

#### IV. LIFTING THE BURDEN OF DEBT AND STRUCTURAL ADJUSTMENT: A FRAMEWORK FOR CANADIAN POLICY IN THE 1990s

##### A. The Debate Over Adjustment and "Conditionality"

Attaching stringent economic policy conditions to various forms of international financial assistance did not suddenly emerge with the debt crisis of 1982. By then there was already a long-standing debate over the merits of "program aid" and "policy-based" lending. Given the increasing balance of payments difficulties of many developing countries, the IFIs and some donor governments began to devote more of their resources to such macroeconomic transfers in addition to individual projects. Rich-country donors and creditor institutions were usually in a strong position to ask for policy changes in their dealings with developing country governments. But there were hazards, as Albert Hirschman pointed out in a seminal essay several decades ago:

A country which permits its key economic policies to be determined by this type of international negotiation finds itself in fact in a semicolonial situation and is likely to adopt all the time-honoured methods of stealthy and indirect resistance appropriate to that situation.

The fact that certain commitments have less latitude in implementation and are therefore less prone to sabotage than others has naturally led to a preference of aid negotiators for these types of commitments. In this way we can explain the increasing tendency to make program aid depend on the taking of specific monetary and exchange rate measures and on the "appropriate" behaviour of certain fiscal and monetary indicators, while less and less attention is paid to economic growth and social justice, supposedly the principal objectives of aid.<sup>(13)</sup>

The debt crisis escalated the demand for balance of payments lending, and the controversies over the "neocolonialism" involved in the orthodox economic "conditionalities" associated with these loans. The IMF in particular came under fire as being more concerned with the manipulation of statistical indicators of external balance than political viability or human welfare. Conditionality seemed to many to impose on the already poor a regimen of more pain and austerity with only a promise of distant gain. When it became obvious that the crisis was neither purely financial nor temporary, the focus extended beyond emergency measures of macroeconomic "stabilization" to the development of broader and longer-term "structural adjustment" lending programs (SAPs). These programs, which became a major element of World Bank activities in Africa and Latin America, aimed to restore a sustainable growth pattern, and thereby debt servicing capability, in the severely-indebted countries. Although ostensibly tailored to each country's circumstances, SAPs have been very similar in insisting on a common menu of market-oriented reforms: currency devaluations, public sector and wage restraint,

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(13) Albert O. Hirschman, "Foreign Aid: A Critique and a Proposal," in *A Bias For Hope: Essays on Development and Latin America*, New Haven and London: Yale University Press, 1971, p. 207.