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EXPLORATORY STUDY ON APPROACHES TO THE SOCIAL IMPACT OF STRUCTURAL ADJUSTMENT POLICIES

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Preface

During the past two decades, the accumulation of foreign debts, the falling prices of raw materials and the consequent stagnation of national economies have forced the developing world to change its focus. Attention has shifted from the economic growth that characterized the decades after the Second World War to a preoccupation with the implementation of structural adjustment programmes dealing with the adjustment of macroeconomic imbalances. In most cases, structural adjustment programmes meant that developing countries were required to adopt economic measures that brought down the level of aggregate demand and adversely affected the different social classes in varying degrees, depending on the composition of the adjustment instruments chosen. In many cases, this has led to a worsening of the distribution of income and an increase in the incidence of poverty; thus the adjusting country had to pay a high social cost, which has been an obstacle to the implementation of coherent structural adjustment. The need to combine structural adjustment programmes with social equity and to avoid increased impoverishment of the population has become an urgent priority.

The objective of the present study, which reviews the available literature on the social impact of structural adjustment policies, is to present the various debates that developed in the 1980s on how to evaluate the social impact of structural adjustment policies, and whether this evaluation should be made by the leading development agencies or by the end-users. The study also examines the social impact of structural adjustment programmes implemented so far in selected parts of the world and draws relevant conclusions for the countries of the ESCWA region on how to avoid paying the high social costs that have often resulted from the application of adjustment programmes.

Part one of this study deals with the different concepts of structural adjustment as they relate to the social sector, and includes three chapters. Chapter I deals with the history of structural adjustment, its definitions as propagated by the Bretton Woods institutions and its broader meaning as an engine for development. Chapter II deals with the importance of taking a new look at structural adjustment to include the social components. Chapter III covers the current ongoing process of globalization, which necessitates further reform in developing countries. Part two of the report deals with the operational aspects of applying structural adjustment programmes and the social implications that resulted from such applications. Chapter IV explores the past experiences of African, East Asian and Latin American countries and the social implications of the structural adjustment programmes adopted in these parts of the world during the past two decades. Chapter V deals with how to monitor the social impact of structural adjustment policies and issues related to measuring social progress in an adjusting economy. Chapter VI deals with such experiences and the lessons that could be drawn for the ESCWA region. The African and Latin American experiences have been selected for inclusion here to demonstrate the worst possible scenarios that could apply to developing countries in terms of social disintegration and polarization. East Asian countries are considered to be on the other side of the spectrum, that is, to have demonstrated the success of such policies. Experiences in other parts of the world such as Eastern Europe will not be considered here owing to their incompatibility for purposes of comparison with the ESCWA region. Chapter VII presents conclusions and recommendations.

The idea behind the research on the subject of this paper started with an attempt to compile and review current literature on the social implications of structural adjustment as applied to developing countries. This was to be the first step in initiating a study on the ESCWA region and the social impact of structural adjustment planned for the next biennium. However, in order to draw lessons from the experiences of other developing countries, it was decided that it would be more practical to investigate the different concepts and the schools of thought on the social implications of structural adjustment policies. In this context, efforts were made to elaborate on the two current schools of thought with the aim of formulating conceptual and operational tools for future research on the ESCWA region.

The approach adopted in the research is as follows: the initial compilations were classified by subject. Instead of adhering to the review of literature approach, the study focused on the concepts developed by both proponents of and opponents to the policies of the Bretton Woods institutions. Such concepts are investigated in part two of the study through a review of past experiences of countries undergoing structural adjustment in various parts of the world.

As a whole, the present study is a summarized compilation of the major theoretical and empirical work on structural adjustment, and its social impact during the past two decades. The study was written specifically to draw the attention of policy makers and national planners to the historic course of adjustment and the profound social implications. The study was also designed to be a guide to researchers to see where and why other structural adjustment programmes failed or succeeded in other countries with economic, social and cultural backgrounds that could be compared with the ESCWA region. The study points out that the socio-economic infrastructure of each country should be thoroughly evaluated prior to the application of a structural adjustment programme. Though the ESCWA member countries are homogenous in most of their cultural heritage, the social dimensions in each country differ and the applied tools will therefore not always yield the same results.

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PART ONE

CURRENT CONCEPTUAL APPROACHES TO THE SOCIAL IMPLICATIONS OF STRUCTURAL ADJUSTMENT

I. INTRODUCTION, BACKGROUND AND DEFINITIONS

Introduction

All research on the origins of structural adjustment programmes has shown that, in the current complex world economy, structural adjustment is an inevitable process needed for growth. Most experts on development agree that structural adjustment that parallels structural change is the essence of development. Countries develop by adjusting from agriculture to industry, or by adjusting from production for household consumption to export-oriented production, to cite but two examples. With the current ongoing globalization trend, the process of structural adjustment is becoming a prerequisite in order for individual economies to participate in the growing international economy. The United Nations Research Institute for Social Development (UNRISD) reflects this idea by stating that "Governments, firms, and individuals are constantly ... adapting to changing conditions, in an attempt to offset disadvantages and improve their position in relation to others" (UNRISD, 1994:1). However, in recent times, structural adjustment programmes refer more narrowly to "the process of adapting to circumstances involving sudden, large and often unexpected changes that may be favourable or unfavourable to pre-selected developmental objectives" (Chapelier and Tabatabai, 1989:18). At present, the term "structural adjustment" is used more specifically in reference to the particular approach of the Bretton Woods institutions (or what is currently referred to as the "Washington consensus") to solving the economic crisis affecting many developing countries. In this approach, structural adjustment may be defined as a set of policy responses to external or internal shocks with the objective of improving a country's balance of payments position in the medium term and promoting its economic growth (ibid.). The term "structural" encompasses two components: the need for major (as compared with marginal) changes in policies in response to major internal and external shocks, and secondly, the need for changes in the structure of production and distribution.[1]

This new meaning given to structural adjustment was interpreted by some researchers as a shift in favour of developed countries. According to Toye, it is "an abrupt reversal of the locus of responsibility for ensuring successful world development, from the shoulders of the economically strong to the economically weak" (Toye, 1995:2). Furthermore, according to Khan it was "the domestic policies of the developed countries, especially the United States, which were responsible for the unprecedented rise in the real rate of interest" that led to the imbalances in the developing countries (Khan, 1993:4). Another cause of imbalances in developing economies was constituted by the trade barriers imposed by the Organization for Economic Cooperation and Development (OECD) on imports from developing countries, which resulted in rapid deterioration in terms of trade of developing countries. To summarize: the inescapable conclusion is that the structural imbalance confronting the developing countries has been largely due to the policies adopted by the OECD countries (Khan, 1993:7). Similar conclusions were reached by many other researchers and institutions that pay special attention to the welfare of developing countries.[2]

In another interpretation, UNRISD has summed up the evolving meaning of structural adjustment programmes through the following:

> Initially before 1982, the term "structural adjustment" was given a narrow interpretation, whereby the term meant nothing to the majority of policy makers and social scientists, but by the end of the decade it was to be on the lips of most politicians in developing countries.

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[1] Adjustment is defined as the process of responding to (often severe) imbalances in the economy, particularly deficits in the balance of payments, usually by adopting measures that expand exports, reduce imports or otherwise attract foreign exchange. Often measures to curb a government deficit by increasing its revenues or cutting expenditure are also involved. These actions usually involve changes in the structure of the economy.

[2] For example, see article on "Global growth at too high a cost" by David Korten in *Choices, The UNDP Human Development Magazine*, January 1997, pp 4-8.

Structural adjustment programmes would be the principal method for promoting neo-liberal development models in indebted third world countries. It meant adjustment to outside shocks such as the oil price increase and the subsequent debt crisis. But when excessive deflation occurred in response to the balance of payments crisis, complaints were raised that adjustment should be in the context of expansion, not contraction. So between 1985 and 1988 there was talk of adjustment with growth. In 1987 UNICEF [United Nations Children's Fund] put pressure on the IMF [International Monetary Fund] and issued *Adjustment with a Human Face*, and the World Bank added a social dimension to adjustment. Concern for the poor was incorporated into the rhetoric of adjustment policies. For good measure, reform of public enterprises was also included. Then between 1988 and 1992, protection of the environment took an important place in the adjustment process. Next, democracy, human rights, and good governance found their place in the rhetoric. Adjustment came to embrace all the objectives of what had been covered under the term development (UNRISD, 1995).

Structural adjustment programmes as perceived at present by developing countries were originally World Bank prescriptions to alleviate the dependency of developing countries on foreign lending, that is, a mechanism to decrease foreign dependency. With time, structural adjustment became the only path for indebted developing countries to achieve growth. With the increased pressures of a global economy on developing countries to open up their economies, structural adjustment took a more serious role, becoming a blueprint for growth for such countries, and with the increased drive towards globalization, for their integration into the world economy.

Dharam Ghai puts it in another frame but with the same implications. In his discussion paper on structural adjustment, global integration and social democracy, Ghai writes: "A combination of the conjunctural crisis and pressure from creditor countries and institutions was responsible for the shift in the policies of most developing countries towards structural adjustment" (Ghai, 1992: 3). That mainly refers to the contractionary policies pursued by the industrialized countries (initiated by the Reagan Administration in 1981), which resulted in a sharp increase in world interest rates (thereby adding to the debt burden), massive deterioration in the commodity terms of trade and virtual cessation of private capital flows in the wake of the debt crisis and capital flight, thereby creating the conditions for a prolonged crisis in the majority of developing countries, especially in Latin America and Africa. The conclusion is that, in the wider context, the process of structural adjustment was first initiated in the industrialized countries after the Second World War, where the dynamic of the globalization process was in favour of such adjustment, and then "exported" to developing countries, when the global environment was no longer favourable to such transformations (Ghai, 1992).

An important distinction between structural adjustment programmes of developing countries and those of developed countries was highlighted by Killick in 1994, when he stressed the fact that structural adjustment associated with the policy prescriptions of the Bretton Woods institutions needs to be distinguished from the broader concept of structural change that stemmed from the work of Kuznet and Chenery. The latter is a long tradition in development economics stressing that structural and institutional transformation is intrinsic to long-run development and is a permanent requirement for national economies to adapt to changing circumstances and opportunities. It is an automatic change that occurs as a response to evolving demand and opportunities, while the former is induced by the manipulation of policy instruments (Killick, 1994). As a corollary, for structural adjustment programmes to be effective in transforming the economies under consideration, they should be part of a comprehensive strategy that seeks to adapt continuously to changing economic conditions on the one hand, and to bring about long-term structural change on the other hand.

A. History of structural adjustment programmes

From the perspective of industrialized countries, structural adjustment was a tool designed to perform as an essential instrument of policy for the achievement of world economic development during the period from 1940 to 1980. The developed countries had the responsibility of industrial adjustment as a means of "avoiding the damaging protectionist practices that characterized the Depression era" (Toye, 1995: 1-2). The developing countries, on the other hand, were undergoing stabilization policies that emphasized demand contraction and management through currency devaluation and retrenchment of domestic credit. With the emergence of the debt crisis in mid-1982, it became clear that the crisis was structural and deeply rooted to necessitate the intervention of the World Bank in macroeconomic management by involving structural adjustment of the economy or, as UNRISD put it, debtor countries became subject to the "conditionalities" of the World Bank and the IMF (UNRISD, 1995). The fall in the overall availability of external resources to developing countries during the 1980s, further aggravated their budget deficits and thus increased the dependency on the World Bank for lending.

According to Khan, the World Bank introduced the structural adjustment loan (SAL) as a new lending instrument through which developing countries were induced to adopt comprehensive adjustment programmes as a condition for eligibility for SALs. The introduction of the SALs was also a response to the serious balance of payments problems affecting many developing countries in the aftermath of the 1979 oil price increase. Khan asserted that the severity of the external shock for the developing countries during the 1980s was mainly because OECD countries resisted adjustment while shifting the adjustment burden to the developing countries: with a hypothetical adjustment in OECD policies, it should have been possible to enable most of the developing countries to improve the performance of their adjustment programmes. Accordingly, Khan concludes that "to insist that the developing countries must carry the entire burden of adjustment is to make it inevitable for many of these countries to settle for negative growth and increasing absolute poverty" (Khan, 1993:39). To further stress this thesis, some social scientists insist that the rich countries should compensate the developing low income countries for the massive human and natural resources previously extracted by them. Such compensation could mean that the burdens of recovery costs would be borne by the richer countries (UNDP, *Choices*, 1997).

The UNRISD study (1995) cites another picture of the history of structural adjustment programmes. It covers the development of the stabilization era up to the structural adjustment programmes era, at which time the "the neutral-sounding 'structural adjustment' was to become a euphemism for a radical experiment in neo-liberal economics. Governments [had] ... to abandon national projects of economic development and stake their people's future on unprotected participation in international markets" (UNRISD, 1995: 38). One main reason for its failure is that the neo-liberal model advocated under structural adjustment is a model in which the economy is self-regulated through open competition between private firms, with its public sector relatively passive and providing only the minimum services necessary to conduct private business efficiently and to protect society's weakest members. According to UNRISD, such a model does not correspond to anywhere on the globe, not to any of the industrial countries of the North and certainly not to any of the developing countries.

B. Definitions of structural adjustment programmes

The term "structural adjustment" as applied today to developing countries is shorthand for a wide range of policy reforms. These typically start with IMF stabilization programmes that are intended to reduce fiscal deficits (difference between government revenues and spending), restore the balance of payments to a viable position and end with the structural adjustment programmes of the World Bank. Stabilization programmes are almost always designed to reduce demand, notably by cutting government expenditure, controlling money supply and raising interest rates. Devaluation, which is intended to correct currency over-

valuation, restrict imports, and expand exports, is an almost universal part of IMF programmes. It is important to note an operational distinction between the two terms: stabilization refers to the restoration of balance between resource availability (supply) and absorption (effective demand). Stabilization policies of the IMF are generally concerned with the short to medium term (1 to 5 years) and emphasize demand contraction and management. The central targets for operational purposes are typically the basic external balance and the domestic rate of inflation. Structural adjustment is concerned with a reorganization of the structures of production and effective demand, with the aim of achieving positive, steady and sustainable growth of output under balanced supply and demand conditions. Structural adjustment policies are usually associated with the World Bank programmes and involve the medium to long term (3 to 10 years) and put more emphasis on the supply side of the economy. The distinction between stabilization and structural adjustment, while conceptually clear, has become increasingly blurred in practice, largely owing to the growing coordination between the two Bretton Woods institutions (Chapelier and Tabatabai, 1989). In the present paper, the term "structural adjustment" or "adjustment" is used to include both stabilization and structural adjustment policies.[3]

C. DIFFERENCE BETWEEN STABILIZATION AND STRUCTURAL ADJUSTMENT

Principal stabilization measures include exchange rate adjustments; reduction in fiscal deficit and contraction in money supply; reduction in the level of aggregate domestic demand; reduction in the demand for imports; and drive to increase exports. They have a powerful and quick contractionary effect on all three macroeconomic imbalances. They also have an adverse effect on the growth of output and employment. World Bank adjustment programmes, on the other hand, are considerably wider in scope than those of the IMF, and are intended to establish the foundation for long-term recovery. Measures include import liberalization, designed to increase exposure to foreign competition; the removal of domestic market distortions such as labour protection and food subsidies; and the privatization of public enterprises. In practice the two programmes are complementary in two respects: first, the principle of cross-conditionality means that World Bank seldom initiates a programme unless a Government has been through the stabilization programme of the IMF. Secondly, the World Bank, like the IMF, stresses the importance of stringent monetary discipline, the deregulation of labour markets to lower wages, economic policy liberalization and a reduced role of the State.

In his research on structural adjustment and income distribution, Khan stresses the importance of differentiating between the two: stabilization refers to the policy of an orderly reduction in demand to achieve improvements in macroeconomic imbalances (in deficits in the balance of payments, the fiscal deficit and the rate of inflation) to sustainable and acceptable levels. Structural adjustments emphasize reforms in microeconomic policies and institutions of the economy to enhance the efficiency of resource use as a major element of the strategy of dealing with imbalance (Khan, 1993). Khan provides examples of each instrument as applied by the World Bank and IMF and how the emphasis shifted from one instrument to the other and its impact on the welfare of the poor. The conclusion drawn was that it is not possible to apply such a broad package on an a priori basis. The composition of the adjustment instruments can only be determined with reference to the specific conditions of imbalance in a country and the specific form of each instrument. The alternative would be that the effect on the living conditions of the poor, especially in the short run, may be adverse and would outweigh any economic benefit (Khan, 1993). In another work, Khan (1995) concludes that structural adjustment instruments are far too numerous to be comprehensively enumerated. Instruments

[3] The terms "structural adjustment", "structural reform" or simply "adjustment" are used interchangeably in this paper as in much of the literature. In theory, the first term implicitly suggests that these policies should be invoked in the event of an unsustainable macroeconomic imbalance that needs adjustment. The second term suggests the desirability of adopting these policies irrespective of the presence of imbalances, while the last term is more general than both.

featured most prominently in many adjustment programmes include the liberalization of the trade regime, increasing the efficiency of public expenditure; restructuring the tax system; financial deepening; improving the efficiency and the profitability of the public enterprises; and improving the price system by removing distortions that (eventually) damage incentives, encourage wasteful use of resources and discourage the use of abundant resources.

D. ROLE OF INITIAL CONDITIONS

To demonstrate the importance of the initial conditions of the country undergoing structural adjustment, Khan divides the adjusting countries into four different groups according to the economic efficiency and equity of the country under consideration. Countries could have an egalitarian and efficient system in which the neo-classical model of structural adjustment programmes would be applied efficiently; on the other side of the equation, countries could have an inegalitarian and inefficient system in which structural adjustment programmes would have a negative impact. Other options are an egalitarian but inefficient system in which economic policies of structural adjustment programmes create a system of incentives that runs counter to the efficiency of resource allocations; or an efficient inegalitarian system in which maximum attention would be given to the redistribution impact of structural adjustment programmes. Khan proves that in each case a different set of adjustment measures is required to achieve ultimate growth. Some countries would need stabilization alone as the principal measure, while other countries with less efficient regimes would need more structural adjustment instruments (Khan, 1993). A similar matrix is reflected in the UNDP (United Nations Development Programme) 1996 Human Development Report which characterized the paths of development in the world over the past 30 years as being dependent on a mix of fast or slow economic growth and fast or slow human development.

Killick (1994) reached a similar conclusion in his research on the relation between structural adjustment programmes and poverty alleviation. According to Killick, the effects of structural adjustment programmes are likely to be strongly influenced by the distribution of asset ownership (egalitarian economies); improving the efficiency of the State and public enterprises would improve the impact of adjustment on the poor. Killick stresses the role of the initial conditions of the economy under consideration as an important factor in determining the success or failure of structural adjustment measures. The East Asian countries are cited as examples of economies that, despite no less severe conditions than those felt by other developing countries, were able to turn international trade and technological progress to their advantage and combine high and sustained growth rates with macroeconomic stability, while reducing inequalities and absolute poverty. To illustrate, between 1972 and 1982, the percentage of the population living below the poverty line decreased from 31% to 10% in Singapore, 58% to 17% in the case of Indonesia and 37% to 14% in Malaysia (between 1973 and 1987). The 1996 UNDP Human Development Report focuses on the same theme and shows that, for the Republic of Korea during 1960-1990, real wages grew by 8% annually with a similar growth in income and productivity that multiplied by 7.95 and 6.17 times during the same period (UNDP, 1996, figure 4.7).

E. THE WIDER SENSE OF STRUCTURAL ADJUSTMENT: THE INEVITABILITY OF REFORM

The fast rate of current economic developments on the global scale makes adjustment an inevitable process. The increase in the volume of international trade, the boom in foreign direct investment, the escalating role of transnational corporations in the global economy, the dynamic financial systems and the new international organization of production and trade, all imply that current world economic trends in the 1990s are towards globalization. Such trends are constantly enhanced by developments in communications, technological developments and computerization of transactions worldwide (see chapter III for more details on this subject).

Such developments lead to increased international competition that requires not only structural adjustment at the macro level, but also at the meso and micro levels. In other words, not only does the economy have to readjust its modes of production, but the enterprise itself must be modernized in terms of technology, equipment, human resources and environment (ECLAC, 1994). Eventually the survival of any firm at the micro level will depend essentially on the information and human and financial resources at its disposal. It is worth noting that the most important impact of globalization and technological developments on labour is not the loss of jobs but the obsolescence of certain skills and know-how. All the newly created jobs require new skills that unemployed workers or those who have been displaced do not necessarily possess. The same applies to the economy at large. Thus, in the present rapidly changing global economy, adjustment is an inevitable process for the economy at the macro level, the firm at the meso level and the labourer at the micro level in order for them to survive and compete with others in an increasingly open global economy. Yet the highest priority is attached to the re-establishment of external equilibrium and the reduction of the current account deficit to a level compatible with the real possibility of access to external finances.

The relevance of these economic theories to developing countries has been questioned on a number of grounds. The widespread failure of markets and the presence of externalities suggests that market-determined prices may convey incorrect or undesirable signals to the economy and fail to produce socially efficient outcomes. Market distortions often tend to intensify socio-economic differentiation, particularly when the initial patterns of resource ownership are skewed towards the rich, and thus impose excessive hardships on the more vulnerable sections of the population.

The neo-classical adjustment model assumes that "transitional costs" to adjustment would be relatively short term and that the poor could be protected from their worst effects. However, this assumption has not been proved. Moreover, the past experience of adjusting countries showed that the economic growth that was supposed to follow adjustment measures failed to materialize in many cases and, in the cases where it did, it was not enough to counter the social depression. It was fragile and highly speculative. Consequently, UNRISD has called for rethinking structural adjustment. The standard approaches to structural adjustment emphasize macroeconomic restructuring, but there are in fact a range of other structural aspects of society that need to be adjusted as well. Structural adjustment programmes should address questions of the distribution of resources, assets, employment and earned income. They should pay attention to social policies that contribute to human security, stimulate the growth of skills and ensure equitable returns on productive activities.

In the conclusion of a paper issued by UNDP on Sustainable Human Development and Macroeconomics (1995), the same idea is emphasized, that it is time to change the conditionality of the Bretton Woods institutions and the donor community and rethink development theory and practice. The paper stated that it was also time to alter the model in which the Bretton Woods institutions would deal with the "hard core" of policy issues while UNICEF, UNDP and friendly bilateral donors concentrate on poverty alleviation. Such an approach would rectify the costly mistakes based on the conventional modernization paradigm and a top-down approach to development (UNDP, 1995).

II. THE NEED TO CONSIDER THE SOCIAL IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMMES

> During the 50 years that have elapsed since the Bretton Woods conference, radical changes have taken place in the world economy. The world that the IMF and the World Bank were created to serve no longer exists, yet their influence is greater than ever and nowhere more so than in the developing world. ... Their financial strength and role as intermediaries in North-South economic relations give the Bretton Woods agencies an enormous influence over Governments, and their structural adjustment policies influence the welfare of hundreds of millions of people, most of whom have never heard of Bretton Woods. ... However, in Oxfam's experience, there is a gulf between the policy statements of the Bretton Woods Agencies and the design and implementation of their policies. (Watkins, 1995:72).

Introduction

The implementation of structural adjustment policies over the past decade or so has had wide-ranging impacts on poverty, income and wealth distribution within and across countries. These policies have contributed indirectly to a range of other social problems as well. Discussions on adjustment often tend to focus exclusively on issues of efficiency in resource allocation, and a good deal of the analysis continues to be influenced by the textbook model of perfect competition. In reality, a substantial proportion of transactions is carried out in situations characterized by monopolistic, oligopolistic or embryonic markets in the developing countries. Individuals, enterprises and associations often have recourse to a variety of means to influence product and factor prices in their favour. Consequently, what was originally planned to be economically viable for the society as a whole (with the assumption of a proper trickle-down effect) turns out to be profitable for a specific segment of the population while the remaining majority is either indifferent or ends up paying for the profit made by the wealthy.

Available data provide sufficient evidence to warrant the generalization that the adjustment processes and policies have contributed to a significant redistribution of income and wealth from the poor to the rich at both the national and international levels. For example, at the global level, GDP in 1993 was estimated at $23 trillion, $18 trillion of which was accounted for by the industrial countries, and only $5 trillion by the developing countries, even though they include some 80% of the World's population. Another example is that the growth of per capita income across countries reveals the growing pace of polarization in the distribution of income. During the past three decades, the proportion of people enjoying economic growth of more than 5% a year more than doubled, from 12% to 27%, while those experiencing a negative rate of growth more than tripled, from 5% to 18%. The outcome is that an average per capita income of $20,000 is enjoyed in developed countries, in comparison, the figure for least developed countries (LDCs) was only $240 in 1995.[4] This increasing inequality in income is a major constraint to both economic and social development. In addition, it should be noted that although the Uruguay Round is expected to produce global benefits estimated at $200 billion annually, it will contribute little to countries not producing for the global economy. Many developing countries, particularly countries in sub-Saharan Africa, are suffering annual trade losses of US$ 65 billion in current prices compared with their share in world trade pre-1960, while the share of non-fuel exports is expected to decline from 11% to about 3%.[5] Furthermore, many of the Arab States, which remain producers of primary commodities, will not benefit from the new trade agreements. Therefore

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[4] See table A1 in United Nations *World Economic and Social Survey, 1996.*

[5] See article by A. Yeats and others, "What caused Sub-Saharan Africa's marginalization in world trade", *Finance and Development*, December 1996, Washington, D.C.

the risk of globalization is not just that its benefits will bypass these countries, but that these countries will become increasingly marginalized as their shares of world trade and international capital flows continue to decline. This will further delay the structural transformation of their economies, which is needed to strengthen them against the vagaries of the global market.

Most countries affected by the economic crisis of the early 1980s have attempted, to varying extents, to restore economic stability and revive growth, but the results have been mixed and, for the most part, these efforts have met with limited success. Since the dominant prescription for restoring growth has been the adoption of World Bank-sponsored structural adjustment programmes, there has been an ongoing controversy about the effects of such programmes on economic growth and the welfare of the poor. While there is little disagreement on the need to restore macroeconomic stability and to implement reforms to ensure more open and competitive economies, there has been sharp disagreement over the strategies to be adopted, especially the pace, timing and sequencing of particular aspects of reform. For some, stabilization programmes have been too drastic, provoking an excessive fall in output and too high a social cost. For others, the structural adjustment programmes have led to excessively rapid reforms on too many fronts simultaneously. Trade and other forms of liberalization have caused excessive contraction of domestic output while export gains have been modest because of insufficient attention to structural and other constraints. Essential public investment has been cut back too far and the developmental role of the State has been reduced too much, to the detriment of growth.

It is not feasible to enter into this vast and complex debate in the present study. The empirical evidence required to resolve satisfactorily particular aspects of the debate are rarely available and, in any case, there are severe methodological difficulties involved. At the heart of the methodological difficulties is the problem of establishing a direct cause-and-effect link between particular adjustment policies and observed outcomes, since the latter are typically affected by many other variables such as the external economic environment and the level of aid flows. There is also the problem of the counterfactual approach, when observed outcomes have to be judged against hypothetical alternative outcomes in the absence of reform or with the adoption of different policies.

A. THE NEGATIVE SOCIAL IMPACT OF STRUCTURAL ADJUSTMENT POLICIES

Countries undergoing structural adjustment programmes must determine their priorities: (a) social development to achieve economic goals (that is, preparing people through improvements in health and education to boost the economy) or (b) economic growth to achieve social development. In comparison with the experience of the developed industrial countries, developing countries have not suffered from this dilemma. However it must be noted that development processes in the developed countries moved slowly through consecutive cycles. An economic base was first achieved during the Industrial Revolution, which extended over centuries; it was followed by a social development achieved through the fruits of economic growth. Developing countries cannot afford to follow option (a) above owing to financial restrictions, while option (b) leads to a wider gap in economic growth and a gap between those who can afford social development and those who cannot. Developing countries are thus forced to follow both options simultaneously, which may well result in the failure of both, and thus lead to further frustration and marginalization.

Furthermore, the neo-classical adjustment model used to implement structural adjustment programmes assumes that austerity measures will only be imposed for a short period of time, during which vulnerable groups would be protected from the worst effects through targeting. The neo-classical adjustment model further assumes that economic growth is supposed to follow soon after the stabilization of the economy. This economic growth should in turn contribute to the social development of all groups through the "trickle-down" approach. But what if growth does not occur? What if the outcome of this growth does not reach the whole

society, but is unevenly distributed among its beneficiaries? After a decade of structural adjustment programmes in developing countries, the major lesson learned is that the social objectives of development cannot be ignored in implementing plans for more efficient and competitive economies. However, the introduction of a social approach to development is complicated by the nature of the social change and the length of its gestation period.

It is obvious that, in a situation of general underdevelopment, the problem of poverty, and the social problems related directly or indirectly to poverty cannot be solved without economic growth. But it is also clear from the experiences of some of the fastest growing economies in the world—those of China and other East and South East Asian countries—that growth by itself does not ensure social development. According to UNRISD, China has seen a rapid rise in unemployment, both as a result of underemployed rural populations moving to urban areas, and because of the reduction of jobs in public enterprises. Polarization has increased, even in the previously prosperous areas of the country. Furthermore, in China as well as in other rapidly growing economies, a host of other unprecedented social problems has emerged. Crime rates and drug use have increased, and prostitution—including child prostitution—has emerged or has worsened. The use of child labour has increased, and in some cases it has increased mostly in the fastest-growing economic sectors. Often children, especially girls, are withdrawn from school to undertake unpaid family labour. In addition, worsening environmental problems and their associated social and health impacts are directly related to economic growth in many countries (UNRISD, 1995).

These problems do not indicate that economic growth is undesirable, but rather that growth is a prerequisite for social progress. They do suggest, however, that growth alone is not enough for social development. The type of growth, as well as the mechanisms for the distribution of growth and the institutional and social structures regulating the responses of social actors, is all important.

Many studies have been carried out on the social impact of structural adjustment, that is, the negative social consequences resulting from policies adopted to achieve purely economic goals. UNICEF was the first agency to address this problem and to propose ways to alleviate the hardships and social problems brought about by the early implementation of structural adjustment programmes through its slogan "Adjustment with a human face". The UNICEF study on the subject (1987) called for alternative approaches that would explicitly protect the most vulnerable groups in the adjusting societies. Through subsequent dialogues with the Bretton Woods institutions, the pro-poor advocacy of UNICEF influenced the policies on conditionality of the World Bank and IMF so that they moved away from a merely technical, economic approach regarding stabilization and balance of payments corrections towards a more humane approach concerned with the social dimensions. The same study also drew attention to the need to protect the poor from the burdens of adjustment. As a result, subsequent research showed that the results of structural adjustment programmes worsened the social situation. The World Social Summit in March 1995 called for the integration of social components into structural adjustment programmes, especially components dealing with eradication of poverty, the promotion of full and productive employment and the enhancement of social integration.

Most opponents to the application of structural adjustment programmes to developing countries argue that the negative social consequences are due to the following factors:

1. The nature of structural adjustment policies; with contraction requiring decreasing demand on goods and services that brings stagnation to the economy at large and to job creation. Such a policy would increase unemployment with time.

2. Minimizing the role of the State implies more expensive social services that directly affect their affordability and availability to the poor. With the increase in the incidence of poverty, adjustment will have an accelerated impact on the poor.

3. Redistribution of businesses to the private sector with those benefiting most the rich who have enough capital to afford investment, while wage-earners face decreasing wages and threats of unemployment. With time, social polarization will become inevitable.

4. Structural adjustment programmes are based on the developed countries' standards, which assumes that countries under consideration have an institutional set-up that guarantees the trickle-down effect of social networks and safety nets. Such an assumption does not apply to developing countries undergoing structural adjustment programmes and could result in increased social tension and corruption over time (see chapters IV and VI on the experience of African countries).

5. The ultimate goal of adjustment is to open a country's economy to the global economy through market liberalization, which entails competition with mega-corporations; this naturally leads to the loss of national sovereignty and the defeat of those who cannot compete (see chapter II).

The marked social deterioration in most adjusting countries during the past 15 years has resulted in a plea for wider consideration of new approaches to adjustment and restructuring. Even the relatively successful cases of stabilization and adjustment in highly indebted countries during the past decade can hardly be judged successful when viewed in social terms. According to UNRISD, although the governments of "successful adjusters" are dealing more effectively with the threat of economic instability than many others, they remain mired in an intractable social crisis (UNRISD, 1994).

The growth of poverty and the glaring inequalities in consumption have severely strained the social fabric of countries undergoing reform. Many countries have experienced a marked increase in crime, violence, smuggling and trading in illicit goods. There is also growing reliance, as part of the survival strategy, on child labour, prostitution and intensification of female labour. An increasing number of people have taken to migration in their search for better employment opportunities. Social tension has increased and these frustrations often find expression in social explosion, ethnic conflicts and the growth of fundamentalist and extremist movements (Ghai, 1992). The net result of social deterioration after the application of structural adjustment is fourfold: (a) more poverty, thus greater social polarization; (b) more unemployment; (c) the increasing inability of the State to meet basic needs of the poor; and (d) the transfer of national wealth to selective groups.

The impact of such policies is maximized on the poor. Their nutritional level eventually deteriorates; children's educational levels diminish; unemployment increases, with increases in migration to urban areas as a last-resort measure for rural dwellers. Living conditions in urban areas deteriorate, leading to slums with unhealthy and unsuitable living conditions. The above factors eventually lead to a "dead end" for a majority of the population, in which extremism and violence are the only outlets.

With such opposition to the impact of structural adjustment on the social front, it became clear that a different approach to adjustment should be followed by developing countries. However, instead of initiating a completely different approach, the Bretton Woods institutions proposed to mitigate its effects through the establishment of social safety nets and the introduction of other measures with a "social dimension". This oversimplified approach to social development was criticized by many social scientists. For example, UNRISD/IEUD (1994) describe this approach as being one in which it was thought that the problems could be addressed by supplementary measures added to economic policy. It is precisely this watered-down approach that the World Summit for Social Development discouraged.

B. Perceptions of the concept of structural adjustment

1. *The Bretton Woods institutions*[6]

As noted above, during the early stages in the 1970s and 1980s, the international community did not pay much attention to the social impact of reform. All attention was focused on the premise that economic readjustment would eventually raise the living standards of all concerned (assuming proper trickle-down). Under increasing pressure from social scholars, international agencies and the affected countries, the Bretton Woods institutions accepted the introduction of measures to reduce the negative impact of structural adjustment programmes on the poor. Prior to 1990, the World Bank had refused to accept the argument that social deterioration was caused by the application of structural adjustment programmes: the Bank blamed unsustainable government policies, under-investment in the social infrastructure and the inability of the Governments involved to improve the social situation. In its 1990 World Development Report, the World Bank admitted that when structural adjustment issues came to the fore, little attention was paid to the effect on the poor. IMF missions now commonly discuss distributional aspects of adjustment with Governments when preparing programmes, and require that stabilization tactics should identify measures that can help cushion the possible adverse effects of certain policies on vulnerable groups in ways consistent with the stabilization programme's macroeconomic framework.[7] Like the IMF, the World Bank has also moved to soften its stance in recent years through the introduction of a special programme of activities known as "Social Dimensions of Adjustment" and the creation in 1993 of a vice-presidency with responsibility for the area of human development and poverty reduction.

Nevertheless, there remain doubts about the extent that such changes have affected actual operations in the field. Skepticism has also been expressed about the extent to which sympathetic statements of general intent have actually influenced the detailed programme design (Killick, 1994). Against such skepticism, the World Bank reported that the share of adjustment loans that include social-sector conditionality increased from under 5% of all structural adjustment programmes in 1984 to 1986, to almost 30% in 1990 to 1992 and that poverty-related provisions are more frequently included in programmes, sometimes as preconditions for releasing loans.[8]

In recent years the IMF and the World Bank have claimed that structural adjustment not only represents an agenda for macroeconomic stability, but a comprehensive strategy for poverty reduction, and that improved social welfare provisions are at the heart of the structural adjustment operations. Both institutions claim considerable success in this area (Watkins, 1995). In a statement to the World Summit for Social Development, the Vice-President responsible for human resource development in the World Bank noted that as many donors are tightening their belts, foreign aid spending for health, education and other basic needs is no longer in vogue. The World Bank continues to buck this trend because the numbers show that investing in people is not only the key to improving people's lives, it is also good economics... the World

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[6] The framework of the Washington-based World Bank and International Monetary Fund is also known as "the Washington consensus" because they include a number of conservative think-tanks and centres of corporate interest that are the most articulate and powerful proponents of structural adjustment policies aiming at pure economic goals. According to the People Centered Development Forum president, their thinking can be summarized as follows: "Economic growth is the measure of human progress and the key to universal prosperity and happiness. Market liberalization and economic globalization—deregulating markets, privatizing public assets, scaling back Governments, reducing taxes on investors and integrating local and national economies into a seamless global economy—are the preferred pathways to growth." (UNDP, *Choices*, 1997: 4).

[7] See IMF Annual Report, 1991.

[8] See World Bank, *Implementing the World Bank's Strategy to Reduce Poverty*, Washington, D.C. (1993).

Bank's main goal is to help developing countries reach the point where limits to investment in people no longer hold back growth or keep people in poverty (ibid.). However, opponents to World Bank policies discredit such statements as propaganda. According to the Oxfam report, there remains a vast gulf between such public statements and the realities of structural adjustment practices imposed by the Bretton Woods institutions. In practice, the costs of adjustment are still being borne disproportionately by the most vulnerable sections of the society. Moreover, there is little evidence to substantiate the claim that adjustment policies are creating a framework for more equitable growth and poverty reduction. In many countries (according to the Oxfam research team), they appear to be doing precisely the opposite (ibid.).

On the whole, with or without the Bretton Woods institutions, many developing countries will continue to undergo painful adjustment processes into the next century. Their problems predate structural adjustment, and will not be resolved by external interventions such as structural adjustment programmes. However, the Bretton Woods agencies, by virtue of their political and financial influence, can play an important role in developing genuinely poverty-focused adjustment strategies. If they are to do so, fundamental reforms in policy design and implementation will be vital, including an early departure from the free market orthodoxies to which both remain devoted. Failure to embark on reforms of their orthodox policies will mark a further betrayal of the principles upon which the Bretton Woods system was founded.

2. *United Nations Research Institute for Social Development*

Owing to the failure of the Bretton Woods institutions' policies to bring about positive social developments during the past three decades, UNRISD took a different look at the whole issue of structural adjustment programmes. In its briefing paper on structural adjustment in a changing world, submitted to the World Summit for Social Development (UNRISD, 1994), UNRISD noted that in a complex world economy, adjustment is inevitable. Governments, firms and individuals are constantly adapting to changing conditions in an attempt to offset disadvantages and improve their position in relation to others. This normal process of competition is periodically marked by crises which disrupt national economies, create severe balance-of-payments problems and threaten to exclude many people from international markets. During the past decades, the content of adjustment programmes have undergone major modifications. While stabilization programmes were not usually followed by attempts to restructure the economy until the 1970s, adjustment in the 1980s and early 1990s was associated with intense pressure to abandon inward-oriented national projects of economic development and to stake the future of people in developing countries on increasingly unprotected participation in the international market. The experience of many developing countries showed the high social cost of such adjustment programmes. Per capita income in most African and Latin American countries during the early 1990s was lower than in the 1980s and the average income of the poorest strata was much lower. Minimum wages stood at half, or less than half, of their former value. Unemployment in the formal sector was often much higher than at the outset of the debt crisis. Another major problem faced by the adjusting countries is the pronounced widening of income differentials within the country that played a significant role in weakening networks of social interactions and solidarity, thus strengthening the process of social polarization. With the progress of globalization, an integration in world markets, some people become part of the global consumer culture while others are left to reinforce more traditional ties of identity and support (UNRISD, 1994).

In assessing the social impact of adjustment, UNRISD goes beyond national boundaries and links adjustment to globalization in cases where both processes have been associated with important shifts of power at the national and international levels. Internationally, the balance of power has shifted further away from developing countries to the benefit of foreign creditors and investors, international financial organizations and industrialized countries (Ghai, 1992). The issue of globalization will be reviewed in the following chapter.

Moreover, the rapid global technological change and accelerated market expansions are being accompanied by increasing poverty, inequality and unemployment, that is, developments that lead to social unrest and violence.[9] Such developments imply the need to adopt a different form of development strategies that will encourage a new form of social viability. According to the report of a working group in preparation for the World Summit for Social Development, "the development strategies designed... [so far] have been defined basically in economic terms. Their effects on the nature of social relations and on the general viability of the societies concerned have rarely been taken into account. However, social development can no longer be seen as simply a 'side effect' of growth or economic development. ... [Social development] must be an integral part of any overall sustainable development strategy" (UNRISD/IEUD, 1994: 9).

Countries undertaking structural adjustment programmes are those most vulnerable on the social front, yet structural adjustment policies that emphasize capital accumulation and economic growth continue to be put forward, even though their effects in terms of exclusion, inequality, exploitation, disintegration of the social framework and wasted resources are now universally acknowledged. Because the social costs of adjustment programmes are increasingly obvious and important, they can no longer be ignored. According to the above report, "instead of envisaging a different approach to integration and adjustment, the dominant actors continue to follow the same destructive strategy. They merely propose to mitigate its effect by suggesting, for example, social 'safety nets' and other measures with a 'social dimension', as though the problem can be addressed by supplementary measures added to economic policies" (UNRISD/IEUD, 1994: 10).

One of the major causes of such continued deterioration of the global social situation is that present day development strategies are increasingly ill-adapted to the challenges faced in a continuously changing world. Since the development strategies designed and followed up to the present have been defined basically in economic terms, the level and scale of such social problems have grown with inequalities, and the disparities in development have become more marked and increasingly unacceptable. Issues such as exploitation, disintegration of the social framework, exclusion, social disequilibrium, poverty, unemployment and wasted human resources, as well as environmental degradation, etc. are being given increased attention.

Therefore, there is a need to recognize the limitations of economic analysis than focuses on the market economy rather than considering overall economic dynamics. It is a mechanical analysis rather than an attempt to understand the broader rules of social relationships. According to UNRISD, the survival of the economic system is seen as an end in itself when it should be considered an instrument to satisfy the needs of humankind with particular attention to the most vulnerable (UNRISD/IEUD, 1994). Recently, sociologists initiated the queries of why market indicators should be viewed as the absolute and indisputable criteria for formulating development policies while ignoring the implications for society as a whole. According to such groups, the main issue is ignorance of collective needs that are not linked to markets, the growing inequalities among social groups, and the exclusion and accelerated marginalization of growing numbers of people. However, the interest of the financial institutions centred on maximization of profits on financial capital as an end in itself, at the cost of societal objectives (ibid.).

Thus, one should consider development organically, or better situate economic aspects with regard to social aspects in the system of values and operating standards that characterize contemporary societies, or rather the form of societies that are becoming dominant in the world today as a result of modernization, globalization and the dominance of the Western models of development (UNRISD/IEUD, 1994). Social

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[9] For further details, see United Nations Research Institute for Social Development, *States of Disarray: The social effects of globalization* (Geneva, 1995), chapter 11.

development can no longer be taken as a side effect of economic development. Development policy should restore a social dimension of development wherever economic considerations alone had been the only criteria.

3. *Other critical views*

World Bank experts recognize the social costs entailed in structural adjustment programmes, but their excuse is that there are unavoidable costs and that further delay of adjustment policies will make adjustment more costly in the future. To make things more acceptable to the rising criticisms of the negative social impact of structural adjustment programmes, the World Bank proposed the inception of safety nets to alleviate the cost burden on vulnerable groups but the experience of developing countries with structural adjustment programmes proved their inability to affect the majority of the poor, and especially the most vulnerable (Zeki, 1995).

According to the United Nation Commission on Sustainable Development (1996), economic growth is essential for social development, particularly when social development is defined mainly in physical terms, such as the provision of basic social services. Yet even when economic growth is strong, social development does not automatically follow. It is also not necessary for Governments to wait for economic growth to improve conditions for people living in poverty. Nevertheless, it is evident that many policies and programmes for social development remain based on the concept that the benefits of economic growth will eventually "trickle down" to the poor. Such an assumption could be relevant to societies with well-established social institutions such as those in Western Europe, but for less developed countries, this was never the case: the outcome has been a deeper polarization, emergence of the “new poor” and the “new rich” all of which, in the medium run, leads to social tension and extremism.

According to the Oxfam Poverty Report, the challenge as we approach the twenty-first century is to develop new approaches to adjustment, compatible with the objectives identified 50 years ago at Bretton Woods. This means developing expansionary responses to economic crisis and placing poverty reduction at the heart of policy design. There is a need for a new poverty-focused compact for recovery that does not transfer the social costs of adjustment disproportionately to the poor. Such a compact will require far-reaching reforms in the Bretton Woods agencies. It will also require international action to address the debt crisis which, 15 years after giving birth to structural adjustment, continues to undermine the prospects for social and economic recovery (Watkins, 1995).

C. THE SOCIAL DIMENSION OF STRUCTURAL ADJUSTMENT PROGRAMMES

As noted in chapter I, under structural adjustment programmes, developing countries are encouraged to reduce macroeconomic imbalances, shift resources from non-tradables to tradables, rely on price and market mechanisms, liberalize internal and external trade, minimize the role of the State, and, as a corollary, encourage the private sector to assume functions that were previously within the purview of the public sector. The highest priority is attached to the re-establishment of external equilibrium, that is to the reduction of the current account deficit to a level compatible with the real possibilities of access to external finances. A reduction in the rate of inflation, and a manageable level of foreign debt as a means to a stable and high rate of economic growth, are the remaining major objectives of structural adjustment programmes (Chapelier and Tabatabai, 1989). All such goals are purely economic without any mention of remedies for the social consequences.

Both IMF stabilization and World Bank structural adjustment mechanisms depend on the hypothesis that external debts and the inability of the economy to grow are due to past domestic economic policies and that any improvement has to deal with altering these internal economic policies. Such a theory has two major loopholes: first, it neglects external economic factors that the country in question was affected by, such as

prices of imported materials and exchange rates (Zeki, 1995), and secondly, it neglects the grave social consequences of change brought about by structural adjustment as applied to developing countries (ibid.).

Both the IMF and the World Bank have consistently promoted market deregulation as the solution to poverty. However, this approach ignores the fundamental reality of the market place: namely that people enter markets as unequal partners, and leave with rewards that reflect that inequality. Market deregulation has brought major gains for the wealthy. But for poor communities, such as those of developing countries undergoing structural adjustment programmes, deregulation of markets has often meant further marginalization. At the same time, the Bretton Woods institutions have failed to protect expenditure on health care, education and other social provisions needed to alleviate poverty. The past experiences of several adjusting countries show that increasing unemployment, declining real wages and reduced social welfare provisions, have been almost universal features of structural adjustment. The main impact is usually on the poorest segment of the population, which cannot afford social services at higher costs. More important is that, within the poor families where household inequalities exist, the burden is usually levied on women and young children who suffer disproportionately from decreased access to food with the fall in household income. These inequalities, largely ignored by policy makers, have a crucial bearing on how the costs of structural adjustment programmes are distributed. The Oxfam report on the subject provides illustrations of the above based on the African experience (Watkins, 1995). Other illustrations are provided by UNRISD research in Africa and Latin America (see chapter VI).

D. THE PACE AND SEQUENCE OF REFORMS

Another critical factor in the success of the structural adjustment programmes is the timing of initiating reform measures, such as privatization of public sector social services and removal of subsidies, where the main query is whether the reform should coincide with the economic crisis. Some argue that the two should coincide, as crisis helps to focus attention on and create a sense of urgency about reforms, and since it provides the financing agencies with an opportunity to persuade developing countries to accept reforms that they would not accept under less constrained circumstances. However, there are strong counter-arguments that crisis is never a good time for basic reform. Rather, according to Khan, reform of structural distortions should not be postponed until a country is hit by a structural imbalance (Khan, 1993). Instead, the most serious distortions that caused the greatest damage to productive efficiency should be dealt with one at a time, without too drastic a stabilization package which could be an obstacle to the mobilization of public support for reform.

In his book on *Strategies for Human Development*, Streeten (1994) notes that if the ideal situation prescribed by the liberal model is present—including perfect elasticity of labour, immediate repatriation of foreign capital and quick reversals in consumption patterns—then shock treatment may be ideal. However, in reality, what happens is that the effects of economic reforms, especially on the vulnerable sectors of the society such as the poor and unemployed, are never certain. In such cases, a more gradual approach makes it easier to reverse the course when errors are made.

A similar conclusion, which also opposes instantaneous reforms on all fronts or a "big bang approach" likely to lead to socially unacceptable increases in unemployment and underemployment, has been reached by the ILO. According to the ILO, a phased and more gradual implementation of reform offers several advantages. It allows more time for the building of political and social consensus around the reform programme and to implement essential institutional reforms such as the strengthening of administrative capacity, the streamlining of the tax system and privatization. According to the ILO report (1996), a particularly important consideration is that in many developing countries, the capacity to design and implement programmes to compensate for the negative effects of economic reforms is typically weak. It is thus imperative to strengthen their capacity prior to the adoption of drastic programmes of reform. According

to the ILO, the experience with the first generation of structural adjustment programmes showed that without a realistic assessment of the capacity to implement compensatory programmes, the aim of containing the social costs of adjustment, however well-intentioned, becomes no more than an irresponsible exercise in wishful thinking.

The World Bank also calls for taking time in introducing reforms, especially institutional reforms that are a basic component of any structural adjustment programme. According to the 1997 World Development Report, reforms pushed forward too rapidly can produce new risks as well: they may be blocked by those likely to lose from change, and the danger is always present that the reforms will lead to fragmentation and the creation of an institutional vacuum (World Bank, 1997).

Another related issue is that social change is usually gradual by nature and its impact on the societal set-up can only be felt and measured over a relatively long time period. However, economic change, however gradual, can easily be measured in monetary terms and projected to a definite point in time. An example would be the impact of poor nutrition or education on poverty: the two factors become interlined with both cause and effect. Poor education can result from poverty, but it is also one cause of it and causes more poverty over time. Thus the blueprint for an adjusting society should be based on a long-term perspective. The market mechanism and the profit principle are not directed towards the fulfillment of such long-term concerns. As such, the facts mentioned above imply that economic growth may be a necessary condition but is not enough to develop the societies under consideration. According to UNRISD, to speak of social development without a long-term perspective and without considering social groups simply does not make sense. Unless one accepts large-scale hypocrisy, it is necessary either to find new technical solutions or to renounce attempts to achieve social development (thus implicitly accepting the ensuing increase in violence, marginalization, exclusion and disintegration of the social framework) (UNRISD/IUED, 1994). This debate was further investigated in the 1996 UNDP Human Development Report, which demonstrates how previous paths, depending on economic growth, have resulted in quantitative growth that eventually failed to develop the societies under consideration. UNDP terms the growth experienced by developing countries during the past three decades as jobless, voiceless, ruthless, rootless and futureless growth.

Another issue is discussed in an OECD study, which argues that since the social costs of adjustment are a steeply rising function of delays in embarking upon adjustment measures, the only way to avoid the costs of adjustment in crisis is to adjust before a crisis. As the disequilibria are less severe at that time, a smaller reduction in demand is necessary. Consequently, a sharp rise in unemployment is avoided, as are a swelling of the informal sector and large budget cuts. The greatest advantage of this policy is that it ensures a continuing foreign capital flow before and during the adjustment period, instead of the complete cessation that occurs when adjustment is postponed until the crisis, and that results in cuts on social expenditures.[10]

E. The turning point: time to rethink structural adjustment programmes

Towards the end of the 1980s, the evident failure of the orthodox neo-liberal strategy in economic terms was leading donors and the international financial institutions to rethink their approach. Adjustment programmes in many countries were failing to lift countries out of recession. According to UNRISD what had seemed like a temporary sacrifice of the poor was beginning to look like a permanent intensification of poverty (UNRISD, 1995). Particularly worrying was the effect on "human capital," as economists discovered that countries undergoing structural adjustment programmes had rapidly depreciating human capital. Even

[10] F. Bourguignon and C. Morrisson (1992) Adjustment and Equity in Developing Countries: A New Approach (Paris, OECD) (as cited in T. Killick, 1994: 19).

more alarming, deteriorating social and environmental conditions were causing social and political unrest on a scale that threatened the whole process of economic reform. Such awareness among concerned citizen groups, non-governmental organizations (NGOs) and agencies and bodies such as UNICEF, UNDP and UNRISD pressured the IMF and World Bank to adopt more socially and environmentally sensitive approaches, and to be more publicly accountable for their actions. Many people also argued that if the Bretton Woods institutions could not perform any better, they themselves should be subject to "structural adjustment" and have their budgets cut (ibid.).

As a response to mounting counter arguments, and during the UNRISD/UNDP International Seminar on Economic Restructuring and Social Policy, held in New York in January 1995, the Director of UNRISD called for rethinking structural adjustment. The standard approach to adjustment had emphasized macroeconomic restructuring, but there existed, a range of other structural aspects of society that should be adjusted as well. According to the report of the seminar, structural adjustment should address questions of the distribution of resources, assets, employment and earned income. It should pay attention to social policies that contribute to human security, stimulate the growth of skills and ensure an equitable return on productive activities. Rethinking adjustment to bring it into line with the requirements of social development will entail redefining the priorities of adjustment, designing more effective monitoring mechanisms and increasing the accountability of the market to the State and the State to the people. It will require working out new institutional arrangements that make adjustment measures more efficient and equitable by promoting positive-sum economic and social interactions, rather than accentuating the destructive zero-sum tendencies of the market. It will involve coordinating social policy reforms with economic policy reforms so that both will promote the ultimate goal of social development (UNRISD, 1995).

Adjustment should be made at the five levels of decision-making: (a) the global (macro-macro) level; (b) the national (macro); (c) the community level (meso); (d) the household level (micro); and (e) what has been called the micro-micro inside households and firms.[11] Recognition of the relations between these different levels raises a host of questions that must be addressed if the contribution of adjustment measures to social development is to be improved (UNRISD, 1995).

It is therefore time to define the term "structural adjustment" more broadly in that it addresses issues that have social consequences, such as resource distribution, productive employment, human resource development, and growth based on the mobilization of poor people's resources as a step towards the reduction of poverty. The above-mentioned UNRISD/UNDP International Seminar on Economic Restructuring and Social Policy called for the creation of a panel set up by heads of State to rethink adjustment policies in a way as to give due consideration to the social dimension of development. Moreover, there was a call for the globalization of social policy to respond to economic globalization; this global social policy will require new institutions and new forms of institutional relations.

[11] For more details on the five levels, see Paul Streeten's remarks in UNRISD, 1995, pp. 21-41; and the chapter on "Levels of decision making" in Streeten, 1994, pp. 28-31.

III. SOME PRESSING TRENDS FOR ADJUSTMENT: GLOBALIZATION OF THE WORLD ECONOMY IN THE 1990s

> Globalization is one of the most dramatic developments of recent years. During 1965-1990, the world merchandise trade tripled while global trade in services increased more than fourteenfold... Financial flows have reached unimaginable dimensions: more than a trillion dollars roam the world every 24 hours restlessly seeking the highest return. This flow of capital is not just offering unprecedented opportunities for profit. It has opened the world to the operation of a global financial market that leaves even the strongest countries with limited autonomy over interest rates, exchange rates or other financial policies (UNDP, 1996: 8).

Introduction

Most development thinkers agree that the current international move to globalize the world economy is an urgent call for the developing countries to readjust their societies and economies. Fuelled by technology advancements, the world is becoming a partially integrated global society through the transnational corporations, the global financial markets and the new alliances formed between the various geographic blocs. The growing interdependence of the national economies, the reforms of economic liberalization and the conclusion of the GATT/WTO [General Agreement on Tariffs and Trade/World Trade Organization] round of negotiation on trade liberalization are a cause for pessimism in the developing countries if they do not readjust their socio-economies to join the so-called "New World Order". The prospects for benefiting from such a new international order depend on the capability of each country to readjust, irrespective of its level of development. In the process, each country should adjust to the new challenges through the formulation and implementation of well targeted socio-economic policies to protect the vulnerable groups who are most likely to suffer from increased global competition, such as low skilled workers. The accelerated rate at which international developments are taking place at present leave little time for the developing countries to debate the adjustment process.[12] The choice of not participating in the global market is becoming increasingly less viable for developing countries. The real issue now is not of whether a country should choose to adjust or not, but when and how.[13]

It is essential here to differentiate between the process of adjustment of national economies to the global competition by opening up to external markets and the pursuit of structural adjustment programmes as prescribed by the Bretton Woods institutions. Both processes imply that the country in question should undertake structural adjustment to transform its economy to a new level, but structural adjustment programmes as directed by Bretton Woods institutions are much narrower in scope and are made to serve specific economic objectives designed by the institutions. The emphasis of structural adjustment programmes has always been on restoring economic equilibrium through liberalization of markets, reduction of State intervention in the economy, privatization of a broad range of enterprises and reduction of government

[12] For the developed countries, their industrial revolution lasted 100 years or more, while for developing countries of today, a simple farmer can be walking behind a bullock cart one day and find himself working in an electronics factory before the week is out. According to UNRISD such developments are unnerving, with the world seeming to be riding a roller coaster with uneven tracks, with many passengers falling out! (UNRISD, 1995).

[13] The issue of the benefits of joining the WTO for developing countries is controversial. The World Bank report on "Global economic prospects and the developing countries" calls on all developing countries to raise their standards of living by joining the WTO. However, social scholars are more critical about the issue. For example, the paper by R. Zeki on present and possible impact of structural adjustment on human development, which was presented to the ESCWA Expert Group Meeting on Human Development in the Arab World (Cairo 6-9 December 1993), focused on the devastating social impact that such global developments would have on the Arab region.

expenditures that often includes cuts in social services and in subsidies on consumer goods. The other transformation, however, is a much more authentic process that flows automatically, assuming that the world economy is a perfect market and that the economy in question is capable of determining what is best for its development.

However, the actual situation is not ideal. The initial assumptions of the advocates of globalization were that once economic fundamentals were corrected, social issues would resolve themselves, since dynamic, smoothly functioning markets would not just create wealth, but would also resolve problems of human welfare such as poverty through the trickle-down effect. However, according to UNRISD, recent events have demonstrated with awful clarity the depth of this fallacy and its catastrophic consequences. Instead, the trend to globalize national economies has generated enormous social tensions which other economic developments, regardless of their benefits, have failed to address. Many socio-economic researchers agree that opening developing economies to globalization may increase inequalities, as many people are incapable of adjusting quickly to new and changing conditions. The fact that much recent economic growth has led to rising inequalities can be attributed to the speed with which that growth has taken place. Such an increase in the income gap has potentially severe social and political implications (Commission for Social Development, 1996). Consequently, the developing world is now paying a heavy price for putting social issues in abeyance (UNRISD, 1995).

A. GLOBAL INTEGRATION

Driven by technological progress and fast-growing transnational enterprises, the globalization process was characterized, in the 1980s, by measures of internal deregulation, falling barriers to foreign investment and flows of capital and technology. The accelerated pace of global integration in the economic domain was reflected by the rapid expansion of: world trade in commodities and services, foreign investment, technology transfer, foreign exchange transactions and telecommunications. In the social and cultural spheres, it is reflected in the sharp growth in travel and tourism, in the establishment and meetings of world associations of professional interest groups, and in the rapid spread of Western consumption patterns and ideas, news, fashion and music through television, radio, press and films. In the UNRISD discussion paper on structural adjustment, global integration and social democracy, Dharam Ghai gives some illustrations about the volume and spread of the above indicators during the past three decades, with the trend showing that the world is now moving steadily towards a single market for goods, services, technology, capital and skills (Ghai, 1992). Countries that do not expand their consumption patterns are doomed to be left behind (see chapter II).

B. GLOBALIZATION AND STRUCTURAL ADJUSTMENT

Structural adjustment was one of the key themes of economic and social policy around the world in the 1980s. It is likely to continue to be the focus of national and global concern in the 1990s. Much of the discussion on the subject has focused on adjustment experiences at the country or regional level. Likewise much of the literature tended to compartmentalize the discussion into economic, social or political aspects of adjustment. This has resulted in excessive emphasis being placed on national conditions and policies as determinants of the need for and success of adjustment measures, while neglecting the role played by world economic forces.

According to Ghai (1992), structural adjustment is a worldwide phenomenon that carries an interdependent and mutually reinforcing relationship with the globalization process, which means that the processes of structural adjustment and global integration are interdependent and mutually reinforcing. While the process of globalization gave birth to structural adjustment as a response to world economic crisis, the adoption of reform measures has in turn widened and deepened the thrust towards global integration. The processes of adjustment and globalization have generated wide-ranging socio-political consequences. They

have contributed through a variety of mechanisms to the intensification of poverty and inequalities within and among countries, and indirectly to a range of other social problems. The net result is a growing paralysis in the handling of social problems at the national and international levels.

Globalization *per se* implies that the social entity, be it a person or a group of people, will be "disintegrated" from their own society and belong to the "global framework", a mono-culture with less diversity and more standardization of structures and cultures. A disintegrated society is better here since it is more flexible than the traditional one and more capable of meeting new challenges, while an integrated society may be too rigid to take on new challenges. According to Galtung (1995) the human cost to be paid by the globalized societies is very high; social disintegration is an additional problem closely related to and perhaps even more significant in its consequences than all the other global problems included under the headings of nature, human and world development. The problem cannot be solved by remedies designed for old problems. New approaches are called for to avoid the "destructuration" and "deculturation" of the new societies.

C. Social implications of globalization

In its background documents submitted to the World Summit for Social Development, UNRISD devoted a great deal of attention to the origins of globalization, its mechanism, who controls it and its consequences for the social situation in developing countries. This section is based on selected studies and research contained in the bibliography of this paper[14] All these studies confirm that globalization and recent developments in trade, economic and financial markets are forcing developing countries to align their economies with the global trend. Global restructuring continues to accelerate, driven by global financial flows—over 90% of which are speculative. These new forces of globalization have already undermined national sovereignty for developing countries.

The UNDP 1996 Human Development Report emphasizes the same ideas. According to the report, one risk is that countries that are poorly integrated in the world economy will be further marginalized. The Uruguay Round, for example, is expected to produce global benefits estimated at $200 billion annually, but it will do little for countries not producing for the global economy. Countries in sub-Saharan Africa, for example, would lose US$8 million in exports a year. Many of the Arab States, which remain producers of primary commodities, will also be losers. The risk is not just that the benefits of globalization will bypass these countries. The risk is that these countries will become increasingly marginalized as their shares of world trade and international capital flows continue to decline. This will further delay the structural transformation of their economies, needed to strengthen them against the vagaries of the market.

A second risk is that the people least able to adapt to changing market conditions and take up new technologies or new skills will also be further marginalized. The World Bank's World Development Report 1995 shows two possible scenarios for wage trends. The "divergent" scenario implies that the wage gaps between skilled and unskilled workers within countries, and wage gaps between countries and regions, would become more pronounced. By 2010 wages are projected to grow by 15% for unskilled workers in OECD countries, but 47% for skilled workers; 3% for unskilled workers and 29% for skilled workers in Eastern Europe; and 3% for unskilled workers and 45% for skilled workers in Latin America. The more optimistic "convergent" scenario incomes would rise in all regions and countries and inequality would fall. Even so, unskilled workers in Africa would see wages rise by 44% by the year 2010, compared with 81% for East

[14] See UNRISD, *State of Disarray: The social effects of globalization* (Geneva, 1995); UNRISD, *Structural Adjustment in a Changing World* (Geneva, 1994); and UNRISD/UNDP, *Adjustment, Globalization and Social Development* (Geneva, 1995).

Asian skilled workers. The international gap between the richest and poorest would fall, but only from 60:1 in 1992 to 50:1 in 2010 (UNDP, 1996).

A third risk is that globalization leaves national Governments with less room to manoeuvre in designing their national economic policies and their social provisions, including pensions, unemployment insurance and compensation for unpaid work, such as caring for the sick or elderly. These social risks associated with the globalization process demand attention at both the national and global levels.

D. HISTORY OF THE GLOBALIZATION OF THE FINANCIAL WORLD

According to UNRISD, the process of globalization of financial markets and the emergence of the "debt crisis" commenced in 1981 when the Reagan Administration started to cut taxes in order to attract foreign capital as a means to achieve technological advances in United States industries, which were lagging behind those of Japan and Western Europe. Such a policy resulted in cuts in government expenditure on social welfare issues, and advocated the process of privatization of State enterprises to reduce the financial burden on the United States Government. As a result, interest rates in the United States escalated from a low 5% to a high rate of 15%-18% in 1982. Consequently, debt became very expensive and excess financial capital was automatically channelled to the United States. The high profits on international finances triggered technological advances to enhance communications and financial transactions across continents, with international financial corporations assuming very influential roles that, in some cases, surpassed those of Governments. Moreover, large institutional investors, such as pension funds, mutual trusts and insurance companies, remained on constant alert to minimize risk and maximize profit. Between 1980 and 1990, the annual cross-border traffic in equities rose from US$ 120 billion to US$ 1.4 trillion (UNRISD, 1995). This new global financial system operated outside the control of any single government, and set its own priorities and goals. The new law that emerged was the law of the jungle where only the fittest could survive (ibid.).

E. THE INITIAL ROLE OF BRETTON WOODS INSTITUTIONS AND MULTILATERALISM

Initially, according to the Bretton Woods Conference (also known as the United Nations Monetary and Financial Conference, held at Bretton Woods, New Hampshire, in July 1944), the IMF was established to help guarantee global financial stability by monitoring and sustaining a system of fixed exchange rates, while the World Bank was intended to focus its efforts on development aid and technical assistance. International multilateralism was controlled by other world forums such as the Group of Thirty, whose membership included large banks and financial service companies. Prior to 1961, the Bank for International Settlements was responsible for channelling aid and was superseded by the Group of Ten that created the General Arrangements to Borrow. Such responsibilities were gradually transferred to the World Bank and the IMF by the mid-1960s. According to UNRISD, (1995), all of these forums, continue to ensure that international money is managed by a privileged and powerful inner circle, mainly OECD countries, which shape and direct the globalization process to their advantage.

The present policy of the World Bank encourages each nation and community to become more globally competitive and, according to some sources is aligned with corporate interests. The World Bank's report on Global Economic Prospects and the Developing Countries 1996 illustrates this point. The report's central concern is with assessing the progress of developing countries in integrating themselves into the global economy. It measures economic integration by two indicators: the ratios of trade and foreign direct investment to gross domestic product. This is analogous to saying that economic progress for developing countries consists of transferring ever more of their economies to foreign control. Accordingly, the policies the report classifies as "good" are those that serve to accelerate the transfer of the country's wealth to private foreign capital though tax breaks and deregulation and by increasing public expenditures for infrastructure, worker education and research, which serve as indirect subsidies (UNDP, *Choices*, 1997).

"The provision of a modicum of universal economic and social security in an era of open markets, fierce competition and rapid technological progress poses a formidable challenge. The answer has to lie in a new configuration of institutional structures in greater harmony with the social and economic forces of the twenty-first century" (Dharam Ghai in UNRISD/UNDP, 1995:16).

F. Role of transnational corporations

The predominant actors in the process of globalization are the transnational corporations (TNCs) which are experiencing an unprecedented burgeoning of their freedoms and rights. At present, the world's 37,000 parent TNCs (7,000 in 1970), and their 200,000 affiliates control 75% of all world trade in commodities, manufactured goods and services. One third of this trade is intra-firm trade, which escapes national and international trade regulations and makes it difficult for any Government or organization to exert any control (UNDP, 1994). In these circumstances, it is difficult to produce free and competitive markets and the result is likely to be "managed competition" (UNRISD, 1995). According to Kolodner (1994), the proliferation of transnational corporations constitutes one of the most important economic, political and social phenomena of the last two decades. As these entities expand their global reach, integrate national economies, rearrange the international division of labour, consume environmental resources, manufacture homogenized products for a world market, and deliver goods and services across increasingly irrelevant national borders, they irrevocably and fundamentally transform society.

As TNCs increase their scope and reach around the globe, individual economies become increasingly vulnerable to their successes and failures. A main query would be: who is setting the world's economic priorities and to what end? By what standards do they measure progress? The answers are key to understanding why poverty remains so persistent despite nearly five decades of international development effort. The rights and privileges of TNCs have undergone unprecedented expansion in recent years while regulatory powers of Governments have been limited in parallel. GATT/WTO agreements were mainly responsible for this phenomenon and allowed TNCs to "enforce patents, trademarks and copyrights—while simultaneously impeding government efforts to require TNCs to assist with indigenous technological development" (UNRISD, 1995: 159).

The role played by the mega-corporations in the global economy is well illustrated by the President of the People-Centred Development Forum, David Korten, author of *When Corporations Rule the World.* According to Korten, the major decision makers on the global scale such as the Washington Consensus are quite explicit in their views that decision-making power should be vested predominantly, if not exclusively, in the institutions of an unregulated market. Local markets comprised of small local buyers and sellers of reasonably equal economic power are indeed likely to be reasonably efficient, democratic and accountable to local needs and preferences. With strong leadership from the developed countries, what the Washington consensus is creating, however, through the structural adjustment programmes of the World Bank and the IMF and trade agreements such as GATT/WTO, NAFTA (North American Free Trade Agreement) and treaties signed in Maastricht, is a borderless global "market" economy dominated by mega-corporations whose only concern is for the kind of growth that maximizes short-term profits.

To illustrate this phenomenon, Korten continues, in an article written for the UNDP publication *Choices*, that by its nature, the corporation concentrates economic power while legally shielding those who wield that power from accountability for the consequences of its use. Many mega-corporations today command more wealth and economic power than do the majority of countries. Of the world's 100 largest economies, 50 are mega-corporations. In addition to being among the most undemocratic and unaccountable of human institutions, most mega-corporations are also grossly inefficient, depending on their political and monopoly powers to drive out competitors, extract massive public subsidies and externalize their social and environmental costs onto the larger community (UNDP, 1997).

As economies are deregulated and globalized, the unrestrained power of the mega-corporation is extending ever further beyond the reach of any State. It is also becoming less accountable to any human interest or institution other than a global financial system blind to all considerations but short-term shareholder profits. The concept of market competition is being turned upside down as mega-corporations meld themselves into a seamless web of central control through mergers, acquisitions and strategic alliances aimed at limiting and managing competition among themselves. To increase profit margins, they use advanced technology to eliminate millions of jobs and push down wages while simultaneously consolidating and extending their control over markets, technology and finance. Facing a growing employment crisis, people and communities are pressed into a struggle to be "globally competitive," or to outdo others in winning the favour of the central corporate planners who determine who will be given the jobs that labour-saving technologies have not yet eliminated. Developing nations may welcome TNCs on the promise of immediate job creation, but there are seldom guarantees as to their future plans: TNCs can easily put less efficient local firms out of business, and then decide to withdraw or restructure, often with a devastating effect on the local economy.

To counter the impact of globalization and growth of the powers of TNCs, which marginalize the role of developing countries in decision-making regarding their own development, many development thinkers are calling for alternatives to the so-called "New World Order". Such alternatives would require a fundamental reordering of economic priorities and indicators. It will also require restructuring present economic institutions to create market economies that are efficient, democratic and accountable. This means implementing properly managed systems of import tariffs and quotas and placing clear limits on prospective foreign investors. According to Korten:

> "The Washington Consensus would call this protectionism. If it is protectionist to favour local firms and workers who pay local taxes, live by local rules, respect and nurture the local culture and ecosystems, compete fairly in local markets and contribute to community life-then so be it. The call is to protect smaller local businesses, not large domestic monopolies, which can and should be broken up through effective domestic antitrust action." (UNDP, 1997: 8).

G. Role of information

It is important for the general public to know what to expect from structural adjustment programmes in order to avoid false optimism about their social and economic consequences. Some advocates call for public participation in the design of structural adjustment programmes (Khan, 1993). The critical role of information in the design of adjustment for equity must be recognized. Unless there is adequate information about the sub-categories of the broad instrument and about their effect on the welfare and productivity of different social classes, the design of adjustment will continue to be guided by ad hoc principles whose consequences would be hard to determine. The Oxfam Poverty Report (Watkins, 1995) reiterates the importance of information. According to the report: increased openness is vital to the reform of structural adjustment programmes. Community participation in the social, political and economic sphere is an important element in the adjustment process, both as an end in itself and because it increases the equity and efficiency of development. At present, the entire structural adjustment process is opaque and surrounded in secrecy. Developing country Governments bear considerable responsibility for this, not least since they have an interest in blaming "external" forces for policies which may be socially painful and politically unpopular.

H. Role of technology

The driving force behind most of the accelerated globalization trend is the rapid pace of technological advances, particularly in electronics, communication and transport. Technological change in telecommunications has reduced distances among nations and made it possible to manage companies and industries from far. At the same time, investment finance is almost instantaneously mobile, virtually around

the world. Computer technology has also fuelled this transformation, with the Internet becoming the information super-highway linking more than 20 million users around the clock. Ease of communications has also allowed trade to extend to a wide array of service activities, and "long-distance" services could double commercial service exports in the near future. For developing countries, this new technology represents a challenge: not only will production of goods and services have to become more consumer-oriented, but workers skills must also change dramatically. Klaus and Smadja of the World Economic Forum—an association of the world's 1,000 largest corporations—recently noted that contrary to the conventional wisdom that technological change and increases in productivity translate into more jobs and higher wages, in the last few years technology has eliminated more jobs than it has created (UNDP, 1997).

I. CONCLUSIONS

The Washington consensus has consistently narrowed the debate on economic strategy by recognizing only two options for a developing economy: to promote growth through exports or through import substitution. But there is a third option—a strategy based on self-reliance and needs. This strategy identifies the unmet needs of ordinary people for a decent life and seeks, through the use of market incentives, education and public services, to direct the use of domestic resources toward meeting these needs. This is what most civil-society organizations mean by a "people-centred development strategy".

This needs-based strategy has profound implications for countries of both the North and the South. Rather than continuing to support their own overconsumption through extraction of the resources and cheap labour of the South, Northern countries will need to reorient their consumption patterns to live within the sustainable limits of their own environmental and human resources. Given evidence that the quality of life is declining sharply in most Northern countries even as economic output increases, there is a strong argument that, rather than imposing sacrifices, reduced consumption may actually result in higher quality of life.

A shift to people-centered development strategies would have important implications for those elements of the international community that choose to give more than lip service to human and environmental needs. According to Korten, such a policy will mean reversing policy recommendations that have increased the dependence of local economies on the powerful and often predatory institutions of the global economy. Rather than promoting economic integration, they should facilitate a process of selectively and partially delinking from the global economy. Rather than promoting policies that increase future claims against the foreign-exchange resources of low-income countries by encouraging them to accept more loans and foreign investments, the emphasis of the international community should be on helping low income countries eliminate foreign debts, sharply reduce borrowing and foreign ownership and boost the prices received for their exports. Without the burden of foreign debts servicing, low-income countries can more easily reorient their economies from foreign to domestic priorities—meeting remaining appropriate and necessary import needs with their export earning—even at a reduced level of exports (UNDP, 1997).

Therefore, in order for the globalization process to be equitable or egalitarian, some international regulatory structures should be set up with the power to influence behaviour that affects the global commons. Proposals forwarded by the UNRISD\UNDP international seminar on "Economic Restructuring and Social Policy", held in New York prior to the 1995 World Summit for Social Development, included calls for taxation of international financial transactions and other initiatives to regulate international capital flows; the levying of fees on nations and corporations for the use of the global commons; and a global "sin tax" on international arms trade, pollution and excessive depletion of natural resources. At the same time, dividends could be provided to those that suffer most from globalization. In short, there is a need for a globalization of social policy to respond to economic globalization. Such a global social policy will require new institutions and new forms of institutional relations (UNRISD, 1995).

PART TWO

OPERATIONAL ASPECTS OF THE SOCIAL IMPLICATIONS OF STRUCTURAL ADJUSTMENT PROGRAMMES

IV. THE NEGATIVE SOCIAL CONSEQUENCES OF STRUCTURAL ADJUSTMENT PROGRAMMES IN SELECTED AREAS

Introduction

Many researchers have identified the impact of structural adjustment programmes on poverty as one of the most important current issues for developing countries. The debate has revolved around two main questions: (a) what happened to the poor during the 1980s? and (b) have adjustment policies alleviated or intensified poverty? The first question is a factual one and can be answered by a careful analysis of available information. To answer the second question, however, one must develop a credible outline of what would have happened without adjustment; that is, an appropriate counterfactual situation has to be envisaged and developed.

The World Bank World Development Report for 1990 was devoted to the issue of poverty in the context of development. According to the Report, the evidence reveals considerable reduction in the incidence of poverty and that there has been a considerable reduction in the number of poor with the achievement of somewhat better living standards of those who have remained in poverty (World Bank, 1990). The 1992 World Development Report reviewed the issue of the behaviour of poverty during the 1980s and noted that new estimates prepared reveal a negligible reduction in the incidence of poverty in the developing countries during the second half of the 1980s, and that the number of poor had increased from slightly more than 1 billion in 1985 to more than 1.1 billion in 1990. According to the 1992 Report, all poverty measures had worsened in sub-Saharan Africa, the Middle East and North Africa and Latin America and the Caribbean (that is, countries adopting structural adjustment programmes) (World Bank, 1992b).

The World Development Report 1992 stopped short of establishing a link between the increase in the incidence of poverty and structural adjustment. Such a link was established in another World Bank study (1992a), which calculated the contribution of a structural adjustment programme as the difference between actual performance and an estimated counterfactual scenario of what would have happened in the absence of the programme, given initial conditions in the country and the external environment and policies during the period before structural adjustment programmes were initiated. The analysis showed that 13 out of 25 adjusting countries had a higher average rate of growth during the period 1985-1988 than during 1970 to 1980, while 22 out of 25 improved their performance if compared with the period 1981-1984 period. Often the improvement in the external environment accounted for part of this improvement, but the effect of the programme, according to the researchers, could have been as important. However, according to the Director of UNRISD, the growth of poverty and glaring inequalities in consumption have severely strained the social fabric of countries undergoing structural adjustment. "Many countries have experienced a marked increase in crime, violence, smuggling and trading in illicit goods. There is also growing reliance, as part of the survival strategy, on child labour, prostitution and intensification of female labour. An increasing number of people have taken to migration in their search for better employment opportunities. Social tensions have increased and these frustrations often find expression in social explosion, ethnic conflicts and growth of fundamentalist and extremist movements" (Ghai, 1992, 14).

A. Labour markets during structural adjustment

Labour markets in developing countries suffer from imperfections which usually impedes the most efficient and productive allocation of labour. Properly designed interventions can improve the functioning of the labour market, while interventions made by local governments, rather than improving the functioning of the labour market, further aggravate its imperfections and inefficiencies. According to Khan (Khan in Asian Development Review (1995), World Bank policies designed for structural adjustment programmes do not take such imperfections into consideration and thus applying such policies would in the end result in a

reduction in growth, a rise in unemployment and eventually an increase in the incidence of poverty. Khan further enumerates the factors that distinguish the actual labour markets in developing countries from the theoretical model of the World Bank in order to show that any structural adjustment programme intervention only affects the modern sector of the economy, which in most cases employs only a small portion of the labour force. Even when such measures are designed to apply to the entire economy, their actual implementation almost never extends beyond the modern sector.

According to UNRISD (1994), the past experiences of adjusting countries have shown that to survive during recession, and with the pressure from more technologically advanced international competitors, adjusting third world countries have relied on their only competitive advantage: access to cheap labour. As a result, the formal sector working class shrinks, and working conditions within the sector become more difficult. However, the workforce begins to accommodate increasing number of women and young people pushed out of homes and schools by declining family income. The entry of this new group, often with little experience in the workplace, tends to push wages down and further weakens established labour unions. "These less protected strata are particularly sought out by...the labour-intensive assembly plants and agricultural processing establishments producing exports under contracts to foreign buyers" (UNRISD, 1994: 18). UNRISD (1994) noted that another consequence of restructuring for the labour market involves multiple survival strategies, the coping strategies adopted by people as they confront severe challenges to their livelihood that result in high growth of the informal sector or unregulated business activities within the framework of adjustment. Workers and civil servants in Africa, for example, are increasingly devoting a part of their time to farming on the outskirts of their towns, or in the countryside. Teachers and nurses in many countries now opt to supplement miserable salaries by opening small shops, selling street foods, and so forth. Such diversification of activities require devoting attention and time to a number of concerns in different places. This affects the quality of work, weakens the commitment of employees to the institutions they serve and reverses earlier trends towards occupational specialization (UNRISD, 1994).

To ensure efficiency and equity, labour market interventions should instead aim at the most rapid expansion of employment and enhancement of labour productivity. There is a great deal of scope for positive public intervention to improve the distribution of access to productive assets and human capital and to help improve labour mobility. Policy makers can make growth employment-friendly by concentrating on these actions and avoiding distortions in the system of incentives, so as to ensure that the combination of labour with other factors, notably physical capital, is not affected. All interventions that make labour cheaper than its market price should be avoided.

Khan (1995) proposes some employment-friendly adjustment policies to deal with the cases of countries suffering from inefficient labour markets, where unrealistic wages and employment policies in the public sector and the absence of positive actions to promote labour productivity were a major contributor to the structural imbalances. Such policies promoted inflexible labour markets that were an impediment to adjustment and caused employment hostility to adjustment. A classical adjustment process in such circumstances would lead to reduction in output, a sharp fall in real wages and increased unemployment. Khan proposes a mix of stabilization and structural adjustment reforms to deal with cases of inefficient employment-friendly and employment-hostile countr[illegible]. Such properly conceived adjustment programmes can simultaneously satisfy the objectives of growth and employment expansion and hence equity and poverty reduction.

B. Multiple strategies for survival during the adjustment

In his research on economic restructuring, coping strategies and social change, Bangura (1994) dwells on the experience of African countries with World Bank structural adjustment programmes during the past decade, and explores the set of values and relationships that anchor institutions in social systems. According

to Bangura's research, the Bretton Woods institutions seek to project universal rules and regulations to facilitate routine implementation of certain tasks. But since such rules and regulations are based on a model different from the local institutions that shape the social set-up of the country in question, they cannot apply to the country under consideration. Bangura explores these issues through an analysis of the coping or survival strategies of the different social groups. The findings of the research were that the characteristic response to economic crisis and insecurity by most groups has been to pursue multiple survival strategies, whereby farmers, workers, State employees, informal sector operators—even some professional and academic personnel—have sought to counter declining and insecure incomes through the diversification of their economic activities. Bangura argues that strategies aimed at supporting a process of institutionalization that would lead to effective rules, predictable transactions and viable incentives for institutional actors would need to address three main issues: (a) questions related to livelihood, social polarization and multiple identities; (b) issues related to the role of culture in social development and institutions and (c) issues concerned with the role of social forces in disciplining institutions. Bangura sets out the policy implications of required changes in each of these three areas in order to make the adjustment more effective while taking the social structure of the society into consideration.

C. Impact of structural adjustment programmes on disintegration of the society

Multiple survival strategies that result from applying structural adjustment programmes weaken the kinds of institutions that modern societies have developed for the defence of selective group interests. Trade unions, farmers' associations, mutual insurance societies and so forth depend for their effectiveness on the commitment and financial support of their members. As professional or workplace identity erodes, and as the interests of members become more diffused, such institutions lose much of their ability to represent their constituents in formal bargaining processes.

Although it is often noted that strong "vested interests" can block needed reforms, it is also true that weak interest group representation can make it harder for Governments to design an effective response to economic crisis. In the first place, dialogue between policy makers and key sectors of the society becomes more difficult and agreements on issues such as wage and price restraints are less likely to be implemented as planned. This kind of problem stood behind many of the failed efforts to forge pacts in support of stabilization programmes in African and Latin American countries during the 1980s.

On a deeper level, the sharp sense of uncertainty and insecurity generated by recession and restructuring—by the threat of unemployment, the collapse of wages and the deterioration of public services—provides fertile ground for fundamentalism. Furthermore, the growing fragmentation of livelihood, as households explore multiple survival strategies, is likely to reinforce the need to reassert primordial loyalties.

Finally, it should be noted that the pronounced widening of income differentials within many countries over the past few decades has played a significant role in weakening broader networks of social interaction and solidarity. The poor tend to become poorer, not only in absolute but also in relative terms as some other members of society have been able to take advantage of the unusual new opportunities created by free-market reforms. In most cases, the long-term impact is the erosion of the middle class, with a small percentage becoming rich while the majority join the "new poor". Frequently there is a marked cultural dimension to this process of polarization. The most lucrative activities often involve growing involvement in international markets and integration into a global consumer culture. In consequence, the bases of national culture (often of recent creation in third world societies) are narrowed and challenged.

D. Importance of understanding the institutional set-up of the country

Neo-liberal reformers, on whose theories structural adjustment programmes and policies are built, argue that changes in the structure of incentives in favour of tradables would empower market-oriented groups, who eventually would be strong enough to enforce new rules of behavior in State and society. Such assumptions ignore the complex changes in social developments and the State-society linkages that are bound to alter the configuration of social forces and the balance of political power according to the unwritten norms and values that persist in the society. Such social forces if not taken into consideration a priori, will doom the structural adjustment programmes to failure. According to Bangura (1994), evidence indicates that in none of the adjusting countries so far were the configurations of social forces restructured in ways that ensured the establishment of a solid support base for reforms. The neo-liberal will usually blame the failure of such policies on "corruption" or bureaucracy rather than admit they failed because of misconception of such hidden social forces.

Furthermore, when confronted with evidence of negative economic performance in countries undergoing restructuring, the international financial institutions often blame Governments for not taking the reforms seriously enough, or point to the lack of political will in regulating the activities of corruption and vested interests. Once issues of "lack of seriousness", "political will", "bureaucratic corruption" and "vested interests" are raised, it implies that the institutional issues of the country under adjustment need work and need to be explained in order to understand why adjustment has not been progressing as planned. According to UNRISD, such institutional issues relate to the capacity of State systems and interest group organizations to regulate social behavior. Here institutions are defined as a bundle of rules in social relations which structure behaviours in fairly predictable ways. As systems of rules and regulations, institutions are a sub-set of social relations. Rules are necessary for predictable transactions, but changes in social relations are important in regulating economic actions irrespective of impact and may ultimately affect the way the rules operate. This set-up is especially relevant in the case of Middle Eastern and African countries, where economic curtailment has revealed that personal relations, traditional values, belief systems and social networking are crucial to the success of business. According to Bangura (1994), such markets are always intertwined with a complex of social and political relations, producing a multiplicity of markets, rather than the idealized abstract market found in much of the adjustment literature.

A successful strategy of institutional reform, therefore, must focus on all three dimensions of the problem: (a) changes in social relations including social polarization and multiple identities; (b) the impact of institutionalization, that is, the role of culture in social development and institution-building; and (c) the role of social forces in disciplining institutional goals. Bangura (1994) elaborates on the steps to ensure that such transformations are carried out with the adjustment in order to make it succeed in highly informal developing economies where unwritten social rules still prevail. A key issue that would need to be confronted in such highly informal situations is how to create standard societal rules and regulations that individuals would be accountable for following as they move from one stage of institution-building to another. In order for such rules to be effective, organizations may need to be restructured in ways that would encourage transparency in transactions and internal democracy in decision-making. This will also enable concerned bureaucrats and their allies in society to expose institutional malpractice.

E. Poverty reduction during structural adjustment

Another drawback in the methodology of the Bretton Woods institutions is in the understanding of the relation between poverty and structural adjustment. According to an Oxfam report (Watkins, 1995), there are three main arguments which the Bretton Woods agencies present in defence of their claim that structural adjustment contributes to poverty reduction. The first is that failure to adjust will ultimately impose huge costs on the poor, with unsustainable budget and trade deficits leading to hyperinflation, currency instability

and economic collapse. This is uncontroversial in economic terms, although it hardly amounts to structural adjustments.

The second, more controversial, argument concerns social provision. Both the IMF and the World Bank acknowledge that insufficient attention was paid to this area during the first generation of adjustment programmes in the 1980s. They now state that they have introduced "social conditionality" into structural adjustment, making provisions to protect expenditure and welfare service delivery in areas of concern to the poor. World Bank investment in health, education, and nutrition, which rose from US$ 1 billion for 1987-1989 to over US$ 3 billion for 1992-1994, and reached 15 per cent of total Bank lending, is cited as evidence of reform in this area. However, such policy changes require long periods of time before the extent of their effectiveness can be determined.

The final argument concerns the relation between growth and poverty reduction, whereby according to the IMF and the World Bank, structural adjustment programmes, when properly implemented, will not only create the conditions for growth, but for growth which is "pro-poor": State intervention in the rural sector—and the vast majority of the poor live in rural areas—has lowered prices, reduced market opportunities, and thereby depressed household income. According to the World Bank, deregulating these markets has had the opposite effect, raising prices and creating rural employment. In the urban sector, the IMF and World Bank assume that import liberalization will have the effect of making local industries more competitive, by allowing them to take advantage of imported technologies.

However, according to Oxfam research, structural adjustment policies were not able to create a framework for sustainable and equitable growth, and their failures were particularly pronounced in the following four areas:

(a) Social welfare expenditure has not been adequately protected. In many countries, health and education provisions were cut back. The introduction of user-charges to finance social welfare systems implies that essential services are now beyond the means of the poorest people;

(b) Market deregulation did not provide a framework for poverty reduction for the rural poor, and in some cases it further marginalized them by excluding them from markets. In the manufacturing sector, the deregulation of labour markets resulted in increased insecurity and lower wages;

(c) Deflationary stabilization policies and rapid uncoordinated trade liberalization has undermined the investment and employment creation vital to poverty reduction;

(d) Sustainable and equitable patterns of growth were not generated under structural adjustment. This is especially true in Africa, where 15 years of adjustment have failed to create a climate for recovery. Even in Latin America, where a fragile economic recovery has taken root, it has been accompanied by growing inequality (Watkins, 1995).

F. Expected role of the public sector

One school of thought, often referred to as "liberal", attributes the crises associated with structural adjustment to interference with the free play of market forces. In this view, if Governments exercise strict monetary and fiscal discipline and remove all barriers to the operation of a self-regulating market, equilibrium can automatically be restored to world finance and trade. Other schools of thought doubt that a self-regulating market exists. They stress the importance of government intervention to develop and protect local economies as well as to regulate cycles of recession and growth. For the liberals, the ideal public sector is a relatively passive one, providing services indispensable for the efficient conduct of private business and

protecting the weakest members of society. Such a picture, according to UNRISD (1994), corresponds neither to the real world of developing countries nor to that of the industrialized world: in fact, most of the advanced industrial nations were governed by far more activist States and engaged in a great deal more protection of local interest groups than the neo-liberal model would have condoned. The experience of developing countries undergoing structural adjustment has shown that the role of the public sector cannot be switched from its regular functions to the ideal theoretical role. According to UNRISD (1994), one of the lessons to be learned from accumulated experience with reform over the past several decades is that neo-liberal economic policy prescriptions are of limited utility to indebted countries and can in fact be dangerous. Past experiences of developing countries with structural adjustment programmes proved that, to be successful, adjustment requires a strong State with well-established strong links to the business sectors, not a weak one.

According to the ILO 1996-1997 World Employment Report, a basic point of contention in the choices for economic reform and promoting employment lies in the role of the State. There are two competing models. One is that of a minimalist State, providing a "level playing field" in terms of economic institutions and policy environment, while the other is that of a "development State" which selectively promotes industries and keeps firm control over the pace, timing and sequencing of economic reforms. The choice between these two models depends to a large extent on whether the socio-economic preconditions and the administrative capacity to implement the development State model are in place. These are demands for conditions that are not usually present in adjusting developing countries. Adjusting countries are usually characterized by market imperfections and high inequality in the distribution of income and assets. As such, there are several important rationales for an active role of the state in the implementation of reforms. The conclusions of ILO in this respect are similar to the conclusions of UNRISD. ILO (1996) stated that the objectives of reforms are unlikely to be achieved if the role of the State is confined to that of the liberals, that is, getting prices right, deregulating markets and withdrawing from direct economic activities. Moreover, a high degree of social equity is required to ensure that a strong State acts in the general interest and refrains from predatory behaviour. Another vital role of the State lies in promoting training and retraining in the new skills that are required for the adjustment process and in relieving infrastructural bottlenecks to enhance growth and to ensure equitable distribution of the benefits from reform.

The market and the State are often considered opposing entities. It should be noted that they are in fact complementary rather than contradictory methods of regulation. The real problem is to define their respective boundaries and, above all, their interrelationships. In fact, the question of the articulation of regulatory methods in modern economics is broad and concerns a wide variety of actors: It involves not only the roles of the market and Governments, but also the roles of associations and civil society, the informal sector, and individuals. The fundamental question is that of the desired relation to be promoted between innovation and creativity of each of these actors and the institutional framework necessary for the harmonious development of society (IEUD/UNRISD, 1995).

The 1997 World Development Report on "The State in a Changing World" denounces the proposition of a minimalist State during reform and calls for an effective State as a vital tool for economic and social development, especially during reform. According to the Report, the State has enormous sway over a country's economic and social development and whether that development is sustainable. The State's potential for leverage and to promote change in pursuit of collective ends is unmatched. Where this capacity has been used well, economies have flourished. But where it has not, development has hit a brick wall. According to the Report, any efforts to restart development in countries with ineffective States must start with institutional arrangements that foster responsiveness, accountability and the rule of law. The Report further proposes a two-part approach to improving the effectiveness of the State, mainly (a) matching role with capability; and (b) reinvigorating the State's capability by subjecting the public sector to more rules and restraint and greater competitive pressure and by making it more transparent and open. The Report gives examples from the various regions around the world and makes proposals for reactivating the role of the State

in each case, since as the research infers, such actions cannot be but country-specific. Accordingly, State reform must go beyond a "one-size-fits-all" approach or (in the case of international assistance) one based on donors' preferences rather than recipients' needs. It must be based on a clearer diagnosis of the case at hand and of how reforms would fit into broader political and social changes going on in each country.

G. Structural adjustment programmes and polarization

One of the main drawbacks of applying structural adjustment programmes in developing countries is the resulting social polarization. Such polarization results from the complex ways in which social groups and households respond to the crisis and the way that reforms sharpened old social divisions and introduced new forms of polarization. In its paper on Structural Adjustment in a Changing World, UNRISD (1994) gives examples from Latin America and Africa to show that in most cases the net outcome of structural adjustment was the worsening of living conditions, especially for the more vulnerable groups (such as the poor who became poorer). However, there was a certain class of people who greatly benefited from the process and became much richer. The net result is polarization of the society as a whole and the emergence of new classes, with the middle class in urban areas fragmenting into the "new poor" and "new rich". Such deepening of intra-group divisions can also be observed in the informal sector. As many individuals get pushed into the informal economy, socio-economic divisions become sharper. A relatively small group of informal entrepreneurs, with technical skills, capital assets and in some cases, political connections, become successful in exploiting new market opportunities, whereas most of the informal agents face stiff competition in activities that only guarantee the most basic form of survival (Bangura, 1994). Similar trends in polarization have also been observed in the rural economy, where income differentials stemming from unequal access to labour, land, credits and inputs were widening between rich peasants and small landowners and between women and men (ibid.). Such results prove there is a need to review the social set-up of the countries in question through improving the efficiency, transparency and accountability of the public sector. There is also a need to restructure and upgrade public bureaucracies and to strengthen local NGOs prior to the design of structural adjustment programmes.

H. The World Bank programme of targeted interventions

During the latter part of the 1980s, it was realized that developing countries undergoing structural adjustment programmes would not recover rapidly from recession in the great majority of cases and that the deteriorating social situation could eventually lead to serious political unrest and other social problems. Such possible negative consequences led to widespread criticism of the international financial institutions that were the primary promoters of adjustment in the developing countries. As a result, the Bretton Woods institutions expressed their willingness to work for adjustment "with a human face" by devoting more attention to social issues, becoming more flexible about the conditionalities associated with adjustment lending and searching for ways to alleviate directly the problems of the most vulnerable groups. Consequently, and in an effort to absorb the negative social consequences of the prescribed structural adjustment policies, international financial institutions and Governments began to experiment with new forms of targeted support for the most vulnerable groups in society. Emergency social funds, financed through foreign aid in most cases, were established to provide employment and support income-generating projects to alleviate unemployment (UNRISD, 1994).

According to the experience of adjusting countries, the increased flexibility claimed for adjustment programmes has in fact taken place only on a very limited scale, without involving significant changes to the basic adjustment model. According to UNRISD, the "social investment funds" set up to channel funding to the vulnerable groups have as yet had only very limited impacts—with even the largest of such programmes reaching a very small proportion of the vulnerable population (UNRISD/UNDP, 1995). This subject is thoroughly discussed in Vivian (1994) in a paper titled "Social Safety Nets and Adjustment in Developing Countries", reports on the preliminary findings of the ongoing research on social policies in the context of

economic restructuring in developing countries. The paper examines the adjustment-related "social safety net" programmes currently being implemented in a number of developing countries and synthesizes the findings of case-studies of such programmes from 13 adjusting countries. The author, a researcher at UNRISD, summarizes the evidence regarding the characteristics and performance of adjustment-related safety net programmes around three main questions: (a) How well do adjustment-related safety net programmes address either the social costs of adjustment, or social problems in the context of adjustment? (b) Do such programmes work to improve the social and political acceptability of adjustment measures? and (c) Can such programmes be seen as models for new, more efficient and effective means of providing social service?

On the drawbacks of safety nets, Vivian (1994) cites the following:

(a) The growing dependency on such transitional measures to solve long-term poverty and unemployment in the medium to long run, while they were originally conceived as short-term emergency measures, with a strictly limited life span, intended to provide a bridge between the crisis and the reactivation of the economy. As such and by definition, they were not designed to solve the problems of poverty or unemployment;

(b) The use of these measures as political instruments intended to convince the public that the social costs of adjustment can be successfully managed and that the current government is serious about doing so. In some cases job programmes were withdrawn from communities involved in political opposition activities, while in other cases, jobs were increased prior to elections and phased out afterwards;

(c) The bias of such measures in favour of men when available data indicate that women are clearly disadvantaged, especially in the employment-generation component of social funds;

(d) The low proportion of the affected population reached, and the difficulty in reaching the poorest segment of the society, with urban bias in many cases;

(e) The low participation in decision-making of NGOs and other local grass-roots organizations.

Vivian argues further that, although safety net programmes have had some notable successes, they are not the answer to the social costs of adjustment, and should not serve to deflect efforts to redefine adjustment programmes so that their social costs are better contained. Furthermore, because safety nets are increasingly portrayed as not merely short-term palliative measures, but as representing a potential alternative model for provision of social services, the long-term impact of this essentially residualist approach to social development should be more thoroughly examined.

Another drawback regarding the role of social safety nets was pointed out in research carried out in 1995 by Stewart and van der Geest[15] who recently evaluated the experience of social funds in selected countries. Their conclusion is that "add-on temporary institutions" that depended heavily on external funds, have been poorly targeted and have not been able to provide for effective poverty reduction during adjustment, that is, they represent very inadequate safety nets. One reason for this is the small size of the social funds compared with the incremental poverty being created during the process of adjustment. Besley and Kanbur identified the ideal solution to poverty alleviation during adjustment as that of "perfect targeting",

[15] The findings of the research on *Adjustment and Poverty: Options and Choices* (Routledge, London), were cited in *The Behavior of Poverty in the Arab Countries*, by Ali Abdel Gadir Ali, January 1996.

but proceeded to note that, in the real world, problems associated with administrative costs and political economy militate against fine targeting schemes and thus become inefficient and lose their primary goal.[16]

I. OVERALL SOCIAL IMPLICATIONS

To sum up, the reduction of government subsidies and subsequently the increased costs of social services as a result of the structural adjustment programmes can have an adverse effect on living standards with the poor becoming poorer and no longer able to afford services such as health or education. Eventually, the loss of social services formerly offered by the public sector free of charge would undoubtedly relegate the poor to a more severe degree of poverty and with a more arduous path to recovery. For example, in the field of education, the imposition of fees for elementary and primary education, as required by the structural adjustment programmes, would result in many poor children quitting school and joining the informal labour force at an early age, thus causing them to remain as poor or even poorer than their parents, who had access to free education and sanitary facilities. Such social deterioration carries with it a chain reaction that increases the gap over time between those who can afford to sustain their level of living through proper education and health and those who cannot. It is a dynamic reaction that becomes irreversible and increasingly widened over time, resulting in a polarization of the society.

In extreme cases, the application of orthodox structural adjustment programmes would result in the above-described deterioration in the living conditions of the poor and the "new poor" along with the emergence of slums with inhumane living conditions. At the same time, those benefiting from the economic readjustment programmes would become richer and able to afford extravagant lifestyles. The contrast between these two sets of people living in the same city would inevitably lead to extremism and social unrest.

J. HOW TO MINIMIZE THE NEGATIVE SOCIAL IMPACT OF THE ADJUSTMENT

The inadequacy of structural adjustment programmes in achieving the desired development goals for developing countries over the past two decades shows that confining structural adjustment programmes to economic variables is similar to undergoing structural adjustment without structural change. The hoped for trickle-down effect associated with structural adjustment programmes has not materialized. The problems of economics and social development must be worked out together, as neither the State nor the market can deal with these measures alone. Structural adjustment programmes must include the removal of obstacles to poor people's access to resources. They should also include land reform, access to food, health services, employment opportunities, credit, education and training, involving empowerment of the vulnerable groups and grass-roots participation. This new way of thinking about structural adjustment programmes was called for by the international bodies at the 1995 World Summit for Social Development.

Some of the issues that most social researchers agree must be taken into consideration in dealing with structural adjustment programmes are listed below.

(a) Economic growth needs to empower people, not marginalize them. It should be focused on the mobilization of the resources and abilities of poor people and on their access to key assets of production. Thus, restructuring should accompany any economic growth. It is such restructuring that lays the foundation for growth and expansion in production, and not the current demand-suppressing measures. Economic reforms *per se* will never be enough, nor will a narrow fixation on aggregate indicators of national economic growth and performance. Rather, economic reforms must be complemented by equally powerful initiatives to ensure that economic growth benefits the poor more than the rich, and that it is a job-led growth.

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[16] T. Besley and R. Kanbur (1993), "Principles of targeting" as cited in *The Behaviour of Poverty in the Arab Countries.*

(b) The success of the structural adjustment programmes depends to a large extent upon the institutional capacity of the country concerned to formulate, manage and monitor the programmes; therefore, what is really needed is to strengthen the capacities of the government delivery systems and institutional set-up rather than supporting social safety nets. The social investment funds established to channel funding for development projects to vulnerable groups have as yet, even with the largest of such programmes, reached only a very small proportion of the vulnerable population. As such, these safety nets should not provide an excuse for not seriously considering the issue of redefining structural adjustment programmes to make them more sensitive to the needs of the vulnerable groups and the poor.[17] There should be periodic evaluation of the impact of such funds *vis-à-vis* their anticipated role.

(c) The crisis of the welfare State cannot be ignored. The new role of the State should be to design more effective monitoring mechanisms to increase the accountability of the market to the State. This requires working out new institutional arrangements that make adjustment measures more efficient and equitable for the less advantaged population through the promotion of social interaction. The new role of Governments should be to regulate and control the activities of the private sector and to coordinate its final production with incentives and information that would lead the private sector to behave with accountability in a collectively beneficial manner towards the society as a whole. State intervention to insure increased accountability would increase empowerment and participation at the local level. Governments, civil societies and individuals all need to have a voice in social and economic decision-making, with the right balance to be found between these sectors.

(d) Active labour market policies and appropriate labour market information systems are essential to allow for labour market flexibility and to help job-seekers to plan their training and educational requirements and to adapt continuously to the rapidly changing working environment. These policies and systems are also needed in order to improve the efficiency of public sector outlays. Labour market flexibility and the speed of labour substitution among sectors plays a key role in expediting the structural adjustment process, as it results in the better utilization of labour. Labour training in the new technological processes is another key element in this respect.

(e) It is necessary to increase public participation and decentralization in the decision-making process at both the planning and implementing stages so that the society interacts with the economic solutions and is prepared to face the difficulties associated with the adjustment process. People must be aware of the consequences of any restructuring in the short and the long run, especially the consequences at the micro level, to avoid marginalization of vulnerable groups. Such public awareness of the negative social impact of structural adjustment programmes would force the unskilled labour force to undergo vocational training for the jobs that will be needed after structural adjustment programmes have been implemented.

(f) The role of NGOs, grass-roots organizations and voluntary societies should be strengthened to assist the vulnerable groups in overcoming the hardships of poverty through implementing micro-enterprises for income generation, especially in rural areas and urban suburbs.

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[17] A metaphor about the dependency of Governments and policy makers on social funds to solve the problems associated with structural adjustment programmes is that with time they tend to become safety hammocks that put to sleep the policy makers depending on them to solve all the social problems associated with structural adjustment programmes (UNRISD, 1995).

V. METHODOLOGY FOR MONITORING THE SOCIAL IMPACT OF STRUCTURAL ADJUSTMENT

A. PROBLEMS ASSOCIATED WITH MONITORING THE SOCIAL APPROACH

It is not easy to assess the incorporation of a social dimension into structural adjustment policies. It is difficult to assess the impact on the social indicators of the countries under consideration. In the ESCWA member countries, as in other developing countries, the difficulty lies not only in the fact that the structural adjustment policies were only recently applied to the region and have not yet had the expected impact: a more relevant query is to ask how the impact of structural adjustment application can be differentiated from a situation in which structural adjustment had not been applied at all (the counter-factual). All countries undergoing adjustment were suffering from imbalances, internally as well as externally, and any economic development would have a different impact on the social situation of the country in question. So how can a current and real situation be compared with the unknown. In any economic model, it is feasible to project scenarios according to changing parameters, but in the social field the situation is more dynamic and interactive, and such projections become futile. This fact is further complicated by the nature of the social change, which is very gradual; its impact on the societal set-up can only be felt over a relatively long time period, while any economic change, however gradual, can be measured and projected in monetary terms. An example would be the impact of poor nutrition or education on poverty: the two factors become interlined with both cause and effect. Poor education could result from poverty, but it is also a cause of it and causes more poverty over time.

Another difficulty relates to the fact that often—given the current state of data available in a particular country—attempts to trace changes in social variables can generally rely only on indirect and partial indicators. For example, as far as income distribution and poverty are concerned, the typical indicators examined are trends in real wages, real food prices, unemployment rates and changes in government expenditures. Assuming that during stabilization real wages tend to decline, unemployment tends to rise and social services tend to be reduced, one may expect a negative effect on income distribution and poverty; however, the connection, even at the theoretical level, is not necessarily so straightforward (Chapelier and Tabatabai, 1989). This is in addition to the fact that social indicators in developing countries in general are few and unreliable, and depending on them to assess the effectiveness and consequences of structural adjustment policies would be difficult.

Since structural adjustment policies are designed to fulfil economic targets, while they affect the different social groups, structural adjustment programmes require a solid comprehension of how each economy works and therefore high-quality up-to-date statistics during their implementation. This is especially relevant when it relates to assessing the effects of structural adjustment programmes on poverty groups, which requires a good understanding of the nature of poverty in the country in question, of the relation of poverty groups to the remainder of the economy and of how specific policy measures have an impact on their welfare. According to Killick (1994), the literature surveyed showed that data of this kind remain deplorably deficient. In fact, the absence of reliable data is the single most important reason why the amount of soundly-based qualitative empirical research is still quite limited. Part of the reason is that poverty is an intrinsically difficult topic for government statistical services to assess.

Killick stresses the importance of taking the problem of the counter-factual into account in analysing the social effects of structural adjustment policies. The relevant query is: Do adjustment programmes result in a poverty situation better than what would have been obtained without them? This question is especially relevant, considering the fact that economies are often in such crisis immediately prior to the adoption of structural adjustment programmes that failure to act does not usually worsen the poverty problem. In such cases, the adverse effects of adjustment could be more appropriately attributed to the initial crisis that the

country in question was passing through prior to the inception of structural adjustment programmes (Killick, 1994). This is further substantiated by the fact that, in developing countries, stagnation or decline in economic activity was a major contributing factor to increased impoverishment. Its effect on incomes and welfare was magnified by resource transfers to industrialized countries through increased debt burden, deteriorating terms of trade, declining flows of private capital and accelerating capital flight. Stabilization and structural adjustment efforts further reinforced poverty and inequalities through such policies as decline of public expenditure, especially expenditure on social services and welfare; removal of subsidies on goods and services for mass consumption; the increase or imposition of user charges; increase in real interest rates; decline in employment and real wages and rise in casual part-time employment and in informal sector activities.[18]

B. ADJUSTMENT, POVERTY AND INEQUALITY IN THE DISTRIBUTION OF INCOME

In determining the impact of structural adjustment policies on the poor, it is necessary to differentiate between three classes of poor according to their vulnerability with respect to structural adjustment programmes. Some households may be poor and not vulnerable as they are not affected by external events. Others can be vulnerable but not poor, a case illustrated by retrenched public sector workers. Thus during the period of adjustment, it is necessary to differentiate between three broad groups:

(a) The chronic poor whose situation is caused by multiple deprivation such as poor access to productive assets or low productivity due to poor education. This poverty is deep-rooted and existed before the implementation of structural adjustment programmes. Some are vulnerable to recession and adjustment-related shocks, while others may be relatively immune, and still others may in fact benefit from adjustment.

(b) The new poor who were above poverty line before the adjustment but who have fallen into poverty as a result.

(c) Other vulnerable groups who remain above the poverty line but who are severely affected by adjustment.

This categorization was presented by Demery in the section on “The poverty profile” at the World Bank Symposium on Understanding the Social Effects of Policy Reform (World Bank, 1992). The same subject was also presented by Killick (1994) in his paper on Structural Adjustment and Poverty Alleviation.

According to Ghai (1992), the burden of adjustment in most developing countries has fallen on the low and middle income strata of society. This fall in income has not been confined to unskilled and semi-skilled persons but extends much further up the skills hierarchy. In particular, middle- and senior-level public officials have suffered sharp declines in their standard of living. In most countries, incomes of those in rural areas have held up better or have declined by less than incomes of urban workers. Among those deriving their income from capital, the groups affected relatively favourably include persons with access to foreign exchange and owners of foreign assets; those engaged in banking, finance and property transactions; commercial, agricultural and industrial enterprises in the export business; and those dealing in scarce commodities, smuggling and drugs. The losers include those producing for the shrinking domestic markets previously protected from foreign competition, pensioners and holders of assets that failed to keep up with accelerated inflation.

[18] For further analysis, see Cornia and Stewart, 1990; Jamal and Weeks, 1988; Rogers, 1989; and Standing and Tokman, 1991, as cited in Ghai, 1992.

Although comprehensive and reliable data on poverty and income distribution are scarce or non-existent for most developing countries, the available evidence points to a redistribution of income from the poor to the rich. In Latin America, the incidence of poverty increased and income distribution worsened in the 1980s. A recent survey of data on Latin America concluded that "studies of Latin American countries demonstrate increasing inequality in income distribution as measured by Gini coefficients in Argentina, Brazil, El Salvador, Mexico, Panama, Peru and Puerto Rico" (Cardoso and Helwege, 1992). After surveying data form various sources, another writer stated that "average per capita incomes fell, while income distribution worsened in the 1980s, for almost every country for which data are available" (Stewart, 1992). Data also show that, while the 1970s saw a reduction in the incidence of poverty in Latin America as a whole from 40 to 35 per cent, this was reversed in the 1980s, when the incidence of poverty rose to 37 per cent by 1989 (Stewart, 1991).

Comparable data are not available for the African region but trends in per capita income, employment, real wages and government expenditure all point to an increasing incidence of poverty as a result of adjustment policies in the late 1970s and 1980s (Cornia and Stewart, 1990; Ghai, 1989; Jamal and Weeks, 1988; JASPA, 1988; Stewart, 1992).[19] In its 1990 World Development Report on Poverty, the World Bank noted that with few exceptions, the evidence supports the conclusion that poverty in sub-Saharan Africa is severe and has been getting worse (World Bank, 1990b).

C. MONITORING THE SOCIAL DIMENSIONS OF ADJUSTMENT

If the social dimension of development is to be effectively taken into account, proper attention must be paid to the issues of income distribution, alleviation of poverty, employment and effective integration of vulnerable groups in the overall development process. But how are policy makers to know what is a good combination of policies unless they have a viable database from which to draw the necessary inferences? And how are they to know how different socio-economic groups have fared under past and current policies? Thus, timely data are required to monitor and evaluate the impact of structural adjustment policies on social groups.

Christian Grootaert proposes the priority survey (PS) as a first instrument to provide data to identify policy target groups and key socio-economic indicators for such groups. The PS is based on a relatively short questionnaire which is administered to a comparatively large sample of households. The second instrument is the integrated survey (IS), which would provide the necessary information to investigate in detail the response of different household groups to adjustment in order to establish the relationship between macroeconomic policies and their effects on the household level. The IS uses a lengthy and detailed questionnaire for a somewhat smaller sample. These two surveys are complementary instruments, with each having different objectives to monitor the social dimension of structural adjustment programmes (Grootaert, 1991).

D. MEASURING INEQUALITY

The theoretical properties of the various inequality measures were established by A. B. Atkinson in 1970.[20] A great variety of inequality measures have been formulated, the most well known of which is the Gini coefficient and the coefficient of variation. The Gini index measures the extent to which the

[19] There references are cited in a discussion paper by Dharam Ghai on "Structural adjustment, global integration and social democracy" (Geneva, UNRISD, October 1992).

[20] A. B. Atkinson, "On the measurement of inequality", *Journal of Economic Theory*, vol 2, 1970, pp. 244-263.

distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. The basic tool in analysing inequality in the distribution of economic resources is the Lorenz curve, a graph that shows the share of income of the percentage of the population with the lowest income. The Gini coefficient measures the area between each Lorenz curve and a hypothetical line of absolute equality, and is expressed as a percentage of the maximum area under the line. Thus a Gini index of zero represents perfect equality and an index of 100 per cent perfect inequality. In general, the choice of inequality measure implies a weighing of different parts of income distribution. The Gini coefficient tends to give special weight to the densest part of the distribution, while the coefficient of variation tends to give special weight to the upper part. In addition to the inequalities in income, inequalities in a number of indicators such as education and health should be measured. Several studies have shown that inequality in education is an important cause of inequality in income. Health is another non-monetary variable which has been given attention in several studies of inequalities.[21]

E. MEASURING THE IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMMES ON THE POOR

The relation between structural adjustment and poverty can be analysed from two broad perspectives. It can refer to the "social" or "transitional" costs incurred as the economy is moved from a one-time path to another. With a longer-term perspective, the steady effects of structural adjustment on poverty can be assessed. The challenge for policy makers is to identify the set of adjustment policies that will induce the poor to participate in the process of recovery and growth. This implies an ex ante approach, whereby policy interventions that enhance social dimensions are identified as early as possible before a structural adjustment programme is applied, that is, at the policy design stage. According to UNRISD, assessing the social impact of adjustment involves two major analytic challenges. First, the main links must be established between events in the macro economy (that is, external and internal shocks of structural adjustment programmes) and the meso economy, which determines the intervening variables that communicate these changes to the households. Secondly, the different ways in which these intervening mesoeconomic variables affect individuals and households in both the short and the longer run must be determined (Grootaert, 1991).

According to Demery (World Bank, 1993), one has to measure how adjustment policies have affected the availability and quality of social services (at the macro and meso levels[22]) and then assess whether such changes in the supply of services have interacted to impose a change on the demand and thus on the outcomes at the household (micro) level. Such calculations are required to place the analysis of household data in the context of the adjustment programme. The data should then be combined with community level data that include information on the availability of education and health services and on the quality of such services. As such, the analysis would identify how the real expenditure changes imposed under the discipline of adjustment have affected the supply of social sector services in the communities covered by the survey.

The measurement of the impact of structural adjustment policies on the resources available for health, education and other programmes of social support are usually carried out at the sectoral level. Such data should then be combined with the community-level data that include information on the availability of social services (mainly education and health) and on their quality (availability of textbooks and medicines, for example). Initially a community data set will be for just one point in time, but as such a survey is repeated,

[21] For more detailed information on inequality in education and health, see Lyngstad and others, (1995).

[22] The term "meso" refers to the link between the macro and the micro economy. It comprises three key elements: one that deals with markets as the main link between the macro economy and individual households; economic infrastructure that includes public expenditures on physical infrastructure and support services; and social infrastructure consisting of health, education, nutrition support and other transfers (UNRISD, 1991).

it will be possible to have more accurate estimates of how such services have changed at the community level.

The timing of the surveys in relation to structural adjustment policies is critical in interpreting the data, especially when data for two or more points in time are available. One needs to understand what changes have occurred in the economy in the interval between the surveys, and the extent to which these changes have been brought about by adjustment policies. Such methodology has been reviewed by the World Bank (1993:15), whose analysis identifies how the real-expenditure changes imposed under structural adjustment policies have affected the supply of social services at the community level. The main objective of the analysis is to provide policy makers with an improved empirical basis for protecting poorer groups in times of policy reform. Such analysis should signal clearly where poor groups are particularly vulnerable to policy changes, and where they need immediate assistance. It should also suggest ways in which policy interventions might be adjusted to dampen adverse effects, and enhance the beneficial effects of policy (World Bank, 1993:76).

F. THE NEED FOR A RELIABLE DATABASE

The importance of building a database with reliable information on the poverty effects of structural adjustment programmes has been emphasized by many researchers. At present, much remains to be learned about the interactions between poverty and adjustment at the country level. The priorities suggested by Killick (1994) are as follows:

(a) Implementation of successive surveys every five years on household consumption, augmented by annual surveys of a smaller household sample;

(b) Annual censuses of the formal sector with sample surveys of informal sector enterprises;

(c) Improvement in the regularity and quality of standard social indicator statistics, on literacy and education, morbidity and mortality, access to economic, infrastructural and social services, and nutritional status;

(d) Development of gender-sensitive indicators, standards and evaluation procedures for planning, implementing and monitoring anti-poverty programmes.

All the above should be undertaken in conjunction with a full range of standard economic statistics in order for researchers to be able to trace the connection between the performance of the economy, specific policy variables and trends in poverty. Table 1 summarizes the impact of specific structural adjustment policies on the different types of poor. The table provides evidence that, in relative terms, it is "the poor" as distinct from "the very poor", who are most at risk in adjustment programmes. This is especially true of the urban poor, as may be seen from the table, which shows that the urban working poor are unique in being affected adversely by every listed policy measure.

Table 2 summarizes the social and economic indicators that can be derived from the priority survey. Such indicators can be produced at the national and regional levels as well as for each socio-economic group. The indicators in table 2 that provide a direct measurement of change are marked with an asterisk.

TABLE 1. POTENTIAL IMPACT OF SELECTED ADJUSTMENT MEASURES ON VARIOUS POVERTY GROUPS

	URBAN POOR			RURAL POOR		
Adjustment measures	Working poor	Unemployed	Cash crop	Food exporters	Food importers	Landless/working poor
Devaluation	N	?	P	?	?	?
Other export promotion	-	P	P	-	-	P
Import liberalization	N	P	P	?	P	?
Government food subsidy reductions	N	N	N	P	N	N
Civil service retrenchment	N	-	-	-	-	-
Cuts in social services	N	N	N	N	N	N
Increased indirect taxes	N	N	N	N	N	N
Cost recovery measures	N	N	N	N	N	N
Public enterprise reform/privatization	N	P	P	P	-	-
Wage freeze	N	P	-	N	-	?
Credit squeeze	N	?	-	-	-	-

Source: T. Killick, "Structural Adjustment and Poverty Alleviation: Effects of Poverty Alleviation of Structural Adjustment Programmes, Job Creation Policies and Means for the Participation of Small Scale and Micro-Enterprises in International Trade", UNCTAD Standing Committee on Poverty Alleviation (UNCTAD/PA/7), 1994, p. 8.

Key: N = substantial and negative; P= substantial and positive; ? = indeterminate; - = no substantial effect.

TABLE 2. THE SOCIAL AND ECONOMIC INDICATORS DERIVED FROM THE PRIORITY SURVEY

PS-BASED SOCIO-ECONOMIC INDICATORS

Human Development

- Education
  Literacy rate
  School enrollment rate (primary and secondary)
  Drop-out rate (primary and secondary)
  Incidence of age/grade mismatches

- Health
  Incidence of health consultations (by type of consultation)
  Average cost per consultation (by type of consultation

- Nutrition
  % of children (aged 3-59 months) with low weight for height
  % of children (aged 3-59 months) with low height for age
  % of children (ages 3-59 months) with low weight for age

Income/Expenditures

Employment
  Composition of the labour force (by occupation and work status)
  Unemployment rate
  Average wage income
  Absence of household members for work and work search reason
  Occupational differentiation in the household
  Occupational mobility
  Incidence and pattern of secondary job holding
  Incidence and pattern of migration

- Income
  Pattern of income sources

- Farm income
  Pattern of crop production (major crops)
  Area planted by crop (major crops)
  Use of agricultural inputs
  Use of hired labour on farm enterprise

- Non-Farm Income
  Number and type of non-farm household enterprises
  Use of hired labour in non-farm household enterprises
  Use of equipment in non-farm household enterprises

- Expenditures
  Mean household education expenditure per enrolled child
  Mean per capita expenditure on health
  Mean per capita expenditure on food (selected items)

- Assets
  Productive assets & consumer durables
  Score of assets owned
  % of households who own land
  % of households who own livestock

- Housing
  % of households who own dwelling
  % of households with access to safe drinking water.

Source: Christian Grootaert, "Indicators for monitoring the social dimensions of adjustment", paper presented to the Meeting of Experts on Social Development Indicators organized by UNRISD and the Office of the Prime Minister in charge of the Plan in Morocco, Rabat, 8-11 April 1991.

VI. LESSONS FROM AFRICAN, ASIAN AND LATIN AMERICAN COUNTRIES

Some opinions on structural adjustment programmes in Africa as quoted from the Oxfam Poverty Report (Watkins, 1995):

(a) The enhanced structural adjustment programme in Zimbabwe has meant that we can only eat two meals a day. We can no longer afford meat, because prices are too high. Everything costs more. I cannot afford to pay school fees for my children since they started charging. We cannot even go to the clinic when the children are sick because we cannot afford the medicines.

(b) I have read that our country is stabilizing. That may be true, but we have no job. We cannot send our children to school. Maybe stabilizing is a good thing for the country we pay debt to, but here life is getting harder.

In developing countries, the social and economic consequences of free market reforms have been dramatic, as can be seen by the experience of countries adjusting during the 1980s and 1990s. In general, the primary incomes of the poor decreased, the number of people living in poverty increased, and social income—access to public services—also decreased. Targeted interventions that were meant to protect the poor and vulnerable groups from the worst aspects of adjustment never reached those targeted and seldom reached most of the poor. In Africa the major beneficiaries of adjustment were small groups of individuals with access to foreign exchange. Bangura (1994) described the situation as containing peculiar types of social polarization and fragmentation, both of which are determental to the social and political order upon which independence was built.

Structural adjustment policies, particularly in Africa, have often been based on wrong assumptions about the nature of the problems many countries face. According to the United Nations Commission for Social Development (1996), the cause of African economic stagnation was thought to be "urban bias" in the labour market, where structural adjustment programmes aimed at devaluation and promotion of commodity exports were expected to unleash the potential of these countries for economic growth. With the declining commodity prices and increased competition from other countries all following the same export-oriented strategies, many adjusting countries have found that liberalized trade regimes did not lead to increased growth but to an impoverished urban working class. Moreover, structural adjustment policies have generally ignored the distinct differences among countries and sought to impose standard solutions to diverse problems. Experience showed that lack of sensitivity to the particular needs and circumstances of individual countries may threaten their future development potential.

A. LESSONS FROM THE EXPERIENCE OF AFRICAN COUNTRIES

According to UNRISD, the prospects for sustainable growth and improved levels of living appear slim in most African countries as they advance into their second decade of structural adjustment. Much of the optimism that accompanied the introduction of the reforms in the 1980s has given way to profound scepticism about the correctness of the approach that has been adopted for dealing with economies such as those in Africa, which have weak institutional foundations and which face increasing marginalization in the world market. Recent estimates of weighted average GDP growth rates for 44 African countries suggest that, at best, only a modest growth of about 2.5%—less than the average rate of population growth—occurred between 1980 and 1991 and that no significant differences occurred between the growth rates of 1980-1985, when the programmes were in their infancy, and 1985-1991, the period when reforms were expected to yield greater positive results (Bangura, 1994).

Some of the lessons learned from the African countries' experiences are summarized below.

1. *Rise of the informal sector*

What actually took place in Africa is that, under increasing economic pressures, most income earners opted for multiple survival strategies to diversify and increase their incomes. Such a strategy resulted in the emergence of the informal sector as a powerful income-generating activity. Bangura (1994) cites examples Nigeria and Zambia, where the Zambian national household survey data indicated a rapid increase in female participation in informal activities, from 46 per cent in 1980 to 57 per cent in 1986, and a ninefold increase in the 12-14 year age group working in the informal sector for the same period. At the same time work in the formal sector declined to only about 16 per cent of the urban labour force in several African countries. Formal sector wage-earning employees became not only a minority, but the incomes and social benefits accruing to them dropped dramatically; their annual incomes could hardly support one or two weeks of subsistence.

2. *Impact of adjustment on social polarization*

In most African countries, the response of social groups and households to the crisis of adjustment have sharpened old social divisions and introduced new forms of polarization. They include a widening of differentials in incomes and standards of living between major reform beneficiaries of the reforms and the rest of the population; divisions and conflicts between major reform beneficiary groups and losers; a weakening of rural-urban relationships and increasing inequalities among ethnic groups and regions. Case-studies demonstrate that the adjustment process has affected all sectors and social groups, even if some groups have done better than others and have profited from the general decline. The net outcome was the emergence of the "new rich" as a minority, while the majority of the middle class became the "new poor". According to Bangura (1994), the defining characteristic of the coping strategies of this new class over time is the drastic cutback they have made in their household expenditures, their resort to cheap and inferior quality goods and services and their pursuit of subsistence strategies regarding a number of commodities they previously purchased from the market.

Such a transformation in the medium run will result in the polarization of the society. At the national level, societies that are highly polarized in economic terms, with small or stagnant middle income groups, find it difficult to embark on successful growth strategies, for which the role of the middle class is essential, or to construct national institutions that require the loyalty of their citizens.

3. *Structural adjustment and social identities (fragmentation of the societies)*

Most social groups in Africa have traditionally developed a complex of identities which encompass values based on kinship relations, ethnic affiliation and workplace socialization. Such social loyalties can substitute for laws and regulations and become central in mobilizing sections of the population against structural adjustment programmes, thus dooming to failure any policy that does not take the social set-up of the adjusting country into consideration. According to Bangura (1994), the lack of consideration on the part of the Bretton Woods policy makers about the importance of social norms, traditions and loyalties resulted in the application of structural adjustment programmes policies being limited to the modern sector alone. The net outcome was a truncated or piecemeal development, with the emergence of the modern sector as an entity independent from the rest of the society. As for the traditional groups they were eventually downgraded to the informal, "unseen" traditional arena, even though their influence on the wider society and on many of those in the modern sector remained enormous.

4. *Formal and informal sector activities*

The crisis and the change in social relations associated with the new coping strategies have hurt the societies under consideration. According to Bangura (1994), the formal economy employed less labour than the informal economy; in addition, the capacity of the formal economy to absorb labour from the informal and traditional sectors was severely hindered, and the formal economy became unable to sustain a living or satisfactory wage for the employees working there. While the lack of growth in the formal economy resulted in the loss of capacity of the formal economy as the driving force of society, the net outcome was that the States' capacities to intervene effectively in the economy, in social policy and in polity were seriously eroded. The overall picture was a small and truncated formal sector resting uneasily on a vast network of informal and traditional activities (Bangura, 1994). In the medium run, the loss in the capacity of the State to control and mobilize resources for national interests, along with the problems of rising poverty, youth unemployment, and lowered expectations, pushed many urban dwellers into seeking solace in traditional alternatives, especially religious and other traditional practices. Such developments resulted from the recipes for an ideal auto-centred development paradigm, which paid little attention to the role of traditional and informal forces which were expected to disappear once the structural adjustment programmes had been implemented.

The deteriorating social structure of the African societies drew the attention of the Bretton Woods institutions to the importance of strengthening the role of the State. The 1997 World Development Report noted that "people living with ineffective States have long suffered the consequences in terms of postponed growth and social development. But even bigger cost may now threaten States that postpone reforms: political and social unrest and, in some cases, disintegration, exacting a tremendous toll on stability, productive capacity, and human life. The enormous cost of State collapse has naturally turned attention to prevention as a preferable and potentially less costly course of action—but there are no shortcuts. Once the spiral into collapse has occurred, there are no quick fixes" (World Bank, 1997:15).

B. The experience of Asian countries

In a trial to assess the outcome of structural adjustment programmes in South and South East Asian countries, Khan concludes that "the initial conditions of an economy strongly influence the effect that adjustment will have on the growth of its output and employment. In a large majority of LDCs [least developed countries] the initial structure of the incentives and institutions simultaneously produce inefficiency and employment hostility. As structural reforms remove inappropriate policies and institutions, the result is a convergence of productive efficiency and employment expansion" (Khan, 1995:102).

The experience of the successfully adjusting South-East Asian countries implies that, given the initial structure of the economy, the effect of adjustment on growth and employment depends on the specific instruments of stabilization and structural reform chosen. In the total adjustment package, the weight of stabilization measures should be limited as far as possible, owing to the need to reduce macroeconomic imbalance to an acceptable rate. This is feasible only if external resources are available to permit a gradual process of adjustment. According to Khan, components of stabilization should also be carefully chosen to reduce their impact on employment as far as possible. In deciding the sequencing of structural reform measures, priority should be assigned to the reform of those distortions that impede productive efficiency most. The degree of the "employment friendliness" of specific structural reform measures differs from one country environment to another. The selection of policy instruments cannot be made on an a *priori* basis but must be based on a careful analysis of the effect of each policy instrument in the context of the particular country.

A comparison of the experience of a group of East Asian and South-East Asian countries with the experience of a group of South Asian countries yields valuable lessons about the relation between adjustment

policies and employment. The Asian countries, especially the most advanced ones, were characterized by relatively few of the inappropriate labour market interventions that are common in developing countries. These economies also had a relatively efficient domestic system of resource use. The macroeconomic imbalances that hit these countries in the early 1980s were primarily due to external shocks. Domestic policies, including labour market policies, were not significant contributors to the imbalance. The adjustment process in these countries was facilitated by the flexibility of the labour markets, and they succeeded in quickly restoring growth. These countries found broad complementarity between efficiency and employment expansion by being able to limit the magnitude of stabilization and to incorporate numerous instruments of structural reform that simultaneously promoted efficiency, employment and equity.

The South Asian economies were characterized by inappropriate labour market interventions of substantial proportions and widespread inefficiencies in the use of resources. In these countries, macroeconomic imbalance was as much the outcome of the domestic inefficiencies as of external circumstances. The process of adjustment was hampered by the rigid labour market institutions and resistance to the removal of structural distortions. So far, the adjustment process in these countries has not succeeded in combining a critical minimum programme to signal a decisive break with the modest growth in output and employment that was obtained in the past. The cumulative experiences of the two groups of Asian countries was summarized by Khan (1995) as follows:

(a) East and South East-Asian countries achieved a much higher rate of growth than South Asian countries did. During the 1980s, the decade of adjustment, they both performed far better than the non-Asian developing countries.

(b) Growth in East and South-East Asian countries was far more employment-intensive than growth in South Asian countries.

(c) East and South-East Asian countries were hit by external imbalances earlier and more severely than South Asian countries. The South Asian countries' economies were initially less vulnerable to external shocks. Macroeconomic imbalance in these economies gradually became unsustainable owing to the compounding of unfavourable external circumstances and domestic inefficiencies.

(d) The East and South-East Asian economies achieved rapid and successful adjustment of macroeconomic imbalance, after a very short period of decline in output and employment at the beginning of the adjustment process. Successful adjustment in this context is defined as the simultaneous elimination or substantial reduction of macroeconomic imbalances and the achievement of significant growth in output and employment. The second condition guaranteed the avoidance of an increase in the incidence of absolute poverty. For the South Asian economies, the process of adjustment has so far not been able to achieve these objectives.

The successful growth strategies of East Asia have partly been linked to the existence of a stable and economically secure middle class and improvements in earning and social services by low income groups. Effective strategies of institution-building should therefore, include policies especially aimed at rebuilding the middle class and at narrowing polarization. Another lesson from Asia can be derived from the experience of China, which illustrates that growth by itself does not ensure social development. China had a rapid rise in unemployment, both as a result of underemployed rural populations moving to urban areas, and of reduction of jobs in public enterprises. Polarization increased, even in the previously prosperous areas of the country. Furthermore, in China as well as other rapidly growing economies, a host of other unprecedented social problems have emerged. Crime rates and drug use have increased, and prostitution—including child prostitution—has emerged or worsened. Child labour has increased and in some cases it has increased most

in the fastest-growing economic sectors. Often children are withdrawn from school to undertake unpaid family labour (UNRISD/UNDP, 1995).

C. THE LATIN AMERICAN EXPERIENCE[23]

Latin America provides the ultimate demonstration of how countries trying to pursue free market reforms without giving much thought to the social consequences of their actions, and with no provisions to deal with the long-term social consequences of structural adjustment; end up after several decades of reforms.

It is important to note what kind of societies were being created during the economic reform process. The most noteworthy effect was the tendency to create more polarized societies in a region where the gap separating rich and poor has traditionally been very large. Even in countries considered "success stories", such as Chile, the gap between the rich and poor has grown markedly, and is not narrowing even under the conditions of rapid growth that currently characterize Chile. Chile has an advantageous potential in that the poor are no longer continuing to become poorer, but in other Latin American countries undergoing structural adjustment the situation of the poor continues to worsen. In these countries, the shrinking employment opportunities and stagnant economies push more people into petty trade and casual work where the level of real wages is very low. Unemployment rates have risen dramatically across the Latin American continent over the past 15 years and turned into open unemployment. In Chile, the unemployment rate reached 30 per cent during the mid-1980s, and declined markedly later as people were offered badly paid and unstable jobs in a highly "flexible" labour market. At present, even formal employment is no longer a guarantee of a decent standard of living as one can be employed and still be poor. Other social consequences of the structural adjustment policies in Latin America include those listed below:

One of the multiple strategies for survival followed by those with deteriorating working conditions was to send all family members to work in the informal sector. Children had to give up their education and women were forced to work harder than ever before. The growth of female employment has increased particularly in the lower middle class in urban areas.

The middle classes and families headed by skilled workers have been hard hit not only by unemployment and declining real wages, but also by other factors beyond their control, such as rising interest rates. An unprecedented number of households in Mexico and Argentina are currently unable to meet their mortgage payments, and are threatened with eviction from their homes because interest rates throughout the economy have doubled or tripled in order to lure foreign investors to the country. Home-owners are trapped in credit arrangements that were originally quite manageable, but are no longer so under the impact of their country's new dependence on short-term international financial markets.

Small and medium businesses in both rural and urban areas are going bankrupt at an unprecedented rate in a number of countries where the adjustment strategy requires that interest rates be set at high levels, and where subsidies that formerly lowered the cost of capital have been greatly reduced or eliminated. Small and medium enterprises are often caught in a hopeless situation: they cannot raise their prices sufficiently to cover costs, since most consumers are also cutting expenditures, and with the opening up of local markets to foreign trade, small businesses face serious competition from foreign companies that can obtain their capital more cheaply.

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[23] The experience of Latin America is based on the presentation of Cynthia Alcantara from UNRISD to the panel discussion on Impacts of Structural Adjustment Programmes on Population, during the Expert Group Meeting on Population Dynamics and Sustainable Development in the Arab World, held by ESCWA in Amman in October 1996.

The situation of agriculture is particularly precarious in most Latin American countries undergoing structural adjustment. To meet the requirements of creditors, farm subsidies have been drastically cut and many government programmes to support agricultural production (through providing inputs such as fertilizers or crop storage or transport) have been downsized or eliminated. Meanwhile, farmers in the advanced industrial countries continue to enjoy considerable government support. With free trade agreements coming into force, local producers often cannot compete. Therefore, it is not surprising that agricultural production for domestic consumption has registered stagnant or even negative growth rates in most Latin American countries over a considerable period and that the countryside—outside of areas devoted to a few export crops, or to the production of illicit drugs—is in severe crisis.

The spread of poverty has placed enormous strains on the public health and educational systems of most Latin American countries. People who might previously have preferred to pay for private medicine or education have found it necessary to turn to the public sector. However, resources dedicated to most public services are not adequate to maintain existing standards. The result is despair among teachers, doctors and nurses, whose real salaries have declined drastically, and frustration among the users of these services. In this situation, it is not surprising that teachers and employees in the social security system have been among the most vocal protestors against the policies of reform.

To spend limited resources as efficiently as possible, Latin American countries have followed the advice of the international development community and increasingly have provided services only to those defined as the poorest or most vulnerable. While this may be objectively necessary, it is by no means automatically efficient. In fact, it is difficult to target those in need and may in some cases be very expensive. Effective targeting requires an efficient and well-informed public services sector, and an adequate information-gathering capacity at the local level. Many countries do not have this capacity. Since "targeting" by definition requires exercising discretion concerning who will receive assistance and who will not, it is also vulnerable to corruption. This has been a problem in a number of Latin American countries.

Of course, structural adjustment in Latin America has produced winners as well as losers, with enormous fortunes being made by some people over the past few years. In general terms, those who have benefited most have been able to take advantage of international connections. The liberalization of trade and finance created new opportunities for importers and exporters, and for those dealing in foreign currencies and working for foreign companies—or local associates of foreign companies. Thousands of new jobs have opened up for women in export-oriented assembly plants, making clothing or electronic equipment for multinational firms or processing fruits and flowers for export to winter markets in the North. Foreign investment in sectors, such as automobiles and computer manufacture and services, provides jobs to young people who are able to handle computers and robotics. The introduction of advanced technology in some industries, however, did not help to address the overall problem of worsening unemployment.

In sum, Latin America is currently experiencing an acute social crisis. There is a great deal of anger, despair and frustration among the majority who have suffered in varying degrees from the attempts to bring about profound economic reform during the past two decades. A recent report by the Economic Commission for Latin America and the Caribbean (ECLAC) documents rising crime rates and increasing violence in many countries and highlights the enormous growth of the drug economy across the continent. It is no exaggeration to say that the drug cartels have reached into the highest spheres of power in a number of countries and have created a network of corruption which threatens democracy and weakens the rule of law.

Even if by some miracle, the purely economic aspects of the long crisis in Latin America could be resolved—even if strong growth could be assured tomorrow—the social effects associated with neo-liberal policies will be there for many years to come. Weakened and corrupted public institutions, poorer and more violent neighborhoods and devastated, agricultural regions will require enormous efforts to be made to deal

with such problems. Unfortunately, social situations like these are likely to make a rapid economic recovery more difficult, so that such economies seem to be caught in a downward, not an upward spiral.

D. Conclusions

After examining the experience of the different countries that undertook structural adjustment in the past, the question is: What can be done to promote a more socially progressive form of economic restructuring in the world of the 1990s? Many students of structural adjustment would suggest the following:

1. Introduce social considerations into economic policy-making from the very beginning so that economic planners will consider what various alternative policies will mean for their own societies;

2. Apply the same criteria at the international level, so that negotiations with international financial institutions systematically involve social scientists;

3. Be suspicious of panaceas and of simple technical recipes for complex socio-economic problems since success stories cannot be copied in different national environments;

4. Promote open dialogue on the difficult options that may face policy makers, and take decisions in as transparent a manner as possible. Secretive decision-making and the authoritarian imposition of adjustment measures will eventually create a great deal of public discontent;

5. Don't make abstract appeals to "the market". Markets are complex social constructions based on power relations among the different groups within them. When such relations are highly unequal, unregulated markets work in favour of the strongest;

6. Don't assume that privatization will automatically further the goals of economic rationality or social progress. This depends on a great many factors. The past experiences of developing countries with privatizing State enterprises have been marked by a great deal of corruption, in which State resources were often used to subsidize private buyers;

7. Take into consideration the fact that the processes of exclusion and inclusion are two sides of the same coin. Thus, many of the people pushed to the fringes of the legal economy by unemployment have been integrated into the illegal economy, particularly that part of it associated with violence, crime and drugs. The cost of dealing with crime and violence can be far greater than the cost of subsidizing basic needs.

VII. CONCLUSIONS AND RECOMMENDATIONS

A. THE EVALUATION OF CONCEPTS AND EVIDENCE FROM A SOCIAL PERSPECTIVE

The implementation of structural adjustment policies and the developments associated with them over the past decade or so have had wide-ranging impacts on poverty, income and wealth distribution, within and across developing countries. Such policies have contributed indirectly to a range of other social problems as well. Discussions on adjustment often tend to focus exclusively on issues of efficiency in resource allocation, and a good deal of the analysis continues to be influenced by the textbook model of perfect competition. In reality, a substantial proportion of transactions are carried out in situations characterized by monopolistic, oligopolistic or embryonic markets in the developing countries. Individuals, enterprises and associations often have recourse to a variety of means to influence product and factor prices in their favour. Consequently what was originally planned to be economically viable for the society as a whole (with the assumptions of perfect competition and proper trickle-down effects) turns out to be profitable only for a specific segment of the population while the remaining majority are either indifferent or end up paying for the profit made by the wealthy. The available data provide sufficient evidence to warrant the generalization that adjustment processes and policies have contributed to a significant redistribution of income and wealth from the poor to the rich at both the national and international level.

Moreover, the growth of poverty and glaring inequalities in consumption have severely strained the social fabric of countries undergoing structural adjustment. Many countries have experienced a marked increase in crime, violence, smuggling and trading in illicit goods. There is also growing reliance, as part of the survival strategy, on child labour, prostitution and intensification of female labour. An increasing number of people migrated to other countries in their search for better employment opportunities. Social tensions have increased and these frustrations often find expression in social explosions, ethnic conflicts and the growth of fundamentalist movements. Such marked social deterioration in most adjusting countries during the past 15 years has resulted in a plea for wider consideration of new approaches to adjustment and restructuring. Even the relatively successful cases of stabilization and adjustment in highly indebted countries during the last decade can hardly be judged to be successful when viewed in social terms.

The content of adjustment programmes has undergone major modifications over time. While stabilization programmes were not usually followed by attempts to restructure the economy until the 1970s, adjustment in the 1980s and early 1990s was associated with intense pressure to abandon inward-oriented national projects of economic development and to stake the future of people in developing countries on increasingly unprotected participation in the international market. The experience of many developing countries showed the high social cost of such adjustment programmes. Per capita income in most African and Latin American countries during the early 1990s was lower than in the 1980s and the average income of the poorest strata was much lower. Minimum wages were half, or less than half, of their former value. Unemployment in the formal sector was often much higher than at the outset of the debt crisis. Another major problem faced by the adjusting countries is the pronounced widening of income differentials; this played a significant role in weakening networks of social interaction and solidarity and thus strengthened the process of social polarization. With the progress of globalization and integration in world markets, some people became part of the global consumer culture while others were left behind to reinforce more traditional ties of identity and support.

Moreover, the rapid global technological change and accelerated market expansion are being accompanied by increasing poverty, inequality and unemployment. Such developments imply the need to adopt a different form of development strategies which will encourage a new form of social viability. The development strategies designed so far have been defined basically in economic terms. Their effects on the nature of social relations and on the general viability of the societies concerned have rarely been taken into

consideration. However, social development can no longer be seen as simply a "side effect" of growth or economic development; rather, it should be an integral part of any overall sustainable development strategy. Countries undertaking structural adjustment programmes are those most vulnerable on the social front, yet structural adjustment programmes emphasizing accumulation and economic growth continue to be put forward, even though their effects in terms of exclusion, inequality, exploitation, disintegration of the social framework and wasted resources are now universally acknowledged. Because the social costs of adjustment programmes are increasingly obvious and important, they can no longer be ignored.

A major cause of such continued deterioration of the global social situation is that present day structural adjustment policies are increasingly ill-adapted to the challenges faced in a world that is changing to a radical extent. Since the structural adjustment strategies designed and followed up to the present have been defined basically in economic terms, the level and scale of such social problems have grown dramatically, with inequalities and disparities of development becoming more marked and increasingly unacceptable: exploitation, disintegration of the social framework, exclusion, hunger, social disequilibrium, poverty, unemployment and wasted human resources, and environmental degradation, are increasing.

Therefore, as a result of modernization, globalization and the dominance of the Western models of development, social development can no longer be taken as a "side effect" of economic development when dealing with structural adjustment programmes for developing countries. Development policy should thus restore a "social dimension of development" wherever solely economic considerations have been taken into account.

B. THE EVALUATION OF PAST EXPERIENCES OF DEVELOPING COUNTRIES

The past experiences of several adjusting developing countries showed that increasing unemployment, declining real wages and reduced provisions for social welfare have been almost universal features of structural adjustment. The main impact is usually on the poorer segment of the population who cannot afford social services at higher costs. Another problem is that within poor families where household inequalities exist, the burden usually falls on women and young girls, who suffer disproportionately from deteriorating access to food with the fall in household income. These inequalities, largely ignored by policy makers, have a crucial bearing on how the costs of structural adjustment programmes are distributed. The Oxfam Poverty Report provides illustrations of the above based on the African experience (Watkins, 1995). Other illustrations have been provided by UNRISD research in Africa and Latin America.

1. *Incorporation of the social dimension*

The standard approach to adjustment emphasized macroeconomic restructuring, but there are many other structural aspects of society that should be adjusted as well. Structural adjustment should address questions on the distribution of resources, assets, employment and earned income: it should pay attention to social policies that contribute to human security, stimulate the growth of skills and ensure an equitable return on productive activities. Rethinking adjustment to bring it into line with the requirements of social development will entail redefining the priorities of adjustment, designing more effective monitoring mechanisms, and increasing the accountability of the market to the State and the State to the people. It will require working out new institutional arrangements that make adjustment measures more efficient and equitable by promoting positive-sum economic and social interactions, rather than accentuating the destructive zero-sum tendencies of the market. It will involve coordinating social policy reforms with economic policy reforms so that both will promote the ultimate goal of social development.

2. *Threat of globalization*

Most development thinkers agree that the current international move to globalize the world economy is an urgent call for the developing countries to readjust their societies and economies. Fuelled by technological advancements, the world is becoming a partially integrated global society through transnational corporations, the global financial markets and the new alliances between the various geographic blocs. The growing interdependence of national economies, the reforms of economic liberalization and the conclusion of the GATT/WTO round of negotiations on trade liberalization will all lead to disappointing results for the developing countries if they do not readjust their socio-economies to join the so-called "New World Order". The prospects for benefiting from such a new international order depend on the capability of the country in question to readjust, irrespective of its level of development. In the process, each country should adjust to the new challenges through the formulation and implementation of well-targeted socio-economic policies to protect the vulnerable groups that are most likely to suffer from increased global competition. The accelerated rate at which international developments are taking place leaves little time for the developing countries to debate the adjustment process. The choice of not participating in such global markets is increasingly becoming less of an option for developing countries. The real issue now is not whether a country should choose to adjust, but when and how.

3. *Role of the social structure*

The Bretton Woods institutions seek to apply universal rules and regulations to facilitate the routine implementation of certain tasks. However, since such rules and regulations are different from the local institutions that shaped the social set-up of the country in question, they cannot always apply to the country under consideration. According to the findings of research on African countries undergoing structural adjustment, the characteristic response to economic crisis and insecurity, by most groups, has been to pursue multiple survival strategies, whereby farmers, workers, State employees, informal sector operators—even some professional and academic personnel—have sought to counter declining and insecure incomes through the diversification of their economic activities. Therefore, strategies aimed at supporting a process of institutionalization that would lead to effective rules, predictable transactions and viable incentives for institutional actors would need to address three main issues: the first concerns questions of livelihood, social polarization and multiple identities; the second relates to the role of culture in social development and institution-building; and the third concerns the role of social forces in disciplining institutions. There are policy implications for the required changes in each of these three areas, in order to make the adjustment more effective while taking the social structure of the society into consideration.

Another issue related to the coping strategies adopted by many different people is that, as they confront severe challenges to their livelihood, they reverse earlier trends towards occupational specialization. Workers and civil servants in Africa, for example, increasingly devote a part of their time to farming on the outskirts of their towns, or in the countryside. Teachers and nurses in many countries now opt to supplement miserable salaries by opening small shops or selling food on the street. Professionals may drive taxis. Such diversification of activity requires devoting attention and time to a number of concerns in different places that affect the quality of work and weaken the commitment of employees to the institutions they serve.

A successful strategy of institutional reform, therefore, must focus on all three dimensions of the problem: changes in social relations, the crisis of institutionalization and institutional goals. UNRISD has elaborated steps to ensure that such transformations are carried out with structural adjustment in order to ensure its success in highly informal developing economies where unwritten social rules still prevail. A key issue that would need to be confronted in such highly informal situations is how to create standard societal rules and regulations that individuals would be accountable for as they move from one stage of institution-building to another. In order for such rules to be effective, organizations may need to be restructured in ways

that would encourage transparency in transactions and internal democracy in decision-making. This will also enable concerned officials and their allies in the society to expose institutional malpractice.

4. *Poverty and polarization of society*

The relation between growth and poverty reduction is a controversial issue. According to the IMF and the World Bank, structural adjustment programmes, when properly implemented, have not only created the conditions for growth, but for growth that is pro-poor. They contend that State intervention in the rural sector—and the vast majority of the poor live in rural areas—has lowered prices, reduced market opportunities, and thereby depressed household incomes. Deregulating these markets, according to the World Bank, has had the opposite effect, raising prices and creating rural employment. In the urban sector, the IMF and the World Bank believe that import liberalization will have the effect of making local industries more competitive, by allowing them to take advantage of imported technologies. Together with the removal of labour market regulations which, in the IMF and World Bank view, artificially raise labour costs, this is supposed to expand employment. However, as can be seen from a review of adjusting countries' experiences during the past decades, structural adjustment policies have not created a framework for sustainable and equitable growth; rather, they worsened poverty. The outcome was the emergence of new classes, with the middle class in urban areas fragmenting into the "new poor" and "new rich". The widening of intra-group divisions was also observed in the informal sector. As many individuals are pushed into the informal economy, socio-economic divisions there become sharp. A relatively small group of informal entrepreneurs, with technical skills, capital assets and in some cases, political connections, have been successful in exploiting new market opportunities, but most informal agents have faced very stiff competition in activities that could only guarantee the most basic form of subsistence.

In conclusion, the main drawback of applying structural adjustment policies in developing countries is the social polarization that results from the complex ways on which social groups and households respond to the crisis. Structural adjustment has exacerbated old social divisions and introduced new forms of polarization. Similar trends in polarization have also been observed in the rural economy, where income differentials stemming from unequal access to labour, land, credit and inputs are widening between rich peasants and small landowners and between women and men. The outcome is that the unequal distribution of adjustment-related costs and benefits has increased ethnic and regional differences.

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