GUIDE TO FURTHER READING

For detailed consideration of development theory, see Hettne (1995) and Hunt (1989). Keeble's (1967) chapter in Chorley and Haggett's *Socio-economic Models in Geography*, though written nearly half a century ago, is still helpful. A more recently written overview is provided in Chapter 3 of Potter et al.'s *Geographies of Development* (2004). Hirschman (1958), Lewis (1954), Rostow (1960) and Smith (1776) are justifiably regarded as 'classic' texts, while Alfred Marshall's (1890) *Principles of Economics* was a key undergraduate textbook for more than 50 years.

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2.5 Neoliberalism, structural adjustment and poverty reduction strategies

David Simon

The rise of neoliberalism

The dramatic oil price increases of 1973 and 1979 triggered a slowdown and then a severe recession in the North and the world economy as a whole, and precipitated the so-called 'debt crisis' in the South in 1981–82.

Profound disillusionment in the North with the record of state involvement in economic and social life led to a simplistic and rather naive belief in 'the magic of the market' as the most efficient economic regulator. Keynesian-style state involvement in the economy was held to be inefficient, bureaucratic and an unnecessary drain on public coffers. Hence, by selling off loss-making and inefficient public enterprises and parastatal corporations, and restricting the role of the state to regulation and economic facilitation, taxes could be cut substantially.

This is the essence of neoliberalism, an economic creed that seeks to deregulate markets as much as possible to promote 'free' trade. It harks back to the ideas of Adam Smith and David Ricardo, in other words, to the very historical roots of neoclassical economics – hence neo(new)liberalism. This ideology rapidly became the economic orthodoxy in the North and was exported to the global South via aid policies and the measures formulated to address the debt crisis.

Structural adjustment and economic recovery programmes

Initial responses to the debt crisis

In late 1981, Brazil and Mexico – soon followed by Poland – announced that they could no longer service their official debts, triggering panic among Northern creditor governments and the transnational banks that had advanced enormous commercial loans to the debtor countries. They feared that if rapid countermeasures were not taken and strict penalties imposed, there could be a domino effect among debt-ridden countries that would drive individual banks into bankruptcy and undermine the entire international financial system.

The International Monetary Fund (IMF) assumed the lead role in addressing the debt crisis. Its analysis – which was echoed by the multilateral banks and leading creditor governments – hinged on Northern self-interest and a determination to protect the international financial system. The problem of default was diagnosed as entirely the fault of the debtor countries, on account of their governments being corrupt, interventionist, bloated by bureaucracy and weighed down by inefficient, often loss-making state enterprises; they had also pursued inappropriate policies. The dramatic interest rate increase was noted, but was not regarded as sufficient explanation; nor was the fact that the loans in question had been willingly contracted by both parties. The banks, which had actively sought to lend out their surplus petrodollars, were not in any sense held liable for their own misfortune or lack of foresight. They were even able to write off their losses of up to £1 billion annually against tax.

Moreover, the IMF's policy response was geared to maximizing the prospects for, and amounts of repayment by, debtor countries. For many years there was, accordingly, an almost total unwillingness to consider writing off the debts of even the most impoverished and debt-ridden countries for fear of evoking a chorus of 'can't pay, won't pay'.

The anatomy of structural adjustment programmes

These new policies, known as structural adjustment programmes (SAPs), were designed to cut government expenditure, reduce the extent of state intervention in the economy, and promote liberalization and international trade. SAPs were explicit about the necessity of export promotion based on the Ricardian notion of comparative advantage. Accordingly, each country should specialize in and export those commodities that it can produce more cheaply in real terms than its competitors. However, international trade is often unbalanced and inequitable in its impacts; this depends on many factors, not least market share and power, and the terms of trade.

SAPs comprised four main elements:

1. the mobilization of domestic resources;
2. policy reforms to increase economic efficiency;
3. the generation of foreign exchange revenue from non-traditional sources through diversification, as well as through increased exports of traditional commodities;
4. reducing the active economic role of the state and ensuring that this is non-inflationary.

The instruments designed to achieve these objectives were generally divided into two categories (Simon 1995: 5), as follows.

Stabilization measures: these were immediate, short-term steps designed to arrest the deterioration in conditions and to provide a foundation on which longer-term measures could act:

- a public-sector wage freeze – to reduce wage inflation and the government's salary bill;
- reduced subsidies on basic foods and other commodities, and on health and education – to reduce government expenditure;
- currency devaluation – to make exports cheaper and hence more competitive, and to deter imports.

Adjustment measures: these were generally to be implemented as a subsequent, second phase, designed to promote economic structural adjustment (restructuring) and economic competitiveness:

- export promotion – through incentives (including easier access to foreign exchange and retention of some of the hard currency obtained from export revenues) and diversification;
- downsizing the civil service – through retrenchments following a consolidation and rationalization of the public sector, in order to reduce 'overstaffing', duplication, inefficiency and cronyism in job allocation;
- economic liberalization – relaxing and eventually removing many regulations and restrictions on economic activity, both domestic and international, in the name of efficiency; examples include import quotas and tariffs, import licences, state monopolies, price fixing, implicit or hidden subsidies, restrictions on the repatriation of profits by foreign-owned firms;
- privatization – selling off state enterprises and parastatal corporations, especially loss-making ones, in order to reduce direct economic activity and resource use by the state, and to reduce the size of the civil service;
- tax reductions – to create incentives for individuals and businesses (both local and foreign) to save and invest.

Adoption and implementation of an IMF-approved SAP became a prerequisite for obtaining financial support. The World Bank (WB), regional development banks and most major Northern bilateral donors followed suit. This *economic conditionality* was complemented in 1990 by *political conditionality*, the prerequisite imposed by the British and other donor governments for so-called 'good governance' as well as approved economic policies.

Refining SAPs and economic recovery programmes

SAPs were refined in the late 1980s and 1990s, taking better account of local circumstances and social development needs, seeking to soften the negative impacts of specific measures and supporting continuity of policies and funding. To this end, a distinction emerged between SAPs, which became the initial programme implemented by a country over three to four years, and follow-up economic recovery programmes (ERPs) of similar duration, which were designed to promote broader economic restructuring. The principal funding mechanism became the Enhanced Structural Adjustment Facility (ESAF) (Wood 1997).

Some countries have sought, often with only short-lived success, to avoid the pain of formal SAPs and to retain more sovereignty over economic policy by implementing home-grown equivalents. South Africa remains exceptional in not having any structural adjustment loans.

Particularly with respect to South East Asia, the analyses offered by the international financial institutions (IFIs) have changed contradictorily: during the economic boom, the rapidly industrializing countries were held up as models of market-led development; as soon as the crisis of 1997

struck, the problems were blamed on interventionist states, cronyism and inappropriate policies (Dixon 1999; Mohan et al. 1999).

The take-up of SAPs and ERPs

Despite their unpopularity with debtor countries, the rapid take-up rate of SAPs reflected the dire straits in which an increasing number of countries found themselves, as well as the perceived (and often real) lack of alternatives. By 1987 the World Bank had approved 52 structural adjustment loans and 70 sectoral adjustment loans. During the period 1980–89, 171 SAPs were introduced in sub-Saharan Africa; a further 57 had been initiated by the end of 1996.

Evaluating SAPs and ERPs

The impacts of SAPs were frequently harsh. Many ordinary people, rather than the elites or the state, bore the brunt of the adjustment burden, although some did benefit. Even the IMF has acknowledged that the early SAPs were excessively economistic and neglected or retarded social development. Initially, packages of palliative measures were hastily created (for example, the Ghanaian Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) in the mid-1980s), and later SAPs were redesigned to contain a social development component.

The initial presumption, which provided a powerful lever for the IFIs, was that successful adjustment would lead to rapidly increasing foreign direct investment; this has not occurred in most countries (Simon 1995; Wood 1997).

Many of the adjustment measures took far longer to have a tangible impact, whereas the pain of stabilization measures, often implemented too hastily and in one fell swoop rather than in stages, was immediate. One indirect – and arguably desirable – effect was to adjust the rural–urban terms of trade substantially, by eliminating much of the urban bias implicit in traditional policies of infrastructural provision and price subsidization.

Among the worst-affected groups were the urban poor and – predominantly – urban-based civil servants, who have lost jobs, suffered severe salary erosion and faced steep commodity price increases as commodity subsidies have been slashed, and transport fares and utility prices have been commercialized. Conversely, the principal beneficiaries have been large traders and import–export merchants (as a result of liberalization and improved foreign exchange availability), and rural agricultural producers, including peasants who have a saleable surplus, on account of higher producer prices for their crops.

Economists evaluated SAPs and ERPs almost exclusively on a sector-by-sector basis at the national scale. However, this is inadequate and precludes assessment of the impacts on different social groups and subnational spaces (urban, rural, regional) in a situation where there is no reason to believe the effects to be socially and geographically neutral (Simon 1995; Bracking 1999; Mohan et al. 1999).

However, in some countries, food security was undermined by IMF insistence that food crop production be switched to cash crops for export if comparative advantage existed. For example, Zimbabwe was pressurized into selling its maize surplus from the bumper 1991–92 harvest rather than retaining it as a buffer stock. When the rains failed over the following two years, massive maize imports became necessary at a price far higher than that obtained for exporting the previous surplus. Zimbabweans, not the IMF, bore the cost.

The environment suffered in different ways, as a result of marginal land being brought into cultivation or fallow periods being squeezed in order to grow more food to compensate for lost subsidies or to yield a surplus for export. Tropical forests were logged at a faster rate to generate export earnings (Reed 1992).

Finally, economic and political conditionalities attached to SAPs and ERPs represented an unprecedented invasion of the hitherto sacrosanct right of sovereign states to determine their own

economic and political policies (Bracking 1999; Mohan et al. 1999). This argument was exploited by many government leaders seeking to deflect the hostility of protesters against food price increases and other measures.

Poverty reduction strategies: Substantive change or business as usual?

During 1999, image management and changing fashion led to the introduction of a new vocabulary and objective. SAPs and ERPs were summarily superseded by an apparently more positive and cooperative approach known as poverty reduction strategies (PRSs). This fits well with the major donors' reinvention of development assistance (previously aid) as 'partnerships' since the late 1990s (Kifle et al. 1997; Närman 1999), and also the adoption of poverty reduction or elimination as the *leitmotiv* of development policies by several donors, most notably the British 'New' Labour Party Government that took office in 1997 (Burnell 1998).

Inevitably under such circumstances, poverty reduction means different things in different contexts. However, the IMF and WB adopted PRSs as the successor to SAPs, and the ESAF was renamed the Poverty Reduction and Growth Facility. Continuity of underlying donor policy, however, is strong. For instance, lending remains conditional on adoption and approval of a Poverty Reduction Strategy Paper (PRSP).

However, in contrast to SAPs and ERPs, PRSPs must prioritize antipoverty expenditures and are supposed to be prepared through a wide-ranging and deep process of consultation with civil society. The extent to which this has occurred varies considerably, and there are numerous examples of superficial or minimalist 'consultation' designed to enable the government to claim compliance and legitimacy.

Many parts of civil society remain cynical, not least because the underlying approach and agenda (including conditionality) have changed too little, and on account of perceived fickleness by the IFIs. For instance, during preparation of the PRSP's predecessor in Kenya, the National Poverty Eradication Plan for 1999–2000, civil society NGOs lobbied hard for an approach in which poverty reduction would get priority, in turn promoting economic development. The WB failed to support it.

The rather tenuous assumption underlying PRSs is that neoliberal macroeconomic reform will promote a reduction in poverty as a result of leaner, fitter and more efficient economic management and political governance. However, improvements have been made to the process since the early 2000s (Booth 2005; Driscoll with Evans 2005), and some assessments are more positive (e.g. Craig and Porter 2003), but others (e.g. Fraser 2005; Larmer 2005) see them as a form of social control by IFIs and the participatory process as a Trojan Horse.

Conclusion

The resurgence of the conservative doctrine of neoliberalism at the end of the 1970s was rapidly translated into development and aid policies by the Northern donors and IFIs at the onset of the debt crisis. This required debtor countries to bear the full costs of adjustment and recovery. These market-oriented and trade-integrationist policies were embodied in SAPs and then ERPs, comprising a mixture of short-term stabilization and longer-term adjustment measures. Much hardship was caused, often to some of the most vulnerable people, although many rural producers have benefited from agricultural and marketing reforms. The environmental costs were sometimes substantial too. Urban bias was reduced, however, and, for a short period in the mid- to late 1980s, apparently even reversed in some African countries. The initially crude and economistic policies were gradually refined and more carefully targeted. Since 1999/2000, the language and presentation of macroeconomic reform programmes have been transformed under the guise of PRSs, but despite some positive changes, including having antipoverty measures at the heart of public

expenditure plans, the underlying doctrines and conditionalities remain in place, while the degree of civil society consultation and 'buy-in' varies substantially (Paloni and Zanardi 2006).

GUIDE TO FURTHER READING

The following texts represent a selection of useful surveys of particular issues or perspectives.

Booth, D. (2005) *Missing Links in the Politics of Development: Learning from the PRSP Experiment*, Working Paper 256, London: Overseas Development Institute (available at http://www.odi.org.uk/publications/working_papers/wp256.pdf).

Driscoll, R. with Evans, A. (2005) 'Second-generation poverty reduction strategies: New opportunities and emerging issues', *Development Policy Review*, 23(1): 5–25.

Husain, I. and Faruqee, R. (eds) (1996) *Adjustment in Africa: Lessons from Country Case Studies*, Aldershot: Avebury for the World Bank. One of the most useful World Bank outputs, covering Burundi, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal and Tanzania.

Mohan, G., Brown, E., Millward, B. and Zack-Williams, A. (eds) (1999) *Structural Adjustment: Theory, Practice and Impacts*, London: Routledge. A recent collection addressing the origins, evolution and especially the negative impacts of SAPs; provides examples, careful critiques and suggested alternatives.

Paloni, A. and Zanardi, M. (eds) (2006) *The IMF, the World Bank and Policy Reform*. London and New York: Routledge. A useful collection of assessments of the Bretton Woods Institutions' role.

Reed, D. (ed.) (1992) *Structural Adjustment and the Environment*, London: Earthscan. This is probably still the only book-length treatment of the environmental consequences of SAPs.

Simon, D., Van Spengen, W., Dixon, C. and Närman, A. (eds) (1995) *Structurally Adjusted Africa: Poverty, Debt and Basic Needs*, London and Boulder, CO: Pluto Press. Studies the implications of SAPs on different parts of Africa at different scales, from the supranational to the regional and local.

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2.6 Dependency theories: From ECLA to André Gunder Frank and beyond

Dennis Conway and Nikolas Heynen

Dependency theory, more than a theoretical construct, is a way of understanding historically embedded, political-economic relations of peripheral capitalist countries, especially Latin American countries, within the broader context of the global economy. It is, essentially, a critique of the development paths, policies and strategies followed in Latin America, and elsewhere in the periphery (Amin 1976, 1992 argues the African case). Dependency theory emerged as a critical lens through which the history of Latin American development, marginalized as it was by Western hegemony, could be better understood; the 'development of underdevelopment', no less. The initial theorization was a *structuralist* perspective by economists who were associated with the United Nations Economic Commission for Latin America (ECLA). This was soon transformed, and informed, by more critical *dependency* notions and the spread of Marxist and neo-Marxist critiques of imperialism (Palma 1978).

Perhaps one of dependency theory's most important characteristics is that it was a product of Latin American scholarship (much of it written in Spanish) rather than Western scholars. These authorities theorized on the Latin American condition as 'insiders', as erstwhile, often passionate, native sons. This gave rise to a more informed, and more involved, appreciation of the reasons for Latin American underdevelopment, as *dependistas* dealt with the context of various countries' specific national circumstances, and theorized about Latin America's structures of social organization and localized behaviours. For Caribbean (and English-speaking) readers, Norman Girvan edited a special edition of *Social and Economic Studies* in 1973, with contributions translated from the Spanish. More widely, it was the publication of the writings of André Gunder Frank (and the collection and translation of other Latin American original contributions by North American Latin Americanists) which brought the dependency school's ideas to the notice of North American and European development studies (Chilcote 1984).

Prior to the Second World War, Latin American countries' economic strategies primarily followed a development path based on the export of natural resources and primary commodities to core countries. Many, including Argentinian Raúl Prebisch, Brazilians Paul Singer and Celso Furtado, and Chilean Osvaldo Sunkel, felt that Latin America's historical marginalization and resultant underdevelopment was perpetuated by such unequal commercial arrangements. While free market notions of 'comparative advantage' suggested that Latin America should benefit from their export strategies, ECLA economists argued otherwise. Their structuralist assessments had core countries, particularly Britain and the United States, benefiting at Latin America's expense.

Consequently, Prebisch and other ECLA structuralists insisted that major structural changes in development policy would be necessary to improve Latin America's economic situation. They proposed structural changes which favoured switching to more domestic production under tariff protection as a means of replacing industrial imports. In line with this strategy, capital goods, intermediate products and energy would be purchased with national income revenues from primary exports, and technology transfer would be negotiated with transnational corporations. This development strategy – often referred to as import substitution industrialization (ISI) – became widely practised throughout Latin America and the Third World/global South in general.

Although ECLA structuralist analyses recognized some of the problems underlying Latin American underdevelopment, the proposed ISI remedies brought other, more problematic, forms of dependency. Multinational corporate power and authority over technology transfer and capital investment emerged as a new form of dependency. Fernando Henrique Cardoso (1973) pointed this out in his assessments of power and authority in Brazil, and characterized the situation in such peripheral economies as 'associated dependent development'. Indeed, Cardoso felt that the dependent capitalist process of 'import substitution industrialization' occurred mostly under authoritarian regimes, and further, that state policies would favour multinational capital at the expense of labour.

Prebisch's (1950) identification of core–periphery relations as the global historical heritage behind unequal development meant that Latin America faced a formidable structural reality. Imperialism, colonialism and neocolonialism needed to be challenged more rigorously, because peripheral capitalism was not the answer for Latin American development. Accordingly, alternative critical commentary more deeply rooted within Marxist and neo-Marxist ideologies emerged, to better explain Latin America's subordinate place within the global economy, and to better understand the processes that led to such exploitive and dependent relations. ECLA structuralism was recast in *dependencia* terms.

Baran's influential (1957) *Political Economy of Growth* described the reasons for Latin America's underdevelopment within a Marxist framework as being a consequence of advanced nations' forming special partnerships with powerful elite classes in less developed countries, which benefited the minority class of Latin American elites rather than economic development more generally. Baran felt that such 'partnerships' perpetuated core countries' maintenance of traditional systems of surplus extraction, thereby making domestic resources continuously available to them, while rendering the economic development of Latin American countries unlikely, because any surplus generated was appropriated by the power-elites. Accordingly, Latin American countries remained subordinate and the core's monopoly power grew from the unequal commodity exchanges.

André Gunder Frank (1967, 1979) further developed Baran's ideas, by focusing on the dependent character of peripheral Latin American economies. In Frank's prognosis, '*the development of underdevelopment*' was the concept which best characterized the capitalist dynamics that both developed the core countries and caused greater levels of underdevelopment and dependency within Latin American countries. Frank used this conceptual framework to explain the dualistic capitalist relations which had occurred, and which would continue to occur between Latin American and core countries, as a result of the latter's continued political-economic domination.

Although there was a popular perception that Third World countries regained some sense of self-determination following decolonization, Frank argued that this was a fallacy. Rather, exploitation of many Third World countries by colonial and neocolonial core countries intensified following their achievement of political 'independence', further contributing to greater unequal relations. Thus, given the class-based stratification of Latin American society, which Baran blamed for the