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

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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 underemployment, 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

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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

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

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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

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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

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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

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

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.