



“Summary of article by David Reed: Impacts of Structural Adjustment on the Sustainability of Developing Countries” in Frontier Issues in Economic Thought, Volume 6: A Survey of Sustainable Development. Island Press: Washington DC, 2001. pp. 256-260

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### **“Summary of article by David Reed: Impacts of Structural Adjustment on the Sustainability of Developing Countries”**

Structural Adjustment Programs (SAPs) have been implemented in many developing nations to promote macroeconomic reform and integration into the world economy. In the concluding chapters of *Structural Adjustment, the Environment, and Sustainable Development*, the author evaluates the environmental and social impacts of SAPs in nine developing countries. These chapters draw on case studies of Cameroon, Mali, Tanzania, Zambia, El Salvador, Jamaica, Venezuela, Pakistan, and Vietnam. The question at issue is: are such programs putting these countries on a development path that is sustainable? Both short and long-term impacts on the environment and social equity are addressed.

### **Structural Adjustment and Sustainable Development**

The object of structural adjustment policies is to bring developing countries into the world economy by adopting a development strategy based on: the promotion of export-oriented growth; the privatization of state-owned industry; the elimination of barriers to international trade and investment flows; the reduction of the role of the state as an economic agent; and the deregulation of domestic labor markets.

The nine developing countries examined in this study share several commonalities. Their economies are dependent on the export of agricultural products or the extraction of natural resources; a large proportion of the population lives under poor social and economic conditions; all except Jamaica have high population growth rates; and all except Venezuela have a high percentage of their populations in rural areas. In order to achieve a sustainable result in these countries, the economic, social, and environmental dimensions of development should “converge in such a way as to generate a steady stream of income, ensure social equity, pursue socially agreed upon population levels, maintain human-generated and natural capital stocks, and protect the life-giving services of the environment.” (336) To fully evaluate these effects, the short-term and long-term impacts of SAPs need to be examined separately.

### **Short-Term Environmental Impacts**

Short-term impacts of SAPs occur in the early stages of adjustment: currency devaluation and trade liberalization (together seen as price corrections), and changes in fiscal and monetary

policy. These policies have varied impacts on the economic, social, and environmental dimensions of the adjustment process.

If measured by traditional economic measures, adjustment programs are having their desired effect in most of the nine countries. In most cases per capita GDP, agricultural exports, and revenues from extractive industries are all on the rise, while budget deficits and inflation have been brought under control.

In relation to distribution, the picture is less encouraging. Most of the benefits of SAPs accrued to wealthy, outward-oriented producers and merchants, commercial farmers, and investors in extractive industries. The heaviest costs of SAPs have been borne by small rural farmers, workers in the informal sector, urban consumers, redundant government employees, and women. Economic and social inequalities between these “winners” and “losers” have become exacerbated during the adjustment process as well. While the winners often respond more efficiently to price corrections, the losers often end up drawing down their productive assets to survive. This “accelerates the most intractable environmental problem facing many countries – that is, poverty-induced environmental degradation.” (319)

Compounding these problems is the changing role of the state. Consciously limiting the state’s role as an economic agent has been highly successful in eliminating inefficiencies, reducing government mismanagement, and correcting fiscal imbalances in these economies. However, in many areas the dismantling of government is undermining economic reforms, jeopardizing social stability, and weakening environmental sustainability as a result of reductions in social, environmental, and extension services. Paradoxically, it may end up being more difficult for the efficiency goals of price corrections to be achieved because the state’s ability to correct policy and market failures has been virtually eliminated.

As with the economic and social dimensions of SAPS, there are a number of impacts on the environment that are clearly positive. In some cases, exchange rate reforms have led to a shift away from “erosive” to “nonerosive” crops, and price corrections have created new agricultural incentives that have stimulated expansion and diversification of tradeable crops and other commodities. These are positive effects in that they increase relative returns to the agricultural sector and raise the incomes of some farmers, thus encouraging on-farm investments. In other cases, however, nontraditional cash crops can be more erosive or generate other negative environmental effects such as deforestation during the processing stage (e.g. drying and curing of tea and tobacco).

The environmental impacts of agricultural sector adjustments are largely a function of the status of farmers in the countries being considered. Large, commercial producers can respond to the new playing field by diversifying crops, intensifying production, and introducing new technologies. Small farmers and rural workers however, cannot absorb the increased costs of inputs (due to new external conditions and the removal of internal subsidies), nor are they flexible enough to respond to the new incentives stemming from economic integration. They may respond instead by agricultural extensification, deforestation, and intensified use of marginal lands. Adjustment can thus lead both to lower living standards for the rural poor and to increased environmental damage.

In countries with large extractive sectors, output growth and employment benefits have resulted from structural adjustment, but these benefits have been accompanied by a dismantling of government capacity to manage and regulate those industries so as to minimize environmental costs. In Tanzania, Zambia, and Venezuela, such policy failures are generating highly damaging environmental impacts. The failure to couple internal and external adjustment with adequate regulatory reform and institutional strengthening is generating high revenue and employment on the one hand and higher environmental costs to be absorbed in the future, on the other.

### **Long-term Impacts on Development Paths**

The structural adjustment goal of “getting the prices right” may correct inefficiencies in these countries in the short term, but it raises two questions for the long-run: does such an approach guarantee economic security and a place in the future world economy? And does it provide continuing income for the majority of the citizens in these societies? The answer to these questions will depend on whether the new economic regime is equipped to give these countries the proper incentives to utilize their natural resources and environmental services on an enduring basis.

The country studies indicate that adjustment has accelerated the drawing down and overuse of natural resources and environmental services. Deforestation, soil degradation, and watershed disruption have been widespread. In some cases, environmental trends worsened with adjustment, in others pre-established trends have continued. “Without exception, however, the studies affirm the fact that the current environmental trends are serious, have long-term implications, and in many cases show signs of irreversible damage.” (347).

There is a conflict between the short and long-term costs and benefits in the agricultural sector also. The export value of primary commodities has been steadily declining relative to the export value of manufactures. This suggests that the more diversified economies will continue to benefit more from export oriented growth policies than countries that are focusing on a small number of agricultural or extractive products. If these trends continue, then agricultural countries will see a decreasing relative share in global wealth over the long term. “In short, is this development path increasing the risks of mortgaging the economic futures of the countries for the prospects of gaining greater access to global markets in the short term?” (351)

It may be that the long-run benefits of adjustment will raise per capita incomes for small and large farmers alike. However, the studies suggest that in the short run, existing inequalities have been exacerbated. This in turn has accelerated the drawdown of natural capital. This poses critical problems in societies where poverty is pervasive, and where population growth exceeds productivity gains. “What institutional force will mitigate the trend toward growing inequality and poverty-induced environmental degradation if the ability of governments to promote basic standards of equity and decency has been weakened?” (352)

The failure to correct social and environmental problems at the national level arouses concern for possible global ramifications. Global consumption of resources may cause large-scale environmental irreversibilities before relative resource scarcity is reflected in world prices. “If

the designers of structural adjustment programs gave little thought to national-level environmental impacts of economic restructuring, they certainly gave no consideration to the global implications.” (353) The lack of effective institutions for global environmental management means that there is no safeguard against cumulative problems arising at the national level but affecting planetary resources.

### **Policy Recommendations**

While economic reforms are clearly necessary on a global scale, the process of how the costs and benefits of adjustment are distributed is in need of reform. The following recommendations call for changes in development priorities and a shift in function among the various actors within nations:

- Integrate environmental issues into macroeconomic reforms;
- Incorporate the needs of the poor in adjustment programs;
- Recognize the state’s role in complementing the goals of adjustment by minimizing social and environmental costs;
- Enhance and expand the role of community groups and non-governmental organizations in designing and implementing aspects of the development process;
- Reform international financial institutions to incorporate “getting long-term social and environmental strategies right” in addition to “getting the prices right”;
- Reform systems of national accounts by establishing and incorporating sustainability indicators;
- Reform the international trading system so that participation in the world economy is predicated on adherence to the social and environmental dimensions of development.