana	5490.3	2.8	2.2	0.9	-237.3
Sierra Leone	2836.9	-7.6	-24.7	-0.3	23.8*
Zaire	3914.4	3.0	-5.0	1.5	-23.0
Zambia	1106.8	-2.2	-8.4	-0.1	-0.8
Guinea Bissau	1554.3	-1.8	5.9	4.0	3.3!
GP2					
Madagascar	406.1	-7.4	-10.4	0.03	20.5*
Malawi	171.1	1.1	-4.9	2.0	-778.5
Nigeria	634.5	-11.1	-17.6	-2.6	298.7
Sudan	500.0	-3.5	-8.0	0.9	12.1
Tanzania	683.9	-4.1	-2.0	1.6	-1.9*
GP3					
Cameroon	42.2	9.5	2.9	6.2	210.0*
Kenya	81.9	2.4	-2.8	3.3	-88.1
Côte d'Ivoire	42.2	-0.3	-6.8	0.7	13.5*
Burkina Faso	42.2	5.6	-1.2	5.2	-265.9*
Mauritius	67.6	11.6	10.0	5.6	53.7
GP4					
Ethiopia	0.0	-0.02	7.9	3.5	-826.9*
Liberia	0.0	-3.9	-6.1	-1.4	59.1
Rwanda	-14.2	3.5	5.8	2.2	-24.2

* = Average of six years is used due to missing data.
! = Average of five years is used due to missing data.

Source: IMF, *International Financial Statistics: Supplement on Trade Statistics*, supplement series, No. 15, 1988 and United Nations Development Program and The World Bank, *African Economic and Financial Data*, 1989.

Despite its controversial impact on export earnings, devaluation redistributes income in favor of the producers of exports. This certainly benefits the cash crop producing farmers. The food producing subsistent peasantry, however, benefits little from such redistribution. Devaluation of the Ghanaian cedis has, for instance, raised the producer price for cocoa from c12,000 per tone in 1983 to c174,000 per tone in 1989. However, only 18% of Ghana's farmers produce cocoa and 94% of the gross cocoa income went to 32% of the cocoa producers who have large operations (Araka et al., 1990:7). High levels of exchange rates may provide domestic food producers some protection from foreign competition. On the other hand, this benefit may, also be neutralized by the increases in the prices of inputs and consumer goods that follow from devaluation. Furthermore, its productive capacity needs to rise first before the subsistence sector can benefit from protectionism.

Table 6: Responses of Exports, Imports, GDP and Current Account Balance to Devaluation

	Exports	Imports	GDP	Current Acc. Bal.
F Value	4.91	1.64	3.28	0.46
PR	0.02	0.22	0.053	0.72
R2	0.51	0.26	0.413	0.09
Mean GP1	-1.16	-6.0	1.2	-46.8
Mean GP2	-5.0	-8.58	0.39	-89.82
Mean GP3	5.76	0.42	4.2	-15.36
Mean GP4	-0.14	2.53	1.43	-264.0
Mean Differences				
GP1 - GP2	3.84	2.58	0.81	43.00
GP1 - GP3	-6.92	-6.42	-3.00	-31.40
GP1 - GP4	-1.02	-8.53	-0.23	217.20
GP2 - GP3	-10.76*	-9.00	-3.81	-74.50
GP2 - GP4	-4.86	-11.11	-1.05	174.20
GP3 - GP4	5.90	-2.11	2.77	248.60

* = Significant at the 0.05 level.

Table 7: World Demand Elasticities of Selected Primary Exports

Product	Demand Elasticity
Cocoa	-0.300
Coffee	0.230
Tea	-0.250
Sugar	-0.500

Source: Pasquale L. Scandizzo and Dimitri Diakosaxas, *Instability in the Terms of Trade of Primary Commodities, 1900-1982*, Rome: FAO, Economic and Social Development Paper, No. 64, 1987.

Under SAPs, devaluation is implemented simultaneously with import decontrols. Indications are that these two policies appear to further narrow the production base of African countries by exposing their infant industries to competition from more experienced and more efficient exporters. The recent experiences of Nigeria, Tanzania, Ghana and Ivory Coast, for instance, suggest that reductions of trade barriers can bring about a flood of cheap imported products which undercut local producers despite the protection devaluation provides (Harsch 1988:14). In the Ivory Coast, the number of workers employed in textiles dropped from 12,000 in 1982 to 8,000 in 1987 due to imports (Harsch 1988:14). In Nigeria, closures have become rampant, with manufacturers often blaming the difficulties on the reduction of protectionist barriers and on the sharp cost increases for imported raw materials and spare parts brought on by devaluation (Harsch 1988:14). Further devaluation, which may only reduce foreign exchange earnings and makes imported intermediate goods beyond the reach of producers cannot be used to protect local producers. Thus, devaluation and import decontrols may have negative impacts on the transformation of the subsistence sector as well as on the diversification of African economies.

Impacts of Price Decontrols

As Bates (1981:11-44) points out, producer price controls generally benefit the state itself, the bureaucracy, the industrial sector, which with low food prices, can keep wages low, and the urban consumers, who have a stronger political influence than the producers. Yet, producer price increases also have limited impacts on the subsistence sector. Higher prices would certainly encourage surplus-producing (above subsistence) farmers to raise their production. As far as the rest of the subsistent peasantry is concerned, however, it requires productivity improving changes before it can benefit fully from higher prices. Zimbabwe's relative success in agriculture, for instance, is attributed to a combination of factors that go far beyond SAPs. These factors include the government's provision of favorable pricing to producers, increased access to credits, inputs, technical assistance, marketing facilities, tools, grain depots, health and educational services (Cornia and Stewart, 1987:123).

Producer price reforms thus need to be implemented together with provision of extension services to farmers and not with deflationary policies that cut credits and input subsidies to subsistence farmers. Otherwise, the reforms may actually become a means of perpetuating the exclusion of a large segment of the peasantry from access to resources. Bonn's observation of Malaxi's farmers, for example, indicates that in reaction to cuts in fertilizer subsidies, small farmers avoided planting high-yield hybrid maize in favor of traditional varieties with lower fertilizer requirement and, of course, with lower yields (1988:27).

Conclusion

To prevent their continued marginalization from the global economy, African economies certainly need major reforms to engender efficiency in resource allocation and export competitiveness and thereby to bring their economies in line with present international realities. However, such changes need to begin with the transformation of the subsistence sector, import-substitution at least in food production and diversification of exports. As our analysis shows, SAPs, in their present form, are not equipped to achieve these. The adjustment process in Africa thus needs to be modified in several areas.

First, it needs to be tied to political reforms. Democratization or at least a political commitment on the part of the state to ensure the provision of access to resources for the excluded segments of society is a necessary condition for correcting Africa's structural problems. Without such commitment, the subsistent sector is unlikely to benefit from price decontrols or devaluations. The efficiency and growth-first improvement of human conditions-later policies that SAPs espouse are unlikely to work in Africa for various reasons among which are:

(1) the sheer size of the excluded segments of the population;

(2) the desperate conditions of the excluded;

(3) the multi-cultural nature of African states which makes it difficult to exclude large segments of the population from access to resources without inciting social unrest often times along ethnic lines;

(4) the fragile nature of nationhood which makes it crucial that the political economy of exclusion is alleviated; and

(5) the awareness of the general population of its deprivation as it is relatively informed about living conditions elsewhere.

Secondly, agriculture, especially food production, should be given top priority. Since the benefits to the food sector from devaluation are not clear, food producers need to be favored in obtaining access to inputs, credits as well as favorable prices. They may also require some degree of protection from imports.

Finally, diversifying African exports and thereby modifying Africa's position in the international division of labor requires active state involvement in economic policy formulation, including some forms of selected protection and subsidies. Late-comers to industrialization are unlikely to succeed without such measures. The across-the-board import decontrols advocated by SAPS thus need to be qualified. African states also need to establish closer cooperation among themselves perhaps through regional economic integration schemes and closer cooperation between regional integration schemes not only to coordinate their industrial strategy but also their export and import strategies.

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The Design of Structural Adjustment Programs: The African Alternative Framework

J.K. Thisen*

Résumé: *La récession mondiale et les crises économiques des débuts des années 1970 ont rendu nécessaire un ajustement de toutes les économies aux paramètres économiques du monde. Les pays en développement en particulier, ont eu beaucoup de difficultés à s'ajuster structurellement aux facteurs endogènes et exogènes. L'auteur de cet article estime que pour l'Afrique, ces difficultés sont plutôt liées à des facteurs endogènes. Pour la CEA, l'ajustement structurel doit être conçu comme un projet à long terme qui a besoin de beaucoup de flexibilité. La stratégie à mettre en place doit tenir compte des spécificités de chaque pays selon leurs besoins, leurs priorités et dans le long terme.*

Introduction

Background

As a result of the world recession and economic crises since the beginning of the 1970s, all economies in the world - developed and developing - had to adjust to changes in the world economic parameters, particularly with respect to relative prices for goods and services, so as to exploit judiciously their own dynamic comparative advantages or to establish the required national mix between self-reliance and openness. In this way, the "adjustment" was nothing but the formulation and execution of a set of policies to ensure sustained growth and development, or at least recovery after a recession.

The developing countries in particular faced difficulties and deficiencies in implementing the policy changes of adjustment since sensible domestic policies in these countries would have to take proper account of both external and internal shocks, but not address one set of shocks at the expense of other perhaps equally important or allow short-term preoccupations beginning of the 1980s, several developing countries in the world in general, the African countries in particular, continued to face themselves with continue decline in their per capita GNP and the living standard of their population. There is no unanimity among the economists about the root causes and cures of the socio-economic crisis in developing Africa where the situation remains still more bleak than the other developing continents - Asia and Latin America.

On the other hand, there is a tendency to believe that the roots of the crisis and what is to be done are largely due to the bad policies that the

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African governments have pursued so far which have brought about the problems of population growth, environment degradation, migration due to regional conflicts, inadequate health and education facilities and run down and inadequate infrastructure. The short-fall of external resources made worse by the relentless burden of overseas debt was the only exogenous problem.

Thus, according to this view, the causes of African crisis come mainly from the endogenous rather than exogenous factors[1].

The endogenous factors include inadequacy and/or misdirection of human and financial resources, inappropriate economic strategies and policies, inadequacy of institutional and physical infrastructures, inadequate demand management (uncontrolled fiscal deficits) inappropriate employment and wage policies, subsidies, debt, etc. and inadequate structural policies (such as appreciation of real exchange rate, price controls, reliance on public sector). Therefore, the orthodox structural adjustment programs (SAPs) that the IMF/World Bank are running in the majority of the African countries and the rule of the market, represented an unquestionable basis for the way forward in Africa.

On the other hand, the African view while acknowledged the contribution of endogenous or internal factors to the Africa's crisis, painted in the international or exogenous factors, namely debt burden, the collapse of commodity prices, deteriorating terms of trade and the overall injustice of the international economic order as central to the African continent's crisis[2].

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1 This view is supported by the international community including the World Bank and the IMF. World Bank/UNDP report, *Africa's Adjustment and Growth in the 1980s*, Washington, D.C., 1989 and World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study* (Washington, D.C.: IBRD/the World Bank, 1989; see also *West Africa*, 25 June - 1 July 1990 particularly the statement by Mr. Douglas Hurd, the British Secretary of State for Foreign and Commonwealth Affairs that: *Aid must go where it can clearly do good. Potential recipients of Western aid must be countries tending towards pluralism, public accountability, respect for the rule of law, human rights and market principles. Governments which persist with repressive policies with corrupt managements, or with wasteful and discredited economic systems should not expect us to support their folly with scarce resources which could be used better else where, West Africa*, 25 June - 1 July 1990, p. 1077.

2 This view is held by the ECA and the OAU. See UNECA, African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation (E/ECA/CM.15/6/Rev.3), Addis Ababa, Ethiopia, April 1989. These exogenous variables fall into three broad groups: (1) the international market system (fall in primary commodity prices, structural shifts in commodity demand, increasing prices of imports, etc.); (2) the international monetary and financial system (rules, institutions, policies regarding international monetary and financial transactions, creation and distortion of international liquidity, determination of exchange rate, etc.), and (3) the politics of developed countries (resource flows, protectionism, interest rates and deflationary and inflationary policies, etc.).

In fact Africa's debt has grown from US$48 billion in 1980 to $81.7 billion in 1984 and to $256.9 billion in 1989, with a service burden of US$25.3 billion. The debt represents 93.3% of regional GDP and 328.4% of total export earnings, and the service 32.2% of these earnings; in terms of these ratios, Africa is the most indebted region in the world. The net outflow of resources from Africa in 1989 was US$6 billion with US$1.5 billion (or 25%) going to the IMF and the World Bank. The continued decline in commodity prices made repayment on schedule virtually impossible, the prices of major export commodities (coffee, cocoa, cotton, ground-nuts, etc.) represent today 54.2% of what they were in 1980, and the loss due to price declines reached US$50 billion in 1988, almost in quarter of its export earnings. The forces of nature conspired with those of international economic conditions to aggravate the crisis. Episodes of natural disasters such as drought, desertification, floods, cyclones, locust, etc. led to several poor harvests and, in some African countries, outbreaks of famine. The suffering of the people was matched by dwindling productivity. Earnings from the export of food were replaced by outlay of scarce foreign exchange credits for food imports.

Therefore, the root of the crisis is "fundamentally structural and long-term in nature", requiring structural transformation and economic diversification to move the continent away from inherited colonial structures of monoculture for exports, towards more self-reliance, particularly in food and the creation of regional markets. This African view accepts the need for adjustment, but seeks a more flexible attitude by donors that would allow African countries to switch from primary production aimed at export markets that entail diminishing returns to production for domestic and regional markets. Such policy shift can possibly ensure faster economic growth given the huge needs and demands that exist in the region. This would give a cushion to the economy from external shocks such as the collapse of the commodity market in the 1980s which brought about the current crisis. Programs of recovery must therefore tackle fundamental long-term, as well as short- and medium-term problems. To proceed otherwise, as in the case of the former view with structural adjustment programs (SAPs) is to render programs purportedly geared to recovery counterproductive, because such programs no matter how well funded by the international community - the IMF and the World Bank, are unsustainable. SAPs are a "case of the tail (adjustment) wagging the dog (development and transformation)"[3]. The orthodox measures aimed at restoring growth cannot be successful without addressing the fundamental structural bottlenecks of African economies, defined as having a very narrow productive base,

3 Prof. Adebayo Adedeji, in *West Africa*, 25 June - 1 July 1990, "Crossed Visions", p. 1077.

excessively dependent on the outside world, with often undemocratic institutions and a highly uneven distribution of income that encouraged a high consumption of luxury Western imports.

In fact, as a result of such economic crisis, several African countries have embarked in the 1980s on stabilization and structural adjustment programs with or without the encouragement or support of the IMF and the World Bank. As many as 33 African countries had put in place stabilization programs under the IMF stand by arrangement facility while 15 countries had structural adjustment programs under the structural adjustment loans of the World Bank. Unfortunately, despite all these adjustment efforts with the concomitant sacrifice their people had to bear, the social and economic conditions in most African countries have continued to deteriorate rather than improve[4].

For most African countries, there has been a lot of frustrations about the unsuccessful efforts to design and implement policies to generate economic prosperity. All economic and social indicators showed that little progress has been achieved during the decade despite efforts of well-intended policies choices and policy reforms described in the orthodox structural adjustment programs (SAPs) followed by them[5]. This situation can be depicted in the Figures 1 and 2 which show the evolution of the various socioeconomic indicators and terms of trade respectively. By 1988, per capita consumption decreased by 20% of total expenditure in 1988 against 25.2% in 1986 whereas military expenditures increased; and unemployment affected 20 million Africans in the formal sector and 95 million of workers are underemployed. With the fast-rising population, crisis has led to deindustrialization poorer health and falling education standards. The combined share of agriculture and manufacturing in Africa's GDP declined steadily from about 50% in the 1960s to only a little more than 30% in the 1980s. The World Bank 1988 report asserted that sub-Saharan African countries which implemented structural adjustment programs experienced after adoption of SAPs: (a) GDP growth decline from 2.7% to 1.8%; (b) a decline in the investment/GDP ratio from 20.6% to 17.1%; (c) a rise in the budget deficit from -6.5% to 17.1%; (c) a rise in the budget deficit from -6.5% to -7.5%; and (d) a rise in the debt service/export earning ratio from

4 See UNECA *Economic Report on Africa*, 1989, Addis Ababa, April 1989; *Economic Report on Africa*, 1990, Addis Ababa, April 1990 and *Survey of Economic and Social Conditions in Africa*, Addis Ababa, various issues 1986-1987, 1987-1988 and 1988-1989.

5 The World Bank/UNDP report *Africa's Adjustment and Growth in the 1980s*, Washington, D.C., 1989 which asserted that the economic indicators of adjusting countries are performing better than the non-adjustment countries was contested by the ECA's report *Statistics and Policies*, April 1989.

17.5% to 23.4%. It has been, however, only a minor improvement in the current account/GDP ratio from -9.4% to -6.5%[6]. (See Fig. 1.)

Social and economic advances made with great difficulty by the African nations since the era of independence in the 1960s were largely wiped out in the 1980s. Between 1980 and 1987, the average annual rate of growth of the gross domestic product (GDP) of these countries was only 0.4% - in fact a decline when population growth is taken into account. Per capita income, already low at the end of the 1970s, fell by 2.6% a year. Agricultural output decreased, and countries that once exported food found themselves unable to feed their own populations. There has been a marked deterioration in physical infrastructure. Social services, including education, public health and sanitation, housing assistance and running water, have been reduced to perilously low levels. The SAPs strived to redress macro-economic imbalances while putting on temporary hold the development goal of eliminating Africa's cycle of excruciating poverty and abysmally low levels of productivity.

The regional economy, in short, is worse off than it's been since the beginning of the post-independence period, and a new generation of Africans faced a highly problematic future. The scenario of economic decline can be easily described. The prices of agricultural and mineral commodities, upon which most of Africa depends for export earnings, began to fluctuate unpredictably in the 1970s. The bottom fell out in the 1980s. African commodities valued at US$100 wholesale in 1980 fell to $54.2 in 1988. Prices for export items corrected for inflation reached their lowest levels since 1940 (see Figure 2).

The solution, it seemed at first, was to take out loans from overseas lenders, so that development programs could proceed and the standard of living of the population protected during an apparently temporary downturn in commodity prices. Since interest rates were low at the end of the 1970s decade and inflation relatively high, it seemed the loans could be paid back easily. The strategy made sense to officials of the World Bank and the International Monetary Fund (IMF), to private financial institutions and national government lenders and to African leaders.

The course of events proved that wrong. The decline in commodity prices turned out to be a long-term trend, one that it is now thought will continue into the 21st century. Interest rates rose in the 1980s as inflation went down, and the supposedly painless cost of repaying loans became instead a staggering burden.

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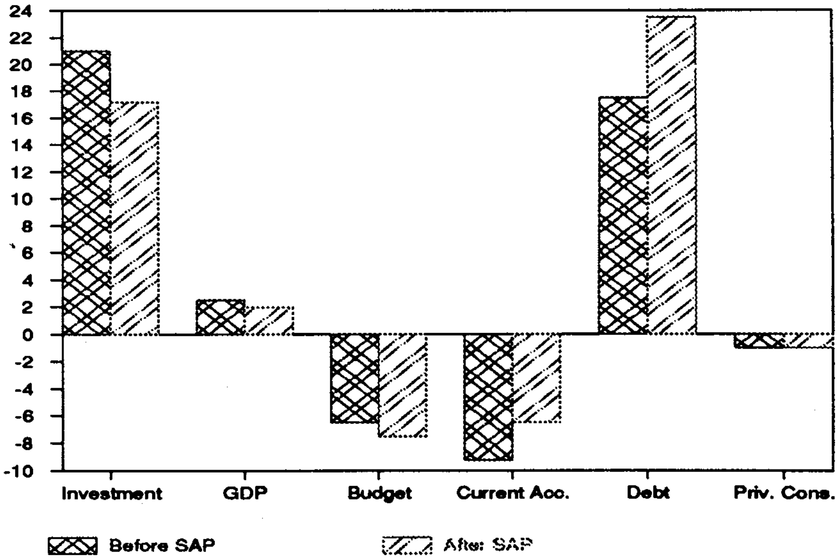
6 See World Bank, *Report on Adjustment Lending*, Washington, D.C., 8 August 1988, p. 45.

Payments mounted; new loans were taken out to help make the payments, but only increased the debt; the continued decline in commodity prices made repayment on schedule virtually impossible.

While some developing countries in Asia and Latin America have demonstrated impressive economic growth and rising living standards during the 1980s, most African countries have experienced stagnation and setbacks (see fig. 3). GDP of East Asian countries is estimated to have increased by 8%, in 1988, up from 7.1% growth in 1987. Thailand's GDP in 1988 rose by 10.5% and Malaysia's GDP grew by 7.34% as compared with 6.4% growth in the Philippines. The ESCAP (Economic and Social Commission for Asia and the Pacific) attributes such dynamic performance of South-East Asian economies to their agricultural recovery from the unfavourable weather patterns of 1987. Growth in developing Asia today is much more balanced and evenly spread.

Figure 1: Evolution of Macro-econ. Indicators in 15 sub-Saharan African Countries (av. an. in %)

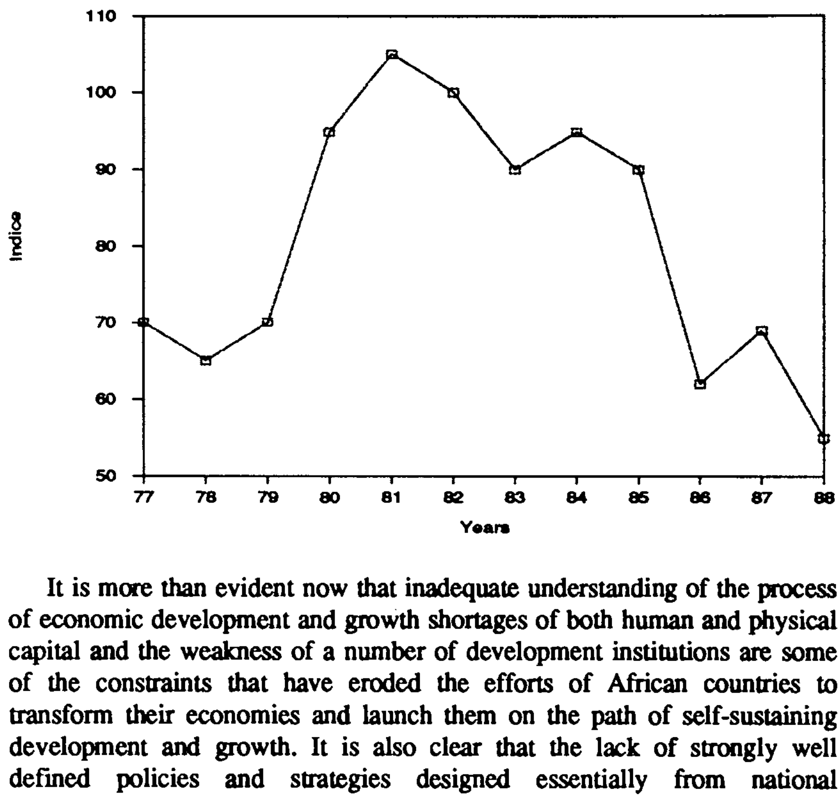


Investment = Investment (% of GDP)
GDP = GDP (annual growth rate)
Budget = Budgetary deficit (% of GDP)
Current Acc. = Current Acc. (% of GDP)
Debt = Debt service (% of exports)
Priv. Cons. = Priv. Cons. (Per capita growth)

Figure 2 shows that there has been a deterioration in the terms of trade for the African continent as a whole.

Figure 3 compares Africa with other developing regions in terms of performances of GDP per capita before (1973-80) and after (1980-88) adjustment period.

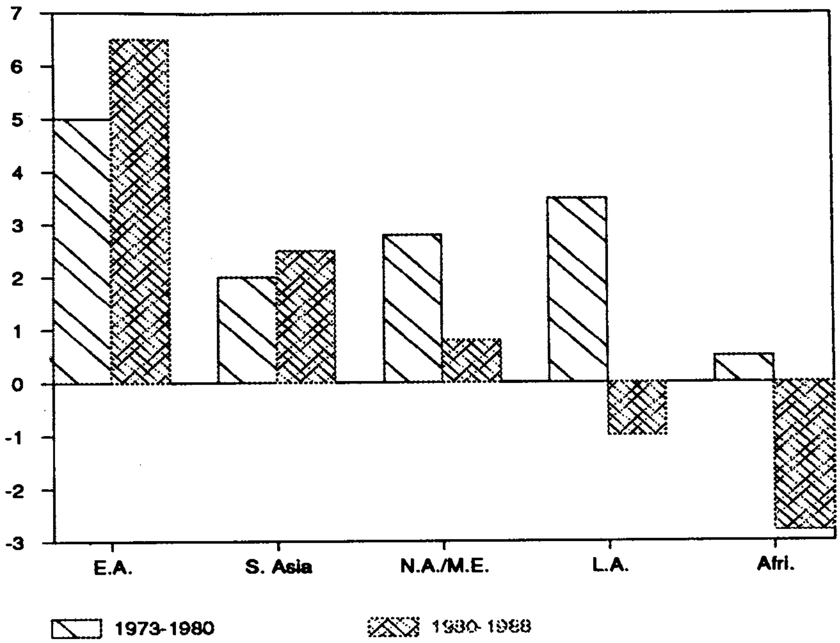
Figure 2: Deterioration of Terms of Trade for Africa as a Whole (base 100 = 1980)



It is more than evident now that inadequate understanding of the process of economic development and growth shortages of both human and physical capital and the weakness of a number of development institutions are some of the constraints that have eroded the efforts of African countries to transform their economies and launch them on the path of self-sustaining development and growth. It is also clear that the lack of strongly well defined policies and strategies designed essentially from national perspective, have had the effect of clouding the vision of African decision-makers about the mutual impacts of different national economic policies on each other's economies.

It was against this background of a general dissatisfaction with the on-going stabilization and structural adjustment programs that the United Nations Economic Commission for Africa (ECA) has devised a development framework and policies which can transform and diversify Africa's production capacity and increase the productivity of investment on the basis of the internalization of the dynamics of growth and their short-term sequencing to ensure that development and growth can be achieved at high and sustained levels.

Figure 3: Africa's Growth Performance Compared with Other Developing Regions (Av. ann. % Change in GDP per head)



E.A. = East Africa
S. Asia = South Asia
N.A./M.E. = North Africa & Middle East
Afri. = Sub-Saharan Africa
L.A. = Latin America & the Carribean

Conception Development of AAF-SAP

The United Nations General Assembly resolution 43/27 of November 1988 urged African countries to come up with a conceptual and practical framework for adjustment to economic crisis that also supported long-term development. Hence, the Economic Commission for Africa (ECA) undertook an investigation of such an alternative. The search was conceived from the beginning as a process of reaching a consensus among African nations and between Africa and its bilateral and multilateral development partners. An International Advisory Board included African and non-African government leaders and representatives of international organizations including the IMF and the World Bank. The ECA search for a structural adjustment program that will bring about the transformation of the African economies was a part of a process for finding the ways and means of reversing the deterioration in the African economies which has been going on now for more than a decade and installing in its place self-sustained and sustainable development. The basic theses of the African alternative are that:: (a) no program or plan will work unless it is seen as being indigenously formulated and implemented; (b) that the diversity of African situation will not be addressed through the application of standard formulae for all of them; (c) that the crisis overwhelming Africa must be seen first and foremost as a human one and not merely in terms of macro- economic disequilibrium; and (d) that developmental concerns such as the alleviation of poverty, the improvement of health, nutrition, education and productivity cannot be put on hold while resources are consumed by the need to correct economic imbalances.

The preliminary findings were discussed at an international workshop of economists from Africa and other countries held in Addis Ababa, Ethiopia, in January 1989 to which about 100 top African and non-African development economists were invited. For three days, 3-5 January 1989, the workshop deliberated and examined critically the initial results and preliminary findings that had emerged from the case study and other specific studies that had been undertaken and came up with a number of useful recommendations. After further elaboration, the proposals were examined by a meeting of senior officials of Ministry of Finance and Central Banks, both held in Blantyre, Malawi and both concluding in March 1989. Incorporating revisions made at these meetings, the African Alternative was submitted to the twenty-fourth session of the ECA and the fifteenth meeting of the Conference of African Ministers Responsible for Economic Planning and Development, both taking place in Addis Ababa from 27 March to 9 April 1989. The final stage in the consensus-building process was the joint meeting held in Addis Ababa on 10 April 1989, which adopted the African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation. The text was prepared for publication and released in London on 6 July 1989[7].

To understand better the African Alternative Framework is to show to what extent it is fundamentally different from the conventional structural adjustment programs. Section II of the paper summarizes and criticizes the main tenets or methods of the IMF/World Bank's design of structural adjustment programs (SAPs) in the 1970s and 1980s. Sections III and IV show in what ways the design of the African Alternative Framework

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7 See UNECA, *The African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation* (AAF-SAP) Addis Ababa, April 1989.

(AAF-SAP) differs from orthodox SAPs in terms of policy directions and policy instruments, implementation and monitoring, and financing. Section V will be a brief conclusion to our paper.

The Design of Orthodox Structural Adjustment Programs (SAPs)

Although structural weaknesses were at the root of the crisis of the 1970s and 1980s, donor countries and financial institutions believed that the most glaring problems were financial imbalances: trade deficits, budget deficits, inflation and a mountain of external debt. Hence, beginning the 1970, several African countries were forced to adopt emergency measures known as stabilization and Structural Adjustment Programs (SAPs) which were designed by the two major international financial institutions, the International Monetary Fund (IMF) and the World Bank, respectively. Future loans and aid were made conditional on acceptance of the terms of the SAPs. Between 1980 and 1988, 33 African countries entered into the IMF program known as the Standby Arrangement Facility and 12 were enrolled in the Extended Fund Facility; 15 received Structural Adjustment Loans from the World Bank.

It can be said with the benefit of hindsight that these programs for recovery mistook the symptoms for the disease. The SAPs aimed at correcting financial imbalances of a two-dimensional nature, and put off dealing with structural transformation. Yet the reality of Africa, as of the rest of the world, is three-dimensional, made up of flesh-and-blood people, material resources and social and political structures. It is in the structural realm that the causes of financial shortfalls are to be found, and it is here that recovery measures must be addressed.

Policy Aims of SAPs

The IMF established to smooth out world-wide financial dislocations largely through short-term loans, saw the heart of the problem as finance deficits, grounded in over-heated demand in African countries brought on by the too-rapid expansion of credit. This led to the conclusion that a reduction in domestic demand through a tightening of credit would reduce balance of payment deficits and help governments balance their books. The "stabilization policies" which it advised operate on demand management through fiscal and monetary restraint which aim to achieve balance-of-payments stability and lower domestic price inflation by reducing real incomes and therefore domestic demand for imports (and exportables), as well as expenditure cutbacks, especially in the public sector, which is a major contributor to increased demand in developing economies. Most of the stabilization policies were designed to work in the short-term between one and two years, in the hope that a brief period of austerity will permit the attainment of internal and external balance and so provides the basis for the restoration of long-term growth including future creditworthiness. But, in practice, it was found that in developing countries the austerity generated by stabilization programs has undermined growth prospects and discouraged both domestic and foreign investment.

The World Bank, with a mandate to aid development in the countries of the world through long-term loans and grants, took a broader view of adjustment, but was also preoccupied with African debt. It prescribed "structural adjustment policies" aimed at reducing current deficits over the medium-term (3-5 years) by making the whole economy more efficient, primarily through expanding and diversifying the production of tradeables (exports and import substitutes). This is done through altering or restoring appropriate price relationships between the domestic and external economy (i.e. changing the exchange rate to correspond to the hitherto unadjusted deterioration in terms of trade) and within the economy itself (e.g. adjusting producer prices among sectors and among products, altering the mix between producer and consumer prices to provide incentives to the former, and perhaps within the former to lay stress on export production or import substitutes such as food in a food deficit country) or by raising prices of or reducing the subsidies to government services relative to the private production sector. Establishing better price relations (getting the prices right) is deemed to support an efficient reallocation of resources by encouraging investment to flow into the key sectors identified under the structural adjustment programs (SAPs).

Thus, the IMF and the World Bank pursuit a narrow range of policy objectives dealing chiefly with increasing public sector efficiency, removing price distortions, increasing trade liberalization and promoting savings. Both these institutions agreed that continued loans and aid to African countries would depend on compliance with the following policy mechanisms:

- equalizing exchange rates with the rest of the world by devaluing currencies set artificially high by governments;
- setting higher interest rates to encourage savings and efficient use of resources;
- tight-fisted control of money supply and credit;
- cutbacks in government spending and less use of deficit financing of government projects;
- liberalization of trade;
- allowing the free market to determine prices; and
- turning government enterprises over to private businesses.

These technical measures, when put into practice, spelled out an austerity regiment that meant immediate hardship for countries and people. It was felt, however, that bitter medicine was needed to restore economic health. To assist the IMF and the World Bank in convincing financially troubled countries to take the medicine, other bilateral and multilateral financial institutions linked their own assistance to adoption of SAPs.

Theoretical Framework of SAPs

Although the structural adjustment programs proposed to the developing countries differ according to the specificity of the problems and the characteristics of a given country, it is generally accepted that the theoretical framework unde:lying these programs originated from monetary models of policy prescriptions in developing world. These models are predicated on the perceived role that excessive money creation and exchange rate over-valuation play major role in causing inflation and balance-of-payments disequilibrium. This is being referred to as the monetarist approach. The foundation of this theory owes much to the 1957 Polak Model[8].

Polak contains that money supply equals domestic credit plus external reserves. From these elements follows the monetary theory of the balance of payments according to which increases in domestic credit leak abroad through balance-of-payments deficits and reserves because to maintain monetary and income equilibrium, credit expansion must be offset by a reduction in reserves which, in turn, implies a balance of payments deficit. From this macro-logic emerges the so-called the "giant triplets" of conventional stabilization and exchange rate stabilization.

These triplets are considered within the *ex post* budget constraints of the private sector, the government sector, the foreign sector and the monetary sector.

In the private sector, the constraint is derived from the following equation:

$$S + \Delta DCP + F_p = I + \Delta B^d + dL^d \qquad (2.1)$$

which indicates that the source of funds or savings plus changes in domestic credit to the private sector (sDCP), plus capital inflow to the private sector (F_p) must be equal to the uses of funds, that is, investment (I), plus purchases of government securities (B^d), and acquisition of liquidity balance (L^d). In other words, the saving gap must be financed as follows:

$$I - S = \Delta DCP - \Delta B^d + F_p - \Delta L^d \qquad (2.2)$$

In the government sector, the constraint is represented by the equation:

$$G - T = \Delta DCG + \Delta B^s + F_g \qquad (2.3)$$

which states that the budget deficit (G-T), government expenditures (G) minus taxes (T), is financed through money creation or domestic credit to the government (dDCG), borrowing from the private sector (B^s) and capital inflow to the government (F_g).

8 See Plak, J.J., "Monetary Analysis of Income Formation and Payments Problems", IMF, *Staff Papers*, vol. 6.

In the foreign sector, the balance of payments constraint is represented by the equation:

$X - M = \Delta R - F_p - F_g$ (2.4)

which indicates that the current account deficit or surplus (X - M), exports (X) minus imports (M) is equal to the change in international reserves (R) minus net capital inflow to the private sector (F_p) and to the government (F_g).

And finally, in the monetary sector, the flow equilibrium in the money market is represented by the equation:

$\Delta L^d = \Delta R + \Delta DCP + \Delta DCG$ (2.5)

which indicates that the flow demand of money (L^d) is equal to the flow supply of money (L^s), which in turn comprises the change in international reserves (DR), domestic credit creation to the private sector (DCP) and to the government (DCG).

The overall budget constraint for the economy can then be obtained by consolidating all four budget constraints in the equations (1.2), (1.3), (1.4) and (1.5) which lead to:

$(I - S) + (G - T) + (X - M) = (\Delta B^s - \Delta B^d) + (d1^s - \Delta 1^d) = 0$ (2.6)

Since, in *ex post*, all markets must clear, that is, supply has to equal demand in each market, the above identity (2.6) can be represented by the following equilibrium equations for, respectively the commodity market, the bonds or capital market and the money market:

$(I - S) + (G - T) + (X - M) = 0$ (2.7)

$\Delta B^s = \Delta B^d$ (2.8)

$\Delta L^s = \Delta L^d$ (2.9)

The *fiscal stabilization* system from the equation (2.7) which leads to:

$X - M = -(I - S) - (G - T)$ (2.10)

Assuming that (I - S) is "stable" or at least "fairly small and predictable", the fiscal stabilization theory concludes that any increase (or decrease) in the budget deficit (G - T) will result in an increase (or decrease) in the trade deficit (X- M). Or it can be assumed that the private sector surplus (deficit) (I-S) is functionally related to the change in income, the rate of interest or inflation, and domestic credit creation to the private sector.

$I - S = F(\Delta Y, P, \Delta DCP)$ (2.11)

where $F_1 0$, $F_2 0$ and $F_3 0$. In that case, the fiscal equation becomes:

$X - M = -F(\Delta Y, P, \Delta DCP) - (G - T)$ (2.12)

which implies that (i) an increase in income will lead to a deterioration in the current account of the balance of payments and (ii) an increase in the budget deficits will result in an increase in the trade deficit of equal magnitude. The first proposition follows from the Keynesian assumption that an increase in income will lead to an increase in imports and possible deflection of exports to home consumption[9]. The second implication depends on the assumption made by the "New Cambridge School" that a change in budget deficit does not affect the private sector *surplus or deficit* (the saving gap)[10]. Thus, it follows that the external trade deficit can originate from either the domestic saving gap or the government deficit or both. If the origin of external deficit is due to the government deficit, then it can only be eliminated by reducing government spending (G) to the level of tax revenue (T) or by increasing tax revenue to the level of government spending, which is difficult in view of low tax base in developing countries. Hence, there is a necessity for fiscal stabilization usually to adjust through reduction of domestic absorption.

The *monetary stabilization* emphasizes the equilibrium in the money market given by the equation (2.9). Assuming by simplicity that the money multiplier is equal to unity, then the flow of money supply will consist of the change in international reserves (R), which is equal to the overall balance of payments and the domestic money creation, which is equal to credit creation to the private sector (DCP) and to the government (DCG).

$$\Delta L^s = \Delta R + \Delta DCP + \Delta DCG \qquad (2.13)$$

The flow demand for money is assumed to be a function of change in income (dY) and the rate of interest (r)

$$\Delta L^d = L(\Delta Y, r) \qquad (2.14)$$

Where $L_1 0$ and L_2 In the case where there are no observable data on interest rate, the rate of inflation (p) can be considered as a proxy for the interest rate.

$$\Delta L^d = L(\Delta Y, P) \qquad (2.14 \text{ bis})$$

Combining equations (9), (13) and (14 bis) lead to the basic monetary stabilization equation which determines the change in international reserves (overall balance of payments)[11]:

$$\Delta R = L(\Delta Y, P) - \Delta DCP - \Delta DCG \qquad (2.15)$$

This equation implies that (1) an increase in income will lead to an improvement in the balance of payments; and (2) an increase in domestic credit creation to the private sector or to the government will yield a balance of payments deficit of equal magnitude (offset coefficient of -1). The first proposition follows from the assumption made by the monetarists that income, prices and the rate of interest are exogenous (small country

9 See Turnovsky, S.J., "The Dynamics of Fiscal Policy in an Open Economy", *Journal of International Economics*, No. 6, May 1976.

10 See Bispham, J.A., "The New Cambridge and Monetariat" criticisms of "Conventional" Economic Policy Making', *National Institute Economic Review*, No. 74, Nov. 1975.

11 See Johnson, H.G. "The Monetary Approach to the Balance of Payments: A Non-technical Guide", *Journal of International and Economics*, (No. 7 August 1977).

assumptions), implying that any increase in income will increase the demand for money and thus create an excess demand in the money market and yield an improvement in the balance of payments[12]. The second proposition follows from the assumptions that there is no sterilization and no feedback from credit creation (policy variable) to income, price, rate of interest and thus the demand for money[13]. Thus to reduce inflationary pressures, there must be monetary stabilization. Since increases in the money supply are linked to credit expansion, there is again a reason to make a credit crunch a center piece of the conventional stabilization program.

As to the exchange rate stabilization, the aspect of exchange rate depreciation is introduced to set directly on the variables of the trade balance (X-M), namely exports and imports. It is postulated that devaluation of the domestic currency would lead to two responses that would both move in the direction of improving the trade balance. Firstly, devaluation would reduce import since the imports would, in local currencies, become more expensive. As per the classical demand schedule, the rise in domestic prices would result in a fall in the quantity of imports demanded. Secondly, devaluation would increase exports since export products would, in local currency, have a higher price. Again as per the classical supply schedule, the rise in prices of export products would result in a rise in the quantity of exports produced.

These three stabilization policies are supposed to be implemented "in tanden" simultaneously. This is because reduced fiscal deficits will have a recessionary effect and monetary deceleration might reduce economic activity rather than prices. But, the exchange rate depreciation will offset these trends through its stimulative effects of domestic export sector. Secondly, the depreciation of the exchange rate can have an effect of induced inflation (through the shift of resources between tradeables and non-tradeables). If the monetary stabilization component is not simultaneously followed, then devaluations could turn out to be inflationary[14].

Evaluation of Orthodox Adjustment Policies

Some of the above key tenets of SAPs policies are, on theoretical and empirical grounds inadequate or applied without sufficient consultation and

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12 See M. Mussa, "A Monetary Approach to Balance of Payments Analysis", *Journal of Money, Credit and Banking*, vol. 6 (August 1974), pp. 333-351.

13 See Komiya, R., "Economic Growth and the Balance of Payments: A Monetary Approach", *Journal of Political Economy*, vol. 77, No. 4, January-February 1969.

14 See UNECA, "Multiple Exchange Rate Policies", E/ECA/CM.16/8, Tripoli, May 1990, which showed that African countries that have devaluated had a higher inflation rate averaging around from 20.8% to a maximum of 113.9%, whereas those that did not devalue had fairly stable price levels with moderate rates of inflation ranging from a minimum 4.3% to a maximum of 9.7% per year.

flexibility when addressing the real causes of economic, financial and social problems facing African countries. In pursuing a narrow range of policy objectives focusing on short-term balancing of finances at the expense of long-term development and social progress too much weight is put on currency devaluation, budgetary cutting, credit limitations and higher interest rates. But it is well known that:

Exchange rates policies - which invariably involve substantial devaluations - do not take proper account of the fact that most African economies depend on primary product exports subject to quotas and sold at prices externally determined. Devaluation does not affect foreign demand elasticities nor prices for exports. The depreciation of the exchange rate can have an effect of induced inflation, through the shift of resources between tradeables and non-tradeables. If the monetary stabilization component is not simultaneously followed these devaluation could turn out to be inflationary. Devaluations, therefore, must be implemented with greater sensitivity because too rapid or successive devaluations can lead to sharply higher inflation rates, the diversion of foreign exchange to speculative activities and the structural entrenchment of traditional exports through price incentives for such commodities or tradeables.

Interest rate increases may raise savings levels, but imperfections of the African capital and money markets encourage speculative rather than productive activities. In rural areas, where banks are hard to find, high interest rates are irrelevant to increased savings and tend to fuel inflation. Financial liberalization through increasing interest rates on deposits is stagflationary unless portfolio switches take place; e.g. from rentiers holding inflation hedge assets (consumer durables and nondurables, hoarded money, housing, inventory stocks, etc.) towards productive loans to firms or enterprises (financial assets).

Trade liberalization policies are not feasible in view of the protectionist practices of industrialized countries, and also because of the adverse effects of foreign competition on infant industries in Africa. There is need for greater pragmatism, away from excessive ideological concern for trade liberalization and privatization. To argue that the most vulnerable and most fragile economies in the world should be liberalized while the rich economies are protected sounds a bit odd. Trade liberalization is based on false assumption both about competition in African markets and access to industrialized markets. Total imports liberalization would threaten national priorities such as food production self-sufficiency and the survival of infant industries and so lead to greater and more entrenched external dependence.

Privatization in Africa is based on the "incorrect" assumption that the indigenous private sector is strong enough to take over crucial areas of the economy. Poor performance of public enterprises in Africa has led to wholesale and doctrinaire privatization being proposed in many structural adjustment programs but the presumptive institutional superiority of private over public enterprises has no theoretical foundations. Indeed since the indigenous private sector is often not strong enough to take over, privatization could lead to take over by transnational corporations. The Africa's private sector is too small and weak for the free play of the market forces. The state intervention would have to remain in some areas in which the private sector is weak, though more sensitive, less inefficient and more motivated. At the similar stage of the economic development (16th-18th centuries), European countries had practiced the "Mercantilism" under which were established the great state factories in France and Germany (Gobelins, Meissen), the great trading companies like the East Indies Companies of France, Holland and Britain and the Central Banks. From them have evolved, slowly but surely, the sophisticated private machineries of finance and production that mark the developed world today. Thus at the initial stage of development, state interventionism is justifiable to provide an enabling environment for the private sector.

Tight credit policies usually lead to contraction in output; a sustained policy of tight credit would lead to reduction the existing capital stock due to the inability to replace it and can bring on inflation even though it can succeed in improving the governments current account. A movement to free tight credit policies can prevent producers responding to investment opportunities. Speculative rather than productive activities will be encouraged.

Pricing policies are based on the false assumption that markets in Africa are always competitive. The market imperfections and rigidities of the African economies do not allow for mobility of resources by which the benefits of allocation through supply and demand prices can take effect. Calling for the total replacement of the government with markets which hardly function is unjustifiable, since it is only as and when the necessary productive capacity is built that market forces would become competitive and progressively play an increasing role as an engine of growth and development.

Across the board cuts in budget deficits can have a deflationary effect and leads to catastrophe losses in crucial services like education, health, sanitation and water supply. The African economies are too weak to respond to this orthodox method. Drastic cuts in public spending may lead to debilitating health problems and greater illiteracy. No country can sustain deficit indefinitely. All deficits are not bad, particularly those aimed at financing investment (human and physical) which will increase the country's productive capacity. Without a healthy and educated work force no economy will thrive. Rather than increasing the level of resources for productive use the prescribed reform measures result in less investment in people and infrastructure so retarding rather than promoting structural transformation.

Evidence of the Effect of SAPs

As it was shown earlier, the World Bank's own data on the effect of SAPs for major macro-economic indicators, showed that the combined GDP of the countries with strong SAPs actually decreased by 1.5% during the period 1980-1987, whereas those with weak or without structural adjustment programs achieved combined annual average growth rates of 1.2% and 3.1%, respectively. It needs to be pointed out that within each group of countries there were positive and negative growth rates. Conditions unique to each country and factors such as weather, commodity prices and debt affected individual growth rates. Even so, GDP statistics clearly undercut the World Bank's assertion that countries following orthodox SAPs have fared better than those that do not, if anything, they argue the contrary.

If the World Bank and the IMF imposed austerity regimens, sometimes described as "shock treatment" programs, were balanced by an improvement in the ability of African countries to progress economically and socially, they might be worth the hardships endured. But a strategically improved position has not materialized. Declining per capita income and real wages and rising unemployment and underemployment are choking the growth of domestic markets for African products. The population is less, no better, to compete in the world economy of the 1990s. Governments hamstrung by the imperative of cutting budgets are not putting in new infrastructure or advancing the level of technology, and private business is not strong enough to take advantage of liberalized markets and prices while hemmed in by inadequate infrastructure, overseas competition and protectionist policies of the developed countries. In several instances, taking away subsidies on the price of basic food items has led to street riots and undermined political stability.

The orthodox financial models were tested on the yearly IMF data for seven East African countries (Ethiopia, Kenya, Malawi, Sudan, Tanzania, Uganda and Zambia) for the period varying between 1960 and 1988. The empirical results are given in tables 1-6 in Appendices.

Using the single-equation estimation of the "monetary equation" (2.15) and the "fiscal equation", (2.12) the results given in tables 1 and 2 show that: (i) the coefficients of the home country income are positive in the two cases (Ethiopia and Zambia) and negative in five remaining cases. Only three countries (Kenya, Sudan, Tanzania) have income coefficients which are significant at the 5% level. These country results invalidate the "monetary approach" that an increase in income will lead to an improvement in the overall balance of payments. (See table 1); (ii) the findings in table seem also to invalidate the Keynesian view that an increase in income deteriorates the balance of trade, at least for Sudan, Tanzania and Zambia where the coefficients of income are significant at the 5% level but with positive sign except for Uganda. In the remaining countries, the income coefficients are insignificant; (iii) the price variable seems to significantly affect the net international reserves in Ethiopia and Tanzania and the current account balance of payments in Kenya and Tanzania. In the remaining countries price does not have an expected significant impact on the dependent variable of the monetary and fiscal equations; (iv) domestic credit creation either to the private sector or to the government has a significant negative impact on the overall balance of payments, only in Kenya, although its coefficients is far different from -1. (Table 1). In Zambia, domestic credit creation to the private sector is significant but with positive sign and domestic credit creation to the government is significant in Ethiopia, Malawi, Tanzania but with a wrong sign. Domestic credit creation to the private sector has a negative impact on the current account (Table 2) in Ethiopia, Malawi, Sudan and Zambia (at the 5% level) and Tanzania (at the 10% level), suggesting that an increase of credit to the private sector will lead to an increase in the private demand for imported goods and a decrease in exports through the impact of deficits and trade deficits is not similar for all the countries in the sample. In Sudan, the results seem to support the "fiscal hypothesis" that an increase in budget deficit will result in a deterioration in the current account of the balance of payments. In Ethiopia, Malawi and Tanzania, the significantly positive relationship between government budget deficits and the current account suggests that both trade balance and government budget deficits are adjusting to the excess demand in the private sector. In three remaining countries, the relationship is insignificant. Thus, it seems that the "fiscal hypothesis" does not hold for all the developing countries in the sample.

The use of 2 SLS estimation does not seem to affect very much the results (see table 3 and 5). However, from table 4 and 6, which give the estimation results of monetary and fiscal policy reaction functions two remarks can be made. (i) Most of the countries in the sample, with the possible exception of Sudan, are not successful in "sterilizing" the effects of changes in net international reserves on the money supply (see table 4). This finding supports to some extent the endogenicity of the money supply postulate in developing countries and the argument that it is a credit and not money which should be the policy variable. (ii) From table 6, the results do seem to favour the argument that there is a two-way causability between budget deficits and the trade balance, but with a positive sign in Kenya, Malawi, Tanzania, Uganda and Zambia suggesting that not only changes in the budget deficits can lead to changes in the current account but also that the budget deficit is itself affected by the balance of payments.

The above estimation exercise includes the period 1980-1988 during which most structural adjustment programs were implemented, using both OLS and 2SLS methods. The results obtained although in most cases statistically insignificant point to the same conclusion that the basic policy issue in the east African countries should not be whether to follow fiscal or monetary "rules" but rather in how to co-ordinate credit and budget policies in the most efficient way and to ensure at least, that these policies are not in conflict with each other and incompatible with growth and development.

The track record of orthodox adjustment programs in the 1980s is however producing frustration on all sides - on the part of the Fund and the Bank and the countries involved. Recovery measures that were supposed to take hold in three years or so are now stretching out for a decade or more, with no resolution in sight. Rethinking what needs to be done has led to the drafting of an alternative framework for achieving economic recovery while transforming the underlying conditions of underdevelopment in Africa.

The Design of African Alternative Framework (AAF-SAP)

The African Alternative Framework for Recovery and Transformation (AAF-SAP) takes into account the pressing problems of debt and trade and the underlying structural weaknesses of the African economies. It is geared to human-centered development and the broad objectives endorsed by a consensus of African leaders in Monrovia and Lagos and reaffirmed in the 1986-1990 economic action programs[15].

The structural adjustment programs (SAPs) installed by the World Bank and the IMF in the late 1970s and the 1980s in effect told African countries to put their financial hoses in order before resuming campaigns of economic and social development. The African Framework (AAF-SAP) takes a different tack. It calls for transforming economic and social structures at the same time as consistent, long-term progress is made in reducing debt and inflation. AAF-SAP demands that both recovery and development should be pursued concurrently. It understands that if financial imbalances are corrected, but underlying structural weaknesses are not, external debt and internal deficits will reappear somewhere down the road. If conventional adjustment programs weaken economic and social structures, then adjustment means losing ground rather than gaining; it becomes adjustment to indefinitely prolonged underdevelopment and human misery. Insisting on financial balances or stabilization before growth and development is self-defeating.

It needs to be said that there are areas of agreement between the AAF-SAP and conventional structural adjustment programs. A consensus exists on the need for improved financial management and efficiency of public enterprises, along with tighter financial accountability of

15 See OAU, *African Priority Program for Economic Recovery* (APPER), 1985 and UN, *United Nations Program of Action for Africa's Economic Recovery and Development* (UN-PAAERD); May 1986.

governments; slowing down inflation; improved agricultural incentives for farmers to grow crops; diversified exports, mainly in processed agricultural products; and better management of external debt. The World Bank started designing program "with a human face" and to promote a new category of loan, designed to look after the social dimensions of adjustment. The IMF's "enhanced structural adjustment facility" allows borrowers more investment leeway by conceding easier terms of repayment. These are important and necessary objectives.

The areas of disagreement stem largely from different outlooks on the economic environment. Free-market economies extolled by conventional wisdom do not necessarily transplant easily to countries where supply and demand are bottlenecked by lopsided development and missing factors of production. Further, there is no justification for arbitrary ceilings on the participation of the State in the economy - the governments of many of the developed countries control a larger share of economic activity than African governments.

Other differences of opinion; it is hard to see how across-the-board trade liberalization will succeed while overseas trading partners maintain protectionist policies. In any event, stimulation of exports through fiscal incentives is self-defeating if a narrow range of the same commodities being produced in Africa and other regions lead to a glut on the world market and a consequent drop in prices. Export incentives need to be deliberately selective, recognizing the opportunities and difficulties for each African commodity in breaking into the world market or increasing its share. Pricing and resource allocation in such areas cannot be left entirely to the market; some state intervention is called for. Manipulation of a few fiscal levers will not transform African underdevelopment and has not forwarded recovery. Integrated action on a broad social, political and economic front is called for.

The proposal of the AAF-SAP has two inter-related parts; namely the framework that should form the basis for the design, implementation and monitoring of adjustment programs, and the alternative policy directions, instruments and measures that should constitute the ore of policy makers for the different African countries. The framework focuses on five strategic issues, namely:

- A more vigorous pursuit of human-centered self-sustaining development strategy and process;
- Greater encouragement of production activities, that is the transformation of Africa from a primarily exchange economy to a production economy;
- Greater democratization of the development process and greater accountability by policy makers and public officials;

- Effective mobilization of social and economic institutions for the task of adjustment and transformation;
- Renewed effort to accelerate the process of economic cooperation and integration.

Thus, all adjustment programs must address a number of questions relating basically to the desirable norms of adjustment, the structures that the African economies should adjust to and the indicators and criteria that should be used for effective monitoring such program with a view to ensuring their conformity with transformation. It is of view that the basic norm of adjustment is that of national and collective self-reliance with the concomitant reduction in external dependence. The basic structures to adjust are the real and material structures and relations of production, consumption, technology as well as social and political structures and institutions that are inhibitive of the pursuit of transformation and are disruptive of or do not consistently follow the path of national and collective self-reliance.

The Theoretical Framework of AAF-SAP

Unlike orthodox SAPs which are based on the classical theoretical wisdom, the African alternative framework does not provide a theoretical model or formulae that could be applied across the board to all African countries, in view of the diversity in the characteristics and performance of their economy. The modelling exercise is to be carried out on the empirical grounds for each individual African country on the basis of its particular socio-economic and cultural peculiarities and realities. In other words, the alternative is not a standard program to be applied indiscriminately in all countries under all circumstances. On the contrary, depending on the peculiar characteristics of each individual country, AAF-SAP will be used for designing specific instruments and measures and adopting the relevant implementation strategy. The AAF-SAP has, however, adopted a more holistic, comprehensive approach (general equilibrium) rather than the ad hoc partial approach (partial equilibrium) of the conventional stabilization and adjustment programs with limited objectives. The dichotomy between structural adjustment and long-term development is eliminated. Such an approach is expressed in terms of three modules or arenas of socio-economic activity that capture the relationship between the processes of production, income distribution and the satisfaction of the needs. (That is, a three dimensional approach adjusting supply to demand with human face, particularly the satisfaction of population's basic needs rather than a two dimensional approach adjusting demand to supply without human face as in orthodox SAPs).

Module I: Level and Structure of Production Expressed as Follows:

$$Y = f(F_1, R) \qquad (3.1)$$

where Y represents total output by category of goods and services. These categories could include sectorial classification such as agriculture, mining, industry, services. Disaggregation of these categories could also be made such as food and non-food for the agriculture sector, consumer manufactured goods, intermediate, and capital goods for industry, etc.; F_i is a set of parameters representing the relative effects of the different forces on the pattern and level of output. Such parameters may relate for example to technology, weather conditions, research and organizational infrastructure; R represents the set of available resources to be applied in the production of the different categories of output. These could include human resources, natural resources, land, water resources domestic capital formation (domestic savings) and external capital formation (external financial resources).

In other words, this is the usual production function that can tap the inherent potentials for the benefit of the internal economy rather than the export-production oriented economy devised in the orthodox SAPs. The AAF-SAP stresses the urgent need for shifting from primary production aimed at export markets that entail diminishing returns to producing more for domestic and regional markets. Compared with the SAP equations (2.7) and (2.10) of the equilibrium in the commodity market, the AAF-SAP would reverse the dependent variable as follows:

$$(I-S) = -(G-T) - (X-M) \qquad (3.2)$$

It is to recall that the previous model followed the new Cambridge School's assumption that (I-S) is fairly stable and small and can be eliminated from the equation. AAF-SAP rejects this assumption as being unrealistic in the case of developing African countries. The lack of increased production and structural transformation are the root causes of the financial imbalances, be it internal (G-T) or external (X-M) and not necessarily the other way around.

The first step to increase production is to increase the processing of farming and mining commodities that Africa already produces in raw form. This will put a higher percentage of the value of finished commodities in African hands and make for wider range of goods to market on the continent and overseas. To break away from dependence on overseas markets and worldwide financial conditions, Africa must produce a larger portion of the basic goods needed by its own population. Farming operations and key industries should receive preferential treatment in obtaining capital - easier terms for loans and lower interest rates. Land reform will increase food production and make for better use of Africa's human resources.

A strategy for building a scientific base from which to transform raw materials needs to be incorporated in national planning. Research projects that might be too expensive for any one country can be mounted by multinational efforts that pool resources. Another way to create a modern technological capacity when starting virtually from scratch is to bring scientific research into the production facilities. A key field at the moment is bio-technology, a rapidly evolving science that threatens to substitute laboratory-finished products for Africa's raw commodities, but could be turned to advantage if applied by African countries.

To free up resources for investment, financial leakages like debt payments and flight capital need to be plugged up. Available resources in Africa will be more efficiently used if countries integrate production structures and markets. Through regional and sub-regional planning, African governments can avoid costly duplication of efforts in existing industrial capacity and begin to create new industries.

Budget cutbacks accomplished at the expense of social services are counter-productive. Health and education are needed for a productive environment and productivity. Less obvious, but also important, is an adequate social infrastructure. Without a well run criminal justice system, for instance, the morale of the population sags, corruption flourishes and individual energies go into criminal rather than productive ventures. Above all, cutting back on productive capacity for the single purpose of balancing budgets must be resisted. If resources can be allocated efficiently and used productively, reduced government input brings savings only on paper and only in the short-term.

Module II: Income Distribution expressed as follows:

$$I = f(F_2, Y) \qquad (3.3)$$

where I represents incomes of various institutional groups such as households, enterprises and government; F_2 represents a set of parameters related to the effects of different forces on the pattern and level of income distribution (such parameters may relate for example to rural-urban terms of trade, the pattern of land ownership, labour structure, etc.) Y as defined in Module I.

This module defines income distribution functions in which relevant parameters operate on the generated output to determine the income of various institutions. More equitable distribution of income strengthens domestic markets for domestic products and alleviate poverty. An essential condition is better access of the poor and disadvantaged to the means of production, especially land, labour and capital.

A political environment that encourages sustained development and a fair distribution of wealth is characterized by popular participation in decision-making, consensus building, equity and justice, freedom from civil strife, open opportunities for all, accountability of government officials and a favourable investment climate. Cuts in non-essential government expenditure, especially military spending, will allow for more investment in productive activities. In the mid-1980s, developing Africa spent less on education than on the military, in contrast to Latin America, where the education budget is twice that of defence. Average public expenditure on health in Africa amounted to less than a third of what was spent on the military. Deep cuts in military spending are called for except in situations where unabated external aggression and destabilisation threaten a nation's well-being.

Module III: The satisfaction of the population's needs expressed as:

$$N = f(F_3, I, E) \qquad (3.4)$$

where N represents individual and collective needs (vital goods and services such as food, social services, basic infrastructures); F_3 represents the indices of forces that are relevant in the determination of the different needs for example consumption patterns, degree of poverty, and the structure of production determining the needed intermediate inputs, etc.; I, as defined before in Module II, and E represent the gaps between production and needs thus concomitantly defining all variables relating to transactions with the rest of the world such as exports, imports. This Module generates expenditure functions for the satisfaction of essential needs, given the pattern of domestic production and the pattern and level of income. The relevant parameters operate on the level of income of various institutional groups to determine the types and degree of satisfaction of the needs of the population with external transactions, including exports and imports, foreign loans and debt payments, aid and resource flows.

Current policies often aim single-mindedly at boosting production of export food and cash commodities. In effect, farming for local consumption is discriminated against. At better balance needs to be found between the production of food and cash crops for local markets and for export. Capital goods for the reaction of industry, intermediate inputs like fuel and spare parts and a large amount of the goods basic to meeting human needs are imported from overseas. Greater self-sufficiency in all these areas is called for. Incentives should favour local production for local needs, encourage exports and discourage non-essential imports. Consumption habits should be re-oriented to food, clothing, household items and other necessities that are or can be produced locally. Another step is increasing trade between African countries.

The persistence of external debt places a ceiling on African development and satisfaction of the basic needs of the population. Strong debt management, involving on-going assessment of payment capacity in the short- and long-term, is necessary to minimize the constraints of debt payments. When new loans are taken out, they should be for projects with quick and high rates of return and foreign exchange benefits.

Policies for activating progress within the three models are presented in the next sub-section. But first it should be made clear that there is a dynamic interchange between the three arenas. What happens in one module has an effect on developments in the others. Second, policies developed within the three modules will have to be monitored and adjusted as they unfold. The nature of the operative forces, the resources available to Africans and the needs of the people are historical phenomena; that is to say, they change over the course of time. As they do, the mix of policy mechanisms will also need to change. Thirdly, the African Alternative Framework is just what its name implies: a framework for policy measures, not a blueprint. It is a broad guide to action sufficiently flexible to be adapted to the unique conditions and priorities of individual African nations. In other words, the alternative strategy has left it to each country to design its own policy package within the overall framework that governments can use to design their own individual adjustment programs so that economies can be transformed[16]. This is the path of "adjustment with transformation".

Policy Directions and Instruments of AAF-SAP

Policy Directions

In respect of the policy directions, the AAF-SAP presents a menu of options for African governments with policies which emphases different directions from the existing SAPs. Although the AAF-SAP proposals focus also on the need for improved financial management and efficiency with higher financial accountability, improved agricultural incentives, export diversification and improved external debt management, there are, within this overall focus, the following basic elements:

Module I

- Ensuring policy continuity and compatibility between adjustment and transformation;
- Strengthening of the productive environment with increased productivity and judicious use of resources;
- Full resource mobilization, including the elimination of all forms of leakages and wastages;
- Strengthening scientific and technological base;
- Vertical and horizontal diversification of the production to meet first the local and regional demand and then for export markets.

Module II

- Establishing a pragmatic balance between the public and private sectors;
- Creation of an enabling environment for sustainable development;
- Restraint on expenditures on defence and on non-productive activities so as to release resources for the social and productive sectors;

16 In fact some African governments, like for example Burkina Faso, are trying to ensure that the new SAPs with the IMF/World Bank incorporated some of the policy instrument advocated in AAF-SAP before signing the stand-by agreement. Burkina Faso has included the ECA staff in the national team of experts who were sent to Washington D.C. to negotiate and hammer out SAPs with the Bretton Wood Institutions last June 1990.

- A bringing about of improvements in the pattern of income distribution among different socio-economic categories of households.

Module III

- Achievement of food self-sufficiency
- A lessening of import dependency
- Realignment of consumption patterns with production patterns; and
- Better management of debt and debt-servicing obligations.

From these proposed policy directions emerged the required policy instruments and measures which focus on increasing production for the satisfaction of critical needs. This is essential because the major problems of the African economy are rooted on the lack of production and the low productivity.

Policy Instruments

Module I

The following are the policy instruments recommended under Module I:

- land reform to encourage production and alleviate poverty;
- assistance to women (through more access to land, credit and technology) as agents of change and modernization;
- putting 20 - 25% or more of total public investment into agriculture; establishing bank branches and financial institutions in rural areas;
- a larger share of foreign exchange earnings assigned to import i.e productive inputs vital to manufacturing and agriculture;
- fostering links between farming and industry (using crop by-products as manufacturing production inputs, for example, or wastes from commodity processing as fertilizers);
- national credit guidelines that favour food production and manufacture of essential goods; investment codes tailored to promote small-scale, easily mounted industries;
- access to credit and legal enfranchisement of informal enterprises;
- selective interest rates: higher for speculative purposes and lower for productive ventures;
- setting aside a special fund for loans at subsidized interest rates to enterprises of strategic value to the national economy;
- bilateral and multilateral agreements between countries to rationalize production and assign areas of specialization;
- use existing multiple exchange rates (differences between official and black market currency values) or create tiers of official and black market currency values) or create tiers of official exchange rates and through selective application stem capital flight, ensure remittances from workers living abroad;

- rehabilitation and repair of national infrastructure and productive facilities;
- promotion of a technologically focused educational system;
- assigning personnel to find commercial applications for academic research; and,
- measures to protect the environment and ensure sustained productivity of the land.

Module II

The following are the recommended policy instruments under module II:

- cutting military spending and government spending on non-productive public sector activities; slashing subsidies other than those that help the social sector and strategic basic industries;
- widening the tax base and improving the machinery of tax collection; limited, realistic and progressively decreasing deficit financing of investments in production and infrastructure that do not depend heavily on imports; and,
- guaranteed minimum prices for food crops, managed through strategic food reserves.

Module III

The following are the policy instruments recommended under module III:

- re-allocation of government spending (without necessarily increasing total outlay) so that an average of 30% of the budget is applied to the social sector; after that is achieved, increases in social investment at a rate that outstrips population growth;
- selective pricing policies and subsidies to increase the supply of essential goods and services;
- pricing incentives and subsidies for processed export items and carefully selected primary commodities;
- trade policies that discourage non-essential imports and ban certain luxury items;
- high taxes on conspicuous consumption and on imported production inputs that can be produced domestically;
- a campaign of mass education in favour of consumption of domestic goods;
- strengthening intra-African monetary and fiscal co-operation, making it easier to exchange goods and currencies between countries;
- removal of trade barriers between African states and encouragement of barter trade;
- bilateral and multilateral agreements to stabilize prices of primary commodities; and,
- limiting debt payments to levels consistent with sustaining and accelerating growth.

It is not realistic, and possibly not even desirable, to expect all the policy instruments recommended in AAF-SAP to be implemented in every country. The particularities of individual countries and the changing course of the development process will call for choices as to which mechanisms to use and when to use them. It is hoped, however, that national policy packages will draw on policy instruments from all three categories - production, distribution and satisfaction of needs. The responsibility for recovery and transformation properly lies with the countries of Africa, individually and collectively. But support of international financial institutions will be needed for the program to succeed. The entire world has a stake in Africa's economic resurgence: continent-wide stagnation has a negative impact on international finances and economic growth, while progress toward African prosperity will contribute to a balanced world economy.

Comparisons with SAPs Policy Instruments

In implementing programs, the African alternative cautions governments to eliminate the anomalies on the IMF/World Bank policy instruments which were criticized earlier in this paper. Instead the AAF-SAP proposes:

Selective Credit Policy

Across-the-board credit squeeze advised by SAPs may lead to overall contraction of the economy, declines in capacity utilization and closure of enterprises and a shortage of critical goods and services. Instead, the AAF-SAP proposes a selective credit policy through subsidies, pricing policies, etc., that would increase the supply of essential commodities required for maintaining a socially-stable atmosphere for development such as critical intermediate inputs, industrial raw materials, while controlling inflation. This would entail sectorial allocation of credit using credit guidelines that would favour the food subsector and the manufacture of essential goods and increased gainful employment.

Differential Interest Rate Policy

Instead of unsustainably high real interest rates, the AAF-SAP advises the use of the differential interest rates in such a way that interest rates on loans for speculative activities would be greater than the rates on loans for productive activities and that the resulting weighted real interest rates (nominal interest rate adjusted with the rate of inflation) should be kept positive so as to encourage the increased mobilization of domestic savings while shifting resources from speculative to productive activities[17]. This would entail the creation and strengthening of rural financial institutions

17 See UNECA, *Differential Interest Rate and Selective Credit Control Policy*, E/ECA/CM.16/9.

(financial deepening)[18] and creation of a special fund for loans at subsidized interest rates to certain groups of economic operators. Government-set interest rates that favour selected sectors of the economy can be used for example, to increase exports and reduce imports and thereby improve the balance of payments of the country at the same time increase the country's productive capacity. This will also lead to increased food production in turn bolstering economic self-sufficiency and the physical and social well-being of the people. Such policies require careful planning and monitoring, as well as strong measures to prevent manipulation for illicit individual gain.

De Facto Multiple Exchange Rate Policy

Instead of generalized devaluation through open foreign exchange markets, currency auctions and large and frequent currency depreciation recommended in SAPs, the AAF-SAP proposes the use of the multiple exchange rate systems in a rationalized manner and/or creating and streamlining such a system for purposes of resource transfers, especially by nationals working abroad, resource mobilization and discouragement of capital flight and ensuring availability of essential imports[19]. Careful and sophisticated use of multiple exchange rates should ease the balance-of-payments crunch while adding to funds available for productive investment.

Production is stimulated by assigning favourable rates of exchange to products of strategic importance to the world market or to intra-African trade. Multiple exchange rate policy can also be designed to encourage workers employed abroad to send portions of their earnings home. Unfavourable rates can be used to hold back flight capital and discourage speculative overseas investments. The capital that stays at home becomes available for local enterprises.

Selective Use of Trade Policy

Instead of total import liberalization, the AAF-SAP recommends the selective use of trade policy which include *inter alia*, banning for the import of certain specified luxury goods, high tax rates on conspicuous consumption and competitive factor inputs that have domestic substitutes, and mass education towards consumption of domestic goods. This would change consumption and production patterns and enlarge the markets for domestic goods. This would entail also the strengthening of intra-African trade, monetary and financial cooperation as well as payments and clearing

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18 See McKinnon R.I., *Money and Capital in Development* (Washington, D.C., Brookings Institutions 1973); Shaw, E., Financial Deepening in Economic Development (New York: Oxford University Press, 1973).

19 See UNECA, *Multiple Exchange Rate Policy*, E/ECA/CM.16/8.

arrangements. In the past, the predominantly exchange nature of African economies and their openness have perpetuated Africa's external dependence. A few commodities have accounted for 80% of export earnings and government revenue. However, the AAF-SAP implores governments not to allow certain negative implications of the openness of African economies to lead to autarky, as no economy in the present world order can survive in isolation.

A Pragmatic Balance between the State's and Private Sector's Role in the Economy

Instead of doctrinaire privatization, the AAF-SAP proposes a pragmatic balance between the public sector and the private sector. In some areas, particularly non-social service and non-strategic sectors, African governments are over-extended. Selective privatization of state enterprises is a viable option in these cases. The state, however, bears a direct responsibility for building physical, social and human infrastructure, protecting the environment and providing services essential to minimal standards of human well-being. If limited profitability or underdevelopment of local business precludes the private sector from fulfilling these functions, the state has to make sure that the job gets done. Indeed, because of this, privatization in Africa has led to the takeover of public enterprises by transnational corporations, thereby deepening further the countries' external dependence. In the majority of case, the indigenous private sector does not have funds and skills to buy and run the inefficient public enterprises offered in the market to be sold. Where present, foreign transnationals with huge financial resources and entrepreneurial skills were the only ones in the market to buy them. The costs of handling transnationals in the country (including income, profit, dividend remittances to abroad in the needed foreign currencies) are often greater than the benefits that the country derives from them and often the training component of the nationals to take over is very insignificant.

Selective Subsidies and Pricing Policy

Instead of excessive reliance on the market forces for getting the "prices right" in structurally distorted and imperfect market situations, the AAF-SAP proposes the use of the flexible pricing policy where the State can guarantee a minimum price for food crops managed through strategic food reserves, selective subsidies and price policies to increase the affordability of essential goods and services as well as critical intermediate inputs and increased production of industrial raw materials. In other words, the state could intervene to eliminate the price distortions due to the market imperfections. For instance, the indiscriminate promotion of traditional exports through price incentives offered only to the "tradeables" (as devised by IMF/World Bank) can undermine food production and self-sufficiency and result in over-supply and fall in prices (fallacy of composition). There is a need for selective government interventions in the countries experiencing structurally-induced shortages and skewed income distribution.

Government Expenditure-switching

Instead of across-the-board cuts in the budget deficits, the AAF-SAP recommends expenditure-switching without necessarily increasing total government spending in order to raise governments spending on the social sectors (such as education, health, water supply, integration of the women i the development that are likely to increase productivity) to average around 30% of the total annual government budget, in the meanwhile reduction of government expenditure on defence and non-productive public sector activities, removal of subsidies to parastatals other than those in the social and productive sectors and nationally strategic basic industries and enlarging the tax base through improving efficiency and probity of the tax collection machinery in order to finance the public outlays in those sectors. When the funds is still not enough to finance productive and infrastructural public investments, the AAF-SAP recommends the use of limited realistic and decreasing deficit financing (through monetary creation) of these have little import content. The public productive investments can also be financed through the limitation of debt service ratios to levels consistent with sustaining and accelerating growth and development.

Institutional Constraints

There are two types of institutional constraints which must be removed as a necessary precondition to increased production and productivity of resources (land, labour and capital) as well as to the implementation of basic needs policies. On the one hand, there is a need for fundamental reforms in the social and economic institutions where nothing exists(e.g. appropriate rural capital markets; food production credit systems for farmers; agricultural extension services to spread modern farming techniques and provide technical support to farmers; rural institutions to support cottage industries and informal enterprises, emphasizing indigenous technologies, domestic finance, rural infrastructure and the full participation of women in the economy; legislation that clearly, states property rights and enfranchises participation in the economy of artisans, merchants and co-operatives in rural areas in the informal sector in cities; and community development organizations and self-help programs).

On the other hand, there is a need to streamline the institutional framework for decision-making in the public sector and to promote managerial efficiency.

The decsion-making process needs improvement at all levels to institutionalize the planning function in general and structural transformation policy in particular and to promote increased managerial efficiency. The most important action in this respect is the establishment of an effective

Central Planning Agency (CPA) at the highest level of government, for probably in the form of a planning commission. This CPA must then supervise the deepening of the planning process at the ministry level, in key public enterprises and the local levels. These main strategies here embrace the strengthening of the institutional capabilities, the introduction and use of proper methods and procedures of planning and management, and the enforcement of social responsibility and public accountability, including the decentralization process.

Institutional reforms

A people-oriented structural transformation strategy required institutional reforms to remove the numerous constraints facing the producers and workers in their struggles for self-improvement, to increase access to resources by all social groups especially the disadvantaged, to increase the efficiency and effectiveness of government programs, and to improve decision-making on all social sectors of production. The government and national planners beer the greatest responsibility for initiating and rationalizing these reforms, although people's political pressure will play a significant catalyst role. Indeed, such pressures should be encouraged as part and parcel of the democratization process.

In the rural sector, these may need an agrarian reform, a reform of the existing cooperative movement towards production rather than marketing and to institutionalize efficient management and accountability, an appropriate financial system for rural transformation, and a coherent system of decentralized rural development planning. In the social sector, the need for fundamental reforms in education, health, and urbanization policies cannot be over-emphasized given the human development orientation. Industrialization requires an institutionalized appropriate technology policy, a responsive financial system, and a framework for responsible worker's participation in determining their working conditions. Lastly but least, mixed-economy reforms may be required to achieve the best balance among public-sector and private sector enterprises as well as collective community enterprises and programs. All these reforms must be consistent with the need to promote people's participation in decision-making and development programs as well as a deepening of the democratic process at all levels of society.

Enabling Environment

At independence, the African states inherited some legacies which have been incompatible with rapid sustained economic development. These have included:

(i) independent constitutions that tried to accommodate at best as they could ethno-cultural development, linguistic, religions and political differences, but at the same time were meant to facilitate the building of a nation-state out of a conglomerate of peoples arbitrarily and involuntarily brought together;

(ii) public services with structures, processes and procedures, conditions of services, tradition and attitudes that were not primarily designed to serve the aspirations and goals of the newly independent states; and

(iii) staggering socio-economic underdevelopment, and extremely weak indigenous private sectors in their economics. These legacies have had and still continue to have direct and severe effects on the public services in independent Africa.

In the search for suitable constitutions, conflicts have arisen which, in some cases, have resulted into vicious civil wars, coups and counter coups, suspension of constitutions and strong communal antipathies. The consequent upheavals and instability have resulted in the detraction of the energies of nations from socio-economic development goals, stable styles of government, towards the achievement of which, suitable public services can be built. Many African countries have not yet finally decided what type of political and socio-economic goals they want to pursue so that the public services, as tools to achieving the decided goals, need to be moulded accordingly. The instability and the resultant insecurity have been devastating the morale, devotion and the *esprit de coups* of the services to dangerously low levels.

It is obvious that dissatisfaction with the current performance of African public services exists among politicians, the general public and the public servants themselves. As regards a better alternative, there are many alternatives or combinations of alternatives, the choice of a better alternative is a function of the political leaders. There is need to foster an environment favourable to reform facilitated by the right political, social and administrative climate which is derived from an awareness of the urgency for administrative reform. It is necessary to embark upon a program of education to explain the rational of administrative reforms to all responsible public officials. A high-level commission should be appointed from time to time by the government to undertake a comprehensive review of the public services, to identify major administrative deficiencies and to advise on the appropriate reform measures to be taken. Such an administrative reform should be integrated with the framework for socio-economic transformation and recovery and consistent with the overall development programs. Continuous political instability and excessive mobility and transfers of top-level public servants and ministers can hinder administrative reform efforts. It is important that considerations should be given to the creation of a permanent machinery comprising a network of implementing organs in the different sectors, departments and levels of government to ensure that administrative reform programs are being effectively and properly implemented, so as to sustain development.

Participation which is a fundamental socio-political issue, and which implies a redistribution of wealth and power among social classes can be devised as an alternative approach to enlisting the support of the masses and arousing their enthusiasm for development. This includes participation in the management of the production system, i.e. democratization of the production process, which raises the issue of centralization of economic, political and administrative powers.

Implementation and Monitoring Mechanisms

Putting into action the policies and mechanisms of the African alternative framework to structural adjustment programs for socio-economic recovery and transformation requires sound government, the active participation and understanding of the population at the national and subregional levels, support of the international community, and the ability to monitor and evaluate progress. As a human-centered framework AAF-SAP implies full democratization of all aspects of economic and social activities and in all stages from decision-making to implementation.

To adjust the ongoing selection of policy mechanisms and detect early warning of deviations from objectives, adjustment and development programs need to be closely monitored. National, subregional and regional data systems will have to be in place to assess the impact of new policies. Statistical indicators of economic growth and financial flows need to be studied, but so do qualitative factors: the extent to which basic needs are satisfied, political and social vitality, and progress in transforming production structures and consumption patterns. Regional institutions such as the ECA should take appropriate action in organizing data systems and standards for evaluation and in assisting countries with the design of national programs.

Financing SAP vs AAF-SAP

SAPs Conditionalities

Under the SAPs, many donor countries and financial institutions increasingly perceived structural adjustment as the key to Africa's problems and have made aid conditional on acceptance of such programs. There is concern about the capacity of Africa to sustain growth after aid flows have primed the pump. The 1980s have turned out to be a decade where everyone has been financing short-term balances and has forgotten long-term development. It is like chasing the shadow and leaving the substance behind. The cause of short-term imbalances are fundamental structural development rigidities and lack of development. Instead of addressing them, donor countries and financial institutions have put emphasis on short-term symptoms. Therefore, the donors countries should go back to their original role to help Africa finance its long-term developments and leave the IMF to finance short-term imbalances.

As a think-tank, the ECA lacks the resources of the IMF and World Bank to implement its alternative approach. But foreign aid will not flow plentifully enough to solve all Africa's problems. While the Bank/IMF suggest sensible but unpalatable solutions of finding the necessary money, like sacking civil servants, the ECA would have governments cut military spending, which is equally unworldly. If essential public investments still cannot be paid for, the ECA suggest that mild budget deficits can be tolerated.

At the political level, the finding of AAF-SAP showed that there is growing erosion of the sovereignty of African countries in the way stabilization programs are being designed and implemented. Countries seeking external resources are often subject to policy dictates of donor institutions and Africa has suffered and continue to suffer from such impositions because the weakness of its economies give it very little negotiating leverage. One asset of the encroachment on national sovereignty is in the one-sidedness of the negotiations of the programs between the countries concerned and the international financial institutions. Another is the overwhelming and dominant role of officials of these institutions in dictating conditionalities and in the design of adjustment programs as well as its implementation modalities. It is this loss of sovereignty that apparently accounts for the anomalous situation in which conventional stabilization programs in many African countries are being designed and implemented virtually independently of and at cross purposes to the objectives and principles of the Lagos Plan of Action, the Final Act of Lagos, the African Priority Program for Economic Recovery and the United Nations Program of Action for Africa's Economic Recovery and Development that were adopted at the highest level by the African Heads of State and Governments and the United Nations General Assembly. In none of these documents you will find reference made to the design and financing of shot-term SAPs. What has been advocated instead in each and every one of them are policy changes and policy reforms that will address the root and fundamental causes of Africa's continued economic backwardness and that will lead to the transformation of structures that keep the African economies underdeveloped and aggravated the economic crisis that has engulfed the continent since the beginning of the 1980s decade. The dichotomy between long-term development objectives and short-term adjustment programs as well as their financing is alien to these documents.

In SAPs most of the resource mobilization effort (special quick disbursing assistance, balance of payments support and debt relief necessary to reactivate economic growth and mitigate the social cost of economic restructuring) was handled by donor agencies with modest participation of African governments. As a matter of fact, structural adjustment financing and related debt relief programs have become an increasingly complex and constantly changing technology and African governments play virtually no role in its design and adaptation. Although additional development assistance resources are being mobilized in support of policy reform programs, private capital flows have virtually dried up and improvements in the incentive environment (launching of investment codes in most African countries) have had minimal impact on private investment, whether foreign or local.

Another dimension of the financing problems relates to the sustainability of the programs that are supported by the World Bank and the IMF. In many instances, African countries have agreed to follow the orthodox adjustment programs with the general understanding that these programs will be sustained by adequate external financing. However, contrarily to expectations in the majority of cases, the badly-needed inflow of external resources has not materialized. Even where pledges of assistance had seemed firm, disbursements have been either substantially delayed or predicated on a number of increasingly tougher conditionalities. In a situation where the country depends on the non-autonomous resources brought through the acceptance of a program, when these resources stop the recovery program breaks down.

Between 1980 and 1988, about US$83 billion of development assistance went to sub-Saharan Africa and the overall economic performance record has been characterized as failure in the light of the continent's crisis. For Western countries, the large supply of funds (ODA) on a large scale to African governments for whatever well intentioned purpose, have strengthened the role of the state in the recipient country and thus undermined the trend toward a market economy and a healthy private sector which is the key to Africa's development. This can be enhanced by the creation of a healthy financial sector, including a sound banking system and capital market which could help the newly small business and encourage large-scale private investment.

Financing AAF-SAP

No specific strategy is made for the financing of the AAF-SAP for the obvious reasons that the ECA is not a financing agency like UNDP, the World Bank and the IMF. However, it is recognized in AAF-SAP document that the mobilization of internal and external resources is of crucial importance in the implementation of AAF-SAP. The adjustment with transformation programs must therefore take into account the resource constraints. Precise estimates of the quantity of resources needed should be worked out at individual country level, but generally countries should look for extra finance from improved international commodity trade, reduction of outlays on external debt servicing, increased external resource flows form bilateral, multilateral and private sector sources, promotion of transfers by nationals living abroad, and the prevention of financial leakages through capital flight, over-invoicing of imports and the prevention of financial leakages through capital flight, over-invoicing of imports and under-declaration of export earnings. Additional resources should also be generated from the growth of African economies.

While internal resources are clearly insufficient, at this stage to achieve both simultaneously the adjustment and development goals, a satisfactory rate of development from a long-term point of view, requires that the proportion of internal savings in total supply of resources be increased. This will provide the basis for self-sustained growth with stability and freedom from intolerable debt burdens. The stimulation of domestic savings generally requires the setting up of adequate institutions, incentive policies and appropriate taxation. While it is certainly difficult to save when the levels of income are very low, it has been recognized that even low income countries, both in Africa and other developing regions, particularly in Asia have demonstrated a capacity to save at least from the additional income resulting from increased production. To promote the agricultural and industrial production while constantly raising the economic efficiency of production is, therefore, of vital importance to resource mobilization in developing African countries.

Export earnings are primary means of economic leverage for achieving recovery and transformation. It is critical, therefore, to address falling commodity prices that deprived Africa of almost US$19 billion in 1986 alone. International discussions of this issue, including proposals for a Common Fund to stabilize commodity prices and removal of barriers to African exports, have gone on for more than two decades. It is high time that agreements are reached to close off the hemorrhage of African foreign exchange reserves.

The mobilization of external financial resources is obviously also needed to supplement the scarce domestic funds available for implementing the adjustment process with transformation (AAF-SAP). Yet, the process is arduous in the situation and prevailing conditions of dwindling foreign official development assistance and increasing 'donor fatigue'. Furthermore, expertise and caution are required to avoid any further balooning of the external debt. In 1988, Africa has become a net exporter of capital, even to the IMF. It is estimated that approximately US$1 billion was transferred to the IMF in 1986 and 1987, almost 1.4% of the annual exports of the region. Agreement to limit debt payments to a manageable proportion of foreign exchange earnings will free up a substantial pool of resources for internal investment.

Effective debt management is also a related strategic issue which deserves a particular attention. Whatever the resources available for implementing AAF-SAP - domestic or external - it is necessary to ensure that they are put to optimum use. Obviously, the main objective in this context is to increase production, thereby increasing employment and income. A high rate of capital formation has been generally linked to increased production and income. And the efficient management of the investment program, including both the sectorial and project levels, is a crucial element of development planning and financial management. Generally, it is at the annual programming level that planning and budgeting are reconciled.

Development and financial institutions and donor agencies have a critical role to play. The drawbacks of development programs drawn up by outside institutions have already been alluded to: not only do the plans fail to comply with African realities, but strategic thinking and leadership of African planners are stunted and they are placed in charge of policies for which they do not feel personally responsible. International financial institutions are coming to grips with this problem, and increasingly they are aware of the need to formulate assistance programs that correspond with regional and national initiative.

Although AAF-SAP says relatively little on the financing per se of the adjustment with transformation, it deals with length on more efficient, more rational utilization of the resources needed. In this respect, it completes the other continental programs like LPA, APPER, UN-PAAERD. In these programs collective self-reliance is recognized as an integral part of the development strategy as it would, under the African realities, lead inevitably to balanced development through the rationalization of production and consumption structures with the required development in skills to enhance productivity levels. In other words, the essence of development transformation should be generated from within and its dynamics based on Africa's own resources and potentials with a viable exogenous support. Thus, the concept of development or transformation should primarily become an indigenization approach to integrated development that fits better into the social and cultural fabrics of Africa. It is an inward-looking development strategy on collective self-reliant basis that minimizes the excessive dependence of the region on imported products, finance and technology. This entails that the transformation will focus on increased interdependence among growth-led sectors that generate effective forward and backward linkages, a human resource-based development with the central role of human capital. This is the most crucial single factor in spearheading the process of socio-economic transformation, with the support of other forms of capital necessary for technological development and increased labour productivity.

It is the mobilization of this indigenous capital that is most crucial for determining the course of transformation. Self-sustaining development depends basically on the proper and healthy interaction of three factors, namely, population, resources and environment. Rapid transformation will be achieved when the proper balance between agriculture and industry is maintained so that one can generate resources required by the other with the proper and optimal interaction of soil, people and resources for development. This could be done through:

(i) focus on mass participation and integrated rural development based on grass root development and the village and small farmers community levels;
(ii) creating an industrial base capable of meeting the basic requirements of a self-generating development; and
(iii) the human resources and other forms of indigenous capital are considered as a dynamic force in spearheading the process of socio-eocnomic transformation.

The internationalization of the factors of production is the backbone of such a strategy for resources mobilization. In the first place, developing the capability of local entrepreneurs on a multi-faceted sectorial basis is a factor of crucial importance as a center and source of much widespread growth and better distribution of economic well being. The institutional support to maximize the utilization of human resources requires the promotion of a radical change in the educational system in favour of increased technical orientation through vocational and technical training to fill the glaring skill gap in the productive sectors. It is only through sectorial development programs designed to improve productivity in agriculture and agro-industries that Africa can lessen its dependence on external markets of resources, reinstitutionalize a rightful balance between resources and population, and attain a mastery of its own development.

The savings efforts in the region vary considerably from one income group of countries to the other. But the saving ratios for the majority of the African countries is generally low. One of the serious problems that acts as an impediment on capital formation and development in the African region is the consumption patterns which tend to emulate those of advanced countries. This tendency does not make for saving and capital accumulation out of relatively low income. While the Keynesian contention that consumption expenditures are conductive to economic development and growth may largely be true for developed countries, the same could not be said about the developing African countries as there are limited and fairly inelastic production capacity. Thrift is their only option. Lack of approximity of suitable financial and savings institutions forces people, particularly in the rural areas into hoardings or savings in kind, thereby limiting the size of actual financially mobilisable savings as compared to the potential.

The transformation and recovery process require that major strides are taken in creating the necessary financial institutions and savings organs as well as providing incentives to encourage thrift and use of these institutions by households in both rural and urban areas. It also entails that efforts to explore unconventional ways to mobilize domestic savings through lending and saving schemes set up or developed from grassroot schemes which target social groups who were widely believed not to participate in the saving process are pursued and strengthened. Along with the expansion of the institutional money and capital market networks, policies have to be undertaken to encourage the holding of financial assets and their channelling into the national banking system.

The government budget is also the most important financial resource mobilization instrument through taxation and investment income. However in view of low tax base and low taxable income, efforts should be made to simplify the tax system, broaden its base and reduce tax leakages by streamlining and reinforcing tax administration apparatus as well as to reinforce the collection of non-tax revenues derived principally from earnings of public enterprises and revenue from sale of government services. Foreign exchange leakages from in particular such loopholes as under-valuation of exports and over-valuation of imports, insurance, transfer pricing of multinationals and tourism and capital flight should be countered. The mobilization of real resources concealed in rural and urban unemployment and underemployment for capital formation should also be pursued. A critical issue is the need to train larger numbers of African workers, managers and technical specialists for both government and private enterprises.

As it is stressed in the UN-PAAERD, the bulk of financial resources to finance transformation and recovery will have to be borne by African governments and African peoples themselves. This could be done through increased domestic savings to reach a level of as much as 25% of GDP, changes in the consumption patterns to favour more domestic products, countering escalating financial leakages, efficient resource management and allocations, etc. These domestic savings efforts need to be complemented by increased flows of capital from external sources on manageable terms. Thus, the implementation of the alternative framework for Africa's transformation and recovery requires external re-orientation, particularly with respect to funding. First, it demands an inward-looking strategy to make internal funding the dominant source of financing for the program. This requires effective domestic resource mobilization, more efficient use of resources and competent management of the economy. In addition to the national efforts, there will also be need for more effective African cooperation on subregional and regional bases in such areas as the pooling of resources, joint planning and execution of projects, increased intra-African trade, especially commodity barter trade, the sharing of information and so on.

Conclusion

The "African Alternative Framework to Structural Adjustment Programs" (AAF-SAP) pointed to the fact that structural change or reform or adjustment must be recognize as a long-term endeavour for which considerable flexibility is required if grave social disruption is to be avoided and that the strategy for achieving the desired adjustment or reform should come from within each country, in accordance with its need, priorities, and short-term reforms compatible with medium- or long-term planning. The ECA secretariat is still searching for means and ways of effectively implementing structural adjustment with transformation through use of specific studies, and monitoring and subregional exchanges of experiences.

Proposals designed to improve the operational, implementation and monitoring characteristics of such an integration approach of AAF-SAP would include:

(1) the improvement of information systems in order to monitor the activities of the non-structural sector, minimize voluntary or involuntary errors or omissions in foreign trade and financial flows, and provide more reliable and accurate socio-economic indicators;

(2) the modification of planning methods to ensure a more effective co-ordination among the various ministries and decision-making bodies, in particular the coordination between the annual budget and the medium-term plan through the institution of the "hard core" of high priority for public decision-makers which offers adequate incentives to major national, subregional and international economic units;

(3) the adoption of the Planning Programming Budgeting System (PPBS) method in which the plan has a sliding horizon and intemporal choices are dictated by the employment/current resource balance of the government budget;

(4) the short-term objectives and macro-economic policy are used as a tool of checking and connecting medium-term policy management.

To facilitate this process, a time-schedule for plan preparation, implementation and monitoring is indispensable. Experience from Africa (and elsewhere in developing world) suggests that solid information on the economic performance of the past year usually surfaces about mid way through the succeeding year. However, as soon as some indications of the economic outlook become available, the formulation of the objectives, strategy and broad dimensions of the coming year's annual rolling plan must be presented as guidelines to the agencies concerned with the working out of targets, programs, projects and policy instruments for adjustment with transformation.

At the operational level, the ECA secretariat has already initiated four main studies relating to the AAF-SAP model-types and an in-depth analysis of some of the policy estimates of AAF-SAPs so as to facilitate these smooth implementation at the national and sub-regional levels. These include:

(a) production subsidies for sustaining growth,

(b) scope and limitation for differential interest rates, and

(c) the possibilities and problems of multiple exchanges systems.

These studies which were submitted to the joint meeting of the Conference of African Planners, Statisticians and Demographers, at the inaugural conference of the African Economic Association and lately at the ECA Conference of Ministers Responsible for Economic Development, Planning and Policies in Tripoli (Libya) last May 1990, will soon be published.

The 1990 decade is envisaged as a challenge posed by regional blocks, namely the plans for a single, barrier-free European community market after 1992, the de facto North American partnership of Canada and the United States, and closer economic ties among the newly industrializing countries of the Pacific rim, such as Hong Kong, South Korea and Taiwan. There is, therefore, an urgent need to speed up moves towards economic integration in Africa and the establishment of an African Common Market well before the target date of 2000 which had been set in the Lagos Plan of Action in 1980. Such integration, at sub-regional and regional levels, demanded closer coordination of economic and social policies, development of multi-country projects, promotion of intra-African trades and more immediately, the creation of an African Monetary Fund which has been on the drawing board for 10 years. Preparing Africa for the 1990s must also include funding a viable African alternative, at the country level, to existing orthodox structural adjustment programs which has failed to yield positive or sustained results in the 1980s.

Annexes

Empirical Evidence on SAPs

Most of the empirical work in this paper is based on the "monetary equation" (2.15) and the "fiscal equation" (2.12) written in linear form, the equations to be estimated using the ordinary least squares (OLS) method are:

$$\Delta R = a_0 + \Delta Y + a_2 P + a_3 \Delta DGP + a_4 \Delta DCG \qquad \textit{(monetary equation)}$$

$$X - M = B_0 + b_1 \Delta Y + b_2 P + b_3 \Delta DGP + b_4 (G - T) \qquad \textit{(fiscal equation)}$$

The expected signs of the coefficients of these two equations are:

$A_1 > 0 \quad a_2 < 0 \quad a_3 = -1 \quad a_4 = -1$

$b_1 > 0 \quad B_2 \geq 0 \quad b_3 < 0 \quad b_4 = -1$

However, the single-equation estimation of the "monetary equation" can be criticized on the ground that there might be a simultaneity between domestic credit creation and changes in international reserves[20]. This will be plausible if the monetary authorities use credit policy to "sterilize" the effects of balance of payments on the money supply. To take into account this possible simultaneous relationship between domestic credit creation to the government and the change in international reserves, a monetary reaction function can be derived assuming that credit creation to the government is dictated by the change in international reserves (actual and lagged one period) and the level of the budget deficit. Accordingly two stages least squares (2SLS) estimation of the following simultaneous system were made:

$\Delta R = C_0 + c1\ \Delta Y + C_2P + C_3\Delta DGP + C_4\Delta DCG$

$\Delta DCG = d_0 + d_1\ \Delta R + d_2\ \Delta R\text{-}1 + d_3(G - T)$

Similarly, to take into account the plausible simultaneity between budget deficit and the current account and between deficit and income, in estimating, the "fiscal equation" a fiscal policy reaction function was derived assuming that the budget deficit (surplus) is functionally related to the change in income, the trade balance (actual, and lagged one period), a capital inflow which is a source of financing the budget). This leads to the following simultaneous system which is estimated using 2SLS:

$X - M = c_0 + c_1\ \Delta Y + C_2P + c_3\Delta DCP + C_4(G\text{-}T)$

$G - T = f_0 + f_1\ \Delta Y + f_2K + f_3(X - M) + f_4(X - M)\text{-}1$

20 See N.C. Miller, "Monetary vs Traditional Approaches to Balance of Payments Analysis", *American Economic Review*, No. 1 (May 19780.

Table 1: Single Equation Estimation Results using "Monetary Equation"

$$AR = a_0 + a_2 P + a_3 ADCP + a_4 ADCG$$

Country	Constant a_0	a_1	a_2	a_3	a_4	R^2	S.E.	D.W. F-Ratio
1. Ethiopia	-41.12100	0.10171	-6.142215	0.23950	0.72183	0.5803	34.861	1.1564
(1960-1988)	(-1.79)*	(1.53)	(-2.91)*	(1.23)	(4.25)**			5.1857
2. Kenya	34.18900	-0.08852	47.69500	-0.12552	-0.40046	0.8911	50.307	2.4215
(1966-1988)	(1.17)	(-3.77)**	(5.44)**	(-2.34)*	(-3.02)**			7.9631
3. Malawi	-5.2116	-0.18246	-0.64222	0.48276	1.10653	0.5514	18.300	1.8401
(1965-1988)	(-0.50)	(-0.76)	(-0.60)	(1.19)	(2.64)			3.3795
4. Sudan	10.5370	-0.19526	-0.55926	0.96744	0.38944	0.6905	27.297	1.7269
(1960-1988)	(1.21)	(-3.73)**	(-0.42)	(1.81)*	(1.79)*			7.8074**
5. Tanzania	15.6870	-0.02234	-3.42227	0.12769	0.06471	0.6941	50.405	1.7489
(1966-1988)	(0.66)	(-2.53)*	(-1.92)*	(1.08)	(4.19)**			5.6718*
6. Uganda	0.32824	-0.00091	0.16389	-0.01052	0.00828	0.2358	17.763	2.5148
(1966-1988)	(0.04)	(-0.36)	(0.36)	(-0.28)	(0.73)			0.6942
7. Zambia	-21.04500	0.19458	-9.62128	1.04226	0.63473	0.4745	92.469	1.1787
(1964-1988)	(-0.45)	(0.98)	(-1.40)	(2.48)*	(0.97)			2.4833
Pooled Cross-Section	13.16600	-0.01925	0.37072	0.05079	0.08068	0.1286	78.541	1.8376
(1966-1988)	(1.82)*	(-2.21)*	(1.73)	(2.40)*	(3.00)*			3.6524

Source: IMF International Financial Statistics Yearbook, 1980-1989 and ECA's National Account Statistics

Notation: X = exports of goods & services; M = imports of goods & services; AY = change in gross national product (GNP): P = rate of inflation; ADCP = change in net domestic credit to the private sector; ADCG = change in net domestic credit to the government;

G = government expenditures; T = government revenues; K = capital inflow; X - M = current account balance; G - T = budget deficit; and AR = change in international reserves.

* = significant at the 5 per cent level (Figures in parentheses are t-values)

** = significant at the 1 per cent level (Figures in parentheses are t-values)

Table 2: Single Equation Estimation Results using "Fiscal Equation"
$$X - M = b_0 + b_1 AY + b_2 P + b_3 ADCP + b_4 (G - T)$$

Country	Constant b_0	b_1	b_2	b_3	b_4	R^2	S.E.	D.W. F-Ratio
1. Ethiopia	-16.14900	0.20594	2.73132	-1.29098	0.97500	0.6619	94.853	2.3416
(1960-1988)	(-0.37)	(1.17)	(0.53)	(-2.48)*	(3.47)**			5.7035*
2. Kenya	114.4600	0.38047	-248.11000	0.00913	0.26062	0.6314	1505.800	0.5978
(1966-1988)	(0.15)	(1.04)	(-2.85)*	(0.01)	(0.30)			5.4407
3. Malawi	-2.70910	-0.02178	-1.38716	-1.04191	1.26857	0.9223	15.446	1.9887
(1965-1988)	(-0.29)	(-0.11)	(-1.11)	(-2.27)*	(2.60)*			32.6230**
4. Sudan	-41.42500	0.29025	0.68680	-1.28279	-1.19486	0.9645	26.552	2.1958
(1960-1988)	(-4.29)**	(5.58)**	(0.53)	-(2.18)*	(-6.44)			95.0450**
5. Tanzania	270.67000	-0.043206	-84.7770	-2.9840	0.89691	0.8740	788.240	1.8520
(1966-1988)	(0.27)	(3.82)*	(-3.83)**	(-1.61)	(3.23)**			17.3480**
6. Uganda	479.46000	-10.35562	38.9570	2.39543	0.34395	0.5496	1213.000	2.6417
(1966-1988)	(0.75)	(-2.09)*	(-1.34)	(1.07)	(0.73)			2.7453*
7. Zambia	79.51800	0.49174	-3.73449	-0.98832	-0.44431	0.6798	117.440	1.2922
(1964-1988)	(1.43)	(2.16)*	(-0.50)	(-1.91)*	(-1.23)			5.8386*
Pooled Cross- Section	-98.82400	-0.03969	0.65202	0.02994	-0.02719	0.0932	231.87	1.0846
(1966-1988)	(-3.88)	(-1.90)	(1.11)	(0.45)	(-0.16)			2.5439

Source: Ibid.
Notation: See Table 1

Table 3: 2 SLS Estimation Results using "Monetary Equation"
$AR = c_0 + c_1 AY + c2_3 + c_4 ADCG + c_4 ADCG$

Country	Constant c_0	c_1	c_2	c_3	c_4	R^2	S.E.	D.W. F-Ratio
1. Ethiopia	-49.360	0.12895	-8.32494	0.30400	0.94382	0.5324	36.320	1.4145
(1960-1988)	(-2.89)	(1.78)	(-3.17)**	(1.45)	(4.13)			4.2702*
2. Kenya	116.920	-0.17865	84.549	-0.07130	-0.99050	0.6511	90.047	2.6013
(1966-1988)	(1.31)	(-2.01)*	(2.37)**	(-0.67)	(-1.75)*			5.2223*
3. Malawi	-9.54154	-0.05724	-0.45478	0.55180	0.32013	0.4079	21.023	2.1097
(1965-1988)	(-0.61)	(-0.14)	(-0.16)	(1.12)	(0.17)			1.8945
4. Sudan	12.514	-0.17202	-0.62074	1.14357	0.22133	0.6773	27.871	1.7061
(1960-1988)	(1.39)	(-3.08)**	(-0.46)	(2.04)*	(0.88)*			7.3471**
5. Tanzania	14.276	-0.02097	-2.95791	0.13092	0.05885	0.6897	50.768	1.8616
(1966-1988)	(0.60)	(-2.34)*	(-1.60)	(1.10)	(3.56)**			5.5556*
6. Uganda	0.38844	-0.00087	0.25174	-0.01884	0.03499	0.2208	17.936	2.3256
(1966-1988)	(0.22)	(-0.35)	(0.45)	(-0.39)	(0.17)			0.6376
7. Zambia	-11.816	0.15725	-8.09756	0.93436	0.35690	0.4660	93.216	1.7720
(1964-1988)	(-0.13)	(0.41)	(-0.55)	(0.91)*	(0.44)			2.3997*
Pooled Cross- Section	14.024	-0.00031	-0.03221	0.03084	0.00554	0.0601	76.376	1.8777
(1966-1988)	(1.86)*	(0.00)	(-.11)	(1.27)	(0.12)			3.5826

Source: Ibid.
Notation: See Table 1.

Table 4: 2 SLS Estimation Results using "Fiscal Equation"
$ADCG = d_0 + d_2 AR + d_3 AR_{-1} + d_3 (G - T)$

Country	Constant d_0	d_1	d_2	d_3	R^2	S.E.	D.W. F-Ratio
1. Ethiopia	-24.280	-0.46962	0.25028	-0.67883	0.7985	42.066	2.3646
(1960-1988)	(-1.48)	(1.04)	(0.81)	(-6.13)			21.1470*
2. Kenya	54.533	2.47391	-0.51157	-0.35860	-0.62956	273.590	1.8802
(1966-1988)	(0.34)	(3.21)**	(-0.56)	(-2.56)*			16.6666*
3. Malawi	-6.03939	-0.16666	-0.15087	-0.50852	0.0891	15.703	1.6149
(1965-1988)	(-0.28)	(-0.13)	(-0.68)	(-0.67)	0.3914		
4. Sudan	33.871	-0.17338	-0.10936	0.67886	0.9316	19.480	2.2863
(1960-1988)	(5.80)**	(-3.05)	(-0.79)	(12.13)**	68.1520		
5. Tanzania	239.17	10.787	0.34318	-0.79798	0.8106	690.130	1.4602
(1966-1988)	(0.82)	(2.63)*	(0.10)	(-3.11)**			15.6890
6. Uganda	574.16	134.36	30.548	0.41245	0.1875	2226.100	1.9863
(1966-1988)	(0.44)	(0.84)	(0.60)	(0.27)			-2.5503
7. Zambia	-25.469	-0.56547	-0.014141	-0.19843	0.2365	74.2700	2.1414
(1964-1988)	(0.97)	(-1.36)	(-0.07)	(-0.79)			-2.0985
Pooled Cross-Section	71.292	5.057669	-0.20586	1.88474	0.2236	435.3600	2.1520
(1966-1988)	(1.14)	(2.03)*	(-0.37)	(7.33)**			9.59893*

Source: Ibid.
Notation: See Table 1.

Table 5: 2 SLS Estimation Results with Dependent Variable (X - M)
$X - M = c_0 + c_2 AY + c2 P + c_3 ADCP + c_4 (G - T)ADCG$

Country	Constant 1_0	1_1	1_2	1_3	1_4	R^2	S.E.	D.W. F-Ratio
1. Ethiopia	-18.434	0.14808	8.89667	-1.42645	1.42803	0.6033	102.74	2.5977
(1960-1988)	(0.34)	(0.76)	(1.19)	(-2.49)*	(3.00)**			5.7031*
2. Kenya	221.380	0.41086	-245.08000	0.047223	0.56455	0.6263	1516.0	0.6601
(1966-1988)	(0.29)	(1.11)	(-2.80)*	(0.03)*	(0.62)			5.9801*
3. Malawi	-2.47509	-0.019882	-1.32072	-1.02169	1.30074	0.9223	15.449	1.9696
(1965-1988)	(-0.26)	(-0.10)	(-0.98)	(-2.11)	(2.38*)			32.6370*
4. Sudan	-44.9050	-0.31096	-0.61838	-1.04697	-1.31828	0.9634	26.968	2.2116
(1960-1988)	(-3.50)**	(4.30)**	(0.47)	(-1.28)	(-3.78)**			92.0290**
5. Tanzania	283.63	-0.022759	-90.9950	-2.83389	0.70907	0.8683	06.07	1.1082
(1966-1988)	(0.76)	(-0.13)	(-3.93)**	(-1.49)	(2.26)*			16.4790*
6. Uganda	568.750	-0.35986	40.7800	2.28336	0.43796	0.5476	1215.7	2.6797
(1966-1988)	(0.82)	(-2.10)*	(1.37)	(1.00)	(0.80)			2.7232
7. Zambia	80.047	0.49137	-3.75533	-0.98222	-0.43684	0.6798	117.44	1.2921
(1964-1988)	(1.42)	(2.16)*	(-0.50)	(-1.86)*	(-1.14)			5.8882*
Pooled Cross- Section	-92.773	-0.04641	0.81829	0.04134	0.06028	0.0906	232.20	1.0710
(1966-1988)	(-0.37)	(-0.17)	(0.12)	(0.09)	(0.02)			2.4655*

Source: Ibid.
Notation: See Table 1.

Table 6: 2 SLS Estimation Results with Dependent Variable G - T

$$G - T = f_0 + f_2\,AY + f2\,K + f_3\,(X - M) + f_4\,(X - M)_{-1}$$

Country	Constant f_0	f_1	f_2	f_3	f_4	R^2	S.E.	D.W. F-Ratio
1. Ethiopia	8.56636	-0.018734	-1.75559	0.21648	0.080318	0.7540	73.53	2.6587
(1960-1988)	(0.29)	(-0.19)	(-2.48)*	(0.70)	(0.43)			11.4930**
2. Kenya	-42.31300	-0.016175	-1.88618	0.022089	0.36525	0.9179	210.06	2.2839
(1966-1988)	(-0.37)	(0.43)	(-4.66)**	(0.61)	(7.28)**			25.1550**
3. Malawi	-2.19204	-0.015025	-0.63486	0.10101	0.098040	0.9698	4.2235	1.4029
(1965-1988)	(-0.90)	(-0.29)	(-2.24)*	(0.84)	(2.24)*			88.3810**
4. Sudan	-34.15500	0.18266	0.26547	-0.43822	-0.15663	0.9707	20.101	2.2022
(1960-1988)	(-4.84)**	(3.69)	(0.59)	(-2.41)*	(-0.78)			7.8074**
5. Tanzania	-147.3700	-0.16705	1.44421	0.26048	0.61753	0.9475	292.81	1.3747
(1966-1988)	(-1.16)	(-2.89)*	(4.92)**	(1.60)	(5.04)**			45.1620**
6. Uganda	-1459.1000	-0.028458	2.80586	-0.16309	1.07012	0.8008	479.20	1.3309
(1966-1988)	(-5.98)**	(-1.50)	(2.79)*	(-0.90)	(3.32)**			9.0462*
7. Zambia	-155.77000	0.19075	-1.63863	0.46050	0.46516	0.8123	64.481	0.9162
(1964-1988)	(-4.83)**	(1.51)	(-4.54)**	(3.39)**	(3.90)**			11.9010**
Pooled Cross- Section	-108.31000	-0.01439	-0.66610	-1.37537	0.68657	0.1815	300.35	2.2731
(1966-1988)	(-2.76)*	(-0.72)	(-0.75)	(-2.10)	(2.38)*			8.1405*

Source: Ibid.
Notation: See Table 1.

L'Ajustement structurel dans le Tiers Monde

Fayçal Yachir*

Abstract: *For several years now, adjustment has become the key-word in economic policies in Third World countries. Development policies have been replaced by adjustment policies initiated either by governments themselves or imposed by the International Monetary Fund within the conditionality framework. After defining what adjusting an economy means, the author describes its mechanisms and objectives and then evaluates it. The evaluation is globally negative because structural adjustment policies did not succeed in correcting the internal and external financial desequilibria. There are three major reasons to the collapse of these policies: bad economic policies and options, discrepancy between the IMF doctrine and the objective conditions of operation of capitalism in the third world and faith in a number of myths (myth of national market, myth of efficiency of the private sector, myth of carelessness of the public sector and myth of comparative advantage). Therefore it is important to try alternative adjustment policies which would take into account economic rationale based on economizing the scarce resources available. The implementation of unorthodox adjustment policies in a few Latin American countries such as Mexico, Brazil, Argentina and Peru is part of this process. The prerequisites for the success of structural adjustment programs are the following: political democratization, rationalization of and opposition to neo-liberal dogmatism, opposition to market determined prices for its sake, opposition to free-exchange and to passive submission to foreign decision-making centers, opposition to reduction of standard of living of the majority and to the accumulation of revenues in the hands of a minority. It is also important to drop obsolete state capitalisms and to create new forms of articulation amongst the different sectors of economic life.*

L'ajustement, une nouvelle orthodoxie

Dans son acception la plus large, l'ajustement d'une économie nationale désigne la nécessité de corriger ses déséquilibres financiers et monétaires externes et internes qui entretiennent généralement un fort endettement extérieur, c'est-à-dire le déficit de la balance des comptes courants, le déficit du budget de l'Etat et l'inflation. A ce titre, l'ajustement est une nécessité évidente qui s'impose à tout pays et à tout Etat dont les dépenses sont supérieures aux gains, et pas seulement dans le Tiers Monde. D'ailleurs, si les politiques d'ajustement se sont généralisées dans le Tiers Monde au cours des années 1980, nombre de pays socialistes fortement endettés en ont aussi fait l'expérience. De même, l'histoire récente a montré que les pays de capitalisme avancé connaissent eux aussi la contrainte de l'équilibre extérieur. Seuls les Etats-Unis font exception, dans la mesure où le dollar est

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la monnaie internationale par excellence et que rien ne les oblige dans les conditions actuelles à rééquilibrer leur balance des paiements et leur budget. C'est pourquoi les Etats-Unis qui sont le pays le plus endetté au monde échappent à la nécessité de l'ajustement structurel.

Les raisons de l'ajustement

La substitution des politiques d'ajustement aux politiques de développement un peu partout dans le Tiers Monde signale la crise des processus de développement des années 1960 et 1970, aggravée par les retombées de la crise des économies développées. Processus plutôt que stratégies, car avec le recul du temps, les fameuses stratégies de développement que les observateurs avaient cru voir dans un grand nombre de pays sont désormais perçues, et de façon plus correcte, comme de simples politiques sectorielles sans grande cohérence. Rares sont en effet les pays où, dans le cadre d'un système de planification centralisées, comme la Chine et la Corée du nord, où d'un régime capitaliste d'Etat, comme la Corée du Sud et Taïwan, l'Etat a déployé une stratégie de développement globale et cohérente, embrassant tous les aspects de la vie sociale et tous les secteurs de l'activité économique.

La manifestation principale de cette crise des processus de développement dans le Tiers Monde est l'accumulation d'une forte dette extérieure. A l'exception notable de l'Inde et des pays pétroliers peu peuplés du Golfe Persique, l'expérience historique récente des pays d'Afrique, d'Amérique du sud et d'Asie est en effet marquée par la quasi-permanence du déficit extérieur, du déficit budgétaire et de l'inflation, phénomènes d'ailleurs étroitement liés les uns aux autres. Le déficit de la balance commerciale, par suite d'une baisse des recettes d'exportation, entraîne une réduction des recettes fiscales de l'Etat. Le déficit du budget, par suite d'une augmentation des dépenses publiques, de même que l'inflation, qui rend les produits nationaux plus chers que les biens étrangers, engendrent une croissance des importations de biens et de services. Le déficit budgétaire entretient l'inflation lorsqu'il implique une création monétaire sans contrepartie et inversement, l'inflation entretient la création monétaire.

Or, au-delà d'un certain seuil d'endettement extérieur, la crédibilité financière d'un pays tombe à zéro et il ne lui est plus possible de mobiliser de nouveaux emprunts auprès des banques, des gouvernements ou des institutions internationales. Dans certains cas, il suffit que le pays en question engage de sa propre initiative un programme d'ajustement pour qu'il puisse à nouveau bénéficier de prêts gouvernementaux ou bancaires, souvent dans le cadre de relations politiques privilégiées avec les pays développés et à condition qu'il soit en mesure d'effectuer le remboursement des échéances régulières de sa dette extérieure. Mais en règle générale, la réduction de la crédibilité financière d'un pays du Tiers Monde s'accompagne de difficultés croissantes à assurer le service de la dette et ce pays se trouve dans l'obligation de négocier un rééchelonnement de ses remboursements, c'est-à-dire à emprunter à moyen terme pour pouvoir rembourser à court terme. Dans ce cas, les créanciers privés (les banques internationales occidentales et japonaises), regroupés au sein du "club de Londres", et les créanciers gouvernementaux, regroupés au sein du "club de Paris", exigent pour octroyer de nouveaux prêts au pays concerné le visa du Fonds monétaire international qui l'accorde en contrepartie de l'application d'un programme d'ajustement structurel sous son contrôle. "La conditionnalité" désigne précisément ce type d'arrangement.

Ajustement conjoncturel et ajustement structurel

On distingue habituellement entre ajustement conjoncturel et ajustement structurel, mais il est préférable de parler plutôt d'aspects conjoncturel et structurel de l'ajustement. L'aspect conjoncturel de l'ajustement renvoie à l'action sur la demande et au court-terme tandis que l'aspect structurel correspond au long-terme et à l'action sur l'offre et sur ses conditions institutionnelles.

L'action à court-terme sur la demande correspond aux classiques politiques de stabilisation, appliquées par les gouvernements des pays développés depuis la crise des années trente, c'est-à-dire depuis que l'Etat a commencé à intervenir de façon décisive dans la régulation de l'économie nationale.

Certains volets de la politique de stabilisation sont d'inspiration keynésienne, comme les politiques budgétaire et fiscale, qui consistent à agir sur le niveau et la structure de la demande globale; d'autres volets sont plutôt d'inspiration néo-classique, comme les politiques monétaire et cambiaire, qui visent à équilibrer les marchés des capitaux et des changes.

L'action à long terme sur l'offre et sur ses conditions institutionnelles renvoie aux politiques sectorielles (politiques industrielle, agricole, politiques de formation, de recherche, etc.) dont l'objet est la réallocation en dynamique des ressources productives. Elle renvoie aussi, dans des pays où la crise résulte non seulement des faibles performances de l'appareil de production mais aussi de la mauvaise organisation de l'économie, à la transformation du régime économique.

On oppose habituellement l'intervention du FMI à celle de la Banque Mondiale en associant la première à l'aspect conjoncturel de l'ajustement et la seconde à son aspect structurel. En fait, le programme d'ajustement imposé ou recommandé par le FMI, s'il vise à réduire le déficit de la balance des comptes courants et du budget et l'inflation, comporte des mesures qui affectent la structure de l'économie, et pas seulement sa conjoncture, même si sa durée d'application est souvent de quelques mois. En général, on peut admettre que la distinction entre aspects conjoncturel et structurel de l'ajustement est seulement de nature méthodologique, en particulier dans les pays du Tiers Monde, où en raison du rôle prééminent de l'Etat dans la vie économique et sociale, des mesures conjoncturelles, par exemple la réduction des dépenses publiques, engendrent obligatoirement des effets de structure.

L'ajustement par la demande

Il s'agit à court-terme, de réduire la demande globale, et à long terme, d'accroître la production pour l'exportation, de substituer le marché à la planification et de privatiser le capital.

La réduction de la demande est recherchée à travers la baisse des dépenses publiques, la réforme fiscale, la restriction du crédit et de la masse monétaire et la dévaluation.

La réduction des dépenses publiques en vue de restaurer l'équilibre budgétaire implique d'abord celle des dépenses sociales de l'Etat, notamment dans les domaines de l'éducation, de la santé et de l'habitat. Elle signifie la contraction des budgets de fonctionnement des services de santé et d'éducation publiques, la suspension des recrutements, l'abandon de projets de nouvelles infrastructures sociales.

Elle implique aussi la contraction des budgets d'équipement et de fonctionnement des secteurs économiques publics, la dissolution des offices étatiques d'approvisionnement et de distribution généralement déficitaires, et la rationalisation des entreprises publiques et des administrations par l'élimination des effectifs en surnombre.

Elle implique enfin la suppression des subventions aux entreprises publiques déficitaires et la réduction, voire l'abolition des subventions aux prix des biens d'équipement et des biens de consommation de première nécessité, en vue d'inscrire l'autonomie des entreprises et la "vérité des prix".

La réduction des dépenses publiques, mesure de conjoncture, produit donc nécessairement des effets de structure, puisqu'elle joue dans le sens d'une modification des procédures de régulation de l'économie nationale.

La réduction de la demande globale est également recherchée à travers la réforme fiscale, qui consiste à modifier l'assiette et le taux des impôts directs en vue de décourager la consommation somptuaire et à accroître les impôts indirects pour réduire la consommation populaire.

L'encadrement du crédit par la hausse des taux d'intérêt et la restriction de la masse monétaire en circulation constituent un autre moyen important de réduire la demande, par le renchérissement des emprunts en vue de consommer ou d'investir et l'encouragement de l'épargne des ménages et des entreprises.

Enfin, la dévaluation de la monnaie nationale est censée entraîner une diminution de la demande d'importation, puisque les biens importés deviennent plus chers en monnaie locale, mais cet effet dépend de l'importance des élasticités-prix de la demande d'importation.

L'ajustement par l'offre: système productif et régime économique
A long terme, le programme d'ajustement du FMI a pour finalité le développement des exportations, la substitution de la régulation par le marché aux procédures de régulation administrative, et la privatisation du capital productif.

Ajustement et spécialisation à l'exportation
Le développement des exportations doit s'effectuer sur la base des avantages comparatifs immédiats du pays concerné, c'est-à-dire sur la base de disponibilités relativement importantes en ressources énergétiques, minières ou agricoles, et/ou d'une force de travail nombreuse, disciplinée, et faiblement rémunérée. La promotion des exportations industrielles concerne principalement les pays ayant atteint un niveau intermédiaire de développement, comme certains pays d'Amérique latine, du monde arabe et d'Asie du sud-est.

Le programme d'ajustement structurel, qui vise à approfondir l'insertion des pays du Tiers Monde dans le marché international peut être analysé comme étant une tentative de rationalisation de l'économie internationale à deux niveaux.

A un premier niveau, la croissance de la production industrielle pour l'exportation dans certains pays du Tiers Monde a pour objet de rationaliser et d'approfondir la division internationale du travail en favorisant le transfert progressif de certaines activités industrielles à fort contenu énergétique ou minéral et/ou à forte intensité de main d'oeuvre des pays développés vers des pays dans lesquels les conditions de production sont plus favorables. Un tel déménagement industriel peut être opéré à l'initiative des entreprises locales ou sous l'impulsion et avec la participation directe des firmes des pays développés, mais pour le FMI, qui insiste sur la nécessité de libéraliser les conditions de l'investissement étranger dans le Tiers Monde, la délocalisation industrielle doit s'accompagner implicitement d'un redéploiement des investissements des firmes des pays développés.

A un second niveau, le développement des exportations peut être interprété comme une volonté de rationaliser la circulation de capitaux à l'échelle internationale, en alignant les mouvements de fonds sur les mouvements de biens et de services. Durant les trois décennies écoulées, en effet, la plupart des pays du Tiers Monde ont vécu avec un déficit chronique de leur balance des paiements, compensé par des flux financiers en provenance des pays développés, sous la forme d'investissements directs, de crédits publics et privés et d'aides diverses, en sorte que le niveau de consommation et d'investissement dans ces pays a dépendu en partie de la disponibilité de revenus de transfert. L'existence de transferts nets positifs en faveur des pays du Tiers Monde s'est en fait accompagnée entre la fin des années 1950 et le début des années 1980 de transferts implicites de valeur à leur détriment, par le jeu de l'échange inégal inhérent au système des prix mondiaux. Si l'on pouvait estimer l'ampleur de ces transferts implicites, le montant des transferts nets positifs décroîtrait très fortement, voire s'annulerait dans certains cas; les transferts financiers visibles représentent en tout cas une forme de redistribution internationale du revenu en faveur des pays du Tiers Monde, tout comme d'ailleurs les revenus de rente, comme ceux tirés de l'exportation des hydrocarbures entre 1973 et 1986, c'est-à-dire durant la période de prix pétroliers élevés. En insistant sur la nécessité de promouvoir les exportations, notamment industrielles, le FMI, la Banque Mondiale, les banques privées et les gouvernements des pays développés s'efforcent de substituer à cette redistribution internationale des revenus une situation dans laquelle les niveaux d'importation des pays du Tiers Monde seraient strictement déterminés par le niveau de leurs gains propres en devises, c'est-à-dire par le montant de leurs recettes d'exportations de biens et de services et non plus par la disponibilité de revenus de transfert.

Ajustement structurel, régulation et privatisation

La seconde finalité du programme d'ajustement du FMI est la substitution des règles du marché aux procédures administratives comme instrument d'allocation des ressources et de répartition du revenu. Un tel objectif est recherché à travers la "vérité des prix", la déréglementation, l'instauration d'un marché monétaire et financier, le désarmement douanier et la privatisation du capital.

On a vu que dans son aspect conjoncturel, l'ajustement implique la réduction des subventions étatiques aux prix des équipements et des produits de première nécessité, mais il s'agissait d'une mesure justifiée par la nécessité de réduire les dépenses de l'Etat et le déficit budgétaire. L'instauration de la "vérité des prix" à long terme signifie que l'Etat doit s'abstenir de toute intervention susceptible de "déformer" la structure des prix qui est censée découler spontanément des raretés relatives des biens et des facteurs de production. Il doit éviter de manipuler les prix des équipements, des biens intermédiaires, des matières premières et de l'énergie en fonction de ses politiques de développement sectoriel, comme il doit renoncer à soutenir certains prix, notamment les prix agricoles, et à en subventionner d'autres, notamment ceux des biens de première nécessité et des services collectifs dans le cadre de ses priorités économiques et sociales. Il doit enfin cesser de financer le déficit des entreprises publiques et de façon plus générale, "rationaliser" le secteur public économique, par la décentralisation et l'autonomisation de ses entreprises et de ses banques et leur soumission aux critères de la rentabilité financière.

Enfin, dans la mesure où la vérité des prix s'applique non seulement aux biens et aux services, mais aussi aux facteurs de production, elle implique que l'Etat cesse d'intervenir dans la fixation de taux de salaire, par l'imposition de salaires minima ou par l'indexation des salaires sur l'inflation. De même, il doit corriger les taux d'intérêt et les taux de change "artificiels" en vue de laisser se déterminer librement les prix du capital sous ses diverses formes, financière ou matérielle; la notion de vérité des prix implique donc la déréglementation ou la dérégulation, c'est-à-dire l'abandon des procédures administratives de régulation de l'économie au profit des règles du marché.

La planification dans la majorité des pays du Tiers Monde n'a pas revêtu le caractère d'une planification centralisée, autoritaire, quantitative et impérative telle que l'ont connue les pays socialistes. Mais outre le fait que l'Etat y assume la responsabilité directe d'un important secteur productif, il affecte de façon décisive par ses politiques la répartition du revenu et l'allocation des ressources. Il intervient de façon prépondérante dans le financement des entreprises publiques par le biais du Trésor, il détermine l'accès aux ressources par ses politiques du commerce extérieur et du change et il fixe les conditions d'investissement pour le capital privé national et étranger. Or, le programme d'ajustement structurel tel qu'il est recommandé par le FMI implique que l'Etat se désaisisse de ces prérogatives.

Le financement par le Trésor des entreprises publiques doit être remplacé par un financement bancaire, sur la base de relations commerciales entre banques et entreprises. La banque centrale doit devenir un organe indépendant du gouvernement et des subventions gouvernementales. Quant aux subventions des prix des produits de première nécessité, elles sont moins l'effet d'un libre choix des gouvernements que le résultat objectif de l'écart qui existe entre le niveau des coûts de production dans les pays développés (en particulier le niveau des coûts salariaux) et le niveau moyen de revenu dans les pays du Tiers Monde, reflet de la grande disparité des niveaux moyens de productivité.

Le bilan des programmes d'ajustement structurel

Toute tentative d'évaluation des effets économiques des programmes d'ajustement structurel appliqués sous les auspices du FMI doit partir d'une remarque méthodologique préliminaire. L'écart est en effet trop grand entre l'universalité abstraite du modèle de l'ajustement structurel proposé par le FMI et la particularité irréductible des situations locales pour qu'on puisse véritablement tenter une évaluation pertinente et significative. Une telle évaluation supposerait que l'on puisse reproduire des conditions de laboratoire dans tel ou tel pays afin de pouvoir estimer le bilan du programme uniquement en fonction des variables (et des relations entre elles) que ce dernier prend en considération. Les facteurs exogènes, comme un changement climatique, ou une variation des prix internationaux peuvent changer du tout au tout les résultats. Surtout, les processus économiques et sociaux internes affectent l'impact des mesures d'ajustement en même temps qu'ils s'en trouvent affectés.

A cette difficulté méthodologique majeure s'en ajoute une autre, d'ordre plus pratique, la tentation de la manipulation statistique. Toute statistique est un produit, et en ce domaine peut être plus qu'en d'autres, ceux qui produisent les statistiques, les gouvernements, la Banque mondiale et le FMI, ont trop intérêt à ce que celles-ci soient convaincantes. Cela ne signifie pas que les chiffres soient truqués, mais le choix de la période de référence et la sélection des variables peuvent selon les cas donner des résultats complètement différents. Une preuve en a encore été donnée récemment, à l'occasion de la controverse entre la Banque mondiale et la Commission économique des Nations-Unies pour l'Afrique à propos des effets économiques de l'ajustement structurel en Afrique sub-saharienne, chacune de ces institutions appuyant ses conclusions sur des statistiques précises.

Il faudra donc avoir constamment à l'esprit les limites d'une évaluation chiffrée des programmes d'ajustement structurel dans le Tiers Monde d'autant qu'à l'exception de quelques études récentes sur les effets sociaux de ces programmes, on sait encore peu de choses en fin de compte sur le processus de leur application.

Les incidences économiques des coûts sociaux de l'ajustement

Précisément, certains observateurs, en s'appuyant sur ces études, mais aussi sur les "émeutes de la faim" que l'exécution de programme d'ajustement entraîne un peu partout dans le Tiers Monde depuis plus d'une décennie, ont rapidement conclu à l'échec. Certes, les politiques d'ajustement ont engendré et engendrent encore un accroissement important du chômage, une baisse drastique des salaires et des revenus de larges couches de la population et une concentration élevée du revenu national, dont la répartition était déjà dans la plupart des cas très inégalitaire. Mais la baisse du niveau de vie de la majorité de la population et l'enrichissement d'une minorité sont des effets non seulement anticipés dans le modèle d'ajustement du FMI, mais en plus, des effets activement recherchés en vue théoriquement de redresser l'économie. Tirer argument des conséquences sociales négatives de l'ajustement structurel pour conclure à son échec n'est donc pas recevable. Ceci ne veut pas dire que les effets sociaux de l'ajustement soient sans importance du point de vue économique, bien au contraire. Cela signifie que l'évaluation du bilan de l'ajustement structurel, qui doit se faire en référence aux objectifs explicites de réduction de déséquilibres financiers, ces incidences sociales doivent être envisagées du point de vue de leur impact sur les variables économiques.

On peut alors identifier au moins trois types d'effets économiques susceptibles d'être induits par l'impact social des programmes d'ajustement.

La baisse du salaire réel dans les pays du Tiers Monde signifie pour de larges sections de la population ouvrière une réduction de leur revenu disponible en deçà du niveau correspondant au minimum vital, dans la mesure où le salaire est déjà fixé au niveau du minimum de subsistance. Une telle baisse est évidemment incompatible avec toute possibilité d'augmentation de la productivité du travail, même si le gonflement du chômage est de nature à émousser la combativité des travailleurs urbains.

L'aggravation de la misère pour les couches sociales déjà marginalisées dans le partage des fruits de la croissance engendre des tensions sociales aiguës qui peuvent mettre en péril la cohésion de la communauté nationale, d'autant qu'elles s'accompagnent parfois de graves déchirures dans les tissus sociaux traditionnels. Une telle situation n'est en aucune façon favorable à la mobilisation de la population dans le cadre d'un programme de redressement économique qui est après tout l'objectif affiché des programmes d'ajustement.

Enfin, l'accentuation de la concentration du revenu rend l'austérité imposée au plus grand nombre de plus en plus insupportable en même temps qu'elle engendre des comportements pervers, comme la consommation ostentatoire, la corruption, la spéculation et le parasitisme, dont le moins qu'on puisse dire est qu'ils ne favorisent nullement le développement de l'épargne et de l'esprit d'entreprise si nécessaires au redressement économique.

Même si l'augmentation du chômage, la baisse du niveau de vie de la majorité et la concentration du revenu sont admis par le FMI et les gouvernements du Tiers Monde comme le prix à payer pour obtenir un redressement de l'économie, au-delà d'un certain seuil, ces phénomènes remettent en question durablement la possibilité d'un ajustement structurel de l'économie. Pas seulement parce qu'ils entretiennent l'hostilité de la population au programme d'ajustement, et affaiblissent par la même un Etat déjà passablement fragile dans la plupart des pays, mais aussi et surtout parce qu'ils induisent des comportements individuels et collectifs incompatibles avec une rationalisation capitaliste de l'économie. C'est sans doute la raison pour laquelle le FMI et la Banque mondiale ont commencé depuis peu à infléchir leurs positions et réfléchissent à des formules susceptibles d'alléger les coûts sociaux des programmes d'ajustement. Et ils y sont d'autant plus incités que l'évaluation des effets strictement économiques de ces programmes est loin d'être positive.

Les effets économiques de l'ajustement structurel

On ne s'étonnera point de relever des différences énormes selon les pays et les régions, étant donné la grande diversité des situations locales. En règle générale, l'action sur les variables instrumentales de la politique gouvernementale, comme le déficit du budget, le taux d'intérêt et le taux de change, s'est avérée comme on pouvait d'ailleurs s'y attendre, beaucoup plus facile que l'action sur les variables qui reflètent les déséquilibres monétaires et financiers, comme le déficit de la balance des comptes courant, le taux d'inflation et le taux et le service de la dette extérieure.

On constate partout une réduction du déficit budgétaire, à la fois en termes absolus et relativement au produit national brut, une augmentation des taux d'intérêt et une contraction de la masse monétaire en circulation, enfin une dévaluation de la monnaie nationale. Mais sur le front de la lutte contre le déficit extérieur et l'inflation, les résultats ne sont pas toujours probants.

L'inflation peut être maîtrisée pour un certain temps, mais nulle part dans les pays où celle-ci était forte, comme en Turquie ou très forte, comme en Amérique du sud, elle n'a pu être durablement freinée.

Le déficit de la balance des comptes courants diminue dans beaucoup de cas, mais cette diminution est plus obtenue par une baisse drastique des importations que par un accroissement des exportations, même là où, comme en Amérique latine, ce dernier est relativement important; Le poids de la dette externe en proportion du PNB peut baisser dans certains cas, de même que son service en proportion des exportations, mais nulle part, la dette extérieure n'a cessé de croître en termes absolus.

Il semble que dans les pays africains, les programmes d'ajustement aient rencontré plus de succès dans la lutte contre l'inflation que dans les tentatives de réduction du déficit extérieur, mais il faut reconnaître que l'inflation n'y a jamais représenté un déséquilibre principal, tandis que les pays d'Amérique latine ont connu des résultats inverses.

Quant aux grandeurs économiques réelles, par opposition aux variables financières, la baisse de la demande globale n'a pas été compensée par un accroissement de l'épargne et de l'investissement, et là où les exportations ont augmenté, elles ont parfois entraîné une hausse correspondante des importations, en raison de la faible intégration de l'appareil productif.

Quelles que soient les difficultés d'une appréciation objective du bilan des programmes d'ajustement structurel, force est de constater que leur application dans le Tiers Monde n'a pas correspondu à un redressement économique durable et décisif.

Les politiques d'ajustement inspirés par le FMI n'ont pas réussi en effet à corriger réellement les déséquilibres financiers externes et internes, ce qui était leur objectif explicite, même si elles ont "réussi" à déprimer le niveau de vie des populations.

Deux raisons essentielles semblent être à l'origine de cet échec.

Les raisons de l'échec des politiques d'ajustement

Le préalable politique

La première raison est d'ordre politique. Il est vrai que les chocs externes comme la baisse des prix ou de la demande des matières premières, le relèvement des prix pétroliers (pour les pays non producteurs d'hydrocarbures), la réduction des investissements étrangers, la hausse des taux d'intérêt, les fluctuations du dollar et le protectionnisme des pays développés ont joué un rôle de premier plan dans l'aggravation de la crise des pays du Tiers Monde à partir de la fin des années 1970. Il est vrai aussi que cette crise résulte en même temps de l'action de phénomène de longue durée, tels l'explosion démographique, l'analphabétisme, l'exode rural, ou encore, notamment en Afrique, la sécheresse et la désertification, qui échappent largement à l'action gouvernementale à moyen terme.

Mais il est indéniable qu'entre le poids des contraintes internes et le jeu des facteurs externes, il existe toujours une marge de liberté qui est celle des options et des politiques économiques. Soit parce qu'ils ont cantonné leur action dans les limites étroites de la gestion des "affaires courantes", soit parce qu'ils ont échoué à déployer des stratégies cohérentes à long terme, les gouvernements portent une lourde responsabilité dans la crise.

Le FMI et la Banque mondiale désignent en fait les gouvernements et leurs politiques passées comme étant les seuls responsables de la crise, en négligeant totalement aussi bien l'impact des mécanismes économiques internationaux que les contraintes imposées par les conditions écologiques et démographiques et l'état des ressources locales. Le paradoxe est alors qu'ils attendent de ces mêmes gouvernements dont ils viennent de dresser le constat de faillite qu'ils mettent en oeuvre les politiques d'ajustement structurel et redressent la situation économique de leurs pays respectifs. Armé de ses recettes infaillibles, le FMI se donne ainsi l'image d'un conseiller avisé et omniscient qui vient éclairer des gouvernements ignorants des lois élémentaires de l'économie ou mystifiés par de mauvais apôtres.

Or, une "mauvaise" politique économique ne s'explique pas seulement par une mauvaise connaissance des mécanismes de l'économie ou par une mauvaise appréciation des conditions économiques. La politique économique n'est en effet ni un concentré de connaissance pure ni l'exécution d'une rationalité abstraite. Elle effectue des arbitrages entre des demandes sociales conflictuelles, entre des configurations d'intérêts multiples et divergentes. Elle est marquée par l'empreinte de positions sociales déterminées, et en particulier celles des couches privilégiées par le système économique et politique. Là est précisément le préalable politique à un redressement de l'économie nationale. Tant que les couches sociales qui ont identifié leurs intérêts avec les politiques économiques antérieures demeurent maîtresses de la décision politique, on ne peut guère imaginer qu'elles puissent mobiliser les populations dans le cadre de politiques de restauration des équilibres fondamentaux de l'économie, ces politiques fussent-elles celles recommandées par le FMI. La meilleure preuve d'une telle incapacité est donnée par l'évasion des capitaux qu'entretiennent ces couches sociales et dont l'ampleur atteint ou dépasse parfois le montant de la dette extérieure des pays concernés. On a estimé par exemple que les avoirs argentins à l'étranger équivalent à peu près à la dette externe de l'Argentine, et que les dépôts arabes privés dans les banques occidentales se montent à plus de 60 milliards de dollars, soit la dette cumulée de l'Egypte et du Maroc!

On peut penser que le modèle néo-classique ou néo-libéral qui fonde le programme d'ajustement structurel du FMI est politiquement neutre et en effet, le schéma de la concurrence pure et parfaite n'implique nullement l'existence d'une couche sociale détenant les moyens de production et dominant de ce fait la scène économique et politique. Walras, le père du schéma d'équilibre général, était socialiste et l'économiste marxiste Oskar Lange a soutenu l'idée d'une compatibilité entre la propriété publique des moyens de production et l'allocation des ressources par le marché libre. De ce point de vue, le programme d'ajustement du FMI pourrait être appliqué par des forces politiques représentant les intérêts de la majorité de la population, contre les intérêts des couches économiquement dominantes. Hélas, dans les conditions concrètes du fonctionnement du capitalisme dans le Tiers Monde, le programme du FMI, notamment à travers l'accent mis sur la vérité des prix, la privatisation et le libre-échange, aboutit à concentrer encore plus le pouvoir économique entre les mains des couches privilégiées, rendant illusoire toute possibilité d'autonomisation du pouvoir politique à l'égard de celles-ci et au-delà, toute démocratie politique authentique.

Doctrine néo-libérale et capitalisme dans le Tiers Monde

La seconde raison de l'échec des politiques d'ajustement structurel réside dans la contradiction entre le biais doctrinal du FMI et les conditions objectives du fonctionnement du capitalisme dans le Tiers Monde. Lorsqu'on étudie ces conditions objectives, on s'aperçoit aisément en effet que les avantages supposés du laisser-faire et du libre-échange en termes d'allocation rationnelle des ressources (et de répartition équitable des revenus) sont très largement mythiques. Tout simplement parce que le capitalisme réellement existant ne fonctionne nulle part sur la base du schéma de l'équilibre général, et encore moins dans le Tiers Monde. Au demeurant, les exemples généralement reconnus de développement "réussi" du capitalisme que sont la Corée du Sud et Taïwan montrent à l'évidence que ce dernier s'est appuyé non pas sur l'action d'agents privés dans le cadre de la concurrence et des avantages comparatifs, mais sur la gestion active et autoritaire par l'Etat du processus d'accumulation dans le cadre d'une économie mixte.

- Le mythe du marché national

Dans certains pays, le marché national n'existe pas. Il n'y a que des marchés locaux ou régionaux, du fait de l'inexistence ou de l'insuffisance des infrastructures de transport et de communication. Et cela est vrai aussi bien des biens et services que des travailleurs et des capitaux. De plus, certaines professions dans le commerce et l'industrie sont parfois fermées parce qu'elles correspondent à d'anciens monopoles de fait de certaines catégories ethniques, comme les Libanais en Afrique de l'ouest ou les Indiens en Afrique de l'est. Enfin, l'importance des mouvements clandestins de biens et de travail est parfois si grande entre certains pays que les frontières nationales n'ont plus une grande signification en termes économiques. Un pays très bien disposé à l'égard du FMI comme le Kenya a questionné la pertinence des politiques d'ajustement en l'absence d'un marché authentique.

- Le mythe de l'efficacité du secteur privé

Dans la doctrine néo-libérale, la concurrence semble aller de pair avec la privatisation et de l'affirmation de la rationalité du marché, on glisse facilement à celle de l'efficacité du secteur privé. Or, de façon générale, la rationalité économique du marché est une variable socio-historique et non pas une donnée naturelle, valable en tout temps et en tout lieu. Dans les conditions du fonctionnement du capitalisme dans le Tiers Monde, le secteur privé ou le capital privé n'est pas, loin s'en faut, synonyme de compétition et d'efficacité, bien qu'il soit toujours bien entendu assuré de la rentabilité financière. La privatisation peut signifier et signifie dans bien des cas le contraire de la concurrence au sens de compétition productive.

D'abord, dans la mesure où l'investissement est en général entrepris sur la base de technologies importées, conçues en fonction des marchés étendus des pays développés, il implique souvent des seuils techniques de production relativement élevés eu égard à la dimension du marché local. Simplement en raison de cette contrainte technologique, la forme du marché est d'emblée oligopoliste, et ceci, qu'il s'agisse d'un investisseur public ou d'un investisseur privé.

Ensuite, la simple rareté des ressources disponibles pour l'investissement, non pas tellement des ressources financières, mais des ressources en organisation, en travail qualifié, en technologies et en équipements, sans parler des utilités, des infrastructures et de l'espace urbain érige de hautes barrières à l'entrée et confèrent aux entreprises déjà installées de fortes rentes de position. Il est clair que cette rareté de ressources est largement liée d'une part à la crise urbaine que connaissent la plupart des pays du Tiers Monde et d'autre part, à la dépendance technologique de l'économie qui traduit la demande de biens d'investissement en demande d'importations. Mais précisément, l'investisseur privé, dont l'horizon est par définition limité dans le temps, ne peut faire reculer à moyen terme des contraintes de structure comme la crise urbaine et la dépendance technologique.

Enfin, dans certains pays où l'Etat prétend contrôler le développement du secteur privé, en imposant des limites à la dimension de l'entreprise et en canalisant les investissements en fonction de priorités qu'il définit, c'est paradoxalement ce contrôle qui érige des structures oligopolistes en dressant des barrières administratives à l'entrée dans des industries réputées "saturées" alors que la saturation de la demande n'est qu'apparente, puisqu'elle n'est vérifiée que pour un niveau donné des prix.

Tout ceci explique pourquoi on observe en général dans le Tiers Monde un degré d'oligopole plus élevé que dans les pays développés. On peut donc soupçonner qu'une privatisation des entreprises publiques a toutes les chances de se limiter à un transfert des positions d'oligopole et de monopole de l'Etat vers des intérêts privés, d'autant que la cession du capital public s'effectue en grande partie, pas seulement dans le Tiers Monde d'ailleurs, au profit de personnes ou de groupes disposant d'appuis solides et de relations influentes dans les sphères dirigeantes de l'Etat.

- Le mythe de l'incurie du secteur public

Au mythe de l'efficience intrinsèque du secteur privé correspond celui de l'incurie inhérente au secteur public. L'idée, implicite dans la doctrine néo-libérale, que le secteur public est en soi incapable d'efficience fait peu de cas de l'expérience d'un grand nombre d'entreprises publiques tant dans les pays développés que dans les pays sous-développés que dans les pays du Tiers Monde, parfaitement efficientes et rentables, en bonne santé financière, technologiquement dynamique et souvent exportatrices. Le déficit des entreprises publiques est une réalité certes très fréquente dans le Tiers Monde, mais il ne repose pas seulement ni même principalement sur la mauvaise gestion.

Il existe certainement de nombreux cas où le déficit renvoie à l'incompétence des dirigeants et à leur incapacité à gérer, d'autant qu'ils sont souvent nommés en fonction de critères de fidélité politique plutôt qu'en vertu de leur qualification et de leur expérience. Mais dans les industries technologiquement nouvelles dans le pays, le déficit résulte en général de facteurs structurels. Parfois, l'entreprise publique achète ses intrants au prix international mais vend son produit à un prix inférieur à celui du marché mondial, parce que l'Etat veut encourager la demande locale pour ce produit. Parfois aussi, l'entreprise a ses prix alignés sur ceux du marché international, mais son coût de production est supérieur parce que sa productivité est plus basse qu'à l'étranger. De plus, elle doit souvent prendre en charge les investissements en infrastructure et en formation pour pallier les dysfonctions de la planification inter-sectorielle. Enfin, l'entreprise publique constitue, on l'oublie trop souvent, un marché politique, non seulement parce que comme on l'a dit, ses gestionnaires sont souvent nommés sur la base du clientélisme, mais aussi parce que ses recrutements, son fonctionnement et ses activités subissent constamment les interventions d'une multitude de centres de pouvoir. Dès lors, le déficit de l'entreprise publique doit être à chaque fois apprécié en fonction des conditions réelles de fonctionnement de l'entreprise et de la nature des relations qu'elle entretient avec l'appareil ou les appareils de l'Etat, plutôt que d'être "expliqué" par le caractère public de la propriété du capital.

- Le mythe de l'avantage comparatif

Les économistes classiques qui plaident pour le libre échange avaient néanmoins admis l'argument de "l'industrie naissante" en ce qu'ils reconnaissaient la nécessité de protéger de la concurrence extérieure des activités nouvelles tant que celles-ci n'auraient pas réalisé leur apprentissage et atteint leur maturité. Cette exception au principe du libre-échange a pourtant disparu de la doctrine néo-libérale des programmes d'ajustement structurel. Il est vrai que dans certains pays, en Amérique latine notamment, le protectionnisme a permis à des industries de substitution aux importations, développées à l'abri de barrières tarifaires et autres, de disposer de rentes de protection lesquelles, s'ajoutant aux rentes de monopole et d'oligopole, entretiennent une structure de production inefficiente. Mais il n'est pas toujours facile de distinguer entre de telles activités et celles dont l'inefficience relative eu égard aux standards des pays développés résulte de l'apprentissage. Dans la mesure où il vise à accroître le degré d'efficience de l'industrie locale, le désarmement douanier doit par conséquent être sélectif plutôt que systématique. Or, la sélection de "créneaux" renvoie à la nécessité d'une véritable politique industrielle qui puisse assurer le développement prioritaire d'activités à la fois dynamiques à l'échelle internationale et conformes à la configuration actuelle et prévisible des ressources du pays. Et la politique industrielle, comme d'ailleurs les politiques agricoles, les politiques de recherche et d'innovation sont incompatibles avec une ouverture indiscriminée de l'économie à la concurrence étrangère.

La pratique des politiques d'ajustement fait précisément apparaître deux contradictions essentielles entre les instruments et les objectifs de l'ajustement.

La première se situe entre le désarmement douanier (et le désengagement de l'Etat en général) et le désir de promouvoir les exportations industrielles, dans la mesure où la suppression totale de la protection extérieure affecte les conditions de rentabilité d'une vaste gamme d'industries, dont des industries potentiellement exportatrices. En fait, cette contradiction en dissimule une autre, entre le libre-échange et l'investissement étranger que le FMI appele de ses voeux. Si les conditions de rentabilité se trouvent en effet dégradées pour une grande partie des activités industrielles, on ne voit pas pourquoi le capital étranger viendrait s'y investir. Au contraire, le capital étranger présent dans les industries de substitution aux importations réduirait ses investissements. On retrouve là une vieille contradiction connue dans la théorie économique entre la libre circulation internationale des marchandises et celle des capitaux, puisque l'une et l'autre tendent à égaliser les conditions de production dans les divers pays et tendent ainsi à s'exclure mutuellement. Ce qui est vrai du capital étranger l'est aussi du capital privé national et on peut relire cette contradiction entre libre-échange et investissement étranger en termes de contradiction entre libre-échange et privatisation.

La seconde contradiction, que révèle l'expérience, entre instruments et objectifs de l'ajustement structurel se situe entre le but recherché par le FMI d'une plus grande insertion des pays du Tiers Monde dans la division internationale du travail et la stabilité ou la réduction du degré d'ouverture à l'économie internationale. En Amérique latine, le rapport entre exportations et importations et produit national brut est plus ou moins resté inchangé, mais en Afrique sub-saharienne, il a diminué, ce qui indique une certaine tendance à la marginalisation de cette région dans les échanges mondiaux.

Les raisons qui expliquent l'incapacité des programmes d'ajustement à redresser la situation économique vont donc bien au-delà d'une simple insuffisance de ressources en devises en vue d'assurer une transition en douceur comme on l'affirme parfois. Elles relèvent de facteurs structurels, d'ordre politique, économique et social sur lesquels ni le FMI ni les gouvernements locaux ne possèdent de prise réelle. La persistance de la crise et son corollaire la croissance de l'endettement extérieur soulignent cependant l'urgente nécessité de concevoir et d'exécuter des politiques d'ajustement alternatives.

Les politiques d'ajustement alternatives

Pas plus qu'un individu ne peut vivre indéfiniment au-dessus de ses moyens, un pays ne peut constamment dépenser plus de devises qu'il n'en gagne (à l'exception des Etats-Unis) et un Etat ne peut toujours avoir des engagements supérieurs à ses recettes. Dès lors, pour autant que l'ajustement signifie la correction des déficits de la balance des paiements et du budget, il représente une évidente et incontestable nécessité. Mais surtout, dans des pays marqués par des déséquilibres de toute nature, l'ajustement désigne aussi la recherche d'une rationalité économique générale dont le principe essentiel est le non gaspillage ou l'économie dans l'usage de ressources rares.

Ajustement structurel et rationalité économique

La notion de rationalité économique est une notion historique, donc relative. Elle n'existe pas dans tous les systèmes sociaux ni à toutes les époques. Dans les systèmes économiques modernes, elle n'est ni toujours transparente ni constamment dominante. Dans le capitalisme développé, elle est altérée par la constitution ancienne des structures oligopolistes et l'interventionnisme de l'Etat.

Dans le système socialiste, elle est soumise à la rationalité politique du Plan et du Parti. Dans le Tiers Monde, elle est en outre traversée par des logiques "traditionnelles" de comportement et d'organisation. Partout enfin, elle peut être mise en cause au nom de positions éthiques, lorsqu'elle implique la surexploitation des hommes, ou tout simplement pragmatiques, quand elle entraîne la destruction des ressources et de l'environnement. Mais s'il est une vérité de plus en plus admise à l'heure des grands changements politiques à l'Est et au Sud, c'est bien la nécessité de la restauration de l'économie souveraine par sa séparation d'avec le pouvoir et au-delà, d'avec le politique.

Derrière cet *aggiornamento*, d'ailleurs suscité par les blocages et les impasses auxquels ont abouti les modes antérieurs de régulation et de gestion plus que par une soudaine conversion doctrinale des groupes dirigeants et des opinions publiques se profile la reconnaissance d'une rationalité économique universelle, qui s'impose en tout cas dans les systèmes sociaux contemporains.

De ce point de vue, le programme d'ajustement prôné par le FMI, dont on a vu qu'il véhicule une lourde charge idéologique, c'est-à-dire de représentation faussée de la réalité, comporte des éléments de cette rationalité économique qui emporteraient l'adhésion des critiques les plus radicaux de la doctrine néo-libérale. Ces éléments de rationalité économique recouvrent la lutte contre le gaspillage sous toutes ses formes et la chasse aux positions de rente engendrées par les pénuries artificielles, gaspillage et positions de rente qui représentent à la fois une mauvaise allocation de ressources limitées et des pénalités supplémentaires infligées aux couches sociales les plus déshéritées, si l'on veut bien admettre que celles-ci supportent toujours en fin de compte le poids de l'aggravation de la crise. Il est clair que les subventions de prix à la consommation aggravent par exemple l'inégalité entre les catégories de consommateurs dans la mesure où elles augmentent aussi le revenu réel des catégories privilégiées. La gratuité des services collectifs, comme la santé et l'éducation est justifiée par la volonté de démocratiser l'accès à ces services, mais elle aboutit dans la plupart des cas à aligner la qualité des services offerts sur les diverses hiérarchies sociales et politiques. Certains groupes disposent en effet de modes privilégiés d'accès aux services "collectifs", et détournent à leur profit des institutions à l'entretien desquelles participe pourtant l'ensemble de la collectivité nationale.

Dans les pays semi-industrialisés, la surévaluation de la monnaie encourage l'importation d'équipements et de services techniques et défavorise ainsi la promotion d'une industrie nationale de machines et d'ingénierie. En même temps, elle suscite la création d'un marché parallèle de la devise, la spéculation contre la monnaie nationale dont l'expression récente la plus caricaturale est la "dollarisation", tandis que le protectionnisme généralisé entretient des rentes de protection au bénéfice d'entrepreneurs privés inefficients.

Le contrôle bureaucratique du commerce extérieur et intérieur par l'Etat permet à certaines couches administratives de disposer de rentes politiques, génératrices de corruption, de pénuries et de spéculations diverses. L'étatisation de la gestion et de la régulation de l'économie engendre des gaspillage à la mesure des erreurs et des dysfonctions de la planification, tandis que dans les entreprises et les services publics, la prééminence des critères "politiques" sur les critères de la gestion économique entretient des rentes d'emploi et de revenu pour différentes catégories de dirigeants, de cadres et de travailleurs.

Ces divers phénomènes de gaspillages et de rentes sont à présent reconnus comme étant des déviations par rapport à une rationalité économique universelle qui commande l'économie dans l'utilisation des ressources, rares par définition, et ce quel que soit le régime politique et social. Des éléments de cette rationalité économique existent donc dans le programme d'ajustement structurel du FMI, mais leur pertinence est remise en question par le dogmatisme néo-libéral qui les entoure. Reconnaître la nécessité d'un ajustement structurel dans le sens d'une restauration des règles de la rationalité économique, ce n'est pas forcément admettre la légitimité des programmes du FMI, qui représentent seulement une forme particulière d'ajustement. Mise à l'épreuve des faits, la croyance quasi-religieuse du FMI dans les vertus d'une abolition immédiate et totale de tout contrôle étatique des prix, de la monnaie, du commerce et de la production s'inscrit en réalité à l'encontre de la rationalité économique. Soit parce que les conditions institutionnelles du fonctionnement des marchés pour les biens ou la monnaie n'existent pas, soit que la libéralisation et la privatisation engendrent comme on l'a vu, des effets pervers, l'application des programmes du FMI crée de nouveaux gaspillages et de nouvelles rentes, qui reflètent une allocation inefficiente des ressources et une répartition inéquitable des revenus.

Les politiques d'ajustement hétérodoxes

Parce qu'ils voulaient corriger leurs déséquilibres financiers et rationaliser leur économie sans sacrifier leur niveau de vie, leur croissance et leur autonomie, certains pays, notamment le Mexique, le Brésil, l'Argentine et le Pérou, ont conçu et appliqué au cours des dernières années des politiques d'ajustement dites hétérodoxes. Le principe essentiel de ces politiques consiste à rechercher l'ajustement dans la croissance. Dans cet esprit, la génération de ressources en vue de l'investissement doit être obtenue à travers la redistribution du revenu plutôt que par la compression de la consommation populaire et le développement des exportations doit s'appuyer sur la construction d'avantages comparatifs à long terme grâce à des politiques industrielles audacieuses et tournées vers l'innovation; En même temps, elles comportent des mesures de réajustement des prix, du marché monétaire, des taux de protection et de change, et des mesures de décentralisation et de privatisation du secteur public. Ces politiques d'ajustement hétérodoxes n'auraient évidemment pu être conçues s'il n'y avait eu le préalable politique d'un effacement des dictatures militaires devant des régimes démocratiques et d'un renouvellement des groupes dirigeants.

Quoique l'expérience ne soit pas encore suffisamment ancienne pour que l'on puisse valablement en tirer des enseignements, il ne semble pas que ces politiques hétérodoxes aient obtenu beaucoup plus de résultats que celles recommandées par le FMI. On a parfois réussi à dégager des excédents commerciaux importants, mais on n'a obtenu ni une baisse de l'inflation ni une relance de la croissance, en particulier dans l'industrie. Les plans de stabilisation et d'assainissement (plan cruzado au Brésil, plan austral en Argentine) se suivent à des intervalles de plus en plus rapprochés dans le temps et semblent échouer régulièrement à atteindre leurs objectifs. La crise économique perdure et entretient l'instabilité sociale sur fond d'incertitude politique. La gestion à très court terme de la dette extérieure prend le pas sur l'élaboration de programmes de redressement à moyen terme.

La situation économique, sociale et politique très complexe dans laquelle des décennies de crise et de dictature ont plongé ces pays et leur profonde et ancienne dépendance à l'égard des Etats-Unis rendent certainement très difficiles un rétablissement à moyen terme. L'ampleur de l'exclusion sociale au Brésil ou de l'exclusion ethnique au Pérou, la rigidité des structures économiques de l'Argentine sont aussi très probablement des facteurs d'explication de l'échec des politiques hétérodoxes. Peut être enfin faut-il incriminer la timidité des changements politiques et la résistance des couches privilégiées à des changements qui menacent leurs intérêts solidement établis.

La question reste cependant ouverte de savoir comment corriger les déficits de la balance et du budget, réduire l'inflation et rationaliser le fonctionnement de l'économie sans déprimer le niveau d'activité et le marché intérieur et sans tomber dans une spécialisation régressive et une dépendance extérieure accrue.

Outre le préalable politique d'une démocratisation politique, qui ouvre l'accès du pouvoir aux couches sociales les plus intéressées à l'application de politiques alternatives, le nécessaire ajustement implique à la fois la rationalisation et le refus du dogmatisme néo-libéral. Le refus de la "vérité des prix" pour elle-même, le refus du libre-échange et de la soumission passive aux centres de décision extérieurs, enfin le refus de la baisse du niveau de vie de la majorité et de la concentration du revenu apparaissent en tout cas dans les conditions actuelles comme étant les conditions d'une restauration de la rationalité économique. Mais il faut aussi rompre avec les capitalismes d'Etat désuets des années 1970 et 1980, inventer de nouvelles formes d'articulation entre secteurs public et privé, entre plan et marché, entre protection et concurrence, entre investissements nationaux et étrangers, entre marché intérieur et exportation. Il faut promouvoir des politiques actives de transformation productive de l'agriculture, de développement de l'industrie, de formation, de recherche et d'innovation, avec la participation des agents économiques et sociaux intéressés.

Comme toujours, la théorie ne peut anticiper la pratique et celle-ci se trouve désormais devant des chemins inexplorés, parfois prometteurs mais parfois semés d'embûches, mais après tout, l'incertitude est la contrepartie de l'obsolescence des dogmes.

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