Chapter 1
The Origins of Structural Reform:
Structural Adjustment, What and Where Did It Come From?

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ABSTRACT

The 1970s witnessed economic programs aimed to help governments refinance their debts owed to the American international banking system by ending the Bretton Woods system and the gold-dollar peg. These programs required debtor states to open up their markets and privatize state-owned companies, ultimately strengthening the power of international financial institutions and promoting a more neoliberal economic approach in many parts of the world. As part of these efforts, many laws restricting the private sector were repealed, government spending was curbed and refinanced through credit policy, trade restrictions were reduced, and the exchange rate was devalued. This period also saw the abolishment of collective labour rights, introducing or increasing subsidies for companies, and tax relief for these businesses with deregulated pricing policies. International financial institutions such as the World Bank and the International Monetary Fund advocated structural adjustment for developing countries to overcome economic distress. This chapter focuses on the origin of these policies.

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INTRODUCTION

In the past half-century, around fifty countries, more than half of them in Africa, have implemented structural adjustment programs (SAP). However, although the term is used more and more frequently in Third World countries, associating it with debt strategy, it needs to be understood in all its dimensions. For example, denouncing structural adjustments – negative - social impacts is common without defining this beforehand. Likewise, the International Monetary Fund (IMF) and the World Bank (WB) are often presented as the main actors responsible for the increase in poverty globally, notably due to their role in the adjustment. However, this role is rarely explained and placed in a more global context. What is a structural adjustment, and what are its origins? What is it about? Why and what to adjust to? Who requires this adjustment? For what purposes? These are some of the questions one needs to answer in this chapter.

The strategic goals of the WB and IMF are set out in their Articles of Agreement. The IMF should mainly intervene to support short-term balance of payments imbalances and pursues precisely defined goals:

- restrict the money supply and thus reduce inflation;
- reduce government spending;
- increase exports and thus government revenues.

The IMF's decisions and programs not only have domestic political consequences for the countries taking out loans. They also have an important signalling function for other lenders, especially private commercial banks. For example, a country that does not sign the IMF's letter of intent will also have difficulty obtaining loans on the private capital market at all, or if it does, then only under harsh conditions. The financial situation of many developing countries is often so precarious that new loans are usually only granted with high interest rates and strict conditions. If a country in financial difficulties refuses to allow the IMF to impact its internal affairs, it can immediately be subject to sanctions, which can lead to the freezing of funds and even a trade boycott.

The World Bank was given the task of promoting long-term development projects through advice and technical support, for which it provides loans directly to the governments of its member countries. This originally intended division of tasks no longer exists in this form today. The IMF now grants longer-term loans, while the World Bank in turn also provides (short-term) balance of payments assistance. At the time the organizations were founded, two areas were in the foreground. Firstly, the reconstruction of Europe after the Second World War; the consolidation of the interests of the USA as an emerging economic and leading power of the western

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