STRUCTURAL ADJUSTMENT AND AFRICAN ALTERNATIVE FRAMEWORK

Dissertation submitted to Jawaharlal Nehru University
in partial fulfillment of the requirements for the award of the Degree of
MASTER OF Philosophy

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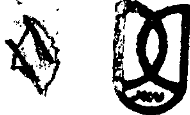

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CERTIFICATE

This is to certify that this dissertation entitled "**STRUCTURAL ADJUSTMENT AND AFRICAN ALTERNATIVE FRAMEWORK**" submitted by **Mr. AKHILESH CHANDRA PRABHAKAR**, in partial fulfilment of the requirements for the award of the Degree of **MASTER OF PHILOSOPHY** of this University, is his original work. To the best of our knowledge, this dissertation has not been previously submitted for the award of any other degree of this University or any other University.

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DEDICATED
TO
MY PARENTS

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CHAPTER I

INTRODUCTION

In case of Africa, international economic forces have always played an important and major role in African economic activities; African economies have depended on foreign capital and foreign technologies and have been dominated by international economic forces or rich capitalist countries.

African economies have continued to decline and almost African peoples have suffered from economic and social crisis. African economies have experienced numerous disruptions since independence in the 1960s and virtually all African countries, the steady growth of the early years after independence has given way to stagnation and eventual decline.

At the time of independence, most African countries had choosen the path of capitalist-pattern of society. Most African economies were geared towards primary commodity production (mostly agricultural), which accounted for the largest share of the gross domestic product. For example, primary production contributed 48 per cent of GDP in Zambia over 1964-69, 39 per cent in Kenya in 1967-68, and 64 per cent in Nigeria in 1960, Manufacturing sectors,

based mainly on import substitution, were very small relative to other sectors, contributing only 2.00 per cent of GDP in Ghana in 1957, for example. Each country's exports were dominated by just a few commodities: Cocoa in Ghana, Nigeria and cameroon, copper in Zambia and coffee and tea in Kenya. These commodities accounted for up to 75 per cent of export earnings. During the first decade of independence, many economies were open and the government sector was small indeed. Many economies grew at significant rates: real GDP grew by 6.5 per cent a year in Kenya in 1964-73, 15 per cent in 1964-69 in Zambia, and 5 per cent in Sierra Leone up to 1972. Despite high population growth rates of around 3 per cent a year, per capita income also increased significantly, by an annual average of 13 per cent in Zambia in 1964-69, 3.4 per cent in Kenya in 1964-73, 2.2 per cent in Ghana in the 1960s and 2.5 per cent in 1964-79 in Malawi.

At the same time,inflation was moderate in many of these countries: in Malawi, it was 6.5 per cent per annum between 1965 and 1975, and in Kenya it averaged 3.4 per cent between 1964 and 1973. However, in the late 1970s and early 1980s most African economies went into slump. Zambia's GDP stagnated between 1970 and 1985, Real growth in Kenya averaged 4 per cent between 1974 and 1990, down from 6.5 per cent. In Sierra Leone it dropped from 2

percent a year in 1975-80 to Zero in 1983-87. The decline was registered in virtually all economic sectors.

In this case, the factors identified as responsible for economic deterioration include adverse weather conditions such as drought in over all Africa; the petroleum crisis of 1973-74 and of 1979-80, and the resulting world economic recession and collapse of the international oil market in 1981. Above all, increased protectionism by developed countries, relatively high external interest rates, decline in the inflow of concessionary capital, the deterioration in terms of trade, and massive capital outflows, worsend the already poor economic situation.

The roots of Structural Adjustment in Africa seem to lie in the oil crisis of the mid-1970s when the major Arab oil producers forced the Western Europian states to pay more for this resource. More expensive oil meant higher costs of production, lower profits, the collapse of some industries, increased unemployment, lower standard of living and greater political agitation in the western countries. So, it had the western countries needed SAP, so that cheap - raw materials and cheap - labour could be provided. Since the late 1970s and early 1980s in particular, African economies have been effected and

African governments have been coming under increasing pressure from a variety of sources to liberalise their public economic policies.

While improving policy changing of this situation --

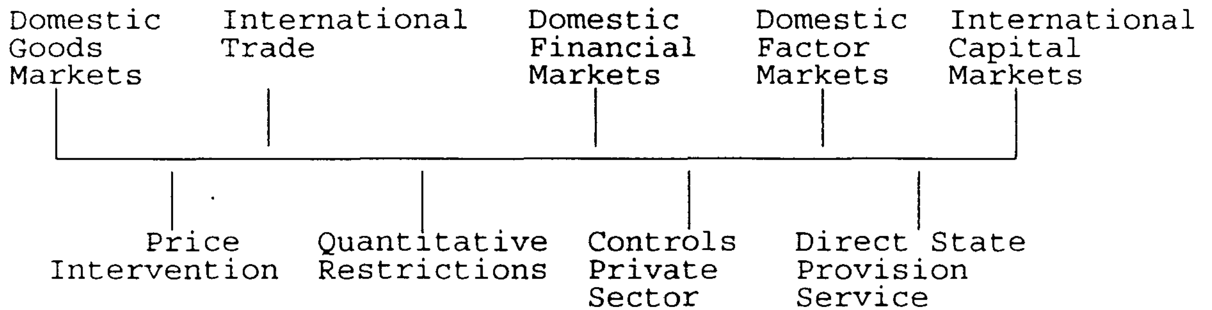
Low growth rate, poor export performance, high debt burdens, and severe financial imbalances finally forced many African countries on to the road of economic reform. During the 1980s, the most direct pressure came from the IMF. Thirty five countries adopted Structural Adjustment Programmes with the approval and financial support of the World Bank and IMF.

Structural Adjustment is not a concept with a single or fixed meaning. In Africa, it generally involves a set of policy reforms to maximise reliance upon markets in domestic and external trade and capital flows, minimise the government's interventionist role by reducing public ownership and subsidies, devaluation of currency or money and improving the State's efficiency in allocating and using resources.

Figure to follow

Figure 1

Forms of Government Intervention



Scuh interventions have been proposed by IMF and has been made conditional for the countries. The figure No. 2 gives a picture of representation of structural adjustment policy:

Figure 2

A Schematic Representation of Structural Adjustment Policy

Structural Adjustment Policy

Stabilisation

Structural Adjustment

Fiscal Policy

Monetary Policy

Devaluation

Resource Mobilisation

Market Liberalisation

Public Sector Resouce Allocation

Institutional Reform

Goods Markets

Current Account

Domestic Financial Markets

Capital Markets

Internal Factor Markets

Agricultural Industry

Return to Market-Determined Prices

Removal of Quantitative Restrictions

Promotion of Private Sector Operations

Limitations on the Role of Governmen

Divestiture

Closure

Contracting

Competition

Stabilisation and Structural Adjustment Programmes

A number of Sub-Saharan African countries have implemented a series of stabilisation programmes under the Structural Adjustment Programmes supported first by the World Bank and later by both the Bank and the IMF. All these programmes have been designed to respond to problems of external and internal financial imbalances, low rates of economic growth, and inflation. While stabilisation measures have aimed at short-or medium-term improvements in fiscal and monetary management, Structural adjustment measures have had long-term goals and have gone beyond financial policies to encompass institutional reforms. These various programmes are based on conditionalities by IMF & World Bank.

- Reducing budgetary deficits,
- Relating prices to market levels,
- Liberalising trade,
- Adjusting exchange rates (mainly through devaluation),
- Controlling the supply of money and credit.

The Impact of Adjustment

When countries failed to take domestic measures to conform to the exigencies of the international environment and instead pursued policies that promoted fiscal and trade

imbalances, adjustment becomes a punitive resort and need for structural adjustment in Sub-Saharan African was widely accepted. What is questionable is the design of the programmes, the pace and sequencing of reforms, and, particularly, the social costs of structural adjustment, especially for these least able to cope-the marginalised rural and urban poor. The implications have become urgent in the light of various studies indicating that the proportion of the Sub-Saharan African population living below the poverty line increased from 30-40 per cent in the mid-1970s to 50-75 per cent in the mid 1980s and in 1995s. Two crores and 40 lakhs people are hungry in Africa today, According to Survey of FAO's 1995.

The pressures exerted through Structural adjustments have been particularly severe with respect to spending on social services. This area appears to be particularly vulnerable to reduction in budgetary outlays because it is usually regarded by government as a 'soft option', and because its notorious inefficiencies prompt the IMF to press for cutbacks. Increasingly, governments have been unable to maintain effective provision of social services such as health care and education. The financial burden is then transfered to the private sector through such schemes as cost recovery in health care and full-cost tuition fees. Structural adjustments resulted in shifts in the labour

market, market declines in industrial job opportunities, and rising unemployment. Unemployment rates have increased in almost all the countries covered because of contractionary fiscal and monetary policies, which resulted in retrenchment of workers. Urban unemployment rates rose to 14.8 per cent in Sierra Leone, over 60 per cent in Zambia between 1985-1990, and from 10 per cent in 1986 to more than 12.2 per cent in 1987 in Nigeria.

The history of structural adjustment programmes in Africa have generally been negative and failed. The economic benefits of adjustment in most African cases have been vained. Investors countries are here benefited from adjustment.

For example; while total FDI inflows into Africa was around $15 billion, the US MNCs alone repatriated $8.6 billion in profits (Times of India, Delhi (Daily)-4 Jan.1996). Africa oday faces exacerbating poverty, unemployment, inflation, decline of growth rates and external debt burden.

Adjustment to crisis: Some macroeconomic indicators in Sub-Saharan Africa. (annual percentage changes)

Table 1

	1965-1980	1980-86
GDP-	5.6	-0.0
Agriculture-	1.6	1.2
Industry-	9.4	1.5
Manufacturing	8.5	0.3
Services	7.5	0.1
Government consumption-	8.0	1.0
private consumption-	4.9	0.7
Gross domestic investment-	8.8	9.3
Exports	6.6	2.1
Imports-	19.5	7.7

Source: World Bank: World Development Report, 1988.

Table 2

Lending to Borrowers in Africa, by Sector, 1985-94

Sector	Annual Average 1985-89	1990	1991	1992	1991	1994
Agriculture	533.9	997.4	504.9	707.4	318.3	152.6
Energy						
Oil and Gas	20.6	—	300.0	48.5	2.4	186.2
Power	113.9	230.0	155.0	86.0	356.0	90.0
Environment	—	—	—	—	—	2.6
Human Resources						
Education	122.8	350.7	265.9	402.9	417.4	325.5
Population, Health and Nutrition	75.7	232.7	432.8	100.3	131.2	161.6
Social Sector	—	—	—	—	—	—
Industry and Finance						
Industry	124.6	180.1	11.0	200.0	83.5	29.6
Finance	241.3	193.6	138.8	619.9	252.3	400.1
Infrastructure and Urban Development						
Telecommunications	50.0	225.0	12.8	—	89.1	—
Transportation	339.4	543.6	309.5	242.8	483.0	515.0
Urban Development	177.2	360.4	98.3	233.8	61.2	111.4
Water Supply and Sewerage	102.9	257.2	256.0	297.4	67.2	74.1
Mining and Other Extractive	31.5	—	21.0	6.0	—	—
Multisector	504.0	285.6	861.0	895.0	434.2	711.0
Public Sector Management	81.0	76.6	27.2	133.6	121.5	48.2
Tourism	—	—	—	—	—	—
Total	2.519.0	3,932.9	3,394.2	3,973.6	2, 817.3	2,807.9
Or which: IBRD	909.3	1,147.0	662.9	738.4	47.0	127.7
IDA	1,609.7	2,785.9	2,731.3	3,235.2	2,770.3	2,680.0
Number of Operations	80	86	77	77	75	60

Note: Details may not add to totals because of rounding.
- Zero
Source: The World Bank Annual Report, 1994, p. 80.

The cause of this dismal decline is the fact that the major trading partners, aid donors and creditors of the Western Europe have not supported the painful economic reforms with the requisite level of financing and improved trading conditions.

A UN organised conference in 1988 concluded that 'Adjustment measures have been implemented at high human costs and Sacrifices' and are rending the fabric of African society'. Former UN Secretary general Javier Perez de Cuellar found that, the most vulnerable population groups..... have been severely and adversely affected, directly and indirectly, by such measures as the with-drawal of subsidies on staple food items, the imposition of limits on wage increases...... the retrenchment of civil servants and private sector personnel frequently belonging to the lowest salary categories, and the cutting of expenditures on social services, including health and education, and on basic infrastructures'. (UN, 1988)

From various studies conducted so far it can be conclude that structural adjustment programmes only served foreign monopoly capitalist interest on the African of the comprador bourgeoise. The adjustment measures cannot

fulfil the needs of the masses, who are likely to undergo very serious hardship. Although structural Adjustment programme was certainly work for western developed countries.

All the class tendencies in Africa was characteristic of a backward capitalist-society. With peasants aiming for land redistribution, workers for higher wages and benefits, aspirant bourgeois for replacing the foreign based middle-class etc.

In this chapter we discuss the cause of the failure of structural adjustment and trapeze African Alternatives?

Programme Failed

In accounting the failure of the Structural adjustment programmes in Sub-Saharan Africa, three facets of such efforts must be examined: theoretical assumptions, administratives weaknesses, and the social cost of adjustment.

A fundamental flaw in such programmes is their built-in tendency toward internally contradictory approaches. The attempt to reduce aggregate demand, a typical features, induces disincentives to the expansion of supply. Measures aimed at improving resource allocation (raising producer prices, reducing tariffs, etc.) involve a

reduction of public revenues, which can be a counter-stabilisation force at times of excessive demand pressures. And because structural adjustment financing is usually conditional on short-term policy measures by regimes operating in a framework of openness to the international economy, little room is left for flexibility in the face of exogenous constraints on growth.

Thus the timing and phasing of adjustment programmes often decide their success or failure. At the international level, adjustment programmes can fall victim to the fallacy of composition; that is concentration on price incentives to promote export expansion in a series of countries can result in a glut on the world market and a consequent further worsening of the commodity terms of trade.

On the administrative level, unwarranted presuppositions are made regarding the availability of managerial resources to implement measures such as budgetary controls, fiscal reforms, and reduction of adhoc interventions. There is a further tacit assumption that the government is committed to meeting its part of the social contract. When these assumptions fail to reflect the realities, recourse is made to privatisation, often resulting in the replacement of public controls with control by non-indigenous monopolies.

The public interest is sacrificed and efficiency fails to materialise.

Finally, the social trade-offs of adjustment programmes need to be taken fully into account, addressing questions such as what is the magnitude of the social costs owing to curtailment of public spending. To what extent will vulnerable groups be affected? To what extent will vulnerable groups be affected? Who will bear the ultimate costs of adjustment? It is also pertinent to examine the implications of a failed adjustment programme, the dangers posed by adjustment fatigue; and the attendant psychological costs of resuscitating the process.

African Alternative:-- But the important Questions for Africans is how Africa is to end its dependency can extricate itself from the modern highly technologized and highly militarised international system, with its sophisticated and complex control network.

CHAPTER II

STAGES OF AFRICAN POLITICAL ECONOMY

Introduction:- Structural Adjustment Programme have been the most debatable aspect of recent international politics. The "structural adjustment programme" is the name given to the economic policy package that the IMF and the World Bank force on the indebted Third World countries which turn to them for financial help. The agreement to follow the prescribed economic policies is a necessary condition for getting any major loan. This economic package covers over 70 Third World countries, of which 35 are African countries.

"The IMF has exerted a strong influence over developing countries by setting stiff conditions on the loans it offers. This conditionality has generally been monetarist and deflationary, obliging governments to reduce their demand for imports by curtailing overall demand-cutting back on both private and public spending. These cutbacks have often reduced consumption, investment and employment and stifled economic growth."[1]

The available data shows that the consequences of structural adjustment programmes in these countries have

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1. UNDP, Human Development Report 1992, p. 75.

been - spiralling prices, declining incomes, and de-industrialisation while still leaving these countries heavily indebted. The structural adjustment here become a DRAIN OF WEALTH, with debt servicing leading to ultimately reversing the direction of flow of financial resources.

The IMF's scheme of SAP on global level in 1980s was not a sudden remedial proposal to overcome the crisis of Third World. It arose due to interest inforcement of capitalism and rising crisis oriented objectively of Third World itself. Capitalism was passing through the crisis since late 1960s that continued in 1970s and 1980s. These crisis are characterised by distinctly slower rates of economic expansions in the industrialised countries. To grasp the concrete significance of the IMF's programmes for stabilisation and structural adjustment, it is necessary to move away from the debate on capitalism vs.Socialism. For the real significance of the IMF programmes lies not in its defence of capitalism, but in the specific path of capitalist development for which its 'conditionalities' are supposed to clear the ground in the countries of Sub-Saharan Africa.

This chapter traces the history of the relationship of Africa and the West since their first contact brought about by the outward thrust of the west, under the impetus of rising capitalism, in search of cheap-labour and cheap raw materials for its industries and expanding markets for its

industrial products, both of which could be better ensured through domination and exploitation.

We identify five successive stages that African political economy has passed through under the impact of this relationship, each phase qualitatively different from the other but all having the common characteristics of domination dependence syndrome, and each phase having been dictated by the dynamics of capitalism in different eras and by the dominant forces in the changing international system. Our finding is that the way to the latest stage, the dependency phase, was paved by the progressive proletarianisation of the African peoples and the maintenance of an international peonage system.

Historical Perspective on Domination of Africa

The history of Africa is the history of five centuries of domination by the western political economy, which created and now dominates and operates the modern world system.[2]

The domination has passed through several phases, each unique to a historical epoch, though all were conditioned by the internal logic of capitalism and by the dynamics of the international system.

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2. Immanuel Wallerstein,'The Modern World System (New York: modern reader)1976.

The process of western incursion and domination of Africa can be divided into the following five phases:-

1. Barbarian domination
2. Imperialist domination
3. Colonial domination
4. Neo-Colonial domination
5. Dependency domination

Each phase was manifested both in the western nations and in Africa; every capitalist transformations and in the west was reflected in the political economy of Africa.

1. Barbarian domination:- This was the earliest phase of capitalist domination of Africa. It occurred alongside the epoch in capitalist development called primitive accumulation.[3]

When the West was breaking free from feudalism but had not yet entered the era of capitalism. Certain technological changes - such as improvement in maritime technology and the invention of compass - facilitated trade between distant lands by allowing the west to venture into the open seas.

In three centuries before the industrial revolution the focus of the trade moved from the mediterranian to the

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3. Karl Marx; capital (Newyork International publishers, 1967)

Atlantic, from Venice and Genoa to Liverpool and Nantes. This momentous shift of economic power was the product of fundamental changes in the economic and techonological basis of European Society at the close of the Middle Ages.[4]

The Western Europe used unbridled crudity in penetration, domination and exploitation of the African society. The purpose was not to rule or govern; the purpose was unrestrained loot and plunder without parallel in history. Million of African were sold as slaves, millions worth of gold and Ivory was carted away.

The most horrendous form of it lasted from the fifteenth century to early eighteenth century.[5]

According to Marx, "the history of this period is written in the annuals of mankind in letters of wood and fire".[6]

It was characterised by turning of Africa into a warren for the commercial hunting of black skins.[7]

The effect of this period in Africa can be briefly

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4. A.G. Hopkins, Economic History of West Africa (Newyork; colombia University press, 1973) p-87.

5. Eric Williams, capital and Slavery (Newyork: capricorn books, 1966); A.G. Hopkins (Note3), p -78-117

6. Karl Marx, (Note 2), capital vol-1, p-714

7. Ibid, p - 751 (Emphasis added)

summarised as follows:

(a) Massive depletion of the African population, specially among the most relevent and productive groups:

(b) Massive distruction of the entire fabric of African Society- disruptions in socio-cultural relationships and, above all, the diversion of interest from productive activities to plunder and loot as a way of life; and

(c) the pillage of the resources of Africa under the guise of new discoveries.[8]

That is how the twin process of the development of underdevelopment in Africa and the corresponding development of development in the West was initiated.[9]

According to Hopkins: "The chief effect of the overseas slave trade in the new world was to populate and develop the abundant land resources of the Americas and the West Indies".[10]

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8. Amechi okolo,' The role of International Trade in the African political Economy, in show/ojo (Ed.) Africa and the International political system (Washington, D.C. University press of America, 1982, p - 68-103).

9. Walter Rodney,' How Europe underdeveloped Africa (Dar-es-salaam: Tanzania publishers House, 1973) p - 103-162.

10. Hopkins (Note 3), p -117

He further observes:- "It remains true that the slave and sugar trades brought great wealth to the principal entrepots, such as Liverpool and Nantes, and to many other leading cities. It is impossible to account for the economic vitality of these parts in the eighteenth century, their physical and demographic expansion, and the remarkable overflow of money into cultural activities, without stressing the causative, though not exclusive, role of the Atlantic Commerce.[11]

II. Imperialist Domination

This second phase of Western domination of Africa again corresponds to a definite historical epoch. Karl Marx observes that, driven by its internal dynamics, capitalism must 'nestle every where'.

Having fought their national rivals, and having thus established their predominant position in the national economy, capitalists now shifted the theatre of war for profit and power to the international level known as imperialism. Lenin characterised imperialism as the last, monopoly, stage of capitalism, and identified five characteristic features of this phase of capitalism.[12]

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11. Ibid, p -117-118.

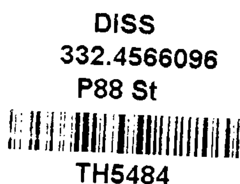
12. V.I.Levin, Imperialism: The Highest stage of capitalism (Newyork, International publishers, 1966).

1. the concentration of production and capital developing to such a high stage as to create monopolies with a decisive role in the political economy;

2. the merging of bank capital with industrial capital, forming finance capital and a financial oligarchy;
3. the export of capital becoming more important than the export of commodities;
4. the formation of international capitalist monopolies, which shared the world among themselves; and
5. the completion of the territorial division of the world between the monopolies. Open ended phenomenon - with a discernible beginning but not necessarily an end.

In our view, on the other hand, imperialism was the phenomenon of a definite historical epoch. It was time-locked-with the end as discernible as the begining.

Historically, it corresponded roughly with the abolition of slave trade by Britain, in 1807, till the end of the century, when colonial governments were being established. In the hectic search for cheap materials for its production and captive markets for its products, European capitalist countries began occupying lands and setting up governments. While imperialism was the monopoly stage of capitalism in Europe, for Africa it represented the beginning of an epoch when capitalism's first serious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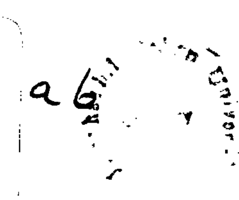

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attempt to create conditions favourable for a more permanant stay was made. The principle actors were Britain, France and Germany, essentially acting through their chartered companies. In the scramble for a place in the 'colonial sun', large chunks of African hinterland were seized and claimed and counter-claimed by contending European firms. They could well have driven Europe to war for the sake of their ill - begotten possessions. A conference at Berlin was held to avert it. Called at the initiative of the German government under Bismark, it was attended by all the major, European powers, including United States which for the first time was participating in a major international conference with other European powers. The European governments had met to discuss ways and means of controlling the activities of their merchants before the latter plunged all of them into a bloody shooting war.[13]

The Berlin conference of 1885 resolved the conflicting territorial claims of these firms by making it obligatory for them to respect the territorial ownership if a trade or protectorate treaty had been signed with the African chiefs. More importantly, it worked out a general alliance between the imperialist powers for the balkanisation and control of Africa. However, like all such alliances, the

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13. A. G. Hopkins,' Economic Imperialism in West Africa 1880-92; Economic History Review 21, December 1968.

Berlin conference agreement later turned out to be nothing more than a temporary 'truce' which was distined to crack.[14]

Relationship between these powers continued to deteriorate and, according to Allan Burns, the continued French incursion into the 'British territory' heightened the tension between them to the point where even war between france and Britain was not far from the minds of the cabinets.[15]

Imperialism thus was not, as Lenin had posited, the completion of the division of the world between the monopolies, but the continuation of the territorial struggle for control of raw materials and markets, even though the struggle was being conducted with the open and overt political support of their home governments.

III Colonial Domination

This third phase of capitalist domination in Africa, in the form of colonialism, corresponds to the period between the beginning and middle of the nineteenth century. When colonialism was institutionalised in most seised lands it developed a unique form of capitalist domination and control which had not existed earlier. The uniqueness

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14. R.L. Pfaltzgraff (Ed.) politics and the International system (New york: JBL., 1972), p -206-7.

15. Sir Allan Burns, 'The History of Nigeria (New york: Barnes and Nobles, 1969), p -157-71.

consisted in its totality. It was the most complete and the most direct form of western domination. It was the naked manifestation of foreign dictatorship, arbitrariness and control of another people. It was the most comprehensive strategy of capitalist penetration, domination and control because it left no facet of the society untouched.[16]

Above all, it involved direct political and military administration of people to effect sustained maximum economic exploitation, through an organised, disciplined and, above all, administered capitalism in Africa. Colonialism became the politico- military weapon for effective and institutionalised administration of the territories their men had earlier 'acquired'. Colonialism aimed at creating both international and internal order and discipline into an otherwise anarchic imperialist system by means of direct imposition of superior military-political power. The imperialist system had collapsed for a number of reasons:

(a) an increasing inter-European counter-penetration of the areas;

(b) an increasing African recalcitrance, resistance, and hostility to further European penetration and control;

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16. I. M. Okonjo, British Administration in Nigeria (1900-1950) New york: Nok publishers, 1974.

and

(c) The rising cost and complexities of administering Africans far beyond what the chailered companies which had been given the termission to colonise spree, could profitably continue to undertake.

Colonialism Attempted to Remedy This by

(a) lending some sort of international credence and/or legitimacy to the colonial control of the areas concerned.

(b) gaining better internal control of the Africans through their acquiescence or passivity; and

(c) providing political clout to facilitate the creation of a more efficient system of exploitation to foot the cost of policing the people.

It is therefore colonialism, rather than imperialism, which truly was the monopoly stage of capitalism in Africa. The institutionalisation of the metropolitan power over the territories gave it the rationale for keeping other rival powers from its territory and preventing the intrusion of other competing monopoly firms.

In the process, the laissez-faire and free trade of the political economy of Adam Smith [17] which had ruled

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17. Adam Smith, An Inquiry into the nature and cause of the wealth of nations (New york: Modern library Edition, 1937).

Europe from the early phases of industrial capitalism, were thrown overboard. The Berlin conference, had reiterated the principle of free trade and put the signatory powers:

Under obligation to adhere to the principles of free trade by allowing other nationals free access to the areas and to protect foreign merchants and all trading nationalities as if they were her own subject.[18]

The repudiation of the principle signified the death of free trade in the international market and legitimised monopolies at both ends i.e. in Europe as well as in Africa. This distinction between colonialism and the earlier phase of imperialism should not be overlooked. During Imperialism, the monopolies right to territorial exclusively was recognised neither by their home governments nor by the international community, making it very difficult for trading companies of one nation to exclude those of others, since they could not count on the official support of their home governments.[19]

The decline of colonialism was fast-indeed, faster than anything the west had imagined; never before had such

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18. John E. Flint, Sir George Goldie and the making of modern Nigeria (London: Oxford University press, 1960) p -69-73.

19. A. N. Cook, British Enterprise in Nigeria (London: France cass and co; 1964) p -79-110.

a complete reversal occured with such rapidity.[20]

Colonialism was a very unstable system, marked by uncertainty and fear and maintained by violence and brutal force. It was a situation in which both the settlers and the natives had lived. This situation is discussed by Algerian freedom holder 'Fanon' who unites, In keeping with the] rules of pure aristotelian logic, the both follow the principles of reciprocal exclusivety.

The settelers' town is a strongly built town, all made of stone and steel. It is a brightly lit town, the streets are covered with asphalt and the garbage cans swallow all the leavings. The settlers' feed are never visible except perhaps in the sea, but there you are never close by enough to see them. The settlers' town is a well-fed town.. its belly is always full of good things. The settlers' town is a town of white people of foreigners.[21]

On the other hand, the town belonging to the native is: a place of ill fame, peopled by men of ill repute. They are born there, it matters little where or how; they die there, it matters little where or how. It is a world without spaciousness. The native town is a hungry town

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20. G. Barra clough, An Introduction to contemporary History (London Frank cass and co. 1964).

21. Frantz Fanon, The wretched of the Earth (New York: Grove Press, 1960), p.39.

starved of bread of meat, of shoes of light. It is a town of niggers and dirty Arabs.[22]

After world war II, when colonialism came under seige, attacked and surrounded by a global tide of revolution, capitalism evolved a new strategy to stem the tide. And Africa entered the fourth phase of its political economy.

IV. Neo-colonial Domination

This fourth phase of capitalist domination was that of neo-colonialism. It appeared on the African scene in the decade following world war II. Its predecessor, colonialism, was destroyed by two convergent pressures one internal and the other external. Internally, the nationalist sentiments, wipped up in the course of the West's mobilisation of African manpower and resources to fight 'Nazism, turned against the foreign, white-masters. Africans were determined to wrest power from them.[23]

Externally, there was, besides world opinion being against colonial domination, the West's fear of communism

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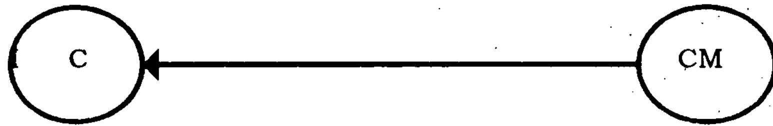
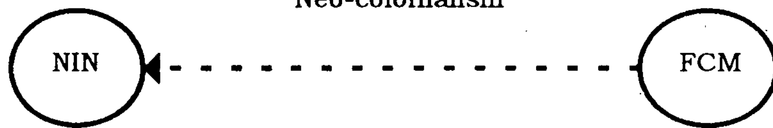
22. Ibid., p.40.

23. G.O.Olusanya, The Second World War and the Nigerian politics 1939-1953 (Lagos: University of Lagos Press, 1973), p.70-93.

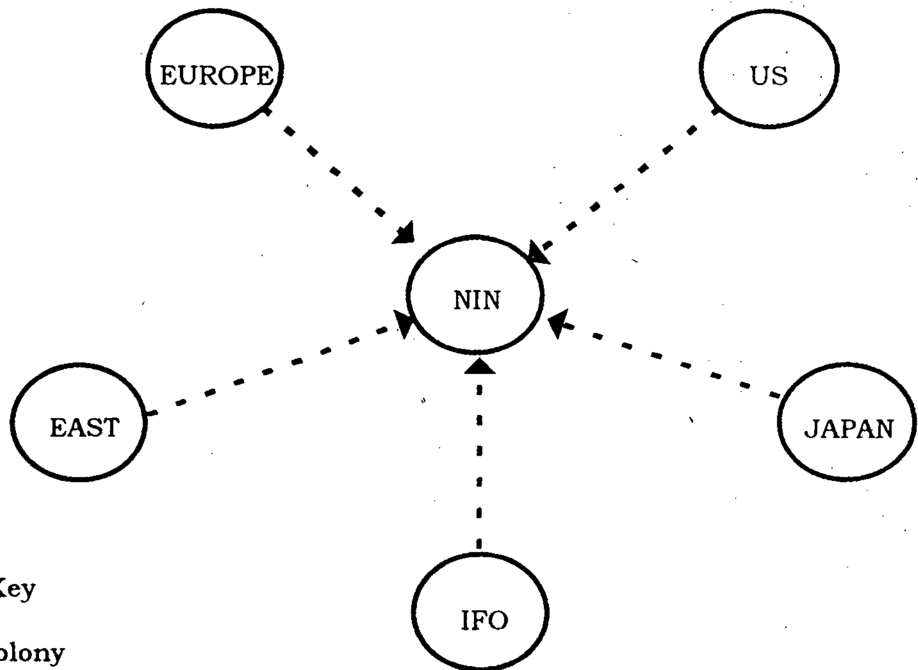
Colonialism



Neo-colonialism



Dependency



Key

C = Colony
CM = Colonial Master
NIN = New Independent Nations
FCM = Former Colonial Master
IFO = International Finance Organization

becoming an attractive alternative to the colonised.

The colonial powers accepted the inevitability of retreat, but cleverly turned it into a tactical retreat, giving up the form of domination but retaining its substance. Foreign faces were withdrawn from positions of power, but only after their places had been taken by hand-picked native faces (interlocuteurs valuables negotiators worth taking to).[24]

Exploitation continued unabated, the grip remained tight, the control of the 'new-independent nations' was total, but the system was so 'sophisticated' that it functioned by 'remote control' without the physical presence of the colonialist.

The defining features of neo-colonialism, which lasted for about a decade after the attainment of formal independence, were (i) that the former colonial master still served as the exclusive reference group for the new nation; and

(ii) that the former ruler still exercised domination over

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24. D.A.Offiong, Imperialism and dependency (Enugu : Fourth Dimension Publishers, 1980), p.65.

every aspect of life: political, economic and cultural.

1. <u>Political domination</u>: Every African country emerged out of colonialism usually with a constitution that was drafted at the metropolitan head-quarters. The essential government and political institutions e.g. the executive, the legislature, the judiciary, and political parties, etc, — were modelled on those obtaining in the former ruling nations.

In the international arena, it was the former colonial power which chaperoned the representatives of the new nation through the diplomatic corridors and put them through the paces in diplomatic etiquette — the first principle of which, not unsurprisingly, was that they must endorse the foreign policy of the metropolitan power. The army and other security forces of the new nation were still trained and manned by the former masters who guaranteed the protege's national and international Security.

Economic domination: --- The pattern of monopoly domination of the colonial era still operated exactly as in pre-independence days. The foreign-exchange reserves of the new nation were still kept in the metropolitan head-quarters. A large part of the foreign trade of the

new nation was still with the metropolitan country(Fig. 3).

V **Dependency domination**:- This is the fifth phase of capitalist domination in Africa. While in the new-colonialism period the former colonial master still held and exercised the dominating and unchallanged influence in the affairs, of the new nation, dependency takes a shift in the focus of attention till domination becomes fully 'internation', the uni-national monopoly control having been broken. It makes possible the expansion of the cultural area of the former colonies.[25]

Most African nations entered the phase of dependency domination in the 1970s, that is a decade after their political independence. In this phase, the new nations are subjected to a diffused and complex system of control and exploitation in a situation created by the cumulative effects of the various phases of domination. The end product of this process is a retarded African political economy. Retarded in the sense that the political economy does not and cannot sustain an independent existence. The negative forces have acquired a dynamics of their own and serve to ensure the continued development of underdevelopment in Africa. Dependency domination is the

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25. H.M. Hodges, An Introduction to sociology (New York: Horper and Row publishers, 1971), p.99-125.

capitalist strategy of control and exploitation in the modern system, where international financial organisations and multinational companies have become vital actors; together they have perfected an intricate and complex control network on which the African nations, as all Third World Nations, are hooked. The control mechanisms have been institutionalised, and they have acquired legitimacy within the international system. It is therefore much more difficult to try to break away from syndrome because it is bound to invite the wrath of the entire capitalist international system.

Figure - 3 presents the changing patterns of capitalist domination in Africa from the colonial to the dependency phase. The heavy arrow during the colonial era shows one-to-one relationship between the metropole and the colony.

In the neo-colonial phase, the relationship is still essentially one-to-one, but the dotted lines now indicated the 'remote-control' in the asymmetric relationship. The main difference occurs in the dependency era, when the former colony has been subjected to a barrage of competing forces in the dependency stage, the economics of the former colonies have been fully integrated with the <u>international capitalist market economy</u>, making it almost

impossible for the new nations to break-loose from it even though the odds in the market are all against them. They have been incorporated into the world economic order, as mere appendages. Two factors have made this possible:

(i) proletarianisation of African Societies, and

(ii) the peonage system imposed on them.

(i) Proletarianisation of African Societies

In this situation, in Africa, all that the Africans can offer is cheap-labour. Having been made dependent on external sources for the satisfaction of even basic needs, the new nations have lost the capacity of feeding themselves, which they were well able to do with their indigenous farming methods.

As of now, African nations, have to import grains and other agricultural products. The metropolitan countries supply to African nations not only manufactured goods but also food stuff.[26]

(ii) **The peonage system**:- It is a debt system that ensures continuing servitude of the former slaves after their proclaimed emancipation. In the system, the peons are

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26. Amechi Okolo, 'The political Economy of Nigerian oil sector and the civil war', quarterly journal of Administration XV, 1-2, 1981, p.108.

paid below-subsistence wages; they can meet thier very basic needs only by loans given to them by their masters. Indebtedness keeps them tied to the master; no other employer would hire him without clearance from the former master. So the debts go on mounting and the servitude of the peons is perpetuated.[27]

According to payer,

......The workers cannot run away for other employers and the state recognises the legality of his debt: nor has he any hope of earning his freedom with his low wages, which do not keep pace with what he consumes, let alone the true value of what he produces for his master.[28]

It is the extension of this system of debt slavery to the emergent African states from the period of their political independence to the present day that has continued to ensure, and to worsen, their dependency status. Table 3(i) (ii).

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27. Stamley Elkins, Slavery (Chicago: University of chicago press, 1971); and A.Meier and E.M.Rudwick, From plantation to Ghetto (New York: Hill and Wang, 1969).

28. Cheryl Payer, The debt Trap, the IMF and The World Bank (New York: Monthly Review Press, 1974), p.49.

Table - 3 (i)

The External Debt Situation of African Countries (million dollars)

	Total debt		Total debt % of GNP		Gross international reserve		Monthly import	Current a/c balance before interest payments on external debts		Interest payments on external debts	
Country	1970	1979	1970	1979	1970	1979	1979	1970	1979	1970	1979
Chad	32	172	11.8	30.8	2	17	0.5	2	-72	na	4
Nigeria	478	3744	6.4	5.0	223	5870	4.5	-348	1429	20	205
Zambia	596	1559	34.5	50.5	515	93	1.8	131	264	23	93
Ghana	489	977	22.6	9.6	58	404	4.8	-58	282	12	26
Kenya	313	1427	20.3	24.3	220	669	3.7	-38	-419	11	60
Tanzania	248	1153	19.4	25.3	65	69	0.9	-29	-457	6	23
Uganda	128	245	9.8	2.6	57	n.a	n.a	24	32	4	5
Mauritania	27	590	16.8	120.9	3	118	3.6	-5	-70	n.a	16
Lesotho	8	52	9.2	11.1	n.a.	n.a.	n.a.	n.a.	-22	n.a	1
Niger	32	234	8.7	14.4	19	137	n.a.	1	-96	1	7
Madagascar	93	348	10.8	12.6	37	5	0.1	12	-425	2	8
Guinea	314	990	51.7	68.6	13	35	1.0	n.a.	n.a.	4	24
Zaire	311	3780	17.1	51.8	189	335	1.4	-55	-463	9	95
Benin	41	186	16.0	19.2	16	20	n.a.	-1	-87	n.a.	3
Malawi	121	423	38.7	33.1	29	75	1.7	-32	-185	3	16
Senegal	98	786	11.6	32.3	22	35	n.a.	-14	-394	2	43
Sudan	309	2114	11.6	34.5	22	67	0.7	-29	-151	13	86
C.A.R.	19	150	11.2	24.0	1	49	2.7	-11	-9	n.a.	n.a.
Madagascar	93	348	10.8	12.6	37	5	0.1	12	-425	2	8
Uganda	128	245	9.8	2.6	57	n.a.	n.a.	24	32	4	5
Mauritania	27	590	16.8	120.9	3	118	3.6	-5	-70	n.a.	16
Lesotho	8	52	9.2	11.1	n.a.	n.a.	n.a.	n.a.	-22	n.a.	1
Togo	40	851	16.0	120.9	3	118	3.6	-5	-70	n.a.	16
Sudan	309	2114	11.6	34.5	22	67	0.7	-29	-151	13	86
Kenya	313	1427	20.3	24.3	220	669	3.7	-38	-419	11	60
Ghana	489	977	22.6	9.6	58	404	4.8	-56	282	12	26
Senegal	98	786	11.6	32.3	22	35	n.a.	-14	-394	2	43
Egypt	1644	11409	23.8	60.4	165	1794	2.6	-116	-1316	38	237
Liberia	158	454	49.6	48.4	n.a.	55	n.a.	n.a.	-91	6	22
Zambia	596	1559	34.5	50.5	515	93	1.8	131	264	23	93
Cameroon	131	1634	12.1	32.0	81	141	0.5	-26	-290	4	65
Nigeria	478	3744	6.4	5.0	223	58%	4.5	-348	1429T	20	205
Morocco	711	6227	18.6	40.3	141	916	2.1	-101	-1110	23	411

Source: World Bank : Public Debt of Developing Countries, 1983

Table 3 (ii)

Outstanding External Public Debt of African Countries and Types of Creditors in US $ million (1975)

Country	Bilateral Official	Multi-lateral	Suppliers	Bank	Others	Total
Benin Rep.	83.5	51.5	12.7	13.5	-	161.2
Botswana	113.6	70.9	-	-	-	184.5
Burundi:	3.6	22.2	4.2	2.0	2.6	34.7
Cameroon	364.3	239.1	10.1	73.1	1.5	688.1
C.A.R.	71.5	26.8	8.8	2.4	-	163.3
Congo Rep.	340.3	53.4	210.8	1.6	10.1	616.0
Ethiopia	288.3	355.7	2.5	26.8	0.4	673.7
Gabon	99.6	46.7	86.9	241.9	40.1	515.1
Gambia	13.8	8.3	-	-	-	22.1
Ghana	392.3	221.0	184.1	-	-	797.3
Ivory Coast	313.3	384.5	409.6	373.0	57.1	1537.4
Kenya	460.5	489.1	56.0	26.7	39.0	1071.2
Lesotho	4.2	17.9	-	04	0.4	22.8
Liberia	166.1	90.0	10.7	6.9	0.9	274.6
Madagascar	98.7	126.9	3.8	3.9	3.1	236.5
Malawi	196.9	115.3	3.9	5.1	9.0	330.3
Mali	355.6	101.4	13.1	0.8	-	471.0
Mauritania	302.3	46.3	51.9	9.6	-	410.0
Mauritius	66.1	57.7	0.4	-	0.6	124.8
Niger	95.0	31.0	2.3	3.3	-	131.7
Nigeria	513.1	705.8	13.9	12.9	3.1	1248.8
Rwanda	32.5	47.5	1.8	-	0.6	82.5
Senegal	223.8	141.9	14.8	95.6	27.0	503.0
Sierra Leone	67.3	51.3	63.9	-	15.8	198.3
Somalia	353.8	66.4	-	-	3.9	424.2
Sudan	584.1	364.7	172.6	406.4	7.1	1534.8
Swaziland	36.4	28.6	1.5	-	-	66.5
Tanzania	802.2	335.3	29.1	12.3	13.6	1192.5
Togo	53.4	29.6	25.5	44.5	3.7	156.7
Uganda	136.7	73.3	-	2.2	6.2	218.4
Upper Volta	116.7	68.7	0.6	-	-	186.0
Zaire	756.9	286.9	378.5	1273.7	42.5	2738.5
Zambia	513.4	380.8	140.9	407.1	22.5	1464.7

Source- World Bank: Public Debt of Developing Countries Sep. 1977

Table 3 (i), presents the debt situation of African States in the 1970s. It shows that the absolute amount of their debts has been rising astronomically since 1970s, that the debts now amount to very high percentages of the states GNPs; that the very large interest payments which will have to be paid from the very highly dificit current account balances: and, finally, that the international reserves of these countries can hardly sustain their monthly imports.

Table-3(ii) shows the sources of credit and the indebtedness of the African countries to each creditor. It dramatises the complexity of the creditordebtor relationship which is a cardinal feature of the dependency era.

Dependency and oil:--- Having lost their agricultural resources, most African states are now fully 'proletarianised'; making their manipulation easy. This is equally true of those few African States which have been classified as 'oil exporting states' for no reason other than the accident of oil having been discovered in their territories. It is hoped that these countries have been, or will be able to transcend dependency and constitute

themselves into perhaps regional sub-centres.[29]

The real picuture of economic decline can be seen through the following data: some Macro economic indicators in Sub-Saharan Africa;

Table 3(iii) (percentages)

	1965-1980	1980-86
GDP	5.1	-0.0
Agriculture:-	1.6	-1.2
Industry --	9.4	-1.5
Manufacturing --	8.5	0.3
Services : --	7.5	0.0
Government		
Consumption:-	8.1	-1.0
Private consumption	4.9	0.7
Gross domestic		-9.3
Investment:-	8.8	
Export --	6.6	-2.1
Import --	19.5	-7.7

Source: World Bank, World Development Report, 198 (inclusive of Nigeria)

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29. Immanuel Wallerstein, The Capitalist World Economy (N York: Cambridge University Press, 1979), p.66-9 a passim.

Table 3(iv)

Lending to Borrowers in Africa, by Sector, 1985-94

Sector	Annual Average 1985-89	1990	1991	1992	1991	1994
Agriculture	533.9	997.4	504.9	707.4	318.3	152.6
Energy						
Oil and Gas	20.6	—	300.0	48.5	2.4	186.2
Power	113.9	230.0	155.0	86.0	356.0	90.0
Environment	—	—	—	—	—	2.6
Human Resources						
Education	122.8	350.7	265.9	402.9	417.4	325.5
Population, Health and Nutrition	75.7	232.7	432.8	100.3	131.2	161.6
Social Sector	—	—	—	—	—	—
Industry and Finance						
Industry	124.6	180.1	11.0	200.0	83.5	29.6
Finance	241.3	193.6	138.8	619.9	252.3	400.1
Infrastructure and Urban Development						
Telecommunications	50.0	225.0	12.8	—	89.1	—
Transportation	339.4	543.6	309.5	242.8	483.0	515.0
Urban Development	177.2	360.4	98.3	233.8	61.2	111.4
Water Supply and Sewerage	102.9	257.2	256.0	297.4	67.2	74.1
Mining and Other Extractive	31.5	—	21.0	6.0	—	—
Multisector	504.0	285.6	861.0	895.0	434.2	711.0
Public Sector Management	81.0	76..6	27.2	133.,6	121.5	48.2
Tourism	—	—	—	—	—	—
Total	2.519.0	3,932.9	3,394.2	3,973.6	2, 817.3	2,807.9
Or which: IBRD	909.3	1,147.0	662.9	738.4	47.0	127.7
IDA	1,609.7	2,785.9	2,731.3	3,235.2	2,770.3	2,680.0
Number of Operations	80	86	77	77	75	60

Note: Details may not add to totals because of rounding.
- Zero

Source: The World Bank Annual Report, 1994, p. 80.

Although the crisis assumed dramatic proportions in the 1980s, the process of declining growth set in much earlier. A broad indication of this is given by the trend in GDP per capita growth which declined from 3.7 per cent per annum over 1965-73 to 0.7 per cent in 1973-80 and about -3 per cent in the 1980s.

While international economic forces have always played a negative role in determining the level of economic activity in African countries, they assumed a decisive signigicance in the 1980s were this was not the case. It would be difficult to account for a simultaneous deterioration in the performance of the great majority of Sub-Saharan countries. As in other regions, the international economy adversely affected the situation in African countries in the 1980, primarily through four machanism:

1. The deterioration in terms of trade
2. Increase in real interest rate on external debt.
3. Reduced inflow of resources and
4. Massive capital out flow.

PRESSURES FOR ECONOMIC REFORM:- As a result of their countries generally poor economic performances, African governments have been coming under incresing pressure to

liberalise their public economic policies. Such pressure has come from a variety of sources. Traditionally, at least during the 1970s and early 1980s, the most direct pressure came from the IMF by the way of conditionality for its financial support; that is the IMF required Specific policy changes, usually in the area of exchange rates (i.e. devaluation), and reductions in government spending before a new loan agreement could be signed.

. Newer and perhaps more zealous pressures are now coming from the World Bank and theUS Agency for International Development (USAID). Additionally, pressure has originated and grown internally, as more people have become increasingly dissatisfied with their declining standard of living and the poor economic performance in their own countries.[30] Specifically, the 1981 World Bank Study proposed four major and basic policy changes which it viewed as critical.

(I) correcting the exchange rates of overvalued currencies;

(II) improving price incentives or exports and agriculture;

III) protecting industry in a more uniform and less direct way and,

(IV) reducing direct governmental controls.

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30. Source: South of the Sahara - (p.25-6) 1987.

According to the conditions set out by the IMF: An eligible member country may qualify for a structural adjustment facility loan by demonstrating that it has a need for the resources, that it faces protracted balance-of-payments problems, and that it is prepared to implement a programme designed to promote macro-economic and structural adjustment and Growth in the medium term.[31]

Conclusion

The adjustment process constitutes a derailment of a process of capitalist transformation of colonial economies into normal 'periphera' capitalist economies, with more or less national control. It is a defeat of the nationalist project by international capital. Ans so, if the main intention of international finance has been to torpedo the nationalist attempts to establish indigenous capitalist classes and thereby increase foreign control of African Societies, then the current programmes are succeeding as sector after sector of African economies is recaptured by international capital or forces through privatisation, 'policy-dialogues', re-expatriation of key state and parastatal managerial positions and net out flow of

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31. South of the Sahara -- 1987, (p.26).

capital.

If the intention is to change the internal balance of forces between labour and capital in favour of the latter and to thus cheapen the social reproduction of labour, then the policies are on track as real wages decline every where and retrenchment swells the reserve army of the Urban unemployed.

In the next chapter we shall review and assess the SAP, that, what is SAP? and why it is failing so far?

CHAPTER III (Part I)

AFRICAN ECONOMY UNDER STRUCTURAL ADJUSTMENT PROGRAMME

INTRODUCTION

In most recipient countries (of Africa), the general feeling towards IMF loans, and the structural adjustments programme that is part of the lending package is less than favourable. The general consensus in these countries is that the loans and the programmes are doing more harm than good to their economies. This consensus is to a certain extent justifiable, especially in African countries were structural adjustment is currently in place since the citizens are yet to see any real improvement in their economic welfare.

Instead, they all seem to be worse off, with inflation in most of these countries going through the roof, while their incomes remain static. It is also a widely held belief that the conditionalities are too general and do not really take into consideration country specific problems.

Also it is claimed that even though IMF loans account for only 19 per cent of the overall debt commitment of African countries, over half of these countries, gross domestic product goes to the Fund in debt servicing.

In its early years, the IMF rejected the notion that developing countries should be treated as a special case and thus given preferential treatment. However, in the ensuing years, the attitude changed as reforms were introduced to take the issue aboard. The change was not about trying to create equity, rather it was an acceptance that developing countries especially the poorer ones, most of which are in Africa, had unique balance of payment problems totally different from those in most industrialised countries.

Most economies in Africa are reliant on raw materials for their foreign exchange earnings, the price of which are determined not by those countries but the buyers who are mainly the industrialised western countries.

The lack of technology know how also plays a crucial role in these economies as most of their produce, such as cotton and cocoa cannot be processed locally, and have to be exported abroad for processing. The finished product is usually bought back at higher prices set by the foreign exporters. Therefore, managing a balanced term of trade position is well beyond the capabilities of these poor countries, which are then forced to borrow to pay for most of their imports as well as for domestic development of infrastructure.

In the past, many of these countries could access commercial loans from banks, but the 1980s saw most of these countries becoming increasingly un-credit worthy. There was no other option, except turning to the IMF and the World Bank for loans and aid to boost their efforts to develop their economies.

The last decade, has seen the reliance on IMF funding increase quite dramatically among African countries, and in order for these countries to gain access to the Fund's loan facilities they had to satisfy certain conditionalities including implementing structural adjustment programmes, which involve devaluating currencies, removing exchange controls and other economic changes which in the Fund's view were construed as impediments to trade and free market principles.

However, instead of improving the economic welfare of the populace in these countries, these programmes have had in most instances achieved the opposite. A higher percentage of these countries, GDP is constantly being allocated to servicing debts, while at the same time inflation has risen drastically and incomes have plummeted. Although the principle behind these programmes make strong economic sense in the long term, the short-term targets and loan repayments aspects seem in the extreme unrealistic and ill thought out. Debt repayment by most of these countries currently far outstrip the sums they receive in loans from

foreign sources.

It has been strongly argued by critics of the IMF, that too much emphasis is being placed by the international financial community on adjustment programmes relative to financing. It is argued that this over-emphasis, has resulted in the global economic welfare being adversely affected.

What is Structural Adjustment Programme

The terms "structure" has long been associated with the structure of production at the Macro-economic level and in particular with the level of resource-allocations to the tradable sectors and the ability to generate foreign exchange earnings. The structure of the economy, therefore, figures in the "two-gap" and foreign-aid" literature of the 1960s and 1970s which examines the conditions in which the foreign exchange gap, rather than a savings gap, may be the binding constraint on development and/or the main beneficiary of foreign aid.

Because existing production structures were inherently unstable in macro-economic terms, and placed constraints on the value of national output and its rate of growth, the International Monetary Fund (IMF) and the World Bank have

developed specific lending, initiative to address the problems. They provide balance of payments and budgetary support conditional on reform of the policies and weakness that have resulted in structural problems.(Source: According to FAO; UN Publications, 1996.)

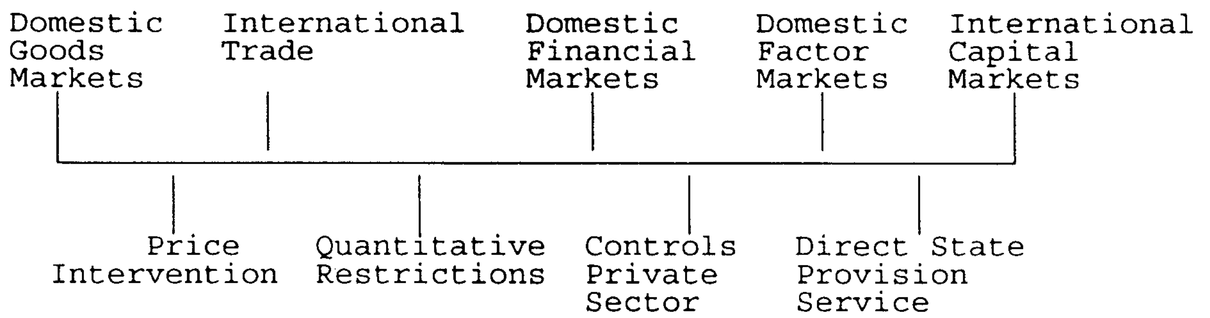
The need for these initiatives was given additional force by the series of external shocks experienced by African economies in the late 1970s and early 1980s. These included rising interest rates, increases in the price of oil and a deep recession in the developed world.

There is at present considerable controversy concerning the relative blame that should be attached to internal or external factors for the original and continuing problems besetting African economies.

Adjustment programmes pursued in sub-Saharan Africa during the 1980s, have generally consisted of two categories of policy:- Stabilisation Policies that work on the demand-side to bring absorption into line with output and sustainable capital inflow, and, structural or supply-side policies that act to increase output over the medium term (Fig. (i) (ii).

Figure 1

Forms of Government Intervention



Scuh interventions have been proposed by IMF and has been made conditional for the countries. The figure No. 2 gives a picture of representation of structural adjustment policy:

Figure 2

A Schematic Representation of Structural Adjustment Policy

Structural Adjustment Policy

Stabilisation

Structural Adjustment

Fiscal Policy

Monetary Policy

Devaluation

Resource Mobilisation

Market Liberalisation

Public Sector Resouce Allocation

Institutional Reform

Goods Markets

Current Account

Domestic Financial Markets

Capital Markets

Internal Factor Markets

Agricultural Industry

Return to Market-Determined Prices

Removal of Quantitative Restrictions

Promotion of Private Sector Operations

Limitations on the Role of Governmen

Divestiture

Closure

Contracting

Competition

In practice, this distinction is not clear cut. Stabilisation policies, such as devaluation, have structural or supply-side implications while structural policies such as subsidy removal have implications for stabilisation.

The success of World Bank Policy has recently been proclaimed in Adjustment in Africa: reforms, results, and the road ahead; (New York, published for World Bank by Oxford University Press, 1994), which maintains that the Bank's Macro-economic policies have improved economic performance, and that, in general, the greater the degree of implementation, the better the results, But our assessment of this policy research report is intended to show that the presented data fail to support this claim and even bolster the contrary thesis.

Logic of SAP

When governments found themselves unable to pay for their current imports - even for the most essential items, or to pay the interests on their foreign debts or raise new loans, or to secure commercial trade credits, they were forced into the arms of the international receivers of bankrupt governments, the International Monetary Fund (IMF) and the World Bank. The International financial institutions not only controlled the available source of

money but also, in the light of the abject failures of governments own policies, offered the only plausible strategy for economic reform.[1]

Typically, governments agreed initially to adopt austerity programmes, cutting government expenditure and thus wages and employment, raising price and reducing subsidies.

More or less willingly African governments adopted variants of the structural adjustment programmes' on offer from the IMF and the World Bank. These entailed moves in the direction of liberalising external trade and of commodity prices and internal trade, cutting back government spending, reducing subsidies on food and fuel, privatisation of parastatal enterprises, raising charges for education, health and other services, and lowering wages and removing measures to protect employment.

Central to the whole strategy of SAP is devaluing the currency. This is intended to encourage legal exports and constrain demand for imports. It is necessary if imports are to be liberalised and licences replaced with tariffs, and for government to regain control over unofficial currency and commodity markets. It is essential to

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1. ROAPE: Review of Africal Political Economy, No.60: pp-220, 1994.

eliminate the opportunities which rationing overvalued currencies, and imported goods, creates for the corrupt enrichment of those who control the allocation of foreign exchange.

A radical devaluation is the essential key to any strategy of structural adjustment but is not sufficient, even to itself. If people are to be persuaded to hold a currency and to invest in the production of goods sold for that currency, it must be stable, as well as convertible. Otherwise, anybody who is able to do so will spend or convert it as fast as possible, pending a further devaluation.[2]

The Basic Ideas:- Overall, the mainstream, Marxist and Non-Marxist economics are based on the idea that all labour is at least as productive forces sufficient to produce a surplus-value. Both the theory of labour-value and exploitation as well as the theory of a clearing of the labour market, if only wages are sufficiently low are based on this idea. Liberal economic policies are necessary to match market prices, more or less to the costs of production and to bring internal prices into line with border prices. As Karl-Marx, a well-known student of Adam-Smith well understood, the Law of Value, works through

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2. ROAPE: No.60; pp-221, 1994.

the exchange of commodities in competitive markets. Far from overcoming the inequalities and instabilities generated by a market economy, state interventions have tended to exacerbate them as the most vulgar Marxist theory of the state would lead one to expect.[3]

Secondly, the SAP are based on the idea that surplus will be turned into profit at any level of surplus provided that there is competition.

From the very beginning the design and implementation of adjustment programmes was highly controversial. The formulation of structural adjustment programmes is based on the so-called absorption approach. According to this approach, a current account deficit is reflected in the fact that internal absorption (the sum of private consumption, domestic investment and government expenditure) exceeds domestic production or income. The difference between

domestic income (Y)
domestic absorption (A) is reflected in the
balance on current account $CA = Y - A$.

The current account shows a surplus, if income exceeds absorption and vice-versa. This identity implies that a

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3. ROAPE : No.60, p-221, 1994.

current account deficit can be reduced by a relative decline in absorption or by a relative increase in income. An excess of absorption over income can be financed only through transfers from abroad and capital imports.

It will be reflected in an increase in net foreign indebtedness of non bank residents and/or in a decrease in net foreign assets of the banking system. Balance of payments adjustment refers primarily to the process by which the current account balance is made to conform with sustainable capital flows. Adjustment programmes therefore, typically aim at reducing a current account deficit to fit a sustainable net inflow of capital.

The so-called monetary approach to the balance of payments has been translated by the IMF into a financial programming framework, and provides the basic theoretical foundation for its adjustment programmes. It aims at reducing aggregate demand to a level which is compatible with available domestic production and financing from abroad.

This approach assumes that if the supply of money (the sum of the changes in international reserves and domestic credit) exceeds the demand for money, it will be spent until holdings of real money balances reach the desired level. An increase in domestic credit, therefore, which

raises money supply above the desired level will thus be offset by a corresponding decrease in net foreign assets.

It should be noted, however, that the model explicitly assumes "small-country" conditions, which implies that the domestic price level is determined by foreign prices through purchasing power parity. This in turn means that the demand for money is effectively independent of changes in domestic credit. In other words, domestic demand (absorption) will exceed domestic-supply (income) and foreign savings (changes in net foreign indebtedness) when the growth in domestic credit exceeds the growth in money stock.

Therefore, a ceiling on domestic credit will determine the change in net foreign assets, that is, the balance of payments. Hence, this ceiling constitutes the most fundamental performance criterion in IMF programmes. Moreover, ceilings on internal and external credits to the public sector are fixed in all IMF programmes,in order to limit the utilisation of available resources by this sector.

The financial programming framework can thus be used to determine both the overall balance of payments and its components: and it can be easily linked to monetary policy and to the fiscal accounts of the government. In countries

with fundamental balance of payments disequilibria, involving serious structural impediments to growth, structural adjustment policies (supply-side and expenditure-switching measures) currently play a major role, in conjunction with stabilisation measures, with the object of reducing macro-economic imbalances.

In the short-term, these measures aim at an improvement in the utilisation of existing productive capacity and increased exports. Typically, they include the relaxation or removal of domestic price controls, currency devaluation, reform of the fiscal system, and liberalisation of the foreign exchange and trade regimes.

In the medium-term, the objective is to increase production capacity and investment, based on the improved use of existing resources, increased savings, and a reduction in government involvement in the economy.

The theoretical foundations of adjustment programmes are largely influenced by neo-classical thinking. This holds true in regard to both the stabilisation component of the programmes as well as their structural adjustment component. In substance, neo-classical theory denies that money has any impact on the equilibrium conditions of the economy (neutrality of money). As a consequence, the main objective of monetary policy consists in avoiding policies

which aim at manipulating equilibrium conditions.

In fact, this understanding stems partly from the neo--classical view of money functions. According to this concept, money is held by individuals to satisfy their transaction needs, thus, constituting a kind of mirror relationship between the real economy and the monetary sphere. However, as was already stressed by Keynes, individuals also hold money for speculative needs. This refers to the fact that money economies are associated with insecurity owing to the potential change in the value of Money. These economies functions essentially through time-contracts between money-holders and borrowers. Therefore, as Riese[4] underlines, the theory of money-economy is essentially a theory of interaction between lenders and borrowers. The readiness of money-holders to give-up liquidity and to lend, as well as the rate of interest, depends on their appreciation of the risk linked with lending. An important function of money in a money economy is therefore to permit contracts between money holders and borrowers over a certain timeframe.

Taking this into account, the expectations of money-holders become a crucial variable. This is true both

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4. H. Riese: Entwicklungs strategy and economy theory, New York 1986, pp.157-196 here 172.

for commercial banks and for households. Consequently the Central bank does not have sole control over the credit volume, or as Riese put it, in a decentralised monetary economy, money-holders are not in the services of the central bank. It lies within the competence of the commercial banks to decide on credit approvals and within that of other money-holders to give-up liquidity. These decisions depend on their appreciation of the overall economic and political environment and in particular on their appreciation of the risk linked with lending.

Therefore, both the money-supply and the demand for money are largely endogenous variables, dependent on the expectations of money holders. On the one hand, their expectations have an impact on the money supply.

Whereas the central bank is in a position to reduce the supply of money over the medium term, credit expansion to the private economy depends largely on commercial banks' appreciation of the risk linked with lending and on other-money holders' appreciation of the risk linked with giving up liquidity. In turn, the change in domestic credit has an impact on the demand for money. As seen above, this is in contrast to the basic financial programming model of the IMF, which assumes that the variables determining the demand for money are independent of the change in domestic credit. But certainly

empirically more important than the impact of the change in overall credit on the demand for money is the composition of credit. The composition of credit (consumption, working capital, investment etc.) can influence considerably the level of income and production. Again the commercial banks' appreciation of the risk linked with lending and other money-holders appreciations of the risk linked with giving up liquidity can be seen as crucial variables here.

The reduction in overall credit can be regarded as the main vehicle within structural adjustment programmes for decreasing inflation and micro-economic disequilibrium. However, as the various utilisations of credit might have different impacts on supply, the effect of credit restriction on inflation also depends largely on the structure of credit.

It is argued here that the conventional approach neglects production and supply aspects. This is also shown by the fact that savings are usually considered as the central bottleneck for increasing growth. It is assumed that savings are a precondition for investment, as the latter have to be financed by these resources. Following a production-oriented view, investment, induced by the positive profit expectations of money-holders, stands at the origin of the income creation process. Consequently, the savings rate is a largely dependent variable in the in

come-creation process, whereby imports have to play a contributing role.

This relationship is evidenced by the equation:

$$\underline{S = I + Ex - Im}$$

(S = Savings, 1 = Investment, Ex-ExPort, and 1m = Import).

It can be concluded that profit expectations for productive investment, and the competitiveness of the economy in export production and import substitutions, have to be considered as the important variables for long term and sustainable stabilisation and growth, strategic variables which are neglected in the neo-classical view.

It is important to note that the negligence of supply-side factors also concerns the utilisation of additional resources provided through external financing for adjusting economies, thus increasing the import capacity of the respective countries. This additional may be used for different purposes e.g. for the import of consumer luxuries, other consumer goods, investment goods or other inputs for productive use. The level of income may depend largely on how externally sourced domestic credit is used. This underlines again that real income cannot be treated as an exogenous variable, as is the case in the basic financial programming model.

It can be concluded that the overall credit ceilings, usually fixed as performance criteria in the structural adjustment programmes, might for several reasons have negative consequences for the level of production.

First, the credit ceiling for the public sector might be realised through cuts in the investment budget as well as in operation and maintenance outlays, thus affecting the use of existing investment and infrastructure.

Secondly, the composition of credit to the private sector might for some reason change at the expanse of credit for production. This might in turn impede not only structural adjustment but also stabilisation objectives.

Evaluation Results of SAP

This seems to be an opportune moment to review past experience with structural adjustment in the light of recently conducted evaluations.[5]

These evaluations do not indicate a reversal in the trends in growth and investment for most of the least developed countries undergoing SAP, on the contrary, these programmes were associated with significantly lower

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5. V.Corbo and S. Fischer: World Bank-supported Adjustment Programmes Africa's Adjustment and Growth in the 1980, Washington D.C. 1989 (p.14).

investment rates and lower savings rates.

The World Bank emphasizes that average fiscal deficits declined in "intensive adjusting countries". However, for several reasons serious doubts can be expressed with regard to the sustainability of fiscal consolidation.

First, according to the same report, investment in social and physical infrastructure has declined.

Secondly, even when recurrent expenditures were maintained in "intensive adjusting countries", due to an increase in interest payments and roughly unchanged wage bills, government outlays for operation and maintenance decreased.

The decline in investment was found in both the public and the private sectors. The decline in the public investment/GDP ratio is certainly partly due to programme conditionality setting a limit on the overall budget deficit.[6]

The reasons for the still unsatisfactory investment rate of the private sector which can be considered as a key indicator for the sustainable restoration of growth are certainly more complicated.

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6. L. Seven and A. Solimano: Economic adjustment Investment Programme inD.C. (p-117-138), 1980.

First, there is some evidence that the cut in public investment in sub-Saharan Africa may actually have exerted a significant negative impact on private investment. Especially investments in infrastructure such as roads and communications may be complementary to private investment.

Secondly, the persisting high foreign debt service negatively affects private investment as it constrains resources available for investment and may impede improvements in the micro-economic environment, thus equally discouraging private investors. This brings us to the final factor for explaining the lack of investment response by the private sectors which in the overall credibility affects business confidence and may encourage private businessmen to use resources mainly for non-productive quick-turn-over activities. Indeed, according to some analyses, the counterpart of the decline in the investment ratio was that adjusting countries were able to boost private consumption more than they might otherwise have done.[7]

Structural Adjustment Programmes promoted for over a decade as a panacea for low-income nations, have so far failed to unleash forces of growth, according to the UN

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7. See e.g. V. Corbo and S. Fischer, op.cit.

Conference on Trade and Development (UNCTAD).

The African experience suggests that too rapid an exposure to import competition may have deterred some domestic enterprises from making the kind of restructuring investments that take time to yield results. Says UNCTAD Secretary-General Rubens Ricupero.

His comments are contained in the Secretary-General's report prepared for UNCTAD IX-the 11th Conference of the agency scheduled for April-May in South Africa.

In a Chapter devoted to promoting enterprise development and competitiveness, the report notes that over the past decade nearly all developing countries and transition economies have enacted an array of institutional and economic reforms.

These have been aimed at liberalising the environment for enterprise activity. These efforts were beginning to bear fruit, but not without a degree of restructuring and dislocation.

While the liberalisation of domestic market was encouraging greater private sector activity, with some impressive double-digit annual growth in private sector, several Asian and Latin American

Sustained growth of exports of developing countries has been due to private enterprise domestic and foreign. But liberalisation of trade has also meant many enterprises have had to close down.

Newly privatised or incorporated enterprises have been stimulated to rationalise their production methods. But they have also shed workers and the pool of unemployed has consequently grown.

In many countries, market reforms have been implemented in the context of SAPS while their stabilisation objectives have met with some success,the persistence of low growth conditions have discouraged capital outlays of modernisation of equipment, capacity expansion and exploration of new business opportunities.

Cutbacks in public expenditures in many developing countries have prevented investment in basic physical, institutional and standard scientific and technological infrastructures required by local and foreign-owned enterprises to be able to operate profitably.

The supplier response has been particularly weak in Africa. A major inhibiting factor has been scarcity of enterprises in general, and their low initial levels of capabilities in particular.

Inefficient producers, enterprises lack of know-how to tap emerging market opportunities and the problem is aggravated when infrastructure and institutional support is limited, as is the case in many LDCs.

In transition economies market implementation has been slowed by necessity to overhaul institutions with considerable historical, economic and social-political dominance.

Public enterprises have generally faced more difficulty in adopting to market reforms, partly because governments have laid greater stress on improving financial performance rather than on efficiency. Reduction of size of the public sector has received greater attention than need to improvement management. Success in cutting relative size of the public sector in developing countries has been limited.

Overall, the report says, enterprises in developing countries and transition economies will need to continue to restructure and improve competitiveness if they are to meet successfully the challenge of competing imports or to penetrate foreign markets.

While foreign direct investment and other types of foreign collaboration can help improving competitiveness,

particularly in manufacturing sector, and while almost all developing countries and transition economies can point to a few such projects, many countries are disappointed in the interest shown so far by the foreign enterprises.

Despite liberalisation by countries of the framework for foreign investment, foreign investors have not been enticed because of high transaction costs and inherent risks of investment in collaboration with weak and inexperienced local partners.

Referring to the East Asian experience, the report noted that there could be no across the board extrapolation, there were several features of that experience that could be used, and it is possible to influence the market place to set priorities and map out strategies to serve the long term interests of the enterprise sector and the economy as a whole.

The report identifies the creation of an enabling environment for entrepreneurship and enterprise activity as one of the most important roles of public policy intervention, including government measures and international financial support of such measures.

Also essential are institutional legal and commercial frameworks defining the market conditions for transacting business.

An important aspect is the quality of the working relationship between government and the private sector. All governments regulate the private sector in one way or another. How this is done often matters more than why? Quite often well-intentioned policies to correct market failures have the opposite effect, while interventionlist policies can be market friendly when formulated in a transparent and non-discriminatory manner. SAPs the report says, should include strong measures in favour of such enterprise development.

Source: - New Age Weekly, February 11/17, 1996 (p-11).

CHAPTER [illegible] PART II

SAP : A Failing Grade So far

Economic performance in Sub-Saharan Africa during the past decade and a half has been unsatisfactory. Real per capita incomes continued to decline, thus widening the gap in living standards relative to other developing countries. In contrast to the strong gains recorded by other developing countries, particularly in Sub-Saharan Africa experienced further losses in per capita real GDP of almost 1 per cent a year during 1980-85; these losses continued during 1986-94, but at a somewhat lower rate of 1/2 of 1 per cent.

The external environment has been generally unfavourable, with sharp declines in world commodity prices and substantial losses in the terms of trade of sub-Saharan African countries.

Real GDP growth for sub-Saharan African countries as a group averaged 2-1/2 per cent a year during 1986-94, Aggregate inflation has been high, because of hyper inflation. As in Zaire, where annual inflation rose to 23,900 per cent in 1994. Excluding Zaire, consumer price inflation in sub-Saharan Africa remained within a range of 14 - 36 per cent, without any clear trend, and averaged 24 per cent a year during 1986-94 (Table 4 (i) (ii) (iii).

Table- 4 (i)

Sub-Saharan Africa: Growth, Inflation and Fiscal Performance

	Average			Estimates		Projections	
	1980-85	1986-94	1996	1993	1994	1995	1996
			Annual percentage change				
Real GDP growth							
Sub-Saharan Africa	2.3	2.5	3.7	1.5	0.6	5.0	5.3
Strong adjusters	1.5	4.0	4.0	4.0	3.8	5.2	5.4
Slow adjusters	2.7	1.7	3.5	-	-1.4	5.0	5.2
CFA franc countries	4.9	0.2	3.7	-1.5	1.7	4.9	5.2
Real per capita GDP:							
Sub-Saharan Africa (Excluding Zaire)	-0.9	-0.5	0.6	-1.5	-2.4	1.9	2.2
Strong adjusters	-1.6	0.9	1.0	1.0	0.8	2.2	2.4
Slow adjusters (Excluding Zaire)	-0.6	-1.3	0.4	-3.0	-4.3	1.8	2.0
CFA franc countries	1.6	-2.7	0.6	-4.4	-1.3	1.8	2.2
Consumer price inflation:							
Sub-Sahara Africa	22.4	246.6	17.2	144.5	1428.3	39.7	11.7
(Excluding Zaire)	20.0	24.4	14.1	32.9	36.4	29.9	11.9
Strong adjusters	26.6	24.4	25.4	21.4	25.4	14.2	7.1
slow adjusters	20.3	379.5	13.0	217.2	2281.0	55.3	14.6
CFA franc countries	10.2	4.5	3.4	-0.9	30.4	12.1	3.9
		In percent of GDP					
Overall Fiscal Balance							
sub-Saharan Africa	-6.0	-8.7	-6.6	-11.4	-8.9	-7.0	-5.8
Primary Fiscal Balance	-3.6	-3.3	-2.7	-5.4	-2.8	-1.7	0.2
Total Government Revenue	15.2	17.9	18.0	16.4	16.7	17.2	19.9
Total Government Expenditure	21.2	26.5	24.6	27.8	25.5	24.1	25.7

Source: World Economic Outlook, 1995

Table- 4 (II)

Sub-Saharan Africa: External Sector Performance

	Average			Estimates		Projections	
	1980-85	1986-94	1986	1993	1994	1995	1996
External Current Account	Annual percentage of change						
Sub-Saharan Africa	-5.3	-6.6	-7.7	-7.0	-6.3	-5.2	-5.8
Strong Adjusters	-5.4	-7.1	-5.0	-8.3	-7.4	-7.0	-5.5
Strong Adjusters	-5.3	-6.4	-8.9	-6.3	-5.6	-4.3	-5.9
CFA Franc Countries	-8.6	-8.3	-10.6	-7.4	-5.5	-4.5	-3.8
External Debt	In per cent of export						
Sub-Saharan Africa	196.1	350.7	321.3	388.8	392.0	354.9	334.5
Strong Adjusters	257.3	338.9	306.4	388.2	360.5	342.5	323.8
Slow Adjusters	177.2	356.0	327.9	389.1	409.8	361.3	340.1
Franc CFA Countries	187.6	320.6	227.7	395.6	377.0	329.0	297.5
Nominal Effective Exchange Rate: 1985=100							
Sub-Saharan Africa	191.1	53.3	77.5	49.5	35.1	....	.....
Strong Adjusters	276.8	56.2	80.1	46.9	35.2	....	....
Slow Adjusters	148.9	51.7	76.2	51.0	35.1	.....	.....
CFA Franc Countries	99.1	131.8	108.1	173.6	96.4	.....	.....
Real Effective Exchange Rate							
Sub-Saharan Africa	105.6	57.2	82.1	46.8	42.4	....	....
Strong Adjusters	125.4	64.2	87.9	53.1	49.5	....	....
Slow Adjusters	96.0	53.3	79.1	43.1	38.2	....	....
CFA Franc Countries	105.0	99.2	108.8	94.8	59.6	....	...
Terms of Trade							
Sub-Saharan Africa	98.4	72.6	83.0	65.4	66.3	67.0	67.0
Strong Adjusters	98.4	89.8	103.1	79.8	86.3	86.2	85.1
Slow Adjusters	98.2	63.0	72.6	56.9	54.2	55.2	55.8
	96.2	68.4	86.9	58.8	59.7	64.5	64.8

Source: World Economic Outlook-1995.

Table- 4 (III)

Sub-Saharan Africa: Saving and Investment
(In percent of GDP)

	Average				Estimates	Projections	
Gross Investment	1980-85	1986-94	1986	1993	1994	1995	1996
Sub Saharan Africa	16.5	17.7	17.9	16.0	19.9	22.3	22.0
Strong Adjusters	11.3	19.9	14.9	20.1	23.0	24.2	24.3
Slow Adjusters	19.2	16.6	19.3	13.8	18.1	21.3	20.4
CFA Franc Countries	23.0	17.0	21.3	14.4	16.3	18.1	18.8
Government Investment							
Sub-Saharan Africa	8.2	6.7	7.5	6.7	6.9	7.9	7.5
Strong Adjusters	4.5	7.1	6.2	7.4	8.2	7.7	7.8
Slow Adjusters	10.2	6.5	8.2	6.3	6.1	8.1	7.4
CFA Franc Countries	10.4	5.9	8.8	4.3	5.4	5.5	5.7
Private Investment							
Sub-Saharan Africa	8.2	11.0	10.4	9.3	13.0	14.3	14.5
Strong Adjusters	6.8	12.8	8.7	12.7	14.7	16.5	16.6
Slow Adjusters	9.0	10.0	11.2	7.5	12.2	13.2	13.0
CFA Franc Countries	12.6	11.1	12.5	10.1	11.0	12.6	13.1
Gross National Savings							
Sub-Saharan Africa	11.6	11.1	10.2	9.0	13.6	17.1	16.2
Strong Adjusters	5.8	12.8	9.9	11.7	15.5	17.2	18.7
Slow Adjusters	14.7	10.2	10.4	7.6	12.5	17.1	14.5
CFA Franc Countries	15.1	8.7	10.7	7.0	10.8	13.7	15.0
Government Saving							
Sub-Saharan Africa	2.2	-1.9	-1.0	-4.7	-12.0	1.0	1.8
Strong Adjusters	-1.8	0.9	-1.0	-	1.5	2.5	3.3
Slow Adjusters	4.3	-3.4	1.9	-7.0	-3.9	0.3	0.8
Private Savings							
Sub-Saharan Africa	9.4	13.0	9.3	13.7	15.5	16.1	14.4
Strong Adjusters	7.7	12.0	10.9	11.8	14.0	14.7	15.4
Slow Adjusters	10.3	13.6	8.5	14.6	16.4	16.8	13.7

table 1,2,3after thenoage

It is a matter of concern that all current FDI Projects come with no export-obligation. As these projects become operational, one shudders to think about the balance of payments implications of profit repatriation.,

Certainly the experience of Africa is not very encouraging: between 1982 and 1992, while total FDI inflow into Africa was around $.15 billion, US MNCs alone repatriated $.8.6 billion in profits.

In broad terms, however, financial policies in Sub-Saharan African countries as a group fell short of bringing inflation under control and reducing external imbalances. The stance of fiscal policy, as measured by changes in the primary government budget balance as a ratio to GDP, fluctuated from year to year, with increasing interest payments on public debt, the overall budget deficit, widened markedly, to about 9 per cent of GDP by 1994, a level still significantly higher than that required to stabilise the ratio of public debt to GDP. The growth in money supply also fluctuated from year to year, reflecting in part a sizable variability in the velocity of circulation, remain negative for sub-Saharan Africa. In the early 1990s the external environment of sub-Saharan African countries worsened sharply as a result of a marked weakening in economic activity in industrial countries, and

a collapse of economic activity in the countries in transition. These events exacerbated the long term downward trend in real commodity prices and resulted in large cumulative losses in the terms of trade of African countries, amounting to about 34 per cent between 1985 and 1995 for sub-Saharan Africa as a whole.

Table 5

Changes in Micro-economic Policies - Growth in Agriculture and Manufacturing; Investment and Saving Ratios

		1981-86	1987-91	1981-86	1987-91
		Agriculture (%)		Manufacturing (%	
Large Improvement	Mean	3.7	2.0	-0.4	4.6
	Median	4.2	2.4	-0.3	4.4
Small Improvement	Mean	2.2	2.7	2.6	8.0
	Median	3.1	2.8	4.2	5.6
Deterio-ration	Mean	1.9	2.6	6.4	6.9
	Median	2.3	3.3	5.9	5.8
All Countries	Median	3.1	2.8	3.0	5.5

		Investment/GDP (%)		Savings/GDP (%)	
		1981-86	1987-91	1981-86	1987
Large Improvement	Mean	16.6	20.4	8.1	10.0
	Median	19.6	16.1	7.9	7.9
Small Improvement	Mean	16.1	16.1	5.5	7.7
	Median	16.4	16.6	3.7	6.9
Deterioration	Mean	16.2	16.5	18.1	13.1
	Median	15.8	12.6	16.4	13.4
All Countries	Median	17.2	16.3	6.1	7.7

Source: Review of African Political Economy (ROAPE) P-562, 1994

In table 6 agricultural growth performance is inversely related to the change in macro-economic policies: average annual agricultural growth rate declined from 3.7 per cent to 2.0 per cent between 1981-86 and 1987-91, for the countries with the largest improvement, in macro-economic policies, while that of the countries with a deterioration in macro-economic policies rose from 1.9 per cent to 2.6 per cent over the two periods under consideration.

The pay-off to policy reforms are less impressive, in terms of industrial growth. The Report goes to great length to discredit the argument that structural adjustment programmes have an anti-industry bias and that they lead to de-industrialisation in Africa.

Table 6

Sub-Saharan Africa : Simulated Effects of Zero GDP Growth on the Rest of the World

Year	Agri-cultural Export	Non-Agri cultural Export	Agri-cultural Import	Non-Agri cultural Import	GDP
	(...% Changes over base line projections)				
1993	-0.50	-0.64	-0.01	-0.04	-0.05
1994	-1.51	-2.06	-0.06	-0.13	-0.17

Excluding Nigeria, (In 1995, per head declined in food production 5 percent in Africa,

Source: FAO, 1995

Table 7

Some Economic Indicators.
Sub-Saharan-Africa :- (Percentages)

	1965-80	1980-86
GDP	5.6	-0.0
Agriculture	1.6	-1.2
Industry	9.4	-1.5
Services	7.5	0.1
Manufacturing	8.5	0.3
Government consumption	8.1	-1.0
Private consumption	4.9	0.7
Gross domesticinvestment	8.8	-9.3
Export	6.6	-2.1
Import	19.5	-7.7

Source: World Bank, World Development- Report, 1988

Sub-Saharan Africa

	1975-82	83-89	90-94	1995-2000
Real GDP	2.6	2.6	1.6	4.5
Per Capita Income	-0.2	-0.3	-1.1	1.9
Consumer Prices	16.1	16.0	26.1	8.5
Savings	25.2	18.7	17.8	20.5
Investment	29.0	20.0	21.1	22.3
Current account balance	-3.8	-2.2	-3.4	-1.8

Summary of World output (Annual Percent change)

	77-86	87	88	89	90	91	92	93	94	95	96
Africa	2.1	1.6	3.6	3.4	2.0	1.9	0.8	0.7	2.7	3.7	5.7
Asia	6.9	8.1	9.1	6.0	5.6	6.4	8.2	8.7	8.6	7.6	7.3

Source: World Economic Outlook, 1995. P-101

The widening external financing requirements of Sub-Saharan African countries were covered mainly by increasing inflows of foreign assistance in the terms of grants and concessional long - term loans and by debt reschedulings by Paris club and other creditors. Several countries also accumulated external debt-service payments arrears. Inflows of foreign direct investment remained very modest and were exceeded by private capital outflow. Despite sizable debt forgiveness provided by several official creditors, the external public debt-burden of sub-Saharan African countries as a group increased markedly during 1986-94. The debt to GDP ratio rose from an annual average of 33 per cent during 1980-85 to an estimated 98 per cent by 1994, a level substantially higher than that of other developing countries. Moreover, with the stagnation of export earnings and major nominal exchange rate adjustments since 1990, the ratio of debt to exports increased sharply to about 390 per cent by 1994, almost twice its level during 1980-85.[8]

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8. World Economic Outlook: 1995 (p-103).

Table 8

Consolidated Change in External Financial Position of sub-Saharan Africa between 1979-1981 and 1985-1987 (billions of US dollars per annum)

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

Source: United Nations: Financing Africa Recovery, 1985
Excluding Nigeria.

Table: Country wide data.***

Table follows

Table 8 (i)

COUNTRYWIDE DATA

Real GDP (Annual percentage change)

	Average 1977-86	1987	1988	1989	1990	1991	1992	1993	1994e
Africa	2.1	1.6	3.6	3.4	2.0	1.9	0.8	0.7	2.7
Algeria	2.5	-0.7	-1.9	4.9	-0.6	0.2	1.6	-2.2	[illegible]
Angola	.....	9.4	-8.4	4.4	-5.3	-1.6	1.3	-23.8	2.7
Benin	3.9	-1.5	2.1	-2.5	3.1	4.7	4.1	3.2	3.4
Botswana	10.8	12.2	14.1	9.2	7.3	7.6	2.3	0.4	2.8
Burkina Faso	3.6	-1.4	6.6	0.9	-1.5	10.0	2.5	-0.8	1.2
TaBurundi	3.6	5.5	5.0	1.3	3.5	5.0	2.7	-5.7	-11.9
Camroon	8.0	0.5	-12.9	-3.5	-4.5	-6.7	-4.8	-2.2	-3.8
Cape Verde	4.6	7.6	7.6	6.9	2.4	1.0	2.9	4.3	4.5
Central Afr.Rep	2.0	-2.9	1.9	2.3	1.0	-1.6	-2.4	-3.0	5.8
Chad	0.9	-1.8	13.8	5.8	-2.3	13.2	8.1	-12.0	4.1
Comoros	4.5	1.6	2.7	-3.2	2.5	2.1	1.6	1.3	0.8
Congo	7.1	0.2	1.8	2.6	1.0	-	1.5	2.6	-1.5
Cote'd Ivore	2.9	-1.6	-2.0	-1.1	-2.1	-0.8	-	0.8	1.7
Djibouti	0.4	0.5	1.2	-0.9	-0.6	1.3	2.4	-2.3	-3.3
Equatorial Guinea	1.5	4.4	2.7	-1.2	3.3	-1.1	13.0	7.1	2.5
Ethiopia	1.6	9.9	2.4	1.2	-2.2	-1.0	-3.2	-12.3	1.3
Gabon	-4.5	-15.4	3.5	7.0	4.0	6.7	-3.4	3.7	0.3
Gambia	3.5	2.8	1.7	4.3	5.7	2.2	4.4	2.1	-
Ghana	1.1	4.8	5.6	5.1	3.3	5.3	3.9	5.0	3.8
Guinea	1.8	3.3	6.3	4.0	4.3	2.4	3.0	4.7	4.0
Guinea-Bissau	6.5	5.6	6.9	4.5	3.2	3.0	2.8	2.7	6.3
Kenya	5.1	5.9	6.0	4.5	4.3	2.3	0.3	0.1	3.0
Lesotho	-0.7	5.1	12.9	11.9	4.6	1.7	2.6	5.6	16.7
Liberia	[illegible]	1.3	3.1	-10.8	0.3	2.9	1.9	2.2	[illegible]
Madagascar	2.5	1.2	3.4	4.1	3.1	-6.3	1.1	1.9	3.3
Malawi	2.9	1.6	3.2	1.3	5.7	8.7	-7.3	9.4	-7.9
Mali	1.6	1.2	-0.2	11.8	0.4	-2.5	7.8	-0.8	2.4
Mauritania	4.2	2.9	3.1	2.2	-1.8	2.6	1.7	4.9	4.2
Mauritius	3.1	10.8	8.7	5.7	4.7	6.3	4.7	6.7	4.7
Morocco	4.2	-2.7	10.4	2.5	3.9	6.8	-4.4	-1.1	11.8
Mozambique	-1.4	14.7	8.2	6.5	1.0	4.9	-0.8	19.3	5.4
Namibia	......	3.1	7.0	0.7	1.0	5.7	6.4	-2.2	3.8
Niger	2.1	-3.6	6.9	6.9	-1.3	2.5	-6.5	1.4	4.0
Nigeria	-1.2	-0.7	9.9	7.2	8.2	4.8	3.5	1.6	0.6
Rwanda	3.8	-0.3	3.8	1.0	0.4	0.3	0.4	-10.9	....
Sao Tome and Principle	0.5	-1.5	2.0	3.1	-2.2	1.5	1.5	1.3	1.5
Senegal	2.0	4.0	5.1	-1.4	4.5	0.7	2.9	[illegible]	2.0
Seychelles	3.5	4.9	5.3	10.3	7.5	2.7	6.9	5.8	-1.1
Sierra Leone	0.3	4.0	2.5	2.4	-0.1	0.7	-0.8	1.5	3.5
Somalia	2.9	4.1	-5.0	2.4	-0.2	...	....	....	....
South Africa	2.0	2.1	4.2	2.4	-0.3	-1.0	-2.2	1.1	2.3
Sudan	1.0	1.3	1.4	1.5	-	6.1	8.6	7.6	5.5
Swaziland	3.8	16.9	10.0	3.5	8.8	3.8	3.8	4.1	3.5
Tanzania	1.8	6.1	4.2	3.0	3.5	3.8	4.5	5.1	5.0
Togo	1.8	0.5	6.2	3.9	0.1	-0.9	-3.7	-13.5	10.7
Tunisia	4.5	6.7	0.1	3.7	5.9	3.9	8.0	2.1	4.4
Uganda	0.8	7.5	6.1	6.0	5.4	3.6	8.6	5.1	7.0
Zaire	1.0	2.7	0.5	-1.4	-2.3	-7.2	-11.2	-16.6	-11.0
Zambia	0.3	2.8	1.9	1.0	-0.5	-0.2	-5.2	9.2	1.4
Zimbabwe	2.5	-0.5	7.3	4.5	2.2	4.3	-6.2	2.1	4.5

Table 8 (ii)

Consumer Prices (Annual Percentage Change)

	1977-86	87	88	89	90	91	92	93
Africa	15.7	14.7	17.5	19.6	16.3	24.7	29.7	26.8
*Algeria	11.0	5.9	5.9	9.2	16.7	25.9	31.7	[illegible]
Angola	....	...	.....	....	....	80.1	299.0	1,379
Benin	8.9	3.2	4.3	0.5	1.1	2.1	5.9	[illegible]
Botswana	11.9	9.8	8.4	10.0	11.5	11.6	13.8	15.1
Burkina Faso	8.3	-2.9	4.2	-0.3	-0.8	2.5	-2.0	.6
Burundi	10.0	7.1	4.5	11.7	7.0	9.0	4.5	[illegible]
Cameroon	11.0	2.8	1.7	1.6	1.5	-0.6	1.9	-3.7
Cape Verde	14.2	4.0	3.7	6.9	6.6	7.0	5.2	4.4
Central African Rep.	10.7	0.8	-4.0	0.7	-0.2	-2.8	-0.8	-2.9
Chad	6.7	-2.7	14.9	-4.9	0.5	4.0	-3.8	-7.0
Comoros	7.4	4.0	1.1	5.7	1.6	1.7	-1.4	1.9
Congo	9.8	1.2	4.0	4.1	2.0	0.1	2.1	0.7
Cote d'Ivore	11.0	7.0	6.9	1.0	-0.7	1.6	4.2	2.1
Djibouti	8.9	4.2	6.4	3.0	7.8	6.8	5.0	5.8
Equatorial Guinea	18.1	-9.0	-3.4	5.2	2.7	-0.9	0.9	1.6
Ethiopia	9.5	-9.5	2.2	9.6	5.2	20.9	21.0	10.0
Gabon	10.0	-1.0	-9.8	6.6	6.0	1.9	1.5	2.2
Gambia, The	13.0	46.2	12.4	10.8	10.2	9.1	12.0	5.9
Ghana	58.2	39.8	31.4	25.2	37.2	18.0	10.1	25.0
Guinea	25.6	36.7	27.4	28.3	19.4	19.6	16.6	7.1
Guinea-Bissau	30.2	86.8	60.3	80.8	33.0	57.6	69.6	48.1
Kenya	12.4	5.1	8.3	9.9	15.7	19.6	27.3	46.0
Lesotho	14.4	11.6	14.9	14.4	15.8	14.0	18.8	12.0
Liberia	5.9	5.0	9.7	25.3	10.0	10.0	10.0	10.0
Madagascar	15.7	15.5	26.3	9.0	11.8	8.5	15.3	13.2
Malawi	12.0	26.8	28.0	7.5	14.0	8.3	36.1	18.4
Mali	11.4	-15.0	8.5	-0.2	1.6	1.5	-4.2	[illegible]
Mauritania	4.4	8.2	6.3	9.0	6.4	5.6	10.1	9.3
Mauritius	12.3	0.7	1.5	16.0	10.7	12.8	2.9	8.9
Morocco	9.8	2.7	2.4	3.1	7.0	8.0	5.7	5.2
Mozambique. Rep.	13.3	163.3	50.1	42.0	49.2	33.2	45.1	42.4
Namibia	...	12.6	12.9	15.1	12.0	11.9	17.7	8.6
Niger	8.7	-6.6	0.6	-0.8	-2.0	-1.9	-1.7	-0.4
Nigeria	15.8	10.2	34.5	50.5	7.4	13.0	44.6	57.2
Rwanda	8.0	4.1	3.0	1.0	4.2	19.6	9.5	12.5
Sao Tome and Principle	5.7	23.8	41.2	44.8	40.5	36.1	27.4	21.8
Senegal	9.8	-4.1	-1.8	0.4	0.3	-1.8	-	-0.7
Seychelles	7.2	2.6	1.8	1.6	3.9	2.0	3.2	1.3
Sierra Leone	36.9	178.7	32.7	62.8	111.0	102.7	65.5	17.6
Somalia	35.5	28.1	82.0	111.0	216.8	....	....	....
South Africa	13.9	16.2	12.7	14.7	14.4	15.3	13.9	9.7
Sudan	27.9	21.5	62.9	65.3	65.2	123.5	117.6	111.0
Swaziland	15.4	13.2	12.2	12.9	13.5	13.0	9.0	8.0
Tanzania	24.7	29.9	31.2	25.8	19.7	22.3	22.1	23.5
Togo	8.0	0.1	0.2	-1.2	1.0	0.4	3.7	-3.6
Tunisia	8.3	8.2	7.2	7.7	6.5	8.2	5.8	4.0
Uganda	79.6	256.0	180.1	61.5	33.1	63.0	-0.6	16.1
Zaire	52.5	89.8	82.8	104.3	81.3	2,153.8	4,130.0	1,893
Zambia	22.2	47.0	54.0	128.3	109.6	93.4	191.3	187.[illegible]
Zimbabwe	12.5	11.9	7.1	11.6	15.5	23.9	42.7	25.4

Source: World Economic Outlook, 1995 (p-128-136)

Final Sessment of SAP: Why SAP has not Succeeded in Sub-Saharan Africa?

The empirical backbone of Adjustment in Africa is the relationship between reform performance and changes in economic growth, implicitly interpreting the former as causal. More precisely, 'reform performance' refers to the degree to which a country actually implemented World Bank - advocated macro-economic policies between 1981-86 and 1987-95 and Growth refers to changes between these two periods in annual rates of increase of Gross-domestic product (GDP) per capita.

The success of World Bank policy has recently been proclaimed in Adjustment in Africa : Reforms, Results, and the road ahead (New York, Published for the World Bank by Oxford University Press, 1994)[9] which maintains that the Bank's macro-economic policies have improved economic performance, and that, in general, the greater the degree of implementation, the better the results. My observations of this policy research report is intended to show that the presented data fail to support this claim.

The report assigns separate reform performance scores (positive for improvement and negative for deterioration)

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9. SAYRE P. SCHATZ, The journal of modern African Studies, 32.4(1994), pp-679 (c) 1994 Cambridge University press.

for overall monetary policy and its components, Seigniorage and inflation, for fiscal policy and its components, as well as a summarising score for overall macro-economic policy.

Other adjustment measures are also discussed including those for trade, agriculture, industry, public enterprise, financial system, etcetera -- and perhaps for this reason, the report's findings are being interpreted as supporting the World Bank's entire reform package. Africa Recovery UN (New York), December 1993-March 1994.

The World Bank report concludes that African countries which undertook the most comprehensive reform programmes were rewarded by the fastest turn arounds in growth rates. These reformed less or not at all, experienced slower improvements or further deterioration.[10]

This broader interpretation which goes beyond what are presented as the more solid empirical findings, is sometimes suggested by adjustment in Africa itself, the overview of which concludes: `The turnaround in growth shows that adjustment - even incomplete adjustment can put

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10. SAPRE P. SCHATZ, The Journal of Modern African Studies, 32,4 (1994), pp.679.

African countries back on the road to development.[11]

Macro-Economic Reform and Growth

The showpiece finding of Adjustment in Africa, the almost universally cited computation, and the one which seems most convincing, is as follows:

> .....the six adjusting countries with the most improved macro-economic policies had a median increase in GDP per-capita growth of almost 2 per cent points (actually 1.8) between 1981-86 and 1987-91.
>
> .....That compares with an increase of 1.5 per centage points for those countries with less improved policies and a decline of 2.6 per centage points for those with a deterioration in policies.[12]

Under the heading 'Better Policies pay off' the unequivocal conclusion seems to be: the changes advocated by the World Bank do work. There are two major weaknesses: The first is a matter of rather crude classification, since the above three categories analysed in the report obscure

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11. Ibid, p.680.

12. Ibid, p.680.

essential relations. The grouping of countries are uneven (six, nine and eleven), and more important, lump together all those that experienced deterioration in overall macro-economic policy, no matter whatever was the degree. This in discriminating classification submerges important information. The fact is that most of the countries with below average macro-policy implementation, excluding the four very worst reformers, had above average growth performance. Of the nine countries ranked 14 to 22 in reform performance (in a list of 26), six had superior growth performance, ranking 1, 3, 5, 7, 11 and 13 on that score.

Second, a more thorough exploration of the data, carried out below, reveals a quite different pattern, one that does not support the World Bank's assessment.

Monetary Policy: The report scores changes in Seigniorage (essentially governmental money creation) and changes in inflation separately, and sums these to get the score for overall monetary policy. The evaluation in a section entitled 'Monetary Policy mostly on Track's is only implicit, but clearly favourable.

Table 9

Country Test, 1981-86 to 1987-91:

Changes in Economic growth compared to changes in Micro-economic Policy

Country	Economic growth	Seigniorage		Inflation		Monetary policy		Fiscal policy		Exchange rate policy		Micro economic policy	
		Score	Test	Score	Test	Score	Test	Score	Test	Score	Test	Score	Test
Benin	-3.1	-2	p	+1	c	-0.5	p	+2	c	-2.0	p	-0.2	p
Burkina Faso	-1.7	+1	c	+1	c	+1.0	c	+3	c	-1.0	p	+1.0	c
Burundi	-0.9	n.a.		0		0.0		0		+1.5	c	+0.5	c
Cameroon	-12.5	0		+1	c	+0.5	c	-3	p	-2.0	p	-1.5	c
Central Af.Rep.	-2.6	+1	c	+2	c	+1.5	c	-2	p	0.0		-0.2	p
Congo	-4.9	0		+1	c	+0.5	c	-2	p	-1.0	p	-0.8	p
Cote d' lvore	-2.6	+1	c	+1	p	+0.5	p	-3	c	-2.0	p	-1.5	c
Gabon	+0.9	0		+1	p	-0.5	p	-3	c	-2.0	p	-1.5	c
The Gambia	-0.8	0		+1	c	+0.5	c	+2	c	+1.0	c	+1.2	c
Ghana	+3.7	+1	p	+2	p	+1.5	p	+2	p	+3.0	p	+2.2	p
Kenya	+1.5	0		0		0.0		0		+1.5	p	+0.5	p
Madagascar	+1.6	0		+1	p	+0.5	p	0		+2.0	p	+0.8	p
Malawi	+2.2	0		-1	c	-0.5	c	+2	p	+1.0	p	+0.8	p
Mali	-1.6	+2	c	+1	c	+1.5	c	+1	c	-1.0	p	+0.5	c
Mauritania	-0.1	0		+1	c	+0.5	c	+1	c	0.0		+0.5	c
Mozambique	+7.6	n.a.		-3	c	-3.0	c	2	c	+3.0	p	-0.7	c
Niger	+2.5	+1	p	+1	p	+1.0	p	-1	c	+1.0	p	+0.3	p
Nigeria	+7.0	-1	c	-1	c	-1.0	c	+1	p	+3.0	p	+1.0	p
Rwanda	-5.5	0		0		0.0		-1	p	+0.5	p	-0.2	p
Senegal	-0.6	+1	c	+2	c	+1.5	c	+2	c	-2.0	p	+0.5	c
Sierra Leone	+2.9	0		-3	c	-1.5	c	+1	p	0.0		-0.2	c
Tanzania	+2.9	-2	c	+1	p	-0.5	c	+2	p	+3.0	p	+1.5	p
Togo	+1.4	+2	p	+1	p	+1.5	p	-1	c	-1.0	c	-0.2	c
Uganda	+4.3	n.a.		-2	c	-2.0	c	0		+2.5	p	+0.2	p
Zambia	+0.9	-1	c	-3	c	-2.0	c	+1	p	0.0		-0.3	c
Zimbabwe	+0.7	-1	c	0		-0.5	c	+1	p	+2.5	p	+1.0	p
summation			4p		6p				6p		12p		14p
			9c		16c				17c		3c		12c

P= Positively (+) Improvement Source: Adjustment in Africa P-138 and 260

C= Contrariety (-) Retrogression

Let us start with the contrariety test in Table 9 by asking, country by country (for all 26). whether the change in economic growth accords with, or is contrary to, the change that reform performance is expected to cause. Does a favourable reform performance lead to enhanced growth and vice-versa, as adjustment in Africa claims, or are the results contrary? Contrariety refers to results showing that better reform performance is associated with poorer growth or the converse.

In nine of the 13 relevant countries graded for Seigniorage (69 per cent) the outcome was contrary, i.e. improved performance was accompanied by deteriorations in economic expansion or the converse, while only four displayed positive results.

The contrariety of the data on inflation is more pronounced. for 16 (73 per cent) of the 22 relevant countries, economic growth and reform performance changed inversely. Those with good mark for improving anti-inflation policies generally suffered growth slow-downs and vice-versa. The overall monetary policy record is **NO** better. 17 (74 per cent) of the 23 relevant countries had contrary outcomes.

Fiscal Policy:- The rating of fiscal policy reform in Adjustment in Africa is based mainly on a government's overall fiscal balance, i.e. its budget deficit. The bigger the reduction the better, while an increase is harmful. A minor determinant of the rating is the government revenue' GDP ratio, which modifies the reform score for seven countries. Although the World Bank's report shows a clear correlation between fiscal reform performance and economic growth, there is a double problem with this finding. Even if the test results were favourable, the published interpretation poses a problem of interactive causation. It is by no means clear that deficit reduction is primarily a cause rather than an effect of economic expansion. It may or may not be the case that deficit reduction promotes economic growth; it is unequivocally true that enhanced growth promotes deficit reduction. Growth increase government revenues, and also (in more developed countries, although perhaps not in Africa) reduces government expenditure. Thus, other things being equal, countries that enhance GDP growth thereby curtail their budget deficits.

In any event, the data do not support the thesis. Table I shows that of the 22 countries, 12 showed positively and ten contrariety, an almost equal division. The growth test; Thus, it is appropriate to say that no

relationship was shown between fiscal reform and economic growth.

Scepticism about the expansive effect of deficit reduction is bolstered by the fact that deficit are associated with inflation and that, in moderation, the letter has been associated with inflation and that, in moderation, the letter has been associated with enhanced growth, thereby suggesting that cutting deficits can impede African economic growth.

Exchange-Rate Policy:- The Score in Adjustment in Africa for a country's exchange-rate policy is an average of the scores for the change both in the real effective exchange rate and in the premiums in the parallel market. The contrariety test shows concurrence between exchange rate reform and changes in economic growth for 19 of the 22 countries (86 per cent), and the growth test yields a similarly convincing concurrence.

These results, however, do not provide specific support for the World Bank's reform package. For one thing,movement towards a more realistic exchange rate is widely endorsed; it is a reform recommended by a broad range of economists, from Government activists to advocates of laissez faire. The exchange-rate finding in the report support them all. (The World Bank and the IMF deserve

credit, however, for being forceful advocates of this position).

Second, the African countries with superior scores for exchange rate reform are still far from laissez-faire: they remain markets. According to adjustment in Africa: most adjusting countries with flexible exchange rates have moved away from complete control over imports and foreign exchange and towards the use of extensive trade barriers, especially non-tariff barriers....The second set of countries has moved slowly toward import liberalisation..., Despite massive exchange rate reform, no flexible exchange rate country has established complete convertibility of its current accounts [13]

Two contrasting positions can draw support from this experience. It is plausible to argue, as does the bank, that liberalisation has been shown to be beneficial, but that African countries still have a long way to go, and that further liberalisation would yield further benefits. On the other hand, it is equally plausible to argue that the evidence shows that reform of government activism - in the sense of improving its implementation rather than eliminating has been effective.

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13. Ibid; p.685.

Although the term `reform' has somehow been appropriated by the liberalisers, evidence from various parts of the world supports the thesis that effective government involvement is often associated with improvements in economic performance. A government-activist position is in accord with the theory of the second best. Even if complete laissez-faire in a perfect world market were optimal, it would be impossible to attain. Consequently, approaching such a state of affairs as closely as possible, may not be the best alternative which government intervention might be a better target.

Over all Macro-Economic Reform

Having briefly examined all the components, let us return to the overall measure of macro-economic reform and consider the data. Contrary results emerge from the growth test in Table I. In calculating the overall macro-economic policy scores, Adjustment in Africa assigns a relatively small weight, less than one-fourth of the total, to monetary policy, whereas the combined weight of fiscal and exchange rate policies is 76 per cent. Since monetary-policy reform produced sharply contrary economic responses, its under weighting minimises the impact of that

contrariety on the overall macro-economic policy results. With equal weight for monetary policy, the growth test would show stronger contrariety.

Monetary policy may constitute the best of the three sets of criteria for assessing the World Bank's macro-economic package. It does not suffer from the fiscal policy problem of interactive causation or the exchange-rate policy problem of virtual universal acceptance. Thus if there were to be uneven weighting, it would appear to have been more appropriate to go the other way. Moreover, if the conceptually flawed fiscal policy criterion were dropped altogether, the contrariety of the finding about overall Macro-economic policy would be still greater.

External Income:- critics have contended that the case for structural adjustment has been artificially buttressed by differential flows of external income - specifically, a favourable flow of transfers to the countries displaying approval behavior plus fortuitously reinforcing changes in terms of trade. However, according to Adjustment in Africa, the analysis here does not support the assertion that....(external transfer) are largely responsible for changes in growth; and they do not fully explain

differences in economic performance.[14] Similarly, it is claimed that terms of trade changes do not appear to have been an important factor explaining changes in growth during the adjustment period. Even the two factors together still explain only part of the differences in economic performance.[15]

Still, the effect of exogenously caused variations in external income was significant, countries with increases in external transfers (a medium increase of 0.6 pert cent of GDP) had a median increase in GDP per capita growth of 1.2 per centage points. Those with reductions (a medium decrease of 0.6 per cent of GDP) suffered a small slowdown in GDP per capita growth. External transfers relieved import constraints, financed investment, and smoothed consumption -- just what they are intended to do.[16]

Differential changes in terms of trade happened to reinforce this pattern.[17] Of the eight countries with annualised changes in external income (transfers plus changes in terms of trade) of 0.5 per cent or more between

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14. Ibid, p.687.

15. Ibid, p.687.

16. Ibid, p.687.

17. Ibid, p.687.

1981-86 and 1987-91, seven experienced growth acceleration and only one encountered a decline. Of the other 19 countries (with declines in external income or very small increases), only seven enjoyed growth accelerations, while growth rates of the other 12 fell. The median change in annual growth rates between the two periods for those benefiting from increases in external income flows was (+1.55 per cent). While for those encountering declines it was (-0.80) per cent. [18]

The important point here is not that these changes in external income accounted for only part of differences in economic performance. It is that they did account for a part that was evidently significant. Without this bolstering effect, the contrariety of the growth test findings would have been sharper.

Adjustment in Africa also comments positively, though more briefly, on the effects of macro-economic policy reform on:

(i) Gross domestic investment;

(ii) agricultural growth;

(iii) Industrial growth, and

(iv) Poverty reduction.

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18. Ibid, p.688.

(i) While investment generally responds slowly to adjustment programmes, nevertheless performance (was) related to changes in macro-economic policies.[19]. According to the World Bank's report. However, the data show that countries with small improvement in macro-economic policy performed 45 per cent better in increasing gross domestic investment than those with large improvement - a median increase of 1.6 per cent compared to 1.1 per cent. [20]

(ii) As regards macro-economic reform and agricultural growth, the World Bank finds no clear pattern [21] and, indeed, the data shows absolutely no relation at all. (Table A.20).[22].

This suggests that the expected agriculture-stimulating effect of exchange rate reform may have been offset by a negative impact of fiscal and monetary policy.

(iii) The findings about industrial growth are mixed. Countries with large improvement in macro-economic policies had greater acceleration of industrial growth

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19. Ibid, p.688.
20. Ibid, p.688.
21. Ibid, p.688.
22. Ibid, p.688.

between 1981-86 and 1987-91 than those with small improvement, while countries whose macro-economic policies has deteriorated experienced a decline [23]

On the other hand, during the later periods, countries with small improvement in macro-economic policies had better rates of industrial - expansion (5.0 per cent per annum) than those with large improvement (4.4 per cent), and the industrial advance of countries whose macro-economic policies had deteriorated (3.6 per cent) was not very far behind that of the large improvers (Table A.21).[24]

(iv) Poverty-reduction: Adjustment in Africa responds to critics on this count by asserting that World Bank measures have promoted economic growth, and therefore, there is every reason to think that (Adjustment) has helped the poor, based on the strong linkage between growth and poverty reduction elsewhere in the world.[25] However, since the assertion of growth promotion is countered by our finding of contrariety between overall macro-economic policy reforms and economic growth, the claim about poverty reduction appears to

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23. Ibid, p.688

24. Ibid, p.688.

25. Ibid, p.688.

collapse.

Table 10

Economic Growth, 1987-91, and Policy Stance 1990-91

Growth Groups	Annual Growth Rates 1987-91 %	Policy Stance 1990-91 scores (median)
A. Borundi, Ghana, Mozambique, Nigeria, Tanzania, Uganda	+ 1.1 >	2.25
B. Burkina Faso, The Gambia, Kenya, Malawi, Sierra Leone Zimbabwe	0 to + 1.0	2.00
C. Benin, Cango, Gabon, Mali Mauritania, Senegal, Togo	- 0.1 to -2.0	2.20
D. Camaroon, Central African Rep. Cote d'Ivoire, Madagascar, Niger, Rwanda, Zambia	- 2.1 <	2.70

Source: Adjustment in Africa, Table 5.1, p.138 and Table B.5, pp.268-269.

Policy Stance: Adjustment in Africa supplements its support of the World Bank's reforms package by examining the effect of micro-economic policy stance, as distinguished from policy change. It grades policies in 1990-91, compares them to economic performance during 1987-91, and claims supportive findings. `Countries that maintained or ended up with fair or adequate macro-economic policies during 1987-91 did better than countries with poor or very poor policies.[26] The former nations experienced slight economic

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26. Ibid, p.689.

growth (median gross domestic product per capita growth of 0.4 per cent per annum) while the latter experienced declines (a.2.1) per cent per annum decrease).

However, the indiscriminating classification used here once again (as in the report's findings on overall macro-economic reform) obscures important behaviour. If we classify countries into four growth groups during 1987-91, rather than two (thereby inter alia, separating out the impact of the very worst performance) we encounter significant contrariety. Table 3 shows that the median policy-stance grade of the fastest growing group of countries was poorer than that of both the slow growers and the moderately declining countries.

Conclusion:- For every facet of the World Bank macro-economic reform package except exchange rate realism, we have found either contrariety of results, or mixed findings (some contrary and some supportive), or lack of a significant relationship between reform performance and outcome particularly, telling are the findings of the growth test for policies regarding seigniorage, inflation, monetary policy, fiscal policy, and overall macro-economic policy. In all these categories, the best median reform - implementation scores belonged to the poorly growing third of the four growth groups, the nations that experienced

moderate declines in income growth. While the relatively good and moderate growers had poorer reform grades. For most policies, the best growers ranked third or fourth in their median reform performance grade.

Moreover, the finding of both the growth and contrariety tests would be even more negative, if equal weight were assigned to monetary policy, and the results would be still more negative, if the effect of exogenously generated differentials in external income were netted out. It is quite feasible that the contrariety of our findings might be even greater but for our reliance on Adjustment in Africans' data, classification, categories, policy ratings, etcetera -- all of which were subjected to both the possibilities of bias and pressures for World Bank political correctness.[27]

In short, there are sufficient grounds to warrant;

(i) the conclusion that the evidence fails to support the claim that the World Bank macro-economic reforms have promoted African economic growth, and,

(ii) the critical hypothesis that their implementation has actually impeded economic growth in Africa.

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27. All data are from World Bank's companian volume, ADjustment in AFrica: Lessons from country case studies (Washington, D.C. 94, Edited by: Ishrat AHusain and Rashid Faruquee.

Given these negative findings about reforms that continue to be propounded by the World Bank, can any changes be recommended?

Our finding is that the major factor determining growth performance in Africa appears to be alphabetical position. It will be seen from the first column in Table 1 that the seven countries at the top of the alphabet all suffered a decline in economic growth rates between 1981-86 and 1987-91. Of the next eight in the middle of the alphabet, three experienced a decline, while five enjoyed an increase. And of the 11 countries at the bottom of the alphabet, only two experienced a curtailment of growth while the other nine managed an increase!

CHAPTER IV

POLITICAL ECONOMY OF SAP: A VIEW OF MARXIST APPROACH

Introduction:- The economic crisis that has engulfed the capitalist world over the past years has had particularly devastating consequences for the developing economies. These countries have had to grapple with problems of internal and external imbalances. On the external front the African economy has been afflicted with highly burdensome and increasing foreign debt and balance of payments, particularly sub-Saharan Africa's total debt had reportedly increased from 84 billion to 211 billion US dollars, equivalent to 82.8 per cent of the region's gross national product (GNP), between 1980 and 1994. And servicing such a huge debt is reported to have greatly sapped the region's capacity to investment and development, leading to stagnation and even regression.

Sub-Saharan Africa's external debt rose by five per cent last year to 223 billion dollars, the World Bank said in its 1996 World debt tables. Because of the balance of payments constraints, both agricultural and particularly industrial production suffer heavily owing to inability to import the needed industrial and agricultural equipment, industrial raw materials, spare parts, etc. On the domestic

scene the numerous problems that have surfaced or intensified include a fiscal crisis, a growing rate of unemployment, low capacity utilization in manufacturing industries, severe shortages of industrial raw materials and spare parts, high and rapidly rising rates of inflation, low purchasing power, and a fast declining standard of living of the people. Invariably the IMF's adjustment programme for the African countries has included the following elements: reduction of public sector borrowing requirements by reducing or eliminating consumer subsidies and many other social expenditures; higher interest rates to attract a capital inflow and raise domestic savings; Exchange rate flexibility or a drastic devaluation of the domestic currency under fixed exchange rates; reduction of the money supply. These are supplemented in the short to medium term by emphasis on changing the inefficient structure of these economies by favouring export crops over local food production or manufacturing, private sector economic activity rather than public, parastatal or co-operative production, the allocation of resources by market forces (for example, by liberalizing price controls or import controls) rather than directly by the government.

The package is intended to discourage primitive accumulators and to encourage capitalist accumulators in the economy. Further, the emerging structure of dependent

capitalism only envisages a supportive role for the state in a refurbished economic environment of highly reduced state ownership and control of industrial and agricultural enterprises. The volume of world trade rose by eight per cent last year and the combined value of cross border trade in goods and services broke the six-trillion-dollar mark although Africa's share of global trade declined to only two per cent.

The general pace of global development since the last UN Conference on Trade and Development (UNCTAD 8) has been uneven, with a number of developing countries, particularly those in Asia, having sustained the high rates of growth while Latin American nations have definitely emerged from the debt crisis that had weighed on economic performance in that region for a decade.

However, progress in Africa has been modest, if not too slow. According to FAD figures, Africa's population grew by three per cent while its per capita growth stood at only 2.2 per cent in 1995.

Future prospects for Africa are "mixed and uncertain", the UNCTAD said in a report, with much depending on the evaluation of commodity prices this year as Africa depends mainly on its exports of minerals, oil and farm products.

UNCTAD said that African countries as a whole remain too dependent on primary commodities and are still suffering from "Low productivity, in efficient management, failure to diversify from a narrow production and export base and vulnerability to external economic environment".

Africa's share of global manufacturing value added (MVA) - the yardstick used to measure the manufacturing sector - was always low. The MVA of Africa was 0.7 per cent in 1975 and it increased to just 0.8 per cent in 1994.

However, the MVA share of other developing countries, on the other hand, had increased from 1.6 to 5.6 per cent over the same period.

Kenyan Vice-President George Saitoti has accused developed countries of double standard, saying, "past experiences indicate that processed goods from the developing countries have been denied access to the markets in the developed countries".

Africa has been left for the establishment of a new and just international economic order to address this situation.

They also urged the international community and the UNCTAD 9 Conference held in South Africa to take measures to change this situation and called on developed countries to reduce or write off Africa's debts.

Africa is heavily in debt, and sub-Saharan Africa's total debt had reportedly increased from 84 billion to 211 billion US dollars, equivalent to 82.8 per cent of the region's gross national product (GNP), between 1980 and 1994. And servicing such a huge debt is reported to "have greatly sapped the region's capacity to investment and develop, leading to stagnation and even regression.

Sub-Saharan Africa's external debt rose by five per cent last year to 223 billion dollars, the World Bank said in its 1996 World debt tables.

"Export growth did not keep pace with the growth of external debt and many countries in Africa saw their debt to export ratios continue to rise", it said, nothing the debt of Ivory coast for instance, has now risen to nearly 600 per cent while Mozambique's remain more than 1,000 per cent.

The debt burden in Africa is so chronic that each and every Zambian citizen, for example, is said to owe his external creditors 1,000 US dollars roughly three times what an average Zambian expects to earn in a year.

In the mid-1980s, there were 16 the least developed countries in Africa, but now, the World Bank said 33 African nations have been classified as severely indebted low income

countries (SILICS).

The UNITED NATIONS in mid March promised to lend 25 billion dollars to Africa in ten years beginning 1996. And the World Bank said it will try to provide 85 per cent of the sum.

Nonetheless, African Faith and Justice Network, in its 1995 issue's papers, said that "sub-Saharan Africa spent more than 110 billion dollars in debt repayment to the International Monetary Fund (IMF), the World Bank, commercial banks, and the G-Seven Governments".

Vice-President of the World Bank for Africa Edward Jaycox, said industrialized nations, especially members of the Paris Club, should act to forgive or reduce their hard debts lent to African States.

The overall goal is to get each affected country's global debt servicing to under 200 per cent of exports, and this is attainable only if the hard debts are forgiven first, he noted.

It was revealed that "there are now some 25 African low income, severely indebted countries whose debt obligations are more than 200 per cent of their gross domestic product and much more than their export earnings".

The UN Economic Commission for Africa (ECA) in an analysis recently warned that African economies stand to lose around 2.6 billion US dollars annually with the increasing global liberalization of World trade.

The erosion of trade preferences for commodities such as coffee and cocoa could be as high as 100 per cent, with minerals and metals also being hit hard, it said.

It complained, "the era of special treatments and generous unilateral trade performances will soon be over while concessional resources flows are gradually drying up".

UNCTAD also estimated that the value of trade preferences for developing countries would be substantially reduced owing to a general reduction of tariffs.

For this, specialists advocate maintaining preferential margins for developing countries, and African states in particular, and extending generalized system of preference benefits to agricultural products, minerals and textiles from those countries after import quotas were eliminated, in accordance with the trade agreement.[1]

What comes through clearly from the African experience

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1. Source: People's Democracy (the CPI[M] Weekly, April 30 1996.

with Structural Adjustment is the dominant role of the process of globalisation of finance. Indeed the very design of the current package of structural adjustment bears the imprints of this process and the sequel to the introduction of the package shows that the real mobility witnessed is that of finance rather than that of capital-in-production.

Here among radical and other economists, there is a tendency to lump the fund and the Bank together as entities indistinguishable from one another, and to think of them as having remained more or less immutable over time. Nothing however could be further from the truth. There were significant differences between the fund and the Bank which have narrowed over time, and the reasons for this narrowing constitute an important element of contemporary political economy. And each of these institutions has changed in crucial ways through time.

The Bank of course has always been opposed to any attempts on the part of the third world countries to break away through conscious design (which necessarily means conscious state intervention) from the pattern of international division of labour inherited from the days of colonialism and semi-colonialism.

If such a break is to be achieved then it must be achieved, according to its perception, entirely through the

mediation of the market forces, which means in particular through the predilections of direct foreign investments. The Bank has remained absolutely faithful to this position of opposing State intervention-sponsored industrialization, despite the fact that historical evidence marshalled earlier by Gerschenkron and subsequently by many others shows overwhelmingly that successful industrialization by late - industrialisers has invariably depended upon active State-intervention. What has changed in the case of the Bank over time is: first, the specific argument on the basis of which it has expressed its opposition to State-sponsored industrialization;

Secondly, the precise tactics it has brought to bear in order to undermine State-sponsored industrialization in third world countries; and

Thirdly, the precise package of programmes around this basic objective reflecting as we shall see the changing nature of world capitalism.[2]

Where the Bank did change was in two respects: the first relates to its tactics. The Bank studiously avoided giving any loans for government programmes. It modified its

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2. Prabhat Patnaik and C.P. Chandrasekhar, (Indian Economy Under SAP), Economic and Political Weekly, November 25, 1995 (3002-3003).

stance to give loans for social infrastructure projects, but not for any public sector industrial undertakings. It is only when the policy of boycott of public sector industrial undertakings appeared to be counter productive from its point of view that it started financing investment in such undertakings but with its own conditionalities, such as global tendering, specifying technological details and the scale of plants, etc. This shift from boycotting to infiltrating the public sector enabled it to exercise great leverage to induct multinational corporations (MNCs) directly into the public sector as collaborators, to undermine domestic technological self-reliance and indigenous technological capabilities, to dictate pricing policies and acquire an indirect say on the government budget, and to set up `network' with bureaucrats and managerial personnel of the public sector.

The other respect in which the Bank did change was in its new insistence upon a range of financial sector reforms whose overall objective again was to detach the domestic financial institutions and the financial markets from their integration into the domestic development effort (through, for example, low long-term interest rates, subsidized credit, and minimum percentage credit disbursements for priority sectors such as agriculture, etc.) and to integrate them more closely instead with global financial markets.

Together with this went the Bank's demand for privatisation not only of the financial domain where the public institutions held sway, but of public sector assets including of natural resources. The economic, as opposed to the ideological argument for privatisation was again utterly dubious: as a means of closing the fiscal deficit it was no different from money created directly for the government's use: as a means of reducing the government's interest burden it could work only under the palpably impossible condition that the rate of return sacrificed on the sold government assets was lower than the interest rate on public debt (which is impossible because the market would never buy assets at such low rates of return, and in practice of course has insisted on obtaining public assets only at virtually throw-away (prices); and as a means of introducing entrepreneurship it was of no use because the buyers were either fly-by-night-operators; or, if reputable MNCs had more complex objectives (on which more later).

This widening of the Bank's package, from simply rolling back state-sponsored industrialization through a removal of trade restrictions, government controls and the pre-eminence of the public sector, to an integration of the domestic economy to the operations of global finance, reflected a fundamental change that was taking place within world capitalism itself, namely, a tendency towards greatly

increased fluidity of finance across national boundaries, a tendency in short towards a globalisation of finance, which is very different from though often confused with, globalisation of production facilities.

This very tendency also explains the shift which was taking place in the position of the IMF as well.[3] Earlier the IMF was exclusively concerned with stabilisation. The Polak model, for example, which provided the basis for the IMF's policy- prescriptions concentrated on a few macro-level identities and made no attempts at modelling structural adjustment. Its assumptions were questionable (e.g. the absence of any recognition of a demand constraint, the attribution of external payments problems exclusively to the government sector's deficit, and the general monetarist bias) but it provided the tool-kit for a highly conservative financial institution whose sole concern, especially vis-a-vis third world countries, was to recover its loans by imposing fiscal discipline upon the latter.[4] This ruthless

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3. For a discussion of the shift in the IMF's position see, C.P. Chandrasekhar, The Macroeconomics of Imbalance and Adjustment, in Prabhat Patnaik (ed.), Macro Economics, OUP, Delhi, 1995.

4. The fact that it practised systematic discrimination between the first and the Third World countries, as distinct from its asymmetric ability to `discipline' surplus and deficit countries, is by now well-established. Sunanda Sen, `Financial Oligarchy in Contemporary Capitalism' in Prabhat Patnaik (ed), Lenin and Imperialism, Delhi, 1986.

conservatism drew the ire of the third world, and indeed of radicals everywhere. But it was the conservatism of a narrow minded financier, not that of an ideologue of development frowning overtly upon any attempt to alter forcibly the colonial pattern of international division of labour. The latter role was left by and large to the World Bank.

A major change took place between the two oil shocks. While the recycling of resources to the Third World, such as it was, organised in the wake of the first oil shock by the IMF itself, the tremendous growth which took place in the role of the bank in the interim meant that by the time of the second oil shock it was the bank's which were doing whatever recycling was to be done, and the IMF was called upon only to provide security cover to the banks. This was the beginning of a process: from being a leading financier the IMF had got reduced to being a gendarme of international rentier interests. As a `gendarme' then it had to insist that the countries, which were caught under its conditionalities and thereby became possible candidates for receiving funds from international rentiers, adopted a host of measures that were to the liking of the rentiers, such as privatisation of public assets, `opening up' of financial

markets, removal of exchange restrictions, convertibility of the currency on the current and capital accounts, and so on, all of which amounted to an espousal of the kind of `structural adjustment' which the World Bank had also come around to.

To sum up then, while the conservatism of the Bretton Woods institutions has continued unabated, there have been major changes in the precise texture of this conservatism reflecting changes which have been occurring in world capitalism. Not only have the Fund and the Bank come-closer together in terms of outlook, breaking down their earlier separateness, but this coming together has itself been promoted to a significant extent by the vastly enhanced role of globalised finance one might even add that this ascendancy of globalised finance has been responsible, inter alia, for keeping down willy-nilly what Lenin would have called inter-imperialist rivalry; certainly as far as the Third World is concerned, the government of the advanced capitalist countries present a remarkably common front and give more or less unanimous support to the structural adjustment measures being imposed by the Bretton Woods

institutions.[5]

If finance can flow in or flow out in response to pressures emanating from abroad, if the domestic wealth-holders' behaviour in other words defies the very concept of `control area' under the domain of the nation-state over which it can ensure some semblance of correspondence between the intentions behind its actions and their outcome, the possibility of state intervention gets eroded. It is not surprising that virtually all forms of interventionism, not only traditional socialism, but even Keynecianism, Welfarism, conventional social democracy, Third World nationalism, and its necessary accompaniments, the dirigiste development model have all run into rough weather in recent years. The reason for this is not some sudden realisation on the part of `every body' of the alleged superiority of the market, but the profound change in the context which has taken place in recent years through the phenomenon of financial globalisation.

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5. This argument about greater concert among advanced countries vis-a-vis the third world and its implications are discussed in prabhat patnaik. The Nation-State in the era of globalisation: Economic and Political Weekly, August 19, 1995, which suggests that while the situation today resembles the kautskyite notion of joint exploitation of the world by internationally united finance capital with a weakening of the role of the nation-State, a revival of the latter is inevitable.

A View of Marxist Approach

The World Bank and IMF-supported adjustment programmes are complex packages designed primarily to achieve a viable balance of payments (BOP) in the medium term, if not in the short-term. The Fund also argues for the adoption of policies to achieve other economic objectives to the extent that these contribute to BOP viability. In emphasizing external objectives, and in particular balance of payments viability, the fund has a mandate to ensure that the use of its resources by a member is linked to a viable payments position, permitting scheduled repayment of the resources it has advanced. In recent years, this mandate has been stretched to ensure that the adjustment programmes of highly indebted developing countries enable them to meet their external debt obligations to western creditor nations. This is why a precondition for restructuring the debts of LDCs by the Paris and London clubs is that their adjustment programmes must be approved by the IMF and World Bank. The two institutions are actually involved in the design and implementation of adjustment programmes for many developing countries, including Africa. In the view of the IMF, the basic cause for the external imbalance of a country is excessive monetary expansion. Wrong exchange rate policies or interest policies can also bring external imbalances.

According to the Fund, it is monetary expansion that brings about exchanges in relative prices, thus encouraging imports, discouraging exports, and inducing unfavourable capital movements. It further contends that while monetary expansion may be due to factors which have their origin in the private sector of an economy, in recent years large fiscal deficits in the public sector have been the main cause of excessive monetary expansion in many developing countries.

The IMF and the World Bank's approach to economic stabilisation and adjustment is essentially eclectic. There is no single theory underlying the programmes which the two institutions design and sell to developing countries. The theoretical underpinning is mainly neoclassical with the dominant variant being monetarist. Also, most of the theoretical constructs of the programmes are couched within the framework of classical `invisible hand' or market mechanism. This is the basis of the policy prescriptions which stress the deregulation of economic activities, free trade or liberalised trade regimes, decontrol in the allocation of resources, etc. For example, the Second-Tier Foreign Exchange Market (SFEM), now FEM, in Africa which is the core of the Structural Adjustment programmes, has the market mechanism as its underlying philosophy.

The central argument in favour of a free market system is that, under certain assumptions, the equilibrium of the market will correspond to a pareto optimum. Accordingly, the `free' market is adjudged to be efficient in terms of its capability to allocate real and financial resources to those uses for which they are best suited. This, of course, is expected to occur within the framework of competitive pricing among other conditions.

One of the key theoretical strands of IMF-World Bank adjustment programmes is the monetary approach to the balance-of- payments which explains payments disequilibria exclusively in terms of domestic monetary disequilibria. Contributions by J.J. Polak and his associates at the IMF in the 1950s marked the formal origin of the monetary approach, developed in the 1960s and early 1970s, especially by Mudell (1968), Robichek (1967, 1971) and Johnson (1972).[6]

The central thesis of the monetary approach is that payments balance is a monetary phenomenon rather than primarily a matter of conditions in the market for tradable products or of aggregate levels of saving and expenditure. Money plays a pivotal role in both disturbances and adjustment. In the extreme, all disturbances will seem to

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6.IMF, 1987.

have a monetary origin and only a monetary correction will move them. Accordingly, balance of payments deficits or surpluses are viewed as reflecting stock disequilibrium between demand and supply in the market for money. A balance of payments deficit occurs when the stock of money exceeds the demand for money balances. Essentially, any expansion of domestic credit (money supply) leaks abroad, resulting in balance of payments deficit and reserve loss. On the other hand, a surplus in the balance of payments occurs when the demand for money balance exceeds the money stock or the money supply is reduced.

The monetary model has three building blocks. The first is the demand for money as a stock. Its premise is that it is a stable function which is dependent on a relatively small number of economic factors. Consequently, the effects of economic changes on the demand for money are easy to assess because they can operate through one or several of these few factors.

In formalising the analysis, assume that the demand for money takes the following simple form:

$M_d = F(P, Y, i)$ (1)

Where M_d = amount of nominal money balances demanded

P = price level

Y = real income

i = interest rate

$F_p, F_y < 0; f_i < 0$

A more restrictive version of (1) is provided by the Cambridge cash balances theory;

$M_d = kPY$ (2)

where k = the desired ratio of nominal money balances to nominal income. Dividing both sides of (2) by P yields the demand for the stock of real cash balances as a stable, linearly homogeneous function of real income:

$M_d = kY$ (3)

This represents the domestic demand for money.

Expressing (1) in terms of a one-period change in nominal money demand as a function of changes in the explanatory variables yields:

$\blacktriangle M_d = f(\blacktriangle P, \blacktriangle Y, \blacktriangle i)$ (4)

The second building block of the model is the supply of money function. The supply of money (M_s) is shown to be a product of the money multiplier (*m*) and the monetary base (B) or high-powered money (H), thus:

$M_s = m.B$ (5)

The monetary base has two components: a domestic component

(D) consisting of domestic credit creation, and an international component (R) - the domestic currency value of the monetary authority's international reserves. The international component can be increased or decreased by any inflow or outflow (respectively) of reserves from or to the country when the BOP is in surplus or deficit. It can also change with variations in exchange rates. The monetary-base identity can thus be written as:

$$B = D + R \qquad (6)$$

and the money supply equation as:

$$M_s = m \blacktriangle D = m \blacktriangle R \qquad (7)$$

Expressed in terms of a one-period change (7) becomes:

$$\blacktriangle M_s. = m \blacktriangle D + m \blacktriangle R \qquad (8)$$

The final building block of the model is a condition defining equilibrium in the money market. It is that the demand for money is equal to the supply of money or the change in the demand for money is equal to the change in the actual supply of money:

$$M_d = M_s \qquad (9)$$

$$\blacktriangle M_d = \blacktriangle M_s \qquad (10)$$

Assuming a constant money multiplier (m), changes in the demand for money (M_d) and in the domestic component of

the monetary base (D) are the active elements that can pull the money market out of equilibrium. On the other hand, it is changes in R that restore or maintain money market equilibrium under fixed exchange rates. $\blacktriangle R$ constitutes BOP deficits or surpluses.

Equations (4), (8) and (10) can be combined to yield an expression for the change in net international reserves, in which the BOP is given by the difference between the change in the money stock (equal to the change in the nominal demand for money from the equilibrium condition) and the change in domestic credit:

$$m\blacktriangle R = \blacktriangle Md - mD = f(\blacktriangle P, \blacktriangle Y, \blacktriangle i) - m\blacktriangle D$$

Assuming that the money multiplier (m) is unity, this equation becomes:

$$\blacktriangle R = \blacktriangle Md - D = f(\blacktriangle P, \blacktriangle Y, \blacktriangle i) - \blacktriangle D \quad (11)$$

The essential import of equation (11) is that the change in net international reserves will be positive (the BOP will be in surplus) to the extent that the change in the total money stock or demand exceeds the change in domestic credit. A BOP deficit results when the change in domestic credits exceeds the change in the total money stock or demand.

In the light of the foregoing analysis, and under most

circumstances, a discrepancy between the supply and demand for money has as a counterpart an imbalance between expenditure and income (an imbalance in the market for goods and services). An increase in domestic credit would cause a divergence resulting in a decline in net international reserves, because the public would not be willing to hold the additional money created. If there were no such divergence there would be no such cumulative effect on the BOP. Structural adjustment programmes are therefore predicated on the premise that a sound relationship between expenditure and income requires that domestic credit expansion be kept in an appropriate balance with the prospective path of desired money holdings in the economy. And so the implication of the monetary approach is that control of credit is both a necessary and sufficient BOP policy. The only purpose of other policies is to speed us adjustment.* Policy thus focuses on the rate of domestic monetary and credit expansion and the IMF stipulates credit ceilings in adjustment programmes.

Another aspect of the theoretical basis of adjustment programmes is the absorption approach which is actually linked with the monetary approach. It analyses macroeconomic policy in an open economy on the basis of the relationship between residents' expenditure on domestic and foreign goods and services and domestic income or the

activity in the national economy. It is generally recognized that a country's net foreign trade balance is equal to the difference between the total goods and services produced in that country and the total goods and services taken off the market domestically (call this absorption). formally let,

Y = the value of domestic production or income:

$A = C + I + G$, represents absorption - the sum of private consumption (C), domestic investment (I), and government expenditure (G).

$BCA = X - M$ represents the balance of current account (X = export of goods and services, M = import of goods and services)

then the following relationships can be obtained:

$$Y = C + I + G + X - M$$

or

$$Y = A + X - M \qquad (12)$$

$$Y + M = A + X \qquad (13)$$

and

$$BCA = X - M = Y - A \qquad (14)$$

Equation (13) says that the total inflow of goods and services into an economy - whether arising from production (Y) or from imports (M) - is equal to the total use of goods and services ($A + X$). Equation (14), on the other hand,

says that an excess of income over absorption is equal to a current account surplus on the external account, or conversely, that an excess of absorption over national income implies an equivalent deficit on the current account of the balance of payments. The implication of this is that a current account deficit can be reduced by a decline in absorption (relative to income) or by an increase in income (relative to absorption) or a combination of the two. Politics in structural adjustment programmes assume that it is easier to reduce absorption than to increase production. This is why policies affecting absorption are often put in place first. These include curtailing public sector outlays, and raising taxes to reduce private consumption and investment. Alternatively, demand management policies may be pursued by influencing the monetary aggregate underlying both domestic demand and the balance of payments, for example, by changing the volume of credit extended to the private sector. Demand management policies directly affect absorption and thereby domestic balance.

Finally, we show that a relationship exists between the rate of domestic credit expansion and increases in the money supply on the one hand and the levels of aggregate demand and expenditure, on the other. Recall equation (14) which states that the gap between income and absorption (Y - A) is equal to the current account balance (X-M):

$$BCA = Y - A \qquad (15)$$

The current account has to be matched by changes in net foreign assets of the banking system (ΔR) (including international reserves) and in the net foreign indebtedness of non-bank residents (ΔFID). Therefore:

$$BCA = \Delta R - \Delta FID \qquad (16)$$

As we saw under the monetary approach the change in net external assets of the banking system is also equal to the difference between the change in the money supply and the change in domestic credit creation (equation 11). Therefore combining equation (11) and (16) yields:

$$BCA + \Delta FID = \Delta M_S - \Delta D \qquad (17)$$

Expressing (17) in terms of the difference between nominal income and domestic absorption produces the form:

$$Y - A + \Delta FID = \Delta MS - \Delta D \qquad (18)$$

This says that absorption will exceed the sum of domestic resources (income) and foreign savings (changes in net foreign indebtedness) when the change in domestic credit exceeds the change in money stock. Assuming that the demand for money is a function of a small number of variables which are independent of ΔD, then the conclusion emerges that a

ceiling for domestic credit creation will determine the change in international reserves, that is the BOP.

From the foregoing it is clear that a major policy instrument in the structural adjustment package is the use of restraint of domestic credit expansion to control aggregate demand, with a view to securing short-term improvement in the BOP. In recognition of the need to achieve other domestic objectives the adjustment package includes further supporting policy measures, especially expenditure-switching policies (e.g. exchange rate policy), external debt management policies and supply-side policies. Growth of output is not a central objective of economic policy in adjustment programmes and so supply-side policies are pursued to the extent that they would lead to an improvement in the current account of the BOP. They are designed to increase directly the incentive or ability of the domestic productive sector to supply real goods and services at a given level of aggregate nominal domestic demand. Exchange rate policy is regarded as a major policy instrument in the switching of expenditure from foreign to domestic output - and inducing the required reallocation of resources. It is argued that with persistent imbalances in an economy, domestic prices and costs typically diverge significantly from competitiveness in impaired and so are he growth and BOP performance of the economy. Under these

circumstances, it is further posited, exchange rate adjustments, properly conceived and supported by appropriate macroeconomic policies will help to balance the external accounts directly by containing domestic absorption and indirectly by improving resource allocation between the internal and external sectors. "Finally, it is the view of the designers of Fund-supported adjustment that to ensure that economic incentives and pricing signals fulfil their functions, the liberalization of exchange and trade regimes should be pursued as a desirable component of the adjustment strategy.

Nigeria's Structural Adjustment Programme has most, if not all, of the foregoing features of the standard IMF - World Bank adjustment packages. The main features of the Nigerian policy package include strengthening of existing demand management policies; supply-side measures; adoption of a market-determined realistic exchange rate through foreign exchange auctioning; rationalization and restructuring of tariffs; trade and payments liberalization; greater reliance on market forces and strengthening of the private sector; adoption of appropriate pricing policies, especially for petroleum products and public enterprises, rationalization of public expenditure, and external debt management policies. In the typical IMF tradition these policies have been implemented in Nigeria without due

regard to the fact that the country has been having bouts of recession since 1981 and that uncaring economic adjustments are devastating for the highly vulnerable poor.

In the light of the heavy reliance placed on the market mechanism and the private sector in the adjustment programmes it becomes quite clear that Africa's SAP is an economic package aimed at dismantling the state capitalist model of accumulation in favour of strengthening and entrenching the capitalist accumulating fraction of the domestic bourgeoisie in collaboration with imperialism. But in many developing countries, included Africa, conditions for the efficient functioning of the `free' market simply do not exist. These include perfect competition, availability of correct information about present and future price and non-price variables; given and independent consumer tastes; capital divisibility and increasing returns to scale, etc. Consequently, government has to intervene in economic activities failing which the market leads to a misallocation of present and future resources, or at least to one which may not be the long-run best interest of society. Further more, even when it is assumed that the conditions for a pareto optimum exist in a `free' market system, it may not be ideal for a developing or even a developed country, because the market mechanism may foster efficiency but not equity. The distribution of income under a pareto optimum

may not be ideal or even acceptable. Finally, the price mechanism which is concerned with static resource allocation undermines the major problems of economic growth and progress of developing countries. Africa's experience with the operation of market forces in the SFEM so far has revealed gross imperfections which have forced the Central Bank to intervene in the market from time to time.

The basic fiscal, monetary and exchange rate policies in the adjustment package are deflationary, as reflected in reduced government spending, increased taxes, restraint on credit creation through credit ceilings -- all geared towards reducing absorption. The fiscal-monetary-exchange policy mix in the adjustment programme is inconsistent with economic recovery from a recession. Taking cognisance of the fact that Africa has been battling with a recession due to external shocks and to the crisis of accumulation within the domestic bourgeoisie, recovery from a cyclical down-turn characterised by national production very much below capacity would dictate that government expenditure be increased because of the need to provide greater employment and social security benefits than hitherto. But the policies so far have tended to weaken recovery while the adjustment arising essentially from the drastic, depreciation of the naira, removal of subsidies and cuts in government's expenditure have been immediate and enormous.

The burden of adjustment has been borne disproportionately by workers and the poorer sections of society. The SAP until the 1988 budget embodied contractionary policies rather than the expansionary programmes and policies required for recovery. This derives from a wrong perception of the nature of the economic crisis by the IMF and the World Bank and the failure to draw an analytical distinction between `cyclical' and `structural' deficits and imbalances. What, then, becomes clear is that deflation of an economy in recession coupled with deregulation and liberalisation will not stimulate the economy from its low-level position. In the context of business cycle theory the desirable policy mix for recovery must be designed to raise and sustain economic growth, not to reduce growth or to depress the economic well-being of the people.

A major policy instruments in the present SAP is exchange rate flexibility, which has resulted in the massive devaluation of the naira and escalated production costs and inflation. Devaluation even as a last resort, is strongly based on assumptions not satisfied by many Third World countries, consequently, in spite of massive and continuous devaluations of their currencies, their problems get worse. As the Institute of African Alternatives recently noted, `for small and weak countries, flexible exchange rates will weaken their currencies without attracting foreign capital

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or improving their trade balance. Furthermore, the most recent economic research on devaluation is very sceptical of its value as an instrument for correcting a fundamental disequilibrium of the economy. Rather, the outcome of IMF-inspired devaluations, as in many Latin American economies and in Africa's is to exacerbate income inequalities and inflation in addition to setting off a chain reaction of price adjustments, wage demands and financial instability.

The other elements of the adjustment packages are also questionable. They are geared towards intensifying the foreign orientation. For example, the industrialised countries, through the World Bank and IMF, preach trade liberalisation whereas back home they intensify protectionism. In any case, the elimination of import restrictions worsense rather than improves the trade balance, as more goods are imported from the industrialised countries.

This is actually the hidden motivation in pushing SAP. While the deregulation of interest rates may not encourage savings it may well discourage investment and stultify the growth of small scale industrial and agricultural enterprises. Finally, we stress that the World Bank and IMF economic policy packages provide overt encouragement to the

foisting of an unregulated, dependent capitalist development model on LDCs. In the process, the developed countries can perpetuate the present inequitable international division of labour, sell their manufactured products, secure raw materials and export their surplus capital. Whereas they themselves control their foreign trade and maintain welfare schemes and various subsidies, they preach deregulation, decontrol, free trade and elimination of subsidies to the poor countries.

CHAPTER V

CONCLUSION

An Alternative Model of SAP

We must now reiterate that the theoretical models of SAP presented and evaluated above derive from the basic presuppositions of neo-classical economic analysis. The models suffer from those fundamental limitations usually associated with neoclassical economic analysis. These models, for instance, are a historical, assume the neutrality of the state in the formulation and execution of economic policy, and lack any analysis of class structure and relationships; therefore, they are empty of any analysis of the dynamics of power relations in an economy such as African one. Yet it is by viewing the existing African economy as shaped predominantly by history, class forces, class struggles and the dynamics of the competitive power struggles for control of the state apparatus that we can begin meaningfully to examine the context in which SAP has been conceived and the extent to which it can resolve the current economic development of crisis.

It seems clear, then, that the alternative theoretical model of SAP should be the Marxian one. The Marxian model incorporates such familiar intellectual formulations, as

`dependency', `unequal exchange', `imperialism' and `unequal development', `accumulation on a world scale' and `the necessity for selective delinking'. It derives, more specifically, from the proposition that `capital' is a self-valorizing process. Capital is thus viewed as mode of extracting `labour' out of `labour power', and the extracted labour then forms the basis for the capitalist accumulation process. In this context, capital is understood as a form of social relationships, where labour power as a commodity confronts capitalists, as owners of `funds' and, therefore, of means of production. The Marxian Model thus stresses the accumulation process as critical to the capitalist economic development pattern.

A highly simplified Marxian model of the capitalist accumulation process may be sketched through the labour theory of value, according to which the output of commodities is measured by their value, that is, by the labour time directly and indirectly required to produce them. With a given pre-existing stock of means of production with which the workers can operate, of flow the value created per unit of any time period can be represented by the equation:

$$\frac{C+V+S}{}$$

Where C represents the labour time embodied in the stocks of materials used up in the process of production and the depreciation of equipment over any given unit of time period. The value produced during the given time period is represented by V+S, which is measured by the sum of man-hours of labour performed over this same time period. This value is divided between V, representing the value of the wages paid to workers, and S, representing the value of the surplus which accrues to capitalists.

Central to the model is the rate or ratio of exploitation which constitutes the potential engine driving the capitalist accumulation process. The ratio of exploitation can be expressed as the ratio of the flow of surplus to the wage bill (s/v) . It is determined by the `fortunes of the class war', manifested in the monopoly power of capitalists and in the trade union strength of workers as mediated by the state apparatus. A rise in the ratio of exploitation might result from an increase in the monopoly power of capitalists and/or from a weakening of trade union resistance. Conversely, a fall in the ratio of exploitation might be caused by greater trade union strength combined with more intense competition to prevent the capitalists from passing on higher money-wage costs fully into prices.

However, the ratio of exploitation does not, by itself, determine the rate of growth of capitalist accumulation in the economy: it determines the potential surplus of the economy. The potential surplus can only be realised by turning it into profit through the capitalists actual investment decisions. The realisation of the potential surplus as profit is thus accomplished only through capitalist accumulation. The capitalists purpose in extracting chain of an ever-accelerating process of surplus extraction and capitalist accumulation. It is this interacting chain of exploitation and accumulation processes which enabled the bourgeoisie in Western Europe and North America to create more massive and more colossal productive forces than have all preceding generations together during its rule of scarce one hundred year's (Marx and Engels, 1868, p.40). Indeed, Karl Marx attested to the capitalists' insatiable passion for accumulation in the following graphic and memorable passage:

Accumulate, accumulate!....Accumulation for accumulation's sake, production for production's sake: by this formula classical (capitalist) economy expressed the historical mission of the bourgeoisie, and did not for a single instant decisive itself over the birth-throes of wealth. If to classical (capitalist) economy the proletarian is but a machine for the production of surplus-value: on the

other hand, the capitalist is in its eyes only a machine for the conversion of this surplus-value into additional capital (Karl Marx, 1974, p. 558).

We may now indicate briefly the implications of the Marxian model for appreciating the context in which SAP has been conceived and for evaluating its likely outcome. The SAP has been designed, as stated earlier, to address the deepening current African economic crisis. In the perspective of the Marxian Model, we may hypothesise that the economic crisis has been a manifestation of the problem of realising surplus as profit through capitalist accumulation. Rather than converting a substantial proportion of the potential surplus into capitalist accumulation, the domestic bourgeoisie together with its foreign allies indulged in unprecedented conspicuous consumption and surplus expatriation. Such non-conversion of the surplus into `additional capital' was expressed as primitive accumulation in the economy primitive accumulation of capital and capital accumulation through the production of surplus-value are...not merely successive phases of economic history but also concurrent economic processes.' For the third world, he argues that primitive accumulation `still remains both quantitatively and qualitatively more decisive...than the creation of surplus-value in the process of production itself.

It seems clear, then, that the rationale for the SAP, as can be discerned from its features summarised above, is to de-emphasize primitive accumulation and to promote capitalist accumulation in the development process. The SAP has therefore, presumably, been designed by the capitalist accumulators, a fraction of the domestic bourgeoisie. It had to be so designed as the primitive accumulators became increasingly unable to disguise exploitation as fair exchange, but rather...(emerged) as naked coercion', which, consequently, began progressively to undermine the hegemony and legitimacy of the domination of the entire domestic bourgeoisie. Overall, then, the SAP has been designed to reduce the activities of primitive accumulators; encourage those of cpitalist accumulators; and above all, to intensify the exploitation of labour as a means of supporting the capitalist accumulation process in the economy. The ultimate purpose of SAP is to create an extremely low-wage African economy so as to facilitate its becoming an important part of the accelerated process of globalisation of capitalist accumulation under the aegis of transnationals and other imperialist forces.

We may thus hypothesize that the overall probable outcome of the SAP within an appropriate policy framework and in the perspective of the Marxian model would be the

accelerated development of productive forces, under the driving forces of imperialism. Imperialism, thus probably transform a major sub-imperial power and regional export base for manufacturers and agricultural products in Sub-Saharan Africa along similar lines followed in the Brazilian and South African capitalist economic growth paths. The expected accelerated capitalist economic growth process, under the SAP-created environment of economic liberalism, might entail considerable technological dynamism and intensive exploitation and utilization of labour power in the African economy.

Likely to be associated with this process would be a worsening of the existing extremely unbalanced and inegalitarian pattern of growth, giving rise to increasing dominance of foreign monopolies and correspondingly increasing the marginalisation of domestic capitalist accumulators. The emerging new forms of a dependent structure of growth would thus be associated with increasing monopolistic tendencies. It can be argued, that this accelerated, premature arrival of monopoly capitalism might deprive the economy of the stimulating effects of competitive accumulation among both foreign and domestic capitalists necessary for the development of productive forces. But what would be more likely is that, through the Schumpeterian process of creative destruction, the

increasing monopolisation of production processes in an age of unmitigated imperialism would become the womb of technological innovations in the economy. Such technological dynamism would, of course, be accompanied by greater marginalisation of domestic capitalist accumulators, increasing immiseration of the working classes and peasants, and with increasing erosion of national economic and political autonomy and national self-confidence. Such marginalising impacts might intensify inter- and intra-class struggles, which would arise from increasingly sharp contradictions in civil society. The intensification of such struggles might generate profound social and political forces of economic nationalism, forces which might lead either to an increasing imposition of authoritarian discipline on the labour movement by the state, or to the transcendence of the dependent capitalist structure of growth through the inauguration, after an appropriate class reconstitution of the state, of a socialist transformation of the development process. It is only through such socialist transformation that the self-reliant and egalitarian development process envisioned by SAP through `selective closure' or `selective delinking' would begin to be realised.

An African Alternative

The important question for Africans is how Africa, in order to end its dependency can extricate itself from the modern highly technological and highly militarised international system, with its sophisticated and complex control network.

There is no simple answer to this. History provides no parallel to the modern dependency-dominance syndrome. True, one colony in the eighteenth century was able to free itself from colonialism and develop into a mature, viable and industrial state to be able to beat the colonising country in the affluence race: the United States. Even the twentieth century has witnessed the transition from disintegrating political economies to viable, self-reliant political economies: notable examples are Russia (1917) and China (1949).

But the historical conditions in which the two kinds of liberation occurred were different. For one thing the international system was different - less integrated and less complex. The American colony had to contend with only one power, Britain, which itself was `developing' at the time. The other members of the `international system' were either colluding with America or even actively supporting its war of independence; for they were interested in seeing

the destruction of the British empire. The other two `miracles' occurred in the wake of world wars (1914-1918) and (1939-1945). Today, the international system is much more integrated, the world economy has moved into a new phase - the era of globalisation, is characterised by the integration of markets and the rapid movement of capital, than ever before, and moreover, there is a commonality of interest among the major powers in the continued <u>subjugation</u> and <u>exploitation</u> of African societies, whatever the degree of rivalry between them for scarce and dwindling resources.

If there African political economy desires to disengage itself from the international political economy, it faces a stupendous task. A beginning, however, can be made with the agricultural sector. Without arresting the decay of this sector, no further steps towards liberation can be taken; outlining such steps will be nothing more than an academic exercise. Production of food - indeed, production generally - for consumption must be not only re-emphasised but incorporated into concrete policies and vigorously implemented. It is necessary to emphasize production for consumption; for there is a tendency of this they can avoid falling into the trap of `modern' agricultural technology with its chemical fertilizers, chemical pesticides and what have you, the combined effect of which is a destablished ecosystem, eroded soil, damaged human health and a

hierarchized and consequently brutalised society.

Rejection of modern agricultural technology as a means of liberation from the world market mechanism can provide a key to Africa's autonomy. But it will involve a great deal more. It will involve internal restructuring of African States that will respect indigenous identities and build on them rather than suppress them under the impact of a homogeneous model of modern nationalism, a wholly imported model. It will call for a rejection of elite consumption styles and corrupt politics, brought about by the aggressive salesmanship of western advertisement media and the politics of aid givers. This, in turn, will necessitate economic (alongside political) restructuring of African societies, more true to the African tradition than to the cultural trappings of colonialism. It will, above all, call for indigenisation of science and technology, learning from the natives and their long rich traditions than from the masters, who in a very short span, have brainwashed the African mind. The more Africa seeks to become autonomous of colonial vestiges, the more it will need to become itself and discover with true self. Once it realises this, a whole world can open up before it - a world much larger and deeper than anything that the modern West has offered to Africa.

After all the various methods and path of economic co-operation should be take-up or adopt; between African coutries. For example; besides these things, the OAU and African experts have suggested four methods for improving the continent's trade performance and developing overall continental economic co-operation. These methods of OAU and African experts should be given place in designing the continental economy. The most significant of these are :

(1) the resolutions and declarations adopted by the Assembly of OAU head of state in Algiers in September 1960, in Addis Ababa in August 1970 and May 1973 providing that the economic integration of the continent is a prerequisite for the realization of the OAU's objectives.

(2) the decision in Libreville in July 1977 endorsing the Kinshasa Declaration adopted by the OAU council of Ministers in December 1976 concerning the establishment of an African Economic Community;

(3) the July 1979 Monrovia Declaration of commitment on the Guidelines and Measures for the National and collective Self-Reliance in Economic and Social Development for the Establishment of a New International order which also calls for the creation of an African common market as a prelude to an African Economic Community.

(4) the Lagos plan of Action and the Final Act of Lagos of

April 1980 reafirming the OAU's commitment to establish an African Economic Community by the year 2000 in order to promote the economic social and cultural integration of the continent.[1]

The intent of the Treaty establishing the African Economic Community clearly is to establish an African Common Market. To so, the Treaty calls for trade liberalisation through the abolition of customs duties on imports and exports and non-tariff barriers among member states with the object of creating a free trade area in each of the four regional economic communities of the UMA, ECOWAS, PTA / COMESA, and SADC.

The fundamental tenet of the African Common Market is an increase in economic self-reliance and the promotion of an endogenous and self-sustained development. It is quit-clear that Africa faces enormous problems in its attempts at integration. For the AEC, the question remains: does Africa have the resources and power to disengage itself from the former colonial masters and the prevailing international economic order to pursue collective economic self-reliance ? For African countries to reduce dependency, they will have to change their traditional trade and investment relationship with the developed world. They will

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1. "Treaty Establishing the African Economic Community" (Abuja, Nigeria: 3 June 1991) pp. 5-6

also have to embark upon a restructuring of Africa's mode of production. Does the treaty provide mechanisms for African countries to seize control of their economies through a common market ?

The AEC Treaty consists of 106 articles arranged into 22 chapters. Its central objectives are outlined in Article 4:

(A) to promote economic, social and cultural development and the integration of African economies in order to increase economic self-reliance and promote endogenous and self-sustained development.

(B) to establish, on a continental scale, a frame work for the development, mobilization and utilization of the human and material resources of Africa in order to achieve a self-reliant development;

(C) to promote co-operation in all fields of human endeavor in order to raise the standard of living of African peoples, and maintain an enhanced economic stability, foster close and peaceful relations among member states and contribute to the progress, development and the economic integration of the continent; and

(D) to co-ordinate and harmonize policies among existing and future economic communities in order to foster the gradual establishment of the community.[2]

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2. "Treaty Establishing the African Economic Community" op-cit, p.13.

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