3. Structural Adjustments on The Global South - Economy

In the 1980s, the IMF and World Bank put conditions on financing the global South. Decades later, many countries in the region struggle with weak public health systems and high levels of poverty.

1.Background

The Global South, a term coined by Carl Oglesby in 1969 describing countries suffering from political and economic exploitation by developed nations of the Global North, encompasses countries of Asia, Africa, Latin America, and Oceania where about 85% of world population lives, most having experienced colonial rule and historically lagged in achieving substantial industrialization. Between 1960 and 1980, the Global South witnessed promising development trajectories with real per capita income growing across Asia, Africa, and Latin America as countries that had recently thrown off colonial rule were investing in public healthcare, education, infrastructure development, and industrial capacity building creating optimism about catching up with developed nations. The 1970s oil shocks and subsequent global recession created severe balance of payments crises for many developing countries that had borrowed heavily during the 1970s commodity boom expecting continued high export earnings. When global interest rates spiked and commodity prices collapsed in early 1980s, developing countries found themselves unable to service their external debts triggering the Latin American debt crisis of 1982 beginning with Mexico's default declaration.

The International Monetary Fund and World Bank, dominated by developed countries particularly the United States which held veto power, responded by offering emergency financing to debt-distressed countries but attached stringent conditions through Structural Adjustment Programmes imposed mainly during the 1980s and 1990s. SAPs were economic reform measures demanding three major reforms—austerity measures reducing public expenditure on healthcare, education, food subsidies, and social welfare to divert savings toward external debt repayment; privatization transferring public sector enterprises and services into private hands including utilities, transport, banking, and state-owned industries; and economic liberalization and deregulation removing industrial regulations, tariffs, labour protections, and capital controls opening domestic markets to foreign trade and investment. Countries had very limited bargaining power because defaulting on international loans could isolate them from global financial markets, cutting access to essential imports and foreign investment. A recent paper published in BMJ Global Health argued that institutions that implemented these programmes now owe reparations given the devastating long-term consequences. The social and economic impact was severe—before SAPs the global South recorded average annual growth around 3.2% but during structural adjustment era of 1980s–1990s growth declined sharply to nearly 0.7% annually with the South collectively losing average of $480 billion per year in potential national income, real incomes declined particularly in Latin America and Sub-Saharan Africa, poverty and food insecurity rose as trade liberalization and currency devaluation increased prices of essential commodities, public health systems were severely affected through reduced government healthcare spending, hospital and clinic closures, declining recruitment of doctors and nurses, expensive imported medicines due to currency devaluation, and studies linked SAPs to higher child mortality, increased maternal deaths, deterioration in nutrition and disease control demonstrating how debt repayment was prioritized over human development creating lasting damage to development prospects of Global South countries.

2.Structural Adjustment Programmes (SAPs)

Definition and Context

1. SAPs were economic reform measures imposed mainly by the International Monetary Fund and World Bank on developing countries facing debt crises during the 1980s and 1990s.
2. These programmes were presented as necessary conditions for receiving emergency financing and debt restructuring assistance.
3. Developed countries holding disproportionate voting power in IMF and World Bank shaped these policies reflecting their economic ideologies.

4. Developing countries had very limited bargaining power as defaulting could isolate them from global financial markets.

Three Major Reforms Demanded

Austerity Measures - Reduction in public expenditure on healthcare, education, food subsidies, and social welfare with aim to divert savings towards repayment of external debt and creditors, forcing governments to cut essential services affecting poorest populations most severely.

Privatisation - Transfer of public sector enterprises and services into private hands including privatisation of utilities, transport, banking, and other state-owned industries, reducing government control over strategic sectors and eliminating subsidized services for vulnerable populations.

Economic Liberalisation and Deregulation - Removal of industrial regulations, tariffs, labour protections, and capital controls opening domestic markets to foreign trade and investment, exposing domestic industries to international competition before they were competitive and eliminating protections for workers and local businesses.

3.Social and Economic Impact of SAPs

Slowdown in Economic Growth

1. Before SAPs, the global South recorded average annual growth of around 3.2% demonstrating development progress.
2. During the structural adjustment era of the 1980s–1990s, growth declined sharply to nearly 0.7% annually representing massive economic slowdown.
3. The South collectively lost an average of $480 billion per year in potential national income during this period.
4. This "lost decade" of development set back progress by many years requiring decades to recover lost ground.

Decline in Incomes

1. In Latin America, real income per adult declined significantly after 1980 and recovered only decades later.
2. Sub-Saharan Africa experienced prolonged income decline and stagnation with some countries recording negative per capita income growth.
3. Middle class contracted in many countries as formal employment opportunities disappeared due to privatization and industrial closures.
4. Income inequality widened as small elite benefited from privatization while masses suffered from reduced public services.

Rise in Poverty and Food Insecurity

1. Trade liberalization and currency devaluation increased prices of essential commodities making food and basic necessities unaffordable.
2. Removal of food subsidies and agricultural support programmes left poor households vulnerable to price shocks.
3. Import liberalization destroyed local food production systems as cheap subsidized imports from developed countries flooded markets.
4. Malnutrition rates increased particularly among children and pregnant women due to reduced household food security.

Adverse Health Outcomes

1. SAPs severely affected public health systems because government spending on healthcare was reduced as part of austerity measures.
2. Hospitals and clinics were closed reducing access to healthcare services particularly in rural and remote areas.
3. Recruitment of doctors and nurses declined creating shortage of healthcare professionals and degrading service quality.

4. Imported medicines became expensive due to currency devaluation making treatments unaffordable for poor populations.
5. Studies linked SAPs to higher child mortality, increased maternal deaths, deterioration in nutrition and disease control demonstrating direct health impacts.

Capital Flight and Financial Outflows

1. Removal of capital controls enabled multinational corporations to repatriate profits abroad rather than reinvesting domestically.
2. Trade deregulation and weak financial controls facilitated tax evasion and illicit outflows reducing government revenues.
3. This reduced funds available for domestic development and welfare programmes creating vicious cycle of underdevelopment.
4. Financial liberalization benefited international capital while domestic economies suffered from resource extraction.

4.Criticism of SAPs

Prioritisation of Debt Repayment Over Human Development

1. SAPs prioritised debt repayment over human development forcing countries to service external debt while cutting education, healthcare, and social protection.
2. Creditor interests were protected while populations suffered through reduced living standards and collapsed public services.
3. One-size-fits-all approach ignored specific country contexts, development needs, and social realities.

Increased Inequality and Poverty

1. SAPs increased inequality and poverty as wealthy elites captured privatized assets while poor lost access to subsidized services.
2. Labor market deregulation weakened workers' bargaining power reducing wages and employment security.
3. Social safety nets were dismantled leaving vulnerable populations without protection during economic transitions.

Weakened State Capacity

1. Privatization and downsizing of public sector weakened state capacity to deliver essential services and regulate markets.
2. Loss of strategic industries and utilities reduced government's ability to direct economic development.
3. Brain drain accelerated as skilled professionals emigrated seeking better opportunities abroad.

Reduced Policy Sovereignty

1. SAPs reduced policy sovereignty of developing countries forcing them to adopt policies designed in Washington rather than domestically.
2. Countries lost ability to pursue independent development strategies suited to their circumstances.
3. Democratic decision-making was undermined as elected governments had to implement unpopular policies demanded by external creditors.

Favoured Interests of Developed Countries

1. SAPs favoured interests of developed countries and multinational corporations by opening Global South markets to their products.
2. Trade liberalization benefited developed country exporters while destroying local industries in developing countries.
3. Privatization enabled multinational corporations to acquire strategic assets at bargain prices.

Undemocratic Governance Structure

1. The governance structure of IMF and World Bank is criticized because developed countries hold disproportionate voting power.
2. The Global North dominates decision-making while Global South countries affected by policies have limited voice.
3. The United States has veto influence in the IMF enabling it to block decisions contrary to its interests.

5.Debate on Accountability

Arguments for Reparations

1. Recent debates argue that the IMF and World Bank should acknowledge responsibility for the economic and social damage caused by SAPs.
2. A recent paper published in BMJ Global Health argued that institutions that implemented these programmes now owe reparations.
3. Suggested measures include compensation for lost income and welfare, restoring investments in healthcare and education, estimating losses caused by austerity and capital outflows, and democratizing global financial institutions.

Challenges to Accountability

1. However, legal accountability remains difficult because these institutions enjoy sovereign immunity protections under international law.
2. No formal mechanisms exist for developing countries to seek compensation for policy failures by international financial institutions.
3. Power asymmetries in global governance make it unlikely that developed countries would support accountability mechanisms.

6.Way Forward

Reform Global Financial Governance

1. Democratize IMF and World Bank governance structures giving developing countries greater voting power and voice in decision-making commensurate with their share of global population and economy, while eliminating veto powers that allow single countries to block reforms, and ensuring leadership selection is merit-based and representative rather than reserved for specific nationalities.

Ensure Policy Autonomy

1. Developing countries should be allowed greater policy autonomy to pursue development strategies suited to their circumstances rather than one-size-fits-all conditionalities, while international financial institutions should provide financial support without imposing ideologically-driven structural reforms, and countries should have flexibility in sequencing and pacing reforms based on domestic political and economic realities.

Restore Public Investment

1. Reverse austerity-driven cuts in public expenditure on healthcare, education, and social protection recognizing these as investments in human capital essential for long-term development, while strengthening public healthcare and education systems that were devastated by SAPs, and rebuilding state capacity to deliver essential services and regulate markets effectively.

Create Equitable Trade Systems

1. Reform international trade rules that disadvantage developing countries through agricultural subsidies in developed countries, restrictive intellectual property regimes, and asymmetric market access, while allowing developing countries to use tariffs and industrial policies to protect infant industries and promote structural transformation, and ensuring trade agreements include provisions for technology transfer and capacity building.

Establish Accountability Mechanisms

1. Create international mechanisms for accountability when policy advice from international financial institutions causes demonstrable harm to populations, while establishing compensation funds for

countries that suffered from SAP implementation drawing resources from institutions responsible, and requiring independent impact assessments of structural adjustment programmes evaluating social, economic, and health consequences.

Conclusion

Structural Adjustment Programmes imposed by IMF and World Bank on developing countries during 1980s and 1990s demanded austerity measures reducing public expenditure on healthcare, education, and social welfare, privatization transferring public enterprises to private hands, and economic liberalization removing regulations, tariffs, and capital controls. The Global South which recorded 3.2% average annual growth before SAPs experienced decline to 0.7% during structural adjustment era losing average $480 billion per year in potential national income, with real incomes declining particularly in Latin America and Sub-Saharan Africa, poverty and food insecurity rising as trade liberalization increased commodity prices, public health systems devastated through reduced spending, hospital closures, healthcare worker shortages, and expensive imported medicines, and studies linking SAPs to higher child mortality and maternal deaths. Criticism includes prioritizing debt repayment over human development, increasing inequality and poverty, weakening state capacity, reducing policy sovereignty, favouring developed country interests, and undemocratic governance structure with developed countries holding disproportionate voting power. Recent debates argue IMF and World Bank should acknowledge responsibility for economic and social damage caused, with suggested measures including compensation for lost income, restoring healthcare and education investments, estimating losses from austerity, and democratizing global financial institutions, though legal accountability remains difficult due to sovereign immunity protections. Creating more equitable international economic order requires reforming global financial governance, ensuring policy autonomy, restoring public investment, creating equitable trade systems, and establishing accountability mechanisms.

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