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The South (1): Neoliberal Policy and Strategy

While the previous chapter focused on the Asian NICs, this chapter turns to the recent development experience of the rest of the South. The rapid spread of neoliberalism throughout the South in recent years, particularly with the rise of structural adjustment programs (SAPs), now gives us the opportunity to assess the performance of this development strategy. Although it is recognized that many factors beyond the immediate control of Third World states have profoundly affected the outcome of SAPs, emphasis will be placed on the influence of variations in state policies. The role that ideological considerations have played in the framing of neoliberal policies, especially within the IMF and World Bank, will also be analyzed. Many of the shortcomings of outward-oriented policies and other liberalization measures will be revealed and alternative development strategies suggested. Particular attention will be given to problems of increasing polarization as well as to the social costs of SAPs.

The Spread of Neoliberalism and Structural Adjustment Programs

The origins of neoliberalism in the South can be traced back to a few experimental programs initiated in a small number of countries during the 1970s. In Latin America, various elements of neoliberal development strategy were first implemented in Chile under the Pinochet regime and soon thereafter by a few other countries such as Bolivia and Mexico. In Africa, Ghana was an early testing ground for neoliberal policies, which then were emulated in a handful of other countries (e.g., Kenya, Nigeria, Gambia). In Asia, a few countries (e.g., Turkey, Indonesia) embraced broad neoliberal development programs relatively quickly, but most others (e.g.,

India, Pakistan, Thailand) moved rather slowly and hesitantly to adopt neoliberal policies.

From these meager beginnings, neoliberalism has quickly spread throughout the South, so that today there are very few countries that have not adopted major neoliberal elements into their development strategies. Perhaps the strongest moves toward neoliberalism have taken place in the external sectors of many countries. Currencies have been regularly devalued or realigned with convertible monetary systems, and many restrictions governing trade flows and external financial movements have been reduced. However, neoliberal policy instruments have also been directed at the internal economies of many countries. Internal markets have been deregulated, often involving the abolition of agricultural marketing boards and the removal of price subsidies for basic foodstuffs and other wage-goods. In many cases, internal deregulation has also been extended to labor markets through de-unionization and the abolition of minimum wage laws and other labor regulations. Many of these efforts have been aimed at reducing private consumption so that an increasing proportion of the national economy may be diverted toward private investment, thereby allowing trickle-down mechanisms to function. Complementary measures have also usually been directed toward reducing public consumption, especially by privatizing state-owned enterprises and cutting the size of many government bureaucracies. In addition, government spending on social and economic infrastructure (e.g., education, health care, social welfare, transportation and communication systems) has commonly been curtailed.

The Role of the IMF and World Bank

Although a few countries initiated neoliberal measures during the 1970s, and some countries have subsequently implemented such policies on their own, the rise of neoliberalism in the South has particularly coincided with the spread of IMF/World Bank structural adjustment programs (SAPs) among indebted countries. The origins of structural adjustment lending can be traced back to the creation, in 1974, of the Extended Fund Facility (EFF) by the IMF to supervise economic stabilization programs in some financially troubled countries. For most Third World countries, however, structural adjustments began during the next decade, following the introduction of Sectoral Adjustment Loans (SECALs) in 1979 and Structural Adjustment Loans (SALs) in 1980 by the World Bank. The mutual focus of the IMF and World Bank on structural adjustment lending was further formalized in 1985 with the establishment of the Structural Adjustment Facility (SAF), jointly managed by the Fund and the Bank. Although the IMF had traditionally concentrated on short-term stabilization measures, while the World Bank had focused on longer-term adjustments and project

lending, the roles of these two preeminent international financial institutions converged in the 1980s in support of structural adjustment programs.

In the wake of the international debt crisis, which had shaken many of the world's largest banks and financial institutions, SAPs quickly became the accepted vehicle by which Third World countries would regain financial solvency and begin repaying their foreign debts. Future IMF–World Bank lending to indebted countries (which comprise virtually all of the South) was made conditional on their submission to officially supervised structural adjustment programs. Moreover, other multilateral financial institutions, private banks, and international development agencies commonly began to insist on an IMF–World Bank 'seal of approval' as an indispensable condition for further loans and/or aid. In effect, the submission to SAPs had become the decisive factor in restoring the international creditworthiness of most Third World countries, without which their access to foreign capital would be withdrawn.

Given the historical dependence of most Third World economies on external sources of capital, very few countries have been able to withstand IMF–World Bank pressure to submit to structural adjustments. A handful of countries (notably Argentina, Brazil, Israel, Peru, Zimbabwe) chose to include some heterodox elements in their adjustment programs, but the overwhelming majority of countries submitted to an orthodox package of SAPs under IMF–World Bank supervision.[1] By 1983, three-quarters of Latin American countries were operating under IMF-supervised SAPs (i.e., 'upper credit tranche arrangements with a high degree of conditionality under the Stand-by Arrangement or Extended Fund Facility', Pastor 1989: 90). As the decade continued, most other Latin American countries also fell under IMF control, and the few countries that avoided direct IMF intervention were often under indirect IMF supervision (ibid.). Likewise, two-thirds of African countries had submitted to some form of IMF-supervised structural adjustment by the mid-1980s and many others were under different types of indirect IMF regulation (Landell-Mills et al. 1989).

Factors Affecting the Performance of SAPs and Neoliberal Strategies

As might be expected, the ability of Third World countries to sustain structural adjustment programs has been quite variable. Much of this

[1] In addition to the usual fiscal and monetary instruments of orthodox SAPs, some countries chose to add a number of heterodox elements (e.g., wage and price freezes, exchange rate pegging, deindexation measures) aimed especially at producing drastic and immediate reductions in inflation. In recent years, Russia and many Eastern European countries have also carried out heterodox SAPs.

variability can be attributed to both internal and external conditions over which many of these countries have only limited control. Price movements in international commodity markets have exerted a determinant effect on the outward-oriented adjustment programs of many poorer, smaller countries that have export sectors concentrated in a few traditional primary products. The capacity of countries to attract investment capital has in large part been determined by internal socioeconomic structures (e.g., levels of human resource development, the efficiency of transportation and communications infrastructure) that are inadequate in much of the South and can only be changed very slowly through concerted state intervention. Likewise, because the creditworthiness of countries is largely the result of past fiscal policies, many current administrations have had to contend with the consequences of huge foreign debts accumulated by previous governments. In some cases, unexpected events (e.g., droughts, floods) have also affected the ability of governments to sustain programs of expenditure reduction and economic stabilization. Such catastrophic natural occurrences have had a particularly devastating effect on many of the poorer, rural countries of Africa and Latin America. Many analysts now contend that outside economic experts who monitor the performance of SAPs have generally paid insufficient attention to special structural problems and uncontrollable events that have particularly hampered the efforts of many severely underdeveloped countries to sustain adjustment programs (see, e.g., Banuri 1991; Cheru 1992; Colclough and Green 1988; Green 1985; Helleiner 1992; Riddell 1992; Streeten 1993).

The Influence of the State and Policy Framework

At the same time, however, considerable evidence has accumulated that a few key elements of state policy have had a strong influence on the performance of SAPs and neoliberal development strategies in general. First, effective development strategies require the fusion of specific policies aimed at immediate problems with a broader structurally oriented focus on long-term development needs. The multifaceted elements of the policy framework need to be integrated into a coherent overall strategy which eschews one-dimensional solutions. Abstract, idealistic models ought to be rejected in favor of realistic, achievable strategies based in the diverse empirical realities of the development experiences of different countries. Pragmatic solutions based in real-world development processes should replace one-dimensional, dogmatic worldviews. In the rather messy and highly changeable field of Third World development, adherence to rigid orthodoxies almost always produces poor results.

Second, a consistent and well-conceived policy framework should be established that is not subject to frequent or sharp reversals. Credible

and predictable economic conditions, which are widely expected to be sustained into the indefinite future, are particularly important to stimulate long-term investments associated with structural economic change. Coordinated fiscal, monetary, and exchange rate policies play a vital role in creating a stable macroeconomic environment for investment decisions. The weight of current opinion is that needed liberalization measures should be introduced gradually, but ought not to be drawn out over too many years (Michaely et al. 1991). For countries in which massive economic imbalances exist, liberalization policies should probably start with a strong step to break with past conditions and heighten the credibility of the new program. Under circumstances of rapid inflation, for example, strong measures aimed at economic stabilization (e.g., restrictive fiscal and monetary policies, currency devaluation) need to precede other liberalization policies. Particularly if widespread liberalization is envisioned, attention should be focused on policy coordination and sequencing in order to avoid problems of policies negating one another or operating at cross-purposes.[2]

At the same time, however, it should be remembered that a sound policy framework comprises many elements and, even in cases of extensive liberalization, should not be simplistically equated with the free operation of market forces. In the rural sector, for instance, levels of real producer prices strongly influence agricultural production, but so do a range of other factors (e.g., rural credit, agricultural extension programs, transport and marketing systems, access to consumer goods and agro-inputs). Raising producer prices without complementary policies designed to address the special needs of small/medium farmers may generate perverse results, especially in the highly polarized rural sectors of many countries. Many of these farmers, who have traditionally dominated domestic food production in most countries, may be driven off their land because they are unable to meet the new conditions of heightened competition with transnational agribusinesses and other larger producers. Rather than just focusing on prices, the countries that have succeeded in stimulating equitable agricultural growth have created and maintained a reasonable balance and efficiency in the entire policy package affecting rural development (Ghai 1987; Jaeger and Humphreys 1988).

Third, the appropriateness of a country's domestic policies strongly influences its capacity to expand exports. Moreover, export expansion may provide a strong stimulus to growth, especially among smaller Third World countries with relatively underdeveloped internal economies. Export performance is affected not only directly by trade measures themselves, but also indirectly by a host of other supporting policies. These include pricing

[2] For example, the experience of Chile, Mexico, and other countries demonstrates that liberalization of the capital market should be attempted only after initial adjustments to the goods market have been completed. A more lengthy analysis of the important issue of policy coordination and sequencing appears later in this chapter.

policies for internal products and factors of production; fiscal and monetary policies affecting exchange rates and domestic inflation; and investment policies to build up social overhead capital needed to realize potential comparative advantages (Myint 1987: 115–16). The positive association between exports and economic performance is often attributed to increasing returns to scale, the attraction of capital for investment and imports, the dynamic spillover effects of export growth on the remainder of the economy, and other externalities (e.g., technological diffusion, 'demonstration' effects on human capital) related to global competition (Esfahani 1991; Sengupta 1991). A growing body of statistical evidence indicates that an outward orientation is positively related to rates of growth, particularly in the industrial sector (e.g., Chow 1987; Dollar 1992; Cox Edwards and Edwards 1992; Michaely et al. 1991). However, it should be cautioned that the direction of causality has not been well established in this relationship (Helleiner 1986; Toye 1987). The effectiveness of trade liberalization and other outward-oriented policies may largely depend on the structure of exports and the general level of economic development (Dodaro 1991). It may be only when a relatively advanced level of economic development has been achieved that extensive trade liberalization becomes feasible.

Fourth, outward-oriented policies should not sacrifice economic sectors and social groups linked to the domestic market in favor of those tied to export production. If it is properly planned, export-led growth can stimulate broadly based development by a number of means, including direct job provision, which generates a 'ripple' effect on the rest of the economy; indirect job provision through backward linkages with other economic activities; technological diffusion and other externalities; and increased net foreign resource inflows, which are especially important for enhancing import capacity (Colclough and Green 1988; Esfahani 1991; Myint 1987). The experience of the Asian NICs demonstrates that outward-oriented development need not produce the type of severe socioeconomic and spatial polarization that has characterized export-led growth in most other Third World countries. However, care must be taken to avoid policies that stimulate growth in some sectors at the expense of others. For example, trade liberalization often needs to be accompanied by policies supporting small/medium rural producers and other domestically oriented groups if they are to survive new conditions of greatly increased foreign competition. Likewise, technological diffusion may decrease rather than increase job opportunities in areas of high unemployment if policies and institutional arrangements are not put in place which facilitate technological adaptation among small-scale, labor-intensive operations. Generally, such policies should expand the focus of outward-oriented development beyond just increasing exports, creating conditions for export-led growth that will promote broadly based structural change.

Fifth, fiscal and monetary policies should aim to create stable macroeconomic conditions without causing undue hardship through drastic economic contraction. Many analysts note that improved fiscal and monetary management is a key element of macroeconomic reform among highly indebted countries, both to restore balance in domestic accounts and to contain inflationary pressures (e.g., de Gregorio 1992; Khan 1990; Moran 1989; Myint 1987). The creation of a stable macroeconomic environment is also considered to be a crucial first step for longer-term economic restructuring. The major objective of fiscal policies under SAPs and other neoliberal programs has been to reduce government budget deficits, usually by restraining expenditure. Reductions in government spending and deficits may, in turn, help to decrease government borrowing, both domestically and externally, which is one of the major goals of neoliberal monetary policies. However, fiscal and monetary policies also strongly affect the overall production and domestic expenditure levels of an economy through various multipliers and indirect effects. Excessively restrictive measures, especially under conditions of stagnant growth, may tip an economy into a deflationary spiral. This may cause irreparable harm to fragile economic sectors and social groups. Perversely, it may also actually increase government deficits, as revenues shrink through economic contraction and expenditures rise to meet growing social welfare needs. To avoid this type of no-win situation, restrictive fiscal and monetary measures need to be closely coordinated with other more expansionary policies designed to stimulate growth in specific sectors according to national development goals (e.g., broadening economic participation, increasing economic diversification, promoting structural change).

Sixth, SAPs and other neoliberal programs should be carefully crafted to suit the institutional and organizational structure of both the state itself and state–society relations in different countries. Given wide variations in Third World political structures, programs which enjoy success in some countries may prove disastrous in others. Moreover, the success of reform programs is highly dependent on the support of national decision-makers, who have the capacity both to subvert otherwise sound policies and to control the response of influential economic actors and social groups. One of the potentially most beneficial aspects of the neoliberal policy agenda is its focus on reducing waste and inefficiencies within the state apparatus. It is healthy to avoid the old assumption that the state can do anything and everything, which unfortunately has marred many neo-Keynesian development strategies. However, it should not be assumed that the market by itself can automatically meet the broad development goals of all countries under all conditions. Properly conceived policy instruments should work to improve the effectiveness of both the state and the market in a mutually supportive manner. Given the structural constraints and underdeveloped markets that characterize most Third World economies, development strategies normally need to cautiously combine market and prudent administrative policy instruments.

Seventh, liberalization measures and other policies should consider important variations within the socioeconomic and spatial structures of Third World countries. The development experience of the South certainly supports the contention that prices do matter. Most analysts have accepted the often quoted observation of Timmer (1973: 76) that '"getting the prices right" is not the end of economic development. But "getting the prices wrong" frequently is.' Nevertheless, the effects of price movements depend strongly on both country and product contexts (Colclough and Green 1988: 2). Internal liberalization measures in many Third World countries, particularly in Africa, have concentrated on the privatization of state-owned enterprises (SOEs) and the dismantlement of state/parastatal marketing boards. However, while both of these measures may normally be economically logical under competitive market conditions, competition within many economic sectors in Africa and other parts of the South is severely limited.

In a study of privatizations of SOEs, Prager (1992) contends that there is a strong bias in favor of private ownership when a competitive market exists and the privatization program is met with little resistance. However, under conditions of imperfect competition, public enterprises may often prove less inefficient than private sector firms. Moreover, SOEs can often be made to operate more efficiently if the general economic climate is favorable, political interference is eliminated or substantially reduced, and proper incentives are installed. Likewise, Maddock (1987) notes that the scrapping of state agricultural marketing boards may reduce waste, inefficiencies, and corruption that have provided serious disincentives to rural producers in many countries. However, in some cases (e.g., Sri Lanka), governments may want to retain some market controls, such as the maintenance of buffer stocks for foodstuffs or regulations over export quality. In other cases (e.g., Malawi), there may be no viable alternative to state marketing boards. In these instances, it may be better to strengthen state institutions and encourage them to adopt a more market-oriented perspective.

Eighth, in order to be sustainable, policies need to gain consensual support and must foster political and social stability. These factors may be partially dependent on prior conditions and other circumstances beyond state control. However, they are also largely dependent on the methods by which policies are implemented and the relative distribution of the costs and benefits of such policies across economic sectors and social groups. Through most of the 1980s, structural adjustment efforts concentrated almost exclusively on stabilizing macroeconomic conditions and liberalizing markets to improve the efficiency of resource allocations. Neither the social costs nor the political feasibility of SAPs were given much attention.

However, as many countries began to experience increasing instability and unrest under the pressures of adjustment, questions began to be raised over the social and political sustainability of SAPs and other neoliberal policies. The mounting social costs of neoliberal programs, especially on traditionally disadvantaged classes and social groups in many countries, have become a source of rising concern, as has the incapacity of democratic governments to carry out unpopular policies without resorting to repressive measures. Both of these areas of concern imply that the focus of SAPs and neoliberal strategies in general should be broadened to include real-world social and political considerations alongside abstract economic factors.

Ideological Biases of Structural Adjustment Programs

As the IMF and World Bank have applied SAPs throughout the South, increasing objections have been raised over the ideological biases of the programs themselves and of the financial institutions that are imposing them. Many analysts contend that the neoliberal policies around which SAPs are structured are based more on an ideological commitment to the 'virtues of the market' than on a logical and well-tested body of theory (e.g., Bernstein 1990; Helleiner 1990; Stewart 1987). George (1988: 56) comments: 'The Fund lives in a never-never land of perfect competition and perfect trading opportunities, where dwell no monopolies, no transnational corporations with captive markets, no protectionism, no powerful nations getting their own first.'

The Ideological Thrust of Neoliberalism

It has been asserted that the neoliberal counterrevolution led by the IMF and World Bank has a hidden agenda: 'its attempt to depoliticize its own political intentions even as it refuses all other political economies' (Corbridge 1989: 250). Similar to neoclassical theory in general, neoliberalism presents itself as a positive, value- and ideology-free science. On the surface, the technical language and modeling procedures of the neoliberal framework appear to be purely objective and scientific, stripped of all values and ideological content. Moreover, the discourse of neoliberalism is especially seductive because it combines the seemingly objective language of neoclassical economics with policy proposals that serve dominant global power structures (Levitt 1990: 1594). However, as Amin (1990: 39) notes: ['The neoliberals'] language does not conform to the basic criteria of scientific analysis. It is a language of ideology in the worst sense of the term.' According to Levitt (1990: 1594), 'In reality it is an instrument whereby the rich and powerful impose a set of values and rules of the game which reinforce inequality and injustice.' This conforms to the longstanding role of neoclassical economics (and mainstream frameworks in the social sciences in general) as an instrument of social control, a point that is recognized by at least some economists themselves:

> [E]conomics serves as social control. Social control institutions organize, proscribe, prescribe, structure, channel, and integrate behavior and choice . . . Those who desire a particular system of economic organization and control, or specific policies and performance, will favor a congenial and supportive definition of economic reality. They also will actively work to establish that definition of economic reality as the basis for or means to the achievement of their normative end . . . The creation and (re)creation of economic theory is part of the process of the creation and (re)creation of public opinion, and the manipulation of public opinion is part of the process by which the masses, various classes, and the state both control and are controlled. All these manifestations of economics as social control are important aspects of the sociology of economics as an institution. (Samuels 1988: 350–1)

Bias Toward the Interests of TNCs and Core Capitalist Countries

From this perspective, the imposition of SAPs on Third World countries by the IMF, World Bank, and other multinational financial organizations plays a vital role in the establishment of new conditions facilitating the expansion and deepening of global capitalism in the South (Biggs 1987; Foxley 1982; Pastor 1987). As well as directly acting on behalf of the international banking system and its investors, the IMF and World Bank indirectly serve the broader interests of Northern-based transnationals in penetrating Southern markets (George 1988; Kreye and Schubert 1988; Stein 1992; Wade 1992). A critical part of the outward-oriented 'trickle down' strategy that is a centerpiece of SAPs is the provision of a hospitable environment in the South for trade and foreign investment by TNCs. Harris (1989: 21) states: 'The main role of the IMF and World Bank is the construction, regulation and support of a world system where multinational corporations trade and move capital without restrictions from national states.' For Bernstein (1990: 23), this means that we cannot understand the real significance of SAPs without first 'locating the distinctive place and global role of the World Bank [and IMF] within imperialism, and within its postwar nexus of international financial and regulatory institutions.'

Because they serve the interests of transnational capital, the IMF and World Bank also necessarily serve the interests of the corporate elite in the core capitalist countries of the North. Indeed, the structure of these international financial institutions ensures continuing core capitalist

domination. The managing director of the IMF has always been a West European, while the president of the World Bank has always been an American. The key decision-making body of the IMF, the Executive Board, is dominated by core capitalist countries and their clients. In 1985, although more than 150 countries were official members of the IMF, the following six countries controlled 44.71 percent of all votes: United States (19.29 percent), United Kingdom (6.69 percent), Federal Republic of Germany (5.84 percent), France (4.85 percent), Japan (4.57 percent), and Saudi Arabia (3.47 percent) (Bradshaw and Wahl 1991: 254). By contrast, the 41 sub-Saharan African countries controlled just 4.91 percent of total IMF votes (ibid.). A completely united Third World bloc, which would represent about three-quarters of the total population of IMF member countries, could control no more than one-third of total votes (Schoenholtz 1987: 405).

Given this structure, decisions endorsed as official IMF policies are invariably made by the Group of Five, representing the permanent members of the Executive Board (US, UK, Germany, France, and Japan) (ibid.: 405–6).[3] Moreover, the constitutional Articles of Agreement of the IMF provide the US with an effective veto, because any major changes, such as the allocation of votes, requires an 85 percent majority (ibid.: 405). Similarly, the US and other core capitalist countries dominate the key decision-making bodies in the World Bank and its regional development banks (Inter-American, Asian, and African). For example, the US controlled 34.54 percent of total votes in the Inter-American Development Bank (IDB) in 1985, giving it virtual veto power over all IDB loan allocations and substantial influence in the direction of bank policy (Dewitt 1987: 284).

Many observers contend that domination of the IMF and the World Bank by core capitalist countries has permitted the manipulation of policies not only to serve the interests of Northern-based transnational capitals, but also to discriminate in favor of or against selected Third World countries for geostrategic, ideological, or other reasons (e.g., Bienen and Gersovitz 1985; Biggs 1987; Black 1991; Loxley 1987). In particular, it is contended that the US has used its power to reduce or deny Fund/Bank assistance to a series of countries at odds with American foreign policy, while assistance has increased to a number of US client states despite problems of pervasive corruption and human-rights violations. In Latin America, for example, assistance was curtailed to the leftist Allende administration in Chile but was immediately returned upon the ascendancy of the Pinochet dictatorship in a US-backed military coup (Bienen and Gersovitz 1985). In Nicaragua, assistance was denied to the leftist Sandinista government but was resumed as

[3] Some analysts also refer to a 'Group of Ten' in the IMF, composed of the five permanent members of the Executive Board, as well as Canada, Italy, the Netherlands, Belgium, and Sweden, which were joined by Switzerland in 1984 (Schoenholtz 1987: 406).

soon as the pro-US Chamorro administration assumed power. Moreover, at the same time that funding was denied to Nicaragua under the Sandinistas, assistance was increased to the right-wing governments in El Salvador and Guatemala (Black 1991; Schoenholtz 1987).

Similarly, in Africa, assistance in the 1980s was extended under favorable terms to American client states (e.g., Morocco, Sudan, Zaire), while other countries were treated much less leniently (e.g., Sierra Leone, Tanzania) or were denied funding completely (e.g., Angola, Mozambique) (Haynes et al. 1987; Loxley 1987; Schoenholtz 1987). Such inconsistencies have not escaped the notice of Third World countries, which have often protested strongly over the lack of objectivity in IMF/World Bank decision-making. For example, the so-called Arusha Initiative, which was signed by members of the Organization of African Unity (OAU) in 1980, states:

> [T]he IMF is not objective in the application of its own criteria. Double standards have been applied to similar situations. Examples show that certain countries, because of their geographical situation, international weight or political orientation, receive more lenient treatment than others. (in Schoenholtz 1987: 409)

The Anti-Third Worldist Posture of Neoliberalism and SAPs

There is a widespread perception in the South not only that Fund/Bank policies have unfairly treated many countries because of ideological and geostrategic considerations, but also that SAPs and neoliberalism in general are part of a concerted ideological offensive by the capitalist core to reassert its global domination and prevent the rise of alternative, more autonomous development projects from the South. A vigorous ideological challenge from the South in the 1970s confronted mainstream development strategies of both the North in general and the IMF/World Bank in particular. During this period, a 'Third Worldist' argument gained favor throughout the South that placed much of the blame for Third World underdevelopment on Northern governments, transnational capital, and international financial institutions. It was argued that many of the structural problems causing Third World underdevelopment were the direct result of the historical domination of Third World countries by the capitalist core and its transnational corporations. Instead of being allowed to develop according to its own needs, the South had been systematically underdeveloped by a global capitalist system designed to serve Northern interests. Moreover, current policies by the IMF and other financial institutions not only failed to meet the South's structural requirements for overcoming its legacy of underdevelopment, but they punished Third World countries for problems (e.g., balance-of-payments shortfalls, foreign indebtedness) that

were fundamentally externally caused and beyond the South's capacity to control.

This 'Third Worldist' position was advanced intellectually in the 1970s by a variety of alternative development frameworks (e.g., dependency and world systems theory, structuralist economics) and was politically supported by many influential Third World leaders (e.g., Allende in Chile, Castro in Cuba, Kuanda in Zambia, Manley in Jamaica, Nyerere in Tanzania, Sukarno in Indonesia). By the late 1970s, it had united Third World governments, both authoritarian and democratic, capitalist and socialist, behind demands for a New International Economic Order (NIEO) in general and more flexible IMF/World Bank policies in particular (Dietz and James 1990; Pastor 1989; Toye 1987). At the same time, the widespread availability of private capital resulting from the glut of 'petro-dollars' in global financial markets and the economic slowdown in the North had substantially reduced the influence of the World Bank and other international financial institutions. Faced with an unprecedented surplus of capital and a declining demand for lending in the capitalist core, many of the transnational banks offered enormous loans to developing countries with few if any conditions attached. Much of the South used this source of seemingly unlimited private credit to avoid both structural adjustment in general and IMF/World Bank conditions in particular. In order to regain their eroding influence, the IMF and World Bank were forced to lower the conditionality of their loans and back away from harsh adjustment demands. In addition, they had to become more responsive to Third World demands that lending programs take account of the unstable political conditions and structural development needs facing many countries in the South.

However, the international debt crisis at the turn of the 1980s dramatically reversed this favorable lending situation for many Third World countries. Most sources of private international credit were abruptly cut off, as the specter of widespread Third World defaults caused a panic in the international financial community. Suddenly, the power of the IMF and World Bank was ascendant in a capital-scarce world in which the private banks had reversed their profligate lending practices and were looking for international leadership to guide them out of the debt quagmire. The IMF and World Bank, which had been the 'lenders of last resort' for much of the South in the 1970s, were quickly transformed into the 'lenders of first resort,' as the only institutions capable of carrying out debt and lending negotiations between the Northern banks and Southern governments. From this omnipotent position, the international financial institutions succeeded in organizing a 'creditors cartel,' which both dictated macroeconomic policy to Southern debtors through SAPs and forced individual Northern banks to continue 'involuntary lending' to avert the possibility of systemic collapse

due to widespread defaults (Pastor 1989). As a result, since the early 1980s there has been a concerted attempt, spearheaded by the core capitalist countries and international financial institutions, to 'put the genie of the South back into the bottle' (Cypher 1990: 43). Most Third World countries, already overdependent on international capital and severely weakened by a protracted economic crisis, have proved suitably docile. This Northern initiative to impose new conditions of development on the South has taken two interrelated forms. First, Northern governments and international financial institutions have used the tremendous leverage afforded to them by the debt crisis to dismantle alternative, more autonomous development projects in the South in favor of mainstream strategies that stress global integration, austerity, and 'trickle down' economics. Secondly, an ideological offensive has been mounted that both supports mainstream development thinking (i.e., neoliberalism) in defense of the existing international economic order and discredits alternative Third Worldist frameworks which seek radical structural change in favor of a new, more equitable global development agenda.

Much of this ideological offensive has been directed at creating a coherent explanation for Third World economic woes that is compatible with core capitalist interests. During the 1970s, alternative development frameworks largely placed the blame for continuing Third World underdevelopment on external factors, such as the legacy of (neo)colonial domination and the inferior position of many developing countries within an inequitable and rigid international division of labor. While it was generally acknowledged that some internal policies might need correction, the economic crisis afflicting Third World countries was regarded as fundamentally global in nature. Accordingly, there would be little possibility for progressive development in the South in the absence of global structural change. However, the neoliberal counter-revolution in development thinking responded with a stance that turned Third Worldist explanations of underdevelopment on their head. Rather than being caused by external factors, Third World underdevelopment was basically attributable to inappropriate internal policies. In particular, introverted state-led development strategies, profligate government spending, and poorly conceived interventionist policies had prevented market forces from operating efficiently, thereby inevitably generating macroeconomic imbalances and stagnant growth. Therefore, the way out of the crisis for the South is to reject the failed inward-oriented and state-interventionist policies of the past in favor of Northern guidance to create a new, economically sound development model. The key components of this model are global economic integration according to principles of comparative advantage and the reduction of the role of the state in development so that market forces can create the macroeconomic conditions necessary for future growth.

The Loss of IMF/World Bank Legitimacy in the South

The perceived bias of these policies and their sponsors in the international financial community has caused widespread resentment in the South. In the eyes of the popular sectors, the IMF and World Bank have become irrevocably associated with harmful austerity measures, economic stagnation, widening inequalities, and the outward transfer of capital to wealthy Northern bankers. Bienefeld (1985: 77) comments that, in Africa, the popular consensus is that 'the main thrust of [neoliberalism is] . . . to explain why the destitute and starving people of Africa should accept the payment of extortionate interest rates to overfed and wealthy people, as an overriding economic priority.' Pastor (1989: 110) ends an article on the debt crisis in Latin America with a political cartoon from a leading Mexican daily, *El Excelsior*, which, he contends, accurately summarizes the popular attitude in Latin America toward the international financial institutions. The cartoon depicts a working-class Mexican hanging from a scaffold while a well-dressed man with a briefcase stamped 'IMF' is reaching into the dying man's pocket to take the last of his money. In India, Sarkar (1991: 2309) states that the popular image of relations between Third World countries and the international financial institutions 'is similar to that between poor peasants and the village moneylenders – under difficult circumstances the poor peasants (here, mainly the debtor LDCs) are forced to accept the bondage of the cruel moneylenders (the IMF and World Bank).'

Many political leaders in both North and South have also criticized the bias of IMF/World Bank policies. Following negotiations with the IMF, Tanzanian President Nyerere remarked:

> The IMF always lays down conditions for using any of its facilities. We therefore expected that there would be certain conditions imposed should we desire to use the IMF Extended Fund Facility. But we expected these conditions to be non-ideological, and related to ensuring that money lent to us is not wasted, pocketed by political leaders or bureaucrats, used to build private villas at home or abroad, or deposited in private Swiss bank accounts . . . The IMF . . . needs to be made really international, and really an instrument of all its members, rather than a device by which powerful economic forces in some rich countries increase their power over the poor nations of the world. (in Schoenholtz 1987: 418)

In an article in the *Washington Post*, an influential member of the US Senate Finance Committee, Senator Bill Bradley, commented on the link between the effects of structural adjustment programs and rising impoverishment in Latin America:

> Obsessed with debt collection, the administration endorsed austerity programs that offered a trickle of emergency lending if debtors cut consumption and investment to the bone. Growth in Latin America was already faltering. Austerity threw the region into recession. Latin countries could no longer feed their poor or invest in their future . . . The sucess may have been, in relative terms, a windfall for the banks. But it proved disastrous for US farmers, factory workers, and exporters. (in Kreye and Schubert 1988: 268)

The widespread perception of bias within IMF/World Bank programs has seriously eroded the legitimacy of these international financial institutions, especially as representatives of the common interest in development between the North and the South, the rich and the poor. Indeed, as recent elections in both the Third World and Eastern Europe have shown, identification with IMF/World Bank SAPs has become a serious political liability for many governments. Increasingly, the IMF and World Bank have come to be viewed 'as the fiscal vanguard of a heartless system' that serves transnational corporate interests at the expense of all others (Horowitz 1985: 38). Given the outward transfer of capital that has accompanied the imposition of SAPs in much of the South, it is contended that adjustment lending represents aid not to indebted Third World countries but to the largest transnational banks headquartered in the North (Streeten 1993: 1294).

If they are to maintain any semblance of global legitimacy, it is asserted that the IMF and World Bank, at a bare minimum, 'should . . . be acting so as not to generate a net transfer of resources from countries that are at present in desperate circumstances in consequence of terms-of-trade deterioration, heavy levels of external debt, and other factors' (Helleiner 1992: 790). Reducing the external cash-flow obligations and payments on debt account probably represent 'the most cost-effective form of official external resource transfer' that is currently available to assist development among poor, indebted countries (ibid.: 781). A viable debt 'workout strategy' is urgently required for these countries, for their own economic well-being as well as the stability of the world as a whole (Culpeper 1988: 136). Ways must be found to delink policies aimed at resolving the international debt crisis from those that are designed to increase domestic savings and investment in Third World countries for development projects (Emmerij 1987: 15). Until this is done, efforts to restrain consumption, heighten efficiency, and increase output will do little to improve the well-being of Third World countries. They will merely help to service part of a seemingly ever-growing debt at the expense of the popular majority.

Common Shortcomings of Liberalization Policies

Price incentives and 'getting the prices right' is a major emphasis of IMF/World Bank SAPs and other neoliberal strategies. The underlying

assumption is that, even in a world of pervasive imperfections, unrestricted markets can normally sustain economic growth better than government intervention. As Helleiner (1989: 110) notes: 'Even in the world of the second-best, [the neoliberal's] approach is consistently to liberalize that which can be liberalized.' Consequently, liberalization of trade, domestic markets, and the financial sector commonly form principal components of neoliberal programs. The message from the international financial institutions and their sponsors among Northern governments is that the South should do the following: allow market forces to determine patterns of resource allocation; remove state intervention in both external and internal markets; provide incentives to foreign capital for investment and job creation; accept outward-oriented growth according to principles of comparative advantage as the basic engine of development; and rely heavily on foreign experts to guide development and ensure efficient project selection.

Inadequacies of the Neoliberal Focus on Export-led Growth

Much of the literature promoting liberalization appears to be guilty of a basic ecological fallacy (i.e., countries X, Y, and Z (such as Singapore, South Korea, and Taiwan) have developed rapidly as a consequence of outward-oriented liberalization; therefore, this strategy must cause development and should be emulated elsewhere). As we saw in the last chapter, many of the factors that propelled growth in the Asian NICs are largely absent in other countries. Moreover, liberalization has hardly characterized the development strategies of these NICs.

Given the relatively undeveloped industrial structures and narrow internal markets of most developing countries, the production of primary commodities for export is viewed as the main engine of future economic growth for much of the South. Conventional comparative advantage theory links the ability to compete in world markets with the interaction between commodity production characteristics (i.e., the technical requirements of production as represented by factor combinations and national attributes) (Dodaro 1991: 1156). However, as the experience of the Asian NICs shows, many important comparative advantages for global markets do not exist naturally but are socially constructed, often with the assistance of an interventionist state. In addition, economic growth in the NICs has focused on highly elastic industrial exports rather than on primary commodities, which have suffered from demand restrictions and falling prices in recent years. Global competitiveness generally entails both a price and product quality dimension, with a tendency for the latter to increase in importance as products become more sophisticated or move closer to their final consumption stage. Product quality, in turn, largely depends on human capital and other created comparative advantages, which

have generally received little attention from neoliberal strategies focused on prices.

Many analysts fear that outward-oriented neoliberal policies will confine many developing countries to a 'nineteenth-century' niche as primary commodity producers in the international division of labor (e.g., Bitar 1988; Corbridge 1988; Saha 1991). Taken to the extreme, such policies would reduce much of the South to a mere source of supply of primary commodities for the North. Export-led growth would be focused on low value-added agroexports and raw materials with few forward/backward linkages and little potential to contribute to needed structural change. The continuing exploitation of cheap labor and land would provide the sole source of comparative advantage on world markets. At the same time, the South would become increasingly dependent on Northern imports of food, clothing, manufactures, and virtually everything else.

The excessive concentration of developing economies on a few primary exports has long been a source of concern for many development theorists. International commodity markets have traditionally been characterized by wide fluctuations in demand and prices, which are often aggravated by oligopsonistic market controls exercised by Northern-based transnationals. Without other sources of growth, highly dependent Third World economies are extremely vulnerable to global market conditions over which they exercise little if any influence. Sudden downturns may be transmitted and amplified throughout dependent economies – causing not only a precipitous decline in export sectors, but a generalized economic contraction as well. An old adage among economists in the South is that when Northern economies catch a cold, Southern economies catch pneumonia.

Continuing dependence on a few primary exports may lock developing economies into relatively low-wage, low-skill, and low-productivity sectors that show few prospects for sustained growth. Neoliberal policies focused on the exploitation of static comparative advantages of cheap labor and land may block private and social investments that, over time, could create more dynamic comparative advantages with positive implications for stable economic growth, structural change, and income distribution. A recent study by Firebaugh and Bullock (1987) concludes that concentration on a few primary exports retards growth in developing economies because it blocks structural changes associated with increasing forward linkages and export upgrading. Research by Maizels (1987) finds that global commodity markets appear likely to remain unstable due to a combination of factors, including low elasticities on both the supply and demand sides of the markets, continuing low levels of stocks held by risk-adverse private traders, and the effects of fluctuating exchange rates of the major currencies and of intermittent rounds of destabilizing speculation. For Levitt (1990), current problems in world commodity markets have a deeper cause within

long-term structural change taking place in North–South trading relations – a prolonged decline in the North's relative need for the South's primary commodities.

As a result, he concludes:

> Prebisch and Schumpeter were right; Malthus, Ricardo and the Club of Rome were wrong; there are no scarcity rents accruing to natural resources. Rents accrue to those who innovate, and can collect monopolistic quasi-rents on their innovation . . . [C]oncentration on the export of primary commodities cannot be a long-term strategy for development; at best it can serve only as a temporary means to access foreign exchange at a high opportunity cost in terms of getting locked into a trap of export dependence. (p. 1586)

From Prebisch (1950) onwards, many analysts have found a long-term tendency of declining terms of trade for Third World primary exporters. According to Levitt (1990: 1586), a recent study of 33 major non-oil commodities showed a decline in terms of trade from 1900 to 1988 at the overall rate of 0.57 percent per annum; for the basket of commodities most important to developing countries, the rate of decline was even faster at 0.67 percent per annum. Lele (1984: 677) reports that international prices for many of sub-Saharan Africa's primary exports have been falling since 1977–78. Levitt (1990: 1590) states that export prices in Latin America and the Caribbean deteriorated approximately 20 percent during the 1980s. For the South as a whole, a study by UNCTAD (1985) reveals a $55 billion loss of foreign-exchange earnings between 1980 and 1984 due to falling prices of major commodity exports, representing 63 percent of the total value of these exports in 1980.

Both the domination of global commodity markets by a few Northern-based TNCs and an oversupply in many commodity sectors due to excessive production by Third World countries have exacerbated the problem of declining terms of trade for Southern exports. Global commodity markets have become increasingly concentrated in recent years. For example, five transnational agribusinesses control 90 percent the global market in foodgrains, six TNCs market 60 percent of the world's coffee, and three preside over 75 percent of the world's bananas (Kolko 1988). The supply of commodities to key Northern markets is thus strictly controlled by transnational oligopsonies based in the capitalist core. In most commodity sectors, Third World exporters have little recourse but to accept the prices and marketing conditions dictated by these TNCs.

Problems of oversupply in global commodity markets have often adversely affected the bargaining power of individual Third World exporters *vis-à-vis* transnational agribusinesses. Moreover, this situation seems to be worsening as outward-oriented adjustment programs are being imposed on exporters

of similar primary commodities throughout the South. Neoliberal strategies of export promotion tend to assume that recent price trends for primary commodities will not be adversely affected by additional supply from one country because it produces only a small share of the aggregate global product. However, this argument appears to suffer from a 'fallacy of composition' (Sarkar 1991: 2309). Each country is expected to implement a more-or-less fixed set of policies (e.g., real currency devaluation, wage cuts) to increase its exports. But no account is taken of the impact of export growth in one country on the export performance of other countries producing similar goods. At the same time, other countries are also advised to increase their exports using broadly identical measures (Sarkar and Singer 1991). This may often exacerbate problems of oversupply and declining terms of trade in global commodity markets.

Dell (1982: 607) offers an example of IMF-sponsored export promotion in a group of Third World countries which illustrates this problem. In 1975, Chile, Peru, Zaire, and Zambia, facing balance-of-payments problems due to a price slump in their major export (copper), requested assistance from the IMF. As part of its export promotion strategy, the IMF called for currency devaluations to take place in all four countries. The result was overproduction, a further price crash, and declining export revenues despite increasing volume. This example suggests that the international financial institutions should take into account the impact of their policy recommendations on all the countries affected by such policies, rather than merely the specific country to which a policy is addressed (Bhaskar 1991).

The responsibility of the North to ease access to its markets for Southern exports should also be stressed, especially since the core capitalist countries have strongly supported IMF/World Bank export promotion strategies throughout the South. In the latest 'Uruguay Round' of GATT negotiations, many of the subsidies and other market distortions that have proliferated over the last forty years in the North, particularly in the agricultural sector, were eliminated or greatly reduced. However, many Third World representatives left the GATT negotiations profoundly dissatisfied that Northern countries had done relatively little to increase access to their markets for Southern products, despite the considerable progress that was made in facilitating North–North trade. From a Southern point of view, the unevenness of the GATT agenda in favor of Northern interests only fueled resentment that international institutions appear to discriminate against poorer countries (Helleiner 1990). The GATT seemed willing to tolerate abuses of its fundamental principles by industrialized countries so long as the effects were felt only in the developing world. Little was done, for example, to dismantle the growing array of tariff and nontariff barriers that Northern countries have recently erected against Southern products

(Leamer 1990; Maizels 1987).[4] At the same time, a series of new GATT rules (e.g., over patents, and intellectual property rights) were applied strictly and rigidly to Third World countries.

Alternatives of Regional Cooperation and Strategic Trade Policies

Given the apparent unwillingness of the North to further open its markets to Southern products, it is imperative for developing countries to explore new methods for trading among themselves. The outward-oriented policies being adopted by developing countries have generally not encouraged forms of South–South cooperation. On the contrary, many of the initiatives being implemented tend to be competitive (e.g., devaluations, wage cuts, relaxation of labor regulations, creation of tax-free export zones). Especially for cases in which their exports have low elasticities, countries should make efforts to restrict supply through collective agreements and/or to encourage diversification into other products. International and regional commodity agreements can be appropriate under unusually severe circumstances, which certainly describes the recent state of many of the world's commodity markets (Helleiner 1990).

In many parts of the South, measures to increase intra-regional trade could stimulate export diversification. Previous economic integration schemes in regions such as Latin America may have generally been too ambitious (Urrutia 1987), but this does not preclude countries from exploring new methods to cooperate in areas such as intra-regional trade, financial relations, technological research, and industrialization. In the case of Latin America, Urrutia (1987: 64) notes:

> The recent agreement between Argentina and Brazil in capital goods is an innovation that may have interesting possibilities. Credit schemes for intraregional trade must also be developed, as well as a revitalization and stabilization of some of the trade preferences developed as part of the existing integration schemes.

[4] As was mentioned in the previous chapter, the proliferation of nontariff barriers in the North has presented a particularly serious problem for Southern exporters. Many of these nontariff barriers have been directed at products in which developing countries have a comparative advantage, notably agricultural goods, textiles, and clothing (Nolan 1990: 53). In a study using UNCTAD data to examine Latin American trade with the North in 1983, Leamer (1990: 337) finds that nontariff barriers were applied by 14 major industrialized countries against 19 percent of Latin American exports. As a result, he estimates that Latin American exports to these countries were reduced by a total of 34 percent, varying from 5 percent for Mexico to 75 percent for Argentina. Many Latin American countries faced extremely high barriers. For example, nontariff barriers were applied to 38 percent of Brazil's exports, 73 percent of Cuba's exports, and 62 percent of Paraguay's exports. On the other hand, certain favored countries were exempted from many of these barriers. Exports from Hong Kong, South Korea, and Taiwan were estimated to have been suppressed by trade barriers between 12 percent and 15 percent, which is considerably lower than for most of the Latin American countries.

Many analysts have recently concluded that adoption of a strategic trade policy may be preferable to a free trade stance, especially for less developed countries (e.g., Dodaro 1991; Furtado 1987; Helleiner 1990; Hirschman 1987; Krugman 1986). Free trade may often be desirable for countries that have already achieved a relatively high degree of economic development and internal productive efficiency which enables them to compete successfully in growing global markets. For less developed countries, however, a free trade stance may permanently confine them to a 'trap of static comparative advantage' in which they are unable to diversify away from primary commodities and other low-wage goods into more technologically sophisticated export sectors with higher demand elasticities and prospects for growth. As the experience of the Asian NICs demonstrates, a strategic trade stance permits export promotion policies to be situated within the broader context of national development goals. The efficiency of trade liberalization cannot be established a priori for individual countries with different needs and priorities. Any strategy that does not address wider aspects of development but focuses solely on liberalization measures risks generating unforeseen and destabilizing results, as well as missing new potential sources for future development.

IMF/World Bank liberalization policies have generally focused on short-term macroeconomic management, reducing the role of the state in development, and encouraging low-wage, labor-intensive export production according to principles of static comparative advantage. Little attention has been paid to possibilities for technological innovation, increasing labor skills and productivity, and improving infrastructure capabilities – all of which are critical to promoting economic diversification in most new vibrant export sectors. As Krugman (1986: 9) points out, 'A good deal of trade now seems to arise because of advantages of large-scale production, the advantages of cumulative experience, and transitory advantages resulting from innovation.' These factors may already be present in industrialized countries, but in most developing countries they need to be created through strategic government intervention. Instead, short-term liberalization measures lead in the opposite direction by curtailing needed expenditure on social and economic infrastructure, reducing support for indigenous research and development projects, and providing disincentives to economic diversification that could accelerate technological innovation and structural change. Because they neglect the overall context within which development is generated, liberalization measures may be sacrificing opportunities for dynamic future growth in favor of marginal and transitory gains derived from static comparative advantage. In a recent study of manufactured exports

in Argentina and Brazil, Paus (1989: 178) emphasizes interconnections between export growth, processes of technological change, and the broader context of development strategy:

> I have argued that in order to understand the forces behind export-linked growth, one has to analyze manufactured exports in the context of the overall development strategy, because the general economic framework has to be consistent with the promotion of manufactured exports . . . And one has to analyze the development of technological change and productivity growth – conditioned by the very continuity or discontinuity of the accumulation process – because they are vital for the achievement and maintenance of competitiveness on the international market.

Much of the argument in the development literature for strategic trade policy rests on the advantages of protecting selected infant industries, at least during their formative period, from competition by well-established foreign TNCs (e.g., Dietz and James 1990; Dodaro 1991; Hirschman 1987; Urrutia 1987). In addition, certain small/medium producers, especially in the rural sector, may require support either to enter global markets or to meet the demands of increasing competition in their traditional domestic markets (Barham et al. 1992; Watkins 1992). Although most analysts agree that the old-style 'umbrella' approach to protectionism should be avoided, this does not preclude supporting specific sectors according to particular development goals (e.g., fostering structural change, creating employment opportunities, avoiding peasant impoverishment and rural polarization). Within the manufacturing sector, it has often been pointed out that infant industries may require initial state support to gain a foothold against foreign competition in domestic and international markets. This may allow domestic firms to capture economic rents from foreign competitors, thereby increasing national welfare. It may also create opportunities for significant 'spin-offs' in terms of technological diffusion, demonstration effects, and skills development that may extend well beyond the infant industries themselves.

Within the rural sector, many small/medium farmers may need help in pursuing promising new opportunities in global markets or to avoid being swamped by foreign competition in their established domestic markets. Well-targeted state programs (e.g., crop insurance, technical assistance, improved credit access, creation of diversified processing and distribution channels that offer competitive outlets) may substantially reduce many of the risks that have prevented peasants and other smaller producers from entering new potentially lucrative export markets (Barham et al. 1992: 48). In addition, various forms of state support may be used to protect peasant food producers from 'dumping' by highly subsidized Northern

exporters. Policy-makers in the North have traditionally used subsidized exports to create outlets for surplus agricultural production within Southern markets. However, as Watkins (1992: 32) notes, the implementation of trade liberalization measures in many Third World countries has further assisted this form of export dumping:

> In Costa Rica, a World Bank structural adjustment package introduced in 1985 left domestic food staple producers exposed to competition from heavily subsidized wheat and maize exports from the US. The result was a 10% a year increase in imports, and a sharp decline in the area under bean and maize cultivation. The liberalization of agricultural imports in the Philippines, again under the auspices of a World Bank adjustment program, had similar effects, with domestic rice and course grain prices being depressed by subsidized imports. From a position of near self-sufficiency in the mid-1980s, by 1990 the Philippines was importing some 600,000 tons of rice annually, equivalent to some 16% of national consumption.

While it is recognized that many trading practices of the North with the South are fundamentally unfair, most analysts agree that any state intervention to protect domestic producers in developing countries must be pursued carefully and selectively. Once more, the successful experience of the Asian NICs in this area may offer lessons. The NICs used various incentives, controls, and mechanisms to generate an investment and production profile that served national development goals and differed substantially from that which would have resulted under a free market system. However, investment incentives and subsidies were closely tied to stringent performance requirements. This allowed the NICs to avoid much of the resource waste that has often characterized efforts by other states to prop up domestic industries. The NICs also succeeded in overcoming a number of dichotomies (e.g., import substitution versus export promotion, planning versus the market, rural versus urban development) that have fragmented development efforts in many other countries. The NICs showed that the different sides of each of these dichotomies need not necessarily be mutually exclusive. In fact, they could be mutually reinforcing, given appropriate and properly coordinated policies with regard to exchange rates, pricing, investment, and trade (import–export) regimes.

Shortcomings of Financial Liberalization

IMF/World Bank SAPs have typically applied liberalization measures not only to the trade sector but also to the financial markets of developing countries (e.g., increasing financial openness and liberalizing foreign exchanges, removing interest rate ceilings, liberalizing the capital account

of the balance of payments). However, as the experience of many Third World countries, particularly in the Southern Cone of Latin America (Argentina, Chile, Uruguay) and in Africa (e.g., Ghana, Kenya, Malawi, Tanzania) demonstrates, financial liberalization, if not properly designed, may cause instability in the financial system which, in turn, may aggravate macroeconomic instability and choke off investment (Cho and Khatkhate 1989; Diaz-Alejandro 1985; Helleiner 1989, 1992; Rodrik 1990; Stewart 1991; Toye 1987). Poorly coordinated and inappropriate financial liberalization measures have often been implemented with little regard for their consequences in terms of overall economic stability and sustainability.

The following areas of financial liberalization have proved particularly problematic. First, the removal of interest rate ceilings has frequently put financial sectors in a frenzy and ultimately caused them to crash. Diaz-Alejandro (1985: 1) summarizes the case of the Southern Cone countries in Latin America as 'good-bye financial repression, hello financial crash.' Moreover, given the presence of many structural constraints, private consumption and savings have not responded to real interest rate changes in many low-income countries in the same way as might be expected in higher-income countries. In fact, rising interest rates in many African countries have not led to an increase in domestic savings and seem to have choked off borrowing for investment (Helleiner 1992; Stewart 1991). Second, capital-account liberalization has increased the cost of financing the deficits of many countries because it has reduced the private sector's demand for government liabilities (Rodrik 1990). In addition, as real exchange rates have constantly been devalued for reasons of competitiveness, a premium has been built into domestic real interest rates relative to foreign rates, thereby adversely affecting domestic investment. Third, increasing financial openness and the liberalization of foreign exchanges have aggravated problems of capital flight in many countries (Banuri 1991; Eshag 1989). Instead of alleviating instabilities created by sudden trade fluctuations, financial openness has increased the vulnerability of many economies to such external 'shocks' by opening up new avenues for capital flight. Fourth, financial liberalization has endangered the broader structural reforms initiated in many countries (Rodrik 1990). Increased interest rates have driven up costs for firms struggling to adjust to sharply altered prices. Firms in difficulty have had to refinance their loans at ever-increasing interest rates, non-performing loans have multiplied on the balance sheets of the banks, and much of the domestic banking sector has ended up insolvent (ibid.: 942). This story underlies many financial crashes that have accompanied liberalization measures, especially in the Southern Cone countries of Latin America.

The often disastrous experiences with financial liberalization emphasize the need for proper coordination and sequencing of policies. In countries

with unstable macroeconomic environments or imperfect markets, liberalization policies must be carefully coordinated and implemented to avoid creating imbalances and instability (Killick and Stevens 1991). Financial liberalization does not generally improve the allocation of resources in countries with distorted price structures. Therefore, major structural reforms should be completed before the introduction of financial liberalization measures (Coats and Khatkhate 1991). Current opinion among economists supports a sequencing of liberalization: 'The goods market should be liberalized first, and liberalization of the capital market should be added only when much of the adjustment to the former has been completed' (Michaely et al. 1991: 277). Proper sequencing must be developed not only with respect to overall liberalization measures, but also for financial liberalization policies themselves. Bajpai (1993: 993) contends that 'If the capital account [of the balance of payments] is opened when the domestic capital market is still repressed and interest rates are fixed at artificially low levels, massive capital outflows will take place.' Therefore, he reasons that the capital account should be opened only after the domestic capital market has been liberalized and domestic interest rates have been raised. The experience of countries in all parts of the South shows that premature or poorly coordinated liberalization policies may produce little positive effect on savings and investment and may cause many adverse side-effects. The risks appear to be particularly severe in countries with unstable macroeconomic environments, high levels of indebtedness, and markets which function imperfectly – all of which are common characteristics of the overwhelming majority of Third World countries undergoing SAPs.

Inadequacies of Internal-Market Liberalization

Complementary to their focus on liberalizing trade and financial markets, SAPs and other neoliberal strategies also frequently apply liberalization measures to the domestic markets of developing countries. However, many development analysts contend that neoliberals have a rather naive view of Third World markets. Neoliberals suggest that market failures due to state intervention are the primary cause of the economic crisis currently afflicting most countries. Hence, market restoration is seen as the solution. But this neoliberal solution characteristically contains little or no analysis of the ways in which real-world markets operate in the South. As Toye (1987: 86) points out, a recent World Bank study found that some two-thirds of the economic performance of Third World countries could not be accounted for by policy-induced price distortions. It must be concluded, therefore, that we need to know much more about other factors affecting development before embracing liberalization measures.

Neoliberal policies commonly assume that the market permeates every-

where in Third World countries. However, as Riddell (1992: 61) notes, this assumption ignores the fact that in many countries significant sectors of the population are only partially integrated into the market. For example, in many of the rural areas of less developed countries, capitalist relations of market exchange are geographically concentrated in 'enclaves' formed around agroexport or mining activities, while the bulk of the peasantry operates chiefly according to traditional relations of social exchange, such as reciprocity and redistribution. Neoliberal policies are also rooted in abstract theories that are suited for 'benevolent,' if not perfect, market environments (Schoenholtz 1987: 428). Consideration is rarely given to the processes and relationships which define the social context within which production and exchange take place. Given patterns of severe socioeconomic polarization and political repression in many Third World countries, it should be evident that the environment in which many people live and work is hardly benevolent. This realization throws into question many of the neoliberal assumptions based on 'trickle-down' theory.

Even a cursory familiarity with Third World markets ought to uncover many structural constraints that prevent the bulk of the population from responding to price signals as prescribed by neoliberal policies. Corbridge (1989: 234) comments: 'To promote as panacea an abstract "market" is to conceal the necessary imperfections and inequalities of particular economic systems.' Real-world markets exist within diverse structural contexts and are constituted according to varying principles and power relations. Market failures may be common, even pervasive, in the context of developing economies. Structural constraints to development frequently exist in areas such as transportation and communications networks; education, health care, and other social infrastructure; credit and financial systems; and the productive sphere itself. Frequently, productive sectors are fragmented into many parts, each of which may have a different market orientation and be subject to a different set of policies (Lele 1990). In many cases, differential access to key factors of production (e.g., land, credit, technology) may profoundly affect the supply response of various sectors to price changes. Simple price liberalization, without complementary measures designed to address the structural constraints facing many disadvantaged classes and social groups in the South, has little potential to generate the type of supply response called for in the neoliberal models. Indeed, it may lead to deepening polarization and impoverishment, as privileged producers with greater access to the resources necessary to expand production take advantage of new policies to drive other less fortunate producers out of competition.

These types of structural considerations underscore the point that 'the correctness of prices must be decided by reference to a comprehensive development strategy, not independently of it' (Fishlow 1985: 141). Rather

than being simplistically equated with the free operation of market forces, a sound policy framework should comprise many diverse elements. Focusing on rural development, for instance, the maintenance of real producer prices at reasonable levels is important, but so are a range of other factors such as well-functioning transport, marketing, credit, and agricultural extension systems, as well as ready access to a wide range of consumer goods and agricultural inputs (Ghai 1987: 123).

Given extreme levels of polarization within rural development in many countries, Reusse (1987: 315) notes that measures to enhance market transparency and competition are especially necessary. He recommends policies designed to facilitate market entry by small/medium producers, to remove physical and institutional obstacles to the establishment of a fully competitive system, to improve producer and consumer knowledge of seasonal price developments, and to increase popular consultation in policy decision-making. In a study examining the effects of SAPs on the fragmented rural sector of Malawi, Lele (1990: 1207) states: 'Broad-based growth in such a sector requires the adoption of an entire gamut of policies toward prices, taxes, subsidies, markets, and asset distribution involving all factors of production, and requiring a long time period to obtain a strong and sustained supply response.'

As Ghai (1987: 123) notes: 'It is countries which have succeeded in establishing and maintaining reasonable balance and efficiency in the entire policy package that have attained sustained expansion of agricultural output.'

As we have seen, however, the adjustment programs of many Third World countries have been characterized by inappropriate and poorly coordinated policies, as well as a narrow focus on liberalization measures to the exclusion of other factors vital for development. Directly contrary to the central thrust of structural adjustment, macroeconomic imbalances (e.g., fiscal deficits, foreign debt, inflationary pressures) have often been aggravated. Resulting uncertainties and instability have adversely affected growth and investment in many key economic sectors – thereby negating possibilities for trickle-down effects, which are another key component of the neoliberal programs.

Neither rapidly developing Third World countries, such as the Asian NICs, nor the core industrialized countries have ever practiced the rigid liberalization measures that are being imposed through SAPs. It must be seen as curious, therefore, that the current obsession with liberalizing markets has not given way to more flexible policies which are capable of addressing the broader concerns of development in the South.

Increasing Polarization and Social Costs under SAPs

Many analysts contend that SAPs and other neoliberal programs have not only neglected many of the broader structural concerns of Third World development, but have also produced widening polarization and rising social costs in many countries (e.g., Colclough and Green 1988; Cornia et al. 1987; Helleiner 1989; Jolly and van der Hoeven 1991; Singer 1989). Neoliberal strategies have subordinated important development issues concerning equity and income distribution, poverty alleviation, and access to basic needs to the exigencies of an abstract 'free market.' The technical focus on improving market efficiency and macroeconomic conditions has all but ignored the human dimension of development. Until quite recently, specific targets for improving human conditions were not even included within most SAPs.

Even now, there is a feeling that only lip service is being paid to the human and social concerns of development, while the central thrust of SAPs on abstract macroeconomic factors remains unchanged. As a result, neoliberal policies (e.g., cuts in real wages, food subsidies, and health care and education expenditures) continue to generate high social costs, especially for the poor and other disadvantaged groups. In addition, because they ignore many of the structural constraints to development in Third World countries, neoliberal policies can offer, at best, only palliative recommendations concerning the poor as target groups, rather than attack the basic forces that make them poor in the first place.

Falling Investment Levels and Economic Contraction

Basically, neoliberals argue that their focus on liberalizing markets is consistent with the long-term needs of the poor and will avoid the inefficiencies and anomalies of previous state efforts to assist the poor through non-market means. Freeing markets and creating more favorable macroeconomic conditions should spur investment and growth, as well as improving overall economic efficiency and productivity. If markets are allowed to allocate goods, capital, and labor rationally without interference, the poor and others will inexorably reap higher incomes derived from increased efficiency and productivity through the operation of 'trickle-down' forces. Moreover, in most Third World countries, rational resource allocation would produce a labor-intensive bias for development projects that would inevitably favor the poor majority over time. Non-intervention, then, represents the best way to help the poor in the long run. Past state interventions to assist the poor and redistribute income (e.g., social service spending, subsidized credit, price controls, agrarian reforms) have caused excessive government spending and have detracted from market efficiency, thereby reducing overall output

and job creation. In many cases, state intervention has also produced perverse, regressive effects because programs designed for the poor have been manipulated to support wealthy government client groups. Thus, such programs should be avoided in favor of a macroeconomic approach which stimulates private investment to create real long-term jobs according to principles of comparative advantage and trickle down.

However, considerable evidence has accumulated from various developing countries that SAPs have generally failed to stimulate investment and growth and have produced increasing socioeconomic and spatial polarization, with particularly devastating results for the poor and other disadvantaged groups. A key element of SAPs has been adjustment of excess demand over domestic supply in many Third World economies, which was being met by an unsustainable volume of external resources, generating increasing debt. The intent of SAPs has been to administer a dose of deflation to these economies, which would lower external and fiscal deficits and provide a stable macroeconomic foundation upon which to stimulate the supply side. The general consequence of SAPs, however, has been severe economic contraction, particularly in production for the domestic market. A deflationary cycle has been created in many countries in which falling demand lowers production levels, which further contracts demand, and so on.

Discouraged by falling utilization of productive capacity and by the general recessionary economic climate, investment has not only failed to increase, but has declined precipitously in many countries. For the South as a whole, the investment share in GDP fell in the 1980s by about 20 percent for non-fuel-exporting countries and by 30 percent for fuel exporters (Bourguignon et al. 1991: 1496). Private capital flows to developing countries declined from annual levels of $60–80 billion prior to 1982 to $12–15 billion per annum at the end of the decade (Levitt 1990: 1590). By the late 1980s, direct private investment in the South had been reduced to its lowest level in the postwar era: a mere $5–10 billion annually. The decline in investment was most severe in poorer regions such as sub-Saharan Africa, where overall private investment has fallen nearly 25 percent since 1980 (ibid.). Foreign direct investment (FDI), a vital component of neoliberal strategies, declined even further. Cheru (1992: 505) reports that, from a level of $1.5 billion in 1981, FDI in sub-Saharan Africa declined to about $400 million annually at the start of the 1990s and was distributed among only a handful of countries.

It appears that investment has also declined more rapidly in countries undergoing SAPs than in other similarly indebted Third World countries (Faini et al. 1991; Mosley et al. 1991). Rather than stimulating growth through higher investment according to trickle-down principles, 'the results [of SAPs] show much foregone growth because of lower aggregate (public

and private) investment levels during the period of adjustment' (Faini et al. 1991: 966). It appears that any stimulus SAPs have been able to impart to the supply side has been confined to the export sectors of a few countries; however, the deflationary blow suffered by the remainder of their economies has more than offset this (Mosley et al. 1991: 229). SAPs seem to have had a negative or, at best, neutral effect on already low rates of Third World economic growth, while they have aggravated problems of capital flight and slumping investment (Eshag 1989; Faini et al. 1991; Greenaway and Morrissey 1993; Helleiner 1992; Kreye and Schubert 1988; Mosely et al. 1991; Pastor 1989; Rodrik 1990; Stein 1992). This situation augurs particularly poorly for future economic growth in the South. The prospect of continuing, and perhaps catastrophic, economic decline appears only too real for many countries. As Taylor (1988: 168) notes: 'The risk of economic collapse under liberalization seems to be non-trivial, if the recent history [of countries undergoing SAPs] provides a guide.'

Regressive Income Redistribution

At the same time that SAPs have generally failed to increase growth and investment in the South, they have also had a profoundly regressive effect on income distribution in many countries (Bourguignon et al. 1991; Eshag 1989; Minocha 1991; PREALC 1988; Senses 1991). According to Pastor (1987: 258), 'The single most consistent effect [of SAPs] . . . is the redistribution of income away from workers.' In a 1985 study of Latin American development, the Inter-American Development Bank (the regional branch of the World Bank) concludes that there is evidence that a disproportionate part of losses in real incomes has 'been concentrated in the lower income strata' (in Pinstrup-Andersen 1988: 39–40). The Bank further suggests that 'to the extent that real wage containment remains a necessary element of the adjustment process, mechanisms will have to be found to shift some of the burden to the higher income groups in the interest of social justice and domestic peace' (ibid.).

Even in organizations such as the World Bank, there is widespread recognition that the working class and other popular sectors in developing countries have borne a disproportionate share of the social costs generated by SAPs. The brunt of structural adjustment has consistently fallen on the popular sectors for a number of reasons. First, liberalization measures have caused widespread job losses, especially in many labor-intensive, domestically oriented economic sectors. Unemployment has risen rapidly in many countries through job losses in many formal sectors and the failure of informal sectors to provide additional sources of steady employment (Bourguignon et al. 1991; PREALC 1988; Riveros 1990). Second, levels of both real wages and minimum wages have decreased as unemployment

has risen and neoliberal policies have removed labor regulations. Studies of urban labor markets in Africa (Ghai and Hewitt de Alcántara 1990; Stein and Nafziger 1991) and in Latin America (PREALC 1988; Riveros 1990), for example, show a significant deterioration in real wages under the impact of SAPs. Third, prices for food and other basic goods have risen dramatically as liberalization measures have cut state subsidies designed to hold down prices for the urban poor and other popular sectors. Because these groups spend a proportionally larger share of their income on basic consumption goods, such measures have had a profoundly regressive effect on purchasing power. Fourth, access by the popular sectors to many basic social services has been reduced following cutbacks and/or privatization. In many cases, higher user fees accompanying privatization have significantly affected the ability of poorer groups to utilize basic services such as health care and education. Fifth, government cutbacks have eliminated many programs targeting particular groups for special forms of assistance. Such programs range from those designed to provide basic consumption and social reproduction needs (e.g., food banks, prenatal and infant care for poor mothers, shelters for the homeless) to others that offer assistance in production to disadvantaged groups (e.g., provisions of credit, production inputs, marketing assistance for peasants and small artisans).

As the brunt of the social costs of adjustment has fallen on labor and the popular sectors, SAPs have systematically redistributed income toward the more affluent and propertied classes (Barkin 1990; Kreye and Schubert 1988; Pastor 1987). This has had a profoundly regressive effect on the already polarized structures of many Third World societies. While new opportunities for accumulation and enrichment have been offered to the privileged few, the popular majority has suffered and many have slipped into deeper impoverishment. The central thrust of SAPs on increasing profitability and surplus generation in order to attract investment necessarily favors certain classes and social groups over others, especially capital over labor. Indeed, research consistently concludes that SAPs have increased the capital share of income at the expense of the labor share (e.g., Bernstein 1990; Black 1991; Ghai and Hewitt de Alcántara 1990; Pastor 1987; Ruccio 1991). In the ten largest countries of Latin America, for example, Ghai and Hewitt de Alcántara (1990: table 6) find that during the 1980–85 period per capita consumption by business (owners of capital) increased by 15.8 percent, while that of labor decreased by 25.7 percent.

SAPs have played a key role in the neoliberal strategy to impose new economic conditions on the South which both create new accumulation opportunities for capital and roll back gains achieved by labor through previous struggles. As Black (1991: 98) notes: 'The strategy [of neoliberalism] seeks not merely to freeze socioeconomic relationships and maintain the status quo but rather to promote accumulation or reconcentration – that is,

to redistribute assets and income from the bottom up.' Ruccio (1991: 1326) states that, from the perspective of the capitalist class, many of the widely acknowledged failures of SAPs may actually be transformed into successes:

> Neoclassical and structuralist policies [orthodox and heterodox SAPs] may be seen as successes once their effects on the rate of exploitation and other class features of capitalism are taken into account. Each policy package, in its own way and under different circumstances, may participate in strengthening important conditions within which surplus value is appropriated from the direct producers. Thus, what may be a failure from the standpoint of achieving full employment, price stability, and balance-of-payments equilibrium can be considered successful in terms of promoting the widening and deepening of capitalist class processes.

Increasing Societal Polarization

Many authors have also noted that SAPs have had a polarizing effect not only between capital and labor, but within and between various other classes, class fractions, economic sectors, and social groups (e.g., Barkin 1990; Ghai and Hewitt de Alcántara 1990; Hugon 1991; Timossi Dolinsky 1990). The macroeconomic thrust of SAPs has tended to favor outward-oriented over inward-oriented sectors, speculative and commercial activities over production, and informal over formal sectors. The outward-orientation of SAPs has especially favored export sectors dominated by transnational capitals and their local allies. Similarly, capitals involved in the importation and commercialization of foreign goods have prospered as a result of decreased trade restrictions. At the same time, local capitals oriented toward the domestic market have faced increasing hardship due to rising foreign competition and contraction of the internal economy. The relaxation of financial regulations and other controls under SAPs has also generally favored speculative and commercial activities over domestic production. Moreover, rising unemployment and the removal of many labor regulations have promoted informal over formal activities. In many countries, large sections of the working class have become steadily informalized. Job layoffs and pay cuts have forced many elements of the middle class to find sources of income in the informal sector. As a result, the already indistinct lines between the middle and working classes of many countries have been further blurred, and the concept of the 'working class' itself has become increasingly fuzzy (Ghai and Hewitt de Alcántara 1990: 410–11).

SAPs have introduced important changes not only in class relations, but also in the broader range of social relations in many countries (e.g., these based on gender, ethnicity, age). Generally, the position of more privileged social groups has improved, while that of traditionally disadvantaged groups has deteriorated further. While more privileged groups have used their greater access to key resources and contacts to take advantage of new outward-oriented economic opportunities, disadvantaged groups have suffered through the contraction of the domestic economy; falling wages and the removal of labor regulations; rising prices for basic consumption goods; and cutbacks in many social assistance programs. Privatization and government spending cutbacks have adversely affected access to many basic social services (e.g., education, health care) in general, as well as curtailing programs designed to offer special assistance to particularly disadvantaged groups (e.g., poor women and children, the elderly, ethnic minorities).

According to many analysts, the effects of SAPs have particularly harmed poor women and children (e.g., Elson 1989; Geisler 1992; Ibrahim 1989; Sollis and Moser 1991; Standing 1989). Declining wages and the deregulation of labor markets have led to heightened rates of exploitation and the 'feminization' of much of the lower end of the job market. Many single mothers or women whose partners have become unemployed have been forced into dangerous, unregulated work at abysmally low pay to meet the social reproduction needs of their families. The 'double burden' of production and reproduction that such women must bear goes unrecognized within SAPs. The underlying economic assumptions of SAPs tend to treat society as an undifferentiated whole, thereby neglecting the special needs of particularly disadvantaged groups such as poor working women and their children. Moreover, programs targeted to address these special needs have been curtailed by government spending cutbacks designed to meet the profitability requirements of capital. However, the unfair burden that poor working women are subjected to by the exigencies of SAPs may have far-reaching, long-term consequences, especially in the realm of social reproduction. As Elson (1989: 58) notes, 'Women's unpaid labor is not infinitely elastic – a breaking point may be reached, and women's capacity to reproduce and maintain human resources may collapse.' Falling social indicators in many Third World countries may signal that many poor women and their families have already reached this point.

Many analysts also note that SAPs have had a devastating effect on small-scale producers and their families, particularly those whose production is oriented toward the domestic market (e.g., Allison and Green 1985; Ghai and Hewitt de Alcántara 1990; Geisler 1992; Hugon 1991; Kay 1985; Mengisteab and Logan 1990; Stewart 1991; Stein 1992). Peasants and other small/medium rural producers appear to be especially vulnerable to the harmful effects of SAPs. In most rural Third World countries, SAPs have concentrated on increasing agroexport production by transnational capitals and other large-scale producers. Domestic food production, which is dominated by peasants and other small/medium farmers, has largely been neglected. While trade liberalization has often increased agricultural

exports, it has also allowed highly subsidized Northern producers to flood Southern markets with cheap foodstuffs. Increasing foreign competition and falling internal demand (resulting from rising unemployment and economic contraction) have combined to force down prices. Moreover, many state programs that previously gave small/medium peasants access to vital resources (e.g., rural credit, extension services, agricultural inputs, marketing assistance) have been drastically reduced or eliminated. Consequently, many peasants have been driven out of competition and displaced from their traditional plots into a destitute and insecure existence in the teeming informal sectors of the large cities. Others have been pauperized and forced into an equally desperate situation as mere subsistence producers or seasonal laborers for the large agroexport estates.

Privileged groups such as large-scale agroexport producers, and disadvantaged groups such as small peasants, tend to be located in distinct spatial concentrations in most developing countries. Because of this, tendencies toward socioeconomic polarization under SAPs have also been manifested in widening spatial and regional polarization (Amirahmadi 1989; Kay 1985; Riddell 1992). Spatial polarization is widely acknowledged as a severe impediment to development in much of the South. In many outlying rural areas, the bulk of the peasantry lives in abject poverty, deprived of essential facilities and services, and barely integrated into the national economy. On the other hand, core urban areas and other modern enclaves are often better linked to the outside world than to their surrounding rural hinterlands. Polarized development within and between regions has generated an internally disarticulated pattern of growth, which has blocked the rise of social, economic, and spatial linkages vital for broadly based development.

The market-led, outward-oriented focus of SAPs has further aggravated historical problems of polarized and internally disarticulated growth in many Third World countries. Investment and development projects have been concentrated in core locations and modern export enclaves with superior physical and social infrastructure, while underserviced peripheral areas have been further marginalized. With government spending cutbacks, dwindling public expenditures on basic infrastructure have been directed at economically and politically important core locations rather than poorer, more remote areas. In many outlying regions in which peasants are concentrated, roads and other basic physical infrastructure have fallen into disrepair. Farm inputs (e.g., seeds, fertilizer, pesticides, tools, machinery) have become increasingly expensive and scarce. Basic social services (e.g., health care, education, water and electricity) as well as more targeted rural development programs (e.g., agricultural extension, rural credit, marketing assistance) have declined or become nonexistent. As vital forward/backward linkages have been severed and basic infrastructure has crumbled, many peasant areas have become increasingly isolated and unable to compete in traditional markets. In this situation, price liberalization and other policies designed by SAPs to stimulate rural production can have little positive impact on peasant producers. In fact, because only larger producers have the means to take advantage of liberalization measures, widening rural differentiation and polarization inevitably occurs.

Deteriorating Living Conditions and Rising Social Costs

Considerable evidence has accumulated that the polarizing effects of SAPs have had severe consequences on the standard of living of the popular majority in most Third World countries (e.g., Bourguignon et al. 1991; Cornia 1984; Cornia et al. 1987; Geisler 1992; Pinstrup-Andersen 1988; Singer 1989; Stein and Nafziger 1991). The contraction of the domestic economy and the removal of labor regulations have caused unemployment to rise and wages to fall. Increasing foreign competition and the elimination of state assistance programs have forced many small/medium producers into bankruptcy. Liberalization measures have driven up prices for many foods and other basic goods. Government spending cutbacks have worsened problems of unemployment and the deterioration of basic infrastructure and social services. The cumulative impact of these factors has lowered income levels, diminished purchasing power, and reduced access to essential social services and other basic needs for the popular sectors. As always, it appears that the most vulnerable and disadvantaged sectors of Third World societies have been the most negatively impacted. As levels of absolute poverty have increased and social programs have been cut, rising hunger and malnutrition have put severe pressures on many poor families. Such pressures have begun to show up in various behavioral indicators (e.g., number of abandoned children, incidence of family violence, youth crime and delinquency). These problems show every sign of becoming chronic in many developing countries unless specific countermeasures are put in place and the macroeconomic focus of SAPs is fundamentally altered.

As the negative impact of SAPs on the poor and disadvantaged has become more apparent, criticism has mounted from various sources. Critics from the academic community and many international organizations contend that issues such as basic needs provisions, poverty alleviation, and sustainable development have been ignored in the macroeconomic, growth-oriented agenda of SAPs. Within the United Nations, the UNDP (United Nations Development Program) and UNICEF (United Nations Children's Emergency Fund) assert that the lack of a 'human dimension' in SAPs has caused particular hardship for vulnerable groups such as poor women and children (see Cornia et al. 1987; Helleiner 1987; Jolly and van der Hoeven 1991; Shaw 1991). Similarly, the ILO (International Labor Organization) maintains that adjustment policies have generally increased unemployment

and income inequalities, and have adversely affected basic needs provisions for the poor (see García et al. 1989; Helleiner 1987; Pinstrup-Andersen 1988). Governments in both the South and North have also voiced concerns over rising impoverishment under SAPs. At the 40th Anniversary of the General Assembly of the United Nations, many Third World Heads of State focused their speeches on the human consequences of SAPs in mounting poverty and malnutrition, which, it was feared, would inevitably lead to social and political instability (Jolly 1988: 75). In the US, the Congress adopted legislation in 1987 which sought to encourage the IMF and World Bank to give poverty alleviation a higher priority within SAPs. As Sanford (1988: 267) relates:

> The House Appropriations, Senate Foreign Relations, and House Banking Committees all expressed concern about the [poverty] issue. The final authorization law directed that the US executive directors (EDs) at the multilateral development banks should encourage the multilateral agencies to undertake programs that help the poor, particularly the rural poor . . . The law directed the US EDs to urge the multilateral banks to do studies assessing whether their loan operations help or hurt the poor. The EDs were also required to recommend that the multilateral banks adopt formal guidelines which would be designed to identify and minimize any such negative impact on the poor.

Rising concerns over the social costs of SAPs have also made an impression on the IMF and World Bank themselves. In 1987, the incoming Managing Director of the IMF, M. M. Camdessus, made protection of the vulnerable during the course of adjustment a major part of his first speech to the UN Economic and Social Council (ECOSOC). According to Jolly (1988: 75): 'That speech marked the first time a Managing Director of the IMF had spoken out on the desirability of adjustment policy paying explicit attention to issues of income distribution, health, nutrition and poverty.' In the late 1980s, the President of the World Bank, Barber Conable, also began to refer to the Bank's 'reemerging concerns about poverty alleviation' in many of his speeches (Singer 1989: 1314). Indeed, a special 'poverty task force' of senior Bank staff members submitted a report to Conable in 1987 which found that in spite of 'encouraging activity on poverty in many countries – and creative innovation in a few – overall the Bank's efforts were considered insufficient' (in Singer 1989: 1315). Following this report, the Bank has issued a number of major studies (including its 1990 *World Development Report* and the 1989 *Sub-Saharan Africa, from Crisis to Sustainable Growth*) which openly acknowledge its neglect of poverty and other issues of human development in the 1980s, but suggest that this is being remedied by a change in the priorities of SAPs and other Bank development projects.

The Need for Alternative Policies

Many critics of SAPs, however, contend that changes in IMF/World Bank priorities have been largely rhetorical and have had little impact on actual policies in the South (e.g., Bernstein 1990; Cobbe 1990; Singer 1989). For example, in an article analyzing the World Bank's *Sub-Saharan Africa*, popularly known as the 'Berg Report,' Saha (1991: 2755) concludes: 'The contents of the new program (World Bank 1989) do not appear to be much different than the earlier one. It seems that Berg's agenda of action has simply been repackaged and represented in a more user friendly language.' Some of these critics have called for compensatory policies to reduce the social costs of adjustment for the poor and other disadvantaged groups (e.g., Killick and Stevens 1991; Pinstrup-Andersen 1988; Shaw and Singer 1988). Such policies might be designed, for instance, to provide food aid or other forms of income transfer to the poor; create jobs in the public or private sector; improve productivity through investments in education, vocational training, and skills development; increase the availability of credit, technical assistance, and other factors of production for small/medium producers; and expand access to health care and other basic social infrastructure (Pinstrup-Andersen 1988: 44–5).

Other critics have called not only for compensatory policies, but also for fundamental changes in the direction of SAPs (e.g., Helleiner, Cornia, and Jolly 1991; El-Naggar 1987; Eshag 1989; Jolly and van der Hoeven 1991; Stewart 1987, 1991; Streeten 1987). They contend that the inclusion of poverty and other social concerns in development programs necessitates an integral approach pertaining to all adjustment measures rather than the mere addition of supplementary policies. Because SAPs remain narrowly focused on macroeconomic preoccupations to the exclusion of structural aspects of development, the IMF and World Bank can only make palliative recommendations concerning the poor as target groups rather than attacking the forces that make them poor in the first place. Needed structural changes to reduce inequalities and poverty have been neglected, while social expenditures remain inadequate to improve human capabilities and standards of living. Moreover, the design of the macropolicies of SAPs themselves has often exacerbated inequalities and other structural constraints that block more balanced and sustainable forms of development. Adjustment that protects the human dimension and supports structural change in developing countries needs to be incorporated into the design of both macro- and mesopolicies. Add-on programs are virtually certain to be inadequate.

A critical weakness of SAPs has been their failure to coordinate the long-term needs of structural transformation in developing countries with shorter-term macroeconomic considerations. As we saw in the previous

chapter, a key factor propelling recent development in the Asian NICs was the successful coordination of various policy measures to promote broad goals of structural transformation, balanced and participatory development, and national unity. The state pursued a long-term vision of economic growth and development that was formalized in comprehensive development plans extending over five years or more. While the NICs implemented policies designed to foster macroeconomic stability and to create a hospitable environment for private-sector investment, they also invested heavily in the basic infrastructure and human-resource development needed to facilitate structural change. Sectoral and meso-level policies were coordinated with macroeconomic measures to improve internal linkages (e.g., rural–urban, agricultural–industrial, ISI–EOI) important for balanced development, economic diversification, and the participation of various sectors and social groups in economic growth. While policies paid attention to capital's requirements for investment and accumulation, the needs of capital were subsumed within the broader objectives of a long-term comprehensive development strategy.

The balanced, highly coordinated, long-term development planning of the Asian NICs may be contrasted with the obsession of SAPs with short-term macroeconomic indicators. The experience of the Asian NICs shows that development strategies for the late industrializing countries of the South need to incorporate a broad range of objectives that go well beyond immediate goals of deficit reduction and GDP growth. These broad development objectives (e.g., poverty elimination, employment generation, balanced growth, improved income distribution, structural change) cannot be achieved simply by improving fiscal balances or increasing exports and growth rates. Nor can they be achieved via add-on programs that seek to compensate for the negative consequences caused by the central components of a development strategy. Instead, policies must be designed to include these objectives as integral parts of a comprehensive development project.

An important initial step in this process would be to reassess the macroeconomic measures of SAPs in terms of both their growth potential and their effect on income distribution, poverty, and basic needs provisions. Rather than simply using blunt macroeconomic measures to reduce aggregate demand, more selective policies could differentiate between basic necessities and inessential or luxury goods and services. Given the extreme inequalities in most Third World societies, fiscal measures ought to be chiefly aimed at decreasing inessential public expenditures and private luxury consumption so as to minimize the effect of economic contraction on the basic needs of the poor. For example, raising indirect tax rates on luxuries or increasing direct tax revenues collected from the wealthy could curb private luxury consumption (Eshag 1989).

At the same time, complementary fiscal measures could be designed to redistribute income and raise demand for domestically produced wage-goods, particularly those produced by small/medium-scale, labor-intensive sectors. This might help to close the gap between increases in production and improved income distribution that many analysts contend is a basic weakness of economic restructuring under SAPs. Income redistribution in favor of the poor and wage-earners could modify patterns of internal demand to create 'virtuous circles' of economic growth and diminishing inequalities (García et al. 1989: 482). Progress could be made toward raising levels of 'social articulation' within Third World economies (e.g., de Janvry 1981; Dutt 1990), whereby more egalitarian income distribution stimulates demand for mass-consumption goods, which, in turn, creates new sources of employment and income for workers.

Socially articulated economies require policies that not only support progressive income distribution, but also direct public and private investment toward sectors producing goods and services for popular consumption. Rising production and productivity resulting from these investments increase employment and incomes of workers who, in turn, form new sources of demand for additional economic expansion in a mutually reinforcing manner. Social articulation may be furthered by cutting wasteful or inessential public expenditures in favor of public investments targeted to accelerate structural change, increase economic participation, and generate broadly-based patterns of growth. Similarly, fiscal and other incentives should be provided for private investments in sectors that further these overall goals. At the same time, policies should discourage wasteful and purely speculative activities that make no contribution to development, as well as investments in highly exploitative sectors that increase societal polarization.

As the recent history of the Asian NICs demonstrates, development strategies designed to foster equitable growth and social articulation need not necessarily preclude export promotion, especially for sectors that are compatible with national objectives such as employment creation or accelerating structural change. Nor do such strategies mean subsidizing unviable economic sectors which have no potential to contribute to future growth and development. However, they do require selective and well-coordinated policies to direct investment into sectors which offer good prospects for stimulating rapid growth, accelerating processes of structural change, and creating internal linkages important to social articulation. Moreover, investment policies must be carefully coordinated with public expenditures on physical and social infrastructure to create conditions for increasing productivity and profitability.

At the same time, infrastructure provisions and other government spending programs ought to be aimed at spreading both the benefits and costs of development more evenly among classes and social groups, economic sectors, and spatial areas. The creation of a fairer pattern of development

should pay dividends not only in providing conditions for more dynamic, internally coherent, self-sustaining growth, but also in generating broadly based consensual support for a national development strategy. Unfortunately, SAPs seem to have generated exactly the opposite reaction in many Third World countries. Increasing societal polarization has generated a widespread perception that an elite minority has monopolized the benefits of development under SAPs, while the popular majority has been forced to endure a disproportionate share of the costs.

5

The South (2): The Neglect of Politics and People

This chapter continues analysis of the neoliberal development experience in the South. Many of the specific shortcomings of neoliberal policies uncovered in the previous chapter are linked to the neglect of sociopolitical considerations. In particular, insufficient attention has been paid to factors which may affect the political feasibility of neoliberal measures. As a result, inappropriate policies have often undermined state legitimacy and fueled instability. Elements of an alternative approach to structural change include an emphasis on democratic participation and a more equitable sharing of development costs and benefits. This requires a move away from ready-made strategies and top-down planning methods. Instead, closer attention should be paid to the specific development conditions and special needs of various countries and peoples. Such concerns have an especially profound impact on the social and environmental sustainability of development initiatives.

The Neglect of the State and Political Considerations

Many analysts emphasize that political factors matter enormously to the outcome of SAPs in individual countries, but have been largely ignored by neoliberal policy-makers (see, e.g., Bernstein 1990; Biersteker 1990; Colclough and Green 1988; Greenaway and Morrissey 1993; Herbst 1990; Killick and Stevens 1991; Nelson 1989; Onis 1991; Stein 1992). Political considerations particularly affect outcomes with regard to: (1) who participates in the bargaining process over SAPs, (2) how the implementation of SAPs proceeds, and (3) what the objective and subjective impact of SAPs on various groups will be. The character of the state and of state–society relations varies substantially across the South. The existence of powerful