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## The Perfect Storm: Lasting Impacts of Structural Adjustment Programs and Pressures of Climate Change in Latin America and Ghana, Africa

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## The Perfect Storm: Lasting Impacts of Structural Adjustment Programs and Pressures of Climate Change in Latin America and Ghana, Africa

At the turn of the 1980s the conjoined rise of globalization and neoliberalism established a precedent of austerity in the economies of developing nations worldwide. This global transition appeared beneficial, resulting in massive increases in trade amongst all international partners. During this same transition there was the widespread implementation of structural adjustment programs (SAPs) within developing nations located in South America, Africa, and Asia. These programs, sponsored by the two Bretton Woods institutions, the International Monetary Fund (IMF) and the World Bank, emphasized austerity and were created to stimulate economic growth with the purpose of raising developing nations out of debt and poverty. Although proponents of SAPs hold that their implementation was effective in extinguishing poverty I will show that not only have these program failed to accomplish their very purpose, but also made these developing nations more susceptible to threats posed by climate change.

Before I delve into my argument, I will provide a brief overview of how SAPs came to be. Leading up to SAP implementation, many large financial institutions, “lent heavily [to developing nations] and at a rate ‘difficult to justify’ during the 1970s” (Benería 1996:15). This appeared to pose no serious fiscal threat until the combination of increased interest rates on loans and a sudden hike in oil prices put many nations on the verge of bankruptcy and default. Once Mexico defaulted in 1982, the perceived threat of an international financial crisis was more than palpable. In response, the IMF and the World Bank created the first SAP which was subsequently adopted by Mexico to avert

global financial calamity (Benería 1996:11). Many struggling nations in Latin America and Africa adopted similar models of the original SAP as an agreement with the IMF and other financial institutions. Following these agreements it appeared that the threat of financial crisis had been alleviated. In the view of the IMF and World Bank, combatting financial collapse within the varied developing nations of the world called for structural adjustment embodying a flexible and rapid application of austerity.

According to proponents of SAPs, these programs sought to mobilize an entire nation's economy in order to pay the nation's collective debt (Benería 1996:12). In the IMF and other financial institutions' view, the economic stagnation endured by debtor nations is the product of barriers to development including state interference, a large public sector, and social welfare programs (Konadu-Agyemang 2000:474). In order to combat these state "inefficiencies", SAPs were generally engineered according to four guiding principles of austerity. These four principles include: devaluation of currency, drastic cuts in government spending, facilitation of foreign competition and investment, and transition from an import substitution to an export promotion economy (Benería 1996:12). Years following implementation, the IMF and the World Bank pointed towards certain indicators on the macroeconomic scale to show that conditions in affected nations have improved.

The IMF and the World Bank often advocate for SAPs by pointing to Africa's most "successful case" of SAP implementation, the coastal nation of Ghana. Following adjustment in Ghana, "between 1984 and 1991, GDP growth averaged 5%–6%, and since 1992 has hovered between 2.5% and 4%... the annual rate of inflation dropped from an

average of 123% in the early 1980s to 32% in 1991, 34% in 1994, and 29% in 1997.” (Konadu-Agyemang 2000:474). Ghana, as well as other post-adjustment nations, show trends of improvement in economic condition when referencing growth of GDP; but, as one turns to other indicators of development the results of adjustment are more than uninspiring.

Critics of SAPs argue that GDP growth does not paint a complete picture of improving social and economic condition. Lourdes Benería describes the fallout of the foreign debt crisis and implementation of SAPs, “as an unprecedented international effort to save the commercial banks... by mobilizing entire countries and a large proportion of their population to avert a financial crisis of world proportions. Yet, despite these efforts, heavy debts continued to burden most countries.” (1996:15). This effort appeared to be a virtuous undertaking for the IMF and World Bank. However, once their financial stake was protected, interests in lifting these nations out of poverty soon waned and these SAPs failed miserably at achieving that righteous goal.

The region of Latin America serves as a prime example of the underperformance of SAPs. Many nations’ economic positions, particularly Mexico, suffered tremendously under SAP implementation. For instance, even accounting for GDP growth within Latin America during the same period, “between 1982 and 1992 the total external debt outstanding increased in all Latin American countries.” (Benería 1996:15). Given this statistic alone, it can be argued that SAPs undoubtedly failed in their mission to lift developing nations out of debt. A deeper look into how poverty worsened within Mexico in the post-adjustment era will further illustrate this failure.

The nation of Mexico is often pointed out as a critical example of ineffective structural adjustment. Researchers have compiled statistics showing that within Mexico, “the rapid growth of manufacturing has not led to an increase in employment... March 1994 employment in manufacturing was only two-thirds of its 1980 level. Mexico is a prime example of jobless growth.” (Alarcon-Gonzalez and Mckinley 1999:105). These findings of increased unemployment are consistent across the board in Latin America. A key connection can be made between jobless growth and adjustment’s push for increased foreign investment. As foreign investment increased within Mexico, “the relative share of gross national product (GNP) going to wages has decreased drastically... 40 percent in 1976 to 32 percent in 1982 and continued to decline in the 1980s.” (Benería 1996:13). As Latin America became more integrated into global markets, competitive pressure was exerted upon Latin America’s manufacturing to not only employ *fewer* workers, but to *lower* compensation for those still in their employ. These indicators serve to illustrate definitive decline in standard of living and are certainly at odds with the objectives outlined for SAPs.

The deteriorating conditions observed in Latin America demonstrate that the hopeful outcomes anticipated of SAPs are far from becoming a reality. The sobering reality is, post-adjustment nations are left with *more* debt, and their people with *fewer* employment opportunities for *less* compensation than in the pre-adjustment period. Unfortunately, the forces that would typically combat these declines in standard of living, such as government intervention and welfare programs, have too been all but slashed.

As mentioned prior, SAPs require drastic cuts in government spending especially in health, education, and welfare programs. Findings show, “per capita public expenditures on education in Mexico declined 66 percent between 1982 and 1984 while the corresponding figures for health and social security fell by 70 and 75 percent respectively.” (Benería 1996:12). These services are often offered by the state to combat declines in standard of living and are most utilized by poor families. Thus these cuts, disproportionately hurt those living in poverty. To make matters worse, issues of worsening unemployment, high inflation (due to devaluation of currency), and poor labor compensation contributed to the rise of poverty. According to the Economic Commission for Latin America, “in 1980, 32 percent of the population in the region lived below the poverty line, by 1985 the proportion had increased to 39 percent and continued to increase throughout the decade.” (Benería 1996:17). Essentially, in the wake of adjustment, not only did the proportion of those living in poverty increase, but the ability of the state to address this issue was all but dissolved in Latin America. These negative outcomes were not isolated to SAPs implemented in Latin America, but were also observed within one of the most successful cases of adjustment in Africa, the nation of Ghana.

Throughout the 20<sup>th</sup> century Ghana showed promise as Africa’s most economically stable nation. Unfortunately, in the early 1980s the nation found itself in economic freefall. One of the worst droughts in the nation’s history caused bush fires destroying nearly one-third of all food and export crops. This unfortunate natural disaster

paired with rising rates of inflation and a shrinking GDP left the nation with no option but to turn to a SAP (Codjoe and Dzanku 2009:559).

Following adjustment, although Ghana's GDP showed consistent growth, similar to nations within Latin America, other indicators pointed to worsening conditions. According to World Bank and GLSS statistics, "Ghana's total debt more than quadrupled from \$1,398 million in 1980 to \$5,874 million in 1995... Reports all indicate that despite slight improvements in the incidence of poverty between 1987 and 1992, 31% of all Ghanaians fell below the poverty line... in May 1992" (Konadu-Agyemang 2000:474-5). These statistics demonstrate that Ghana was saddled with *more* debt and *higher* incidences of poverty following adjustment, replicating similar developments in Latin America. In addition to these unsatisfactory results, Ghana was also required to make drastic cuts in government spending (health, education, & welfare). These cuts reproduced comparable negative and disproportionate effects on those living in poverty as observed within Latin America. Digging even deeper into Ghana's post-adjustment society has revealed striking trends in growing regional socioeconomic disparities within the nation itself.

Even prior to adjustment, disparities existed between the rural, resource-poor regions of Northern Ghana, referred to as the savannah belt, and the forested settlements of the South. It can be argued that adjustment accentuated the gap between the two regions especially taking into account that "despite the fact that the rural areas contain 64% of the population, 80% of the poor lived there in 1995, compared to 57% in 1981 and 60–65% in 1978." (Konadu-Agyemang 2000:475). It is clear that disparities between

the two regions grew in the post-adjustment period, but what could account for this migration of the impoverished to the savannah zone? As required by SAPs, there was a systematic transition to an export promotion economy. This transition encouraged the production of key exports, such as cocoa and timber, which cannot be sustained in the resource poor and often harsh climate of the savannah belt (Konadu-Agyemang 2000:475). Thus, this economic shift made arable land with the potential to produce such exports rise in value. This transition, in turn, led to an impoverished exodus as well as facilitating the deforestation of Ghana's wooded regions. This development serves to illustrate SAPs' acceleration of climate change and greenhouse gas emission.

The underperformance of SAPs has been aptly demonstrated through the deteriorating conditions in Ghana and Latin America, but these very same programs have made these regions more vulnerable to threats posed by climate change. SAPs paired with other free trade agreements have facilitated environmental degradation. This degradation has accelerated the rate at which these developing nations are facing climate change. Two major forms of environmental degradation, deforestation and air pollution, have been encouraged by SAPs.

In reference to climate change, deforestation plays a key role in accelerating the accumulation of greenhouse gases in the atmosphere. As any plant photosynthesizes it actively takes carbon dioxide (a leading greenhouse gas) out of the air and sequesters, or effectively stores, the CO<sub>2</sub> into its limbs. The CO<sub>2</sub> stored in the organic matter is released when the said plant is burned or decomposes naturally. In this sense, forests act as major carbon sinks. By trapping overwhelming amounts of CO<sub>2</sub> in their trunks, trees are



tremendously important in slowing the acceleration of climate change. This is the precise reason why deforestation is so damaging in terms of environmental degradation. Not only through the clearing of forests are these processes to naturally abate emissions disrupted, but all the CO<sub>2</sub> trapped within these forests is immediately released into the atmosphere. The effects of deforestation on climate change are yet another reason why the policies encouraged by SAPs are so disturbing.

Revisiting the case of Ghana's adjustment, the dramatic transition to export promotion and reliance on the production of cocoa/extraction of timber devastated Ghana's natural resources. According to a recent study within Ghana, "deforestation [is] to have increased by about 55.9 percent during the post-adjustment period relative to the pre-adjustment period... Assuming all other determinants of agricultural land use remained constant, conversion of forestland to agriculture land use increased by as much as over 223 percent." (Codjoe and Dzanku 2009:576). Through this study, it is apparent that SAP emphasis on short term profitability was seriously detrimental to the forests of Ghana, and in turn greatly contributed to the climate change crisis. In the years following adjustment, approximately 19,400 hectares of forest have been annually cleared for cocoa production and timber extraction (Codjoe and Dzanku 2009:582). The facilitation of transnational industry and subsequent greenhouse gas emission within Latin America becomes even more concerning with Ghanaian forests less capable of capturing the immense amount of CO<sub>2</sub> spewed into the atmosphere.

Within Latin America, the forced transition to export promotion economies signaled a stark shift in developing nations' reliance on foreign investment. This

newfound reliance paved way for the passage of free trade agreements such as NAFTA. The successful passage of NAFTA is often viewed as a grand achievement of trade liberalization and foreign policy, resulting in a 300 billion dollar increase in international trade as of 2002. However, it is now clear that these economic gains came at a great cost to the environment.

As foreign investment into Latin America grew so did the region's carbon footprint. According to reports compiled by social scientists Andrew Jorgenson and Edward Kick, "foreign investment concentration and the growth of foreign manufacturing subsidiaries appear to significantly accelerate the growth of carbon dioxide emissions over the 16 year period examined." (2006:61). These findings form the connection between adjustment's emphasis on the facilitation of foreign investment and subsequent increases in CO<sub>2</sub> emissions. The passage of NAFTA has also been argued to provide transnational corporations with a legal avenue to sidestep environmental regulations in developed nations.

Even prior to NAFTA, corporations were intent on avoiding costly and "inconvenient" environmental safeguards present within the U.S. These regulations were created in response to rising public concern in the 1970s over pollution emitted by industrial manufacturing. The same study presented by Jorgenson and Kick also states, "During the 1980s as U.S. pollution abatement costs increased, U.S. maquiladora [manufacturing] investment increased dramatically... It is also interesting to note that many of the U.S. corporations lobbying for the North American Free Trade Agreement (NAFTA) were major polluting industries." (2006:136). This correlation further

demonstrates that transnational corporations avoided the rising costs of industry, tied to environmental degradation, by migrating to developing nations with lax environmental laws. In addition to keeping costs low, corporate support of legislation (NAFTA) essentially normalized this shift of pollution heavy industry to the periphery. Due to lax environmental regulations within Latin America, these transnationals were able to emit a substantially greater amount of harmful pollutants (CO<sub>2</sub>) with little state interference, effectively accelerating the onset of climate change.

Through the adjustment of Latin America and Ghana, it is clear that processes set in motion have negatively impacted the globe's position in regards to climate change. The encouragement of deforestation in Ghana and substantial increases of industrial pollution in Latin America have undoubtedly accelerated the rate at which the world will be feeling the disastrous effects of climate change. With more pollutants being emitted and less forest cover to mitigate this accumulation we, unfortunately, are rapidly approaching a breaking point which could forever alter the Earth as we know it. This revelation is especially disturbing because the first to experience the devastating effects of climate change will be those least prepared to deal with the repercussions; the nations that implemented SAPs all those years ago.

Essentially SAPs systematically crippled developing nations' ability to adequately respond to devastation at the hands of climate change. As demonstrated prior, SAPs left nations saddled with *more* debt, *higher* incidences of poverty, and *significantly weaker* government to address declines in standard of living. These developments spell out catastrophe in the face of new challenges posed by climate change. The unfortunate

pairing of SAPs and climate change has set up post-adjustment nations for the “perfect storm”. One of the effects of this “perfect storm” ironically is the lack thereof in certain places, with increases in the frequency and intensity of drought along the equator.

Overarching effects imposed by intense drought include global food and water shortages, increased deforestation, desertification of arable land, and the spread of lethal wildfires. If you remember, severe wildfires played a key role in leading Ghana to adjustment in the first place, foreshadowing disaster for the region. Recalling the disparity between the Northern savannah belt and forested Southern zones of Ghana, increasing severity of drought would disproportionately threaten the poor residing in the North. In another dire scenario, increased drought could lead to enlargement of the desert-like savannah. This enlargement has the potential to swallow existing agricultural operations, endangering the nation’s primary and already limited source of revenue. With the citizens of Ghana in an increasingly vulnerable situation and the state in no position to provide aid it seems inevitable that conditions in Ghana will deteriorate in the wake of climate change.

The effects of climate change are not looking any less devastating for post-adjustment Latin America. A number of climate change models have predicted an increase in the frequency of powerful storms, resulting in increased fatalities and damage dealt to infrastructure (Jorgenson & Kick 2006:64). Unfortunately, these effects have already been witnessed in post-adjustment Haiti. Still recovering from a horrific earthquake, the island nation of Haiti was struck by category 4 Hurricane Matthew this past October. In the wake of Matthew’s destruction, initial reports state over 1,000 dead,

billions of dollars in damages, and over 1.4 million citizens in need of humanitarian assistance (Marketplace 2016). Al Jazeera, a news provider, commented on the disaster, “Poverty, weak government and precarious living conditions for many of its citizens make Haiti particularly vulnerable to natural disasters.” (Al Jazeera 2016). As post-adjustment nations face *increasing* incidences of poverty and *limited* government, these nations have grown more vulnerable to natural disasters and rely entirely upon foreign support to respond to such events. With weather systems anticipated to grow more destructive in conjunction with post-adjustment nations’ already insufficient ability to address disaster it would appear the developing world is in for the perfect storm indeed.

Consequently, although SAPs were initially devised to lift developing nations out of poverty, multiple indicators have shown the opposite effect. This righteous goal has not been achieved and has been illustrated by rising incidences of poverty, increasing levels of national debt, and insufficient government support to address declines in quality of life. Geographic context proves indifferent in SAP success as examples in both Latin America and Africa demonstrate similar declines. Post-adjustment nations have been put in a precarious position where they must encourage environmentally destructive industries at their own imminent detriment as their only means of providing employment and improving their citizens’ quality of life. These transitions and industrial processes, ultimately facilitated by SAPs, have served to accelerate the onset of climate change and effectively dissolved the state’s ability to respond effectively to the dangers posed by a changing global climate.

Although the critical evaluation of structural adjustment within Africa and Latin America paints a grim fate for post-adjustment nations, I believe that policymakers have much to take away from this unsuccessful endeavor when looking toward future policy creation. One of the greatest errors of judgement committed by the IMF and World Bank involved applying a generic blueprint of austerity to a host of nations with entirely different political history, culture, and access to natural resources. This “one-size fits all” strategy of policy formulation has proven ineffective in regards to structural adjustment and demonstrates the value of holistic policy decision-making looking forward. Knowing what we now know about the repercussions of human-induced climate change it is imperative that the value of the world’s natural resources be held to the same standard as economic indicators if one is to design comprehensive and sustainable public policy.

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