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**TOWARDS ADJUSTMENT FOR DEVELOPMENT:
SUSTAINABLE AND PEOPLE-CENTRED**

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I. INTRODUCTION

Ladies and Gentlemen, Friends,

In the last one and a half decades, the world has undergone a series of profound transformations. The cold war has ended, centrally planned economies and authoritarian polities have given way in most of the world, and the world has become more integrated -- in terms of trade, investment, and communications. Each of these developments has brought us closer to living in a single world, and yet we continue to live in many worlds: there continues to be profound inequality in access to the minimum conditions for decent human living. Our economic and social activities also continue to undermine our natural surroundings in ways which threaten the viability of present persons and future generations. The vision which guides UNDP -- the vision of sustainable human development -- leads us to regard this continuing loss of human potential as unconscionable and to seek vigorously to find and to advocate all measures which are likely to sharply accelerate development which is pro-poor and pro-nature.

Structural adjustment is one of the most important currents which has swept developing countries during the last decade and a half. A very large number of the countries with which

UNDP has daily experience have undergone (sometimes prolonged) phases of economic crisis and subsequent adjustment, involving systematic changes in economic and social policies and re-structuring of economic institutions. In most cases, these periods of adjustment were associated with the advice and support of the Bretton Woods institutions. In Africa, roughly thirty countries have had near continuous programmes of this kind since the early 1980s. In Latin America there were 107 programmes of this kind in 18 countries over the same period.¹

Significant programmes of economic reform have also been launched in South and Central Asia, in the Arab States, and of course in Russia and Eastern Europe. In the aftermath of such sweeping, fundamental and on-going re-orientation of economic policies and institutions, there is a need for us to pause and evaluate our common experience to date.

Has structural adjustment helped to accelerate sustainable human development? Our view is that adjustment of some kind was inevitable and necessary. Unsustainable macroeconomic imbalances required some form of action and action was taken. Failure to adjust at all would have had in many cases potentially disastrous social and environmental consequences.

However the policies for short-term economic stabilization and long-term re-structuring actually chosen were not always those most conducive to the goals of alleviation of poverty and environmental regeneration. In other words, although action was necessary, better actions could have been taken. Often, policy makers did not perceive clearly enough that economic growth is a means for human development and not a goal in itself. Many in the UN system were among the first to recognize this. The Bretton Woods Institutions too have to their credit in recent years taken note of many of the criticisms of prevailing adjustment policies

Watkins, K., The Oxfam Poverty Report (1995).

and reformulated their own approaches accordingly, so as to make them more consistent with goals of social and environmental protection. We at UNDP acknowledge and commend this effort. We believe that much distance has been travelled on the road to making necessary adjustment compatible with goals of sustainable human development. However, we believe that there is much greater distance still to go along this road. Adjustment policies can be better formulated so as to be more supportive of goals of sustainable human development, including enhancement of human capabilities, peoples' empowerment, and environmental regeneration. In many cases, adjustment policies may have to be reformulated so as to better achieve even their narrowly economic goals. The fact that adjustment policies *can* be better formulated in order to meet these goals means that they *must* be. There is no time or room for waste on the path to meeting the pressing human needs before us. These needs are urgent, and so they must be treated urgently.

UNDP has fruitfully contributed as an institution, under my stewardship and previously, to the global discussion on adjustment policies. We have sponsored and disseminated a considerable number of studies on the design and consequences of structural adjustment policies in Africa, in the Americas, and elsewhere, which have sharpened our common understanding of the issues. We have also attempted to contribute to the strengthening of capacity of national and international level policy-makers to design more people-centred adjustment programmes.

These efforts have included our collaboration with the World Bank and the African Development Bank on the program of study on the "Social Dimensions of Adjustment in Sub-Saharan Africa", and our sponsorship of "Structural Adjustment Advisory Teams" to

strengthen national capacities to enter this vital discussion.² UNDP is committed to continuing our support for the search for more socially and environmentally responsible yet realistic and viable adjustment policies. It is sometimes said that structural adjustment is increasingly a phenomenon of the past -- a 1980s phenomenon -- but the era of adjustment understood in general terms has not and cannot have ended. The facts before us suggest that more and different structural changes are required: Economic and social stagnation continue to prevail in many developing countries, especially in Africa; Periodic short-term economic crisis continues to stalk a wide array of developing countries; Adjustment policies already carried out have failed to generate sustainable human development at the accelerated pace which is necessary. For all of these reasons we must continue the search for alternatives, in the North and in the South. We at UNDP, and I personally, commit ourselves to be part of this search. In the following minutes, I will attempt to lay out some of my own thoughts on the form that these alternatives might take, on the basis of economic pragmatism, concern for the poor, for gender equity, and for environmental sustainability.

II. THE EXPERIENCE

See for example Chapelier, G. And H. Tabatabai, Development and Adjustment: Stabilization, Structural Adjustment and UNDP Policy (1989); UNDP/SAATA, Stabilization and Adjustment (1991); UNDP, San Salvador (1995), Adjustment Toward Peace; UNDP Central Evaluation Office (n.d.), The Social Dimensions of Adjustment: An Interim Evaluation.

As I have mentioned above, structural adjustment policies have been pervasive in developing countries during the last decade and a half. They have also exercised a profound influence on the countries which have undertaken them as well as on the global environment -- not only in the economic sphere, but socially and politically. Nevertheless, the jury on their performance appears still to be out, or perhaps we should better say -- there have been many juries which have delivered different verdicts. Whether conventional (or "orthodox") adjustment policies have been successful even in narrowly economic terms remains a controversial question, and there is even more controversy in relation to their social and environmental consequences. Some observers plead that there is still insufficient evidence or experience of sufficiently rigorous orthodox adjustment policies. I am often reminded in this context of the famous story of Zhou en-Lai, who when asked of his views on the French Revolution, was reported to have replied "It's too early to tell". Although it may be the case that it is "too early to tell" with certainty what have been the consequences of adjustment, it is not too early to call for the identification of policies which deliver more unequivocal results and which sharply accelerate sustainable human development. I will later discuss what these policies might be.

What were the historical origins of the "first era of structural adjustment"? (I call it the first era because I believe that there is a second and very different era of adjustment to come).

Structural adjustment emerged as a dominant reality for many developing countries, particularly in Africa and Latin America, as a consequence of prolonged economic crisis. Many countries experienced large and unsustainable macroeconomic imbalances as a result of

sharply deteriorating terms of trade for many primary commodities and developing country exports, combined with very large amounts of external debt built up in the 1970s, rapidly rising world interest rates driven by conditions in the industrialized countries, and in many cases the accumulated consequences of poor organisation and management of national economic environments and institutions. The macroeconomic imbalances experienced included large deficits in fiscal expenditure and external accounts, and often, socially unacceptable inflation rates. This situation could not continue, if only as a consequence of arithmetic.

Although developing countries had a number of policy alternatives before them, in practice most settled for one variety, which we now identify as orthodox policies of structural adjustment. The strength of the conventional adjustment paradigm is not difficult to explain. It was favoured by the international financial institutions, in the interest of particular social groups in developing countries, and consistent with the increasingly influential market-oriented paradigm.

What policy measures did "structural adjustment" actually involve?

Structural adjustment policies evolved as an amalgam of policies to bring about short-run macroeconomic stabilization and policies intended to bring about long-term economic growth. To achieve short-run stabilization, through reduction of fiscal and balance of payments

deficits, structural adjustment policies have been typically designed to sharply curtail demand, usually through reducing public expenditures, devaluing and unifying the exchange rate, restricting money supply, and raising some taxes. To attempt to achieve long-run growth, structural adjustment policies typically also advocated liberalization of foreign trade including removal of import restrictions and export taxes, liberalization of capital markets including removal of foreign investment restrictions, and deregulation of labour markets. Typically, additional measures such as privatization of state owned enterprises and the introduction of means testing and user fees for social services have also been stressed. These are the policy elements which make up structural adjustment in principle. In practice, they have been implemented to varying degrees and with varying degrees of emphasis in different countries, but to some degree at least some of these policies have been implemented everywhere.

It is obvious from the description I have provided above that structural adjustment measures have involved radical surgery. Have they borne correspondingly radical benefits? This question is very difficult to answer, because in order to answer it successfully it is necessary to ask what would have been the case if alternative policies had been followed, taking into account the dire initial circumstances of many adjusting countries. It is clearly very difficult to judge what would have occurred if alternative policies had been followed and there is therefore a very vigorous academic controversy about precisely this question.³ I do not

See for example, Corbo, V, S. Fischer and S. Webb, ed., Adjustment Lending: Revisited, The World Bank (1992); Cornia, Jolly and Stewart, Adjustment With A Human Face, Clarendon Press, Oxford (1987); Doroodian, K., "Macroeconomic Policies and Adjustment Under Policies Commonly Supported by the International Monetary Fund", Economic Development and Cultural Change, (1993); Khan, M., "The Macroeconomic Effects

wish to enter into the niceties of this academic discussion here, although I will refer to some of it later. What I can and will do is to survey on a very broad level some of the record of what actually has occurred in the arena of human development.

Let us survey the story with special reference to the regions with the most worrisome record. The Latin American region as a whole suffered a decline in per capita income in the 1980s. In some countries (for example, Bolivia, Argentina, Guyana, Haiti and Nicaragua), the decline was almost 25 per cent, and countries with "huge" positive and negative variations can be found among the countries most intensively pursuing orthodox adjustment policies.⁴ In the region as a whole, urban unemployment rose considerably. There was a decline in employment in industry and substantial increases in informal sector employment. Strikingly, all forms of wages declined over the course of the decade. Inequality may have increased, and the total number of people in poverty increased by 45%. Average state spending in the region on primary education fell from \$164 per capita to \$118 through the decade.⁵

of Fund-Supported Adjustment Programs", IMF Staff Papers, Vol. 37, No.2 (1990); Lipumba, N., "Structural Adjustment Policies and Economic Performance of African Countries", in International Monetary and Financial Issues for the 1990s Volume V, UNCTAD (1995); Morrison, C., Adjustment and Equity, OECD Development Centre Policy Brief No. 1 (1992); Mosley, Harrigan and Toye, Aid and Power, London: Routledge (1991); World Bank (1994), Adjustment in Africa: Reforms, Results and the Road Ahead.

⁴ Van der Hoeven, R. "Structural Adjustment, Poverty and Macro-Economic Policy", in New Approaches to Poverty Analysis and Policy, ILO (1995).

⁵ Watkins (1995), op cit.

What about Sub-Saharan Africa? Per capita income fell sharply in the region during the decade, by an average of 1.1 per cent per year. Twenty one countries, representing 81 per cent of the population of the region, were worse off in terms of average per capita GDP at the end of the decade than at the beginning.⁶ Real wages of all kinds and average minimum wages fell dramatically. In many cases, the wages available even to privileged public servants and formal sector workers have become insufficient for basic support of families. The proportion of employment in the formal sector also declined. Industry has failed to grow substantially and agriculture has also stagnated: of the 26 sub-Saharan African countries on which there is data for both food and export crops, 77 per cent experienced falling food production per capita and 81 per cent falling exports per economically active person in agriculture over the period 1987-1991.⁷ Real per capita spending on education in Africa fell by one-third, and two-thirds of the countries in the region also reduced health spending. Africa is the only region of the developing world where the percentage of children not attending primary school seems likely to rise by the end of the decade.⁸ Indeed, enrolment ratios for primary schools in Sub-Saharan Africa have declined from 59% in 1980 to 51% in 1992.⁹

In both regions, and indeed throughout the developing world, environmental degradation,

⁶ Van der Hoeven, op cit.

⁷ ILO World Employment Report 1995.

⁸ Watkins (1995), op cit.

⁹ UNICEF, The State of the World's Children, 1996.

particularly in the form of deforestation, degradation of soil and water resources, and increased air pollution have continued to increase.

In listing this depressing litany of wasted potential for human development, I do not mean to neglect the many positive human development achievements of the last decade world-wide, especially in the areas of increased access to clean water and to some essential health interventions such as immunizations, which have particular significance for children and for women. What I would like to do is to highlight that these victories are all the more remarkable for having been achieved against a mixed backdrop which includes significant elements of social and economic deterioration. What I would also like to bring out is that the most comprehensive evidence available to us suggests that progress towards greater human development has been profoundly unsatisfactory in large regions of the world.

The economic policy approaches chosen in many developing countries over the last fifteen years may or may not have been directly at fault in bringing about the dismal performance just recorded. What is clear however is that they have not been entirely incompatible with it. After fifteen years of experience it seems increasingly difficult to conclude otherwise.

The problem I face is that I am impatient. I am impatient to see the rapid alleviation of the worst forms of global poverty. I am impatient to see the rapid elimination of the worst forms of widespread disease and preventable illness. I am impatient to see the rapid expansion of the elementary education which carries with it the capacity for full social participation and the

ability better to take control of one's own destiny. I am impatient to see the improved environmental conditions and forms of resource use which will make it possible to maintain a viable common future. In short, I am deeply impatient to see sharply accelerated progress towards sustainable human development.

What we need today are policy instruments and measures which will allow us to sharply accelerate our progress along this road. We cannot afford to wait ten, fifteen or twenty years for some turning point to arrive. We require rather to face the challenge of people-centred development on its head, with the available policy instruments most directly attuned to these needs.

In the context of adjustment, this does not mean throwing out all that we have learnt or undermining those policies which are fundamentally sound. It does mean refusing to continue business as usual, and seeking with as much seriousness and gravity as possible to quickly identify measures which can help to lead us towards our goals as rapidly and sustainably as possible. This means recognizing that economic growth is a means rather than an end, and should be directed towards the ends which we have. Where adjustment policies have been focussed on narrowly economic ends, they must be reformulated in keeping with this insight. Where adjustment policies have been of uncertain value in attaining even their economic goals, they must be reformulated so as to be more effective. Although much that is of value has been learnt and has been achieved, it is my firm belief that policy alternatives which better support the goals of sustainable human development do exist.

III. ADJUSTMENT FOR SUSTAINABLE HUMAN DEVELOPMENT:

ANALYSIS AND ALTERNATIVES

How can we refine or modify adjustment policies so that they are more compatible with sharply accelerated sustainable human development? It is my view that it is foolhardy, and possibly dangerous, to put forward one set of general prescriptions for more socially and environmentally responsible adjustment policy regardless of context. However, it is possible to identify a number of the general approaches which it would be valuable for us to consider. These approaches must in turn be related to three fundamental principles.

- ③ The first fundamental principle is that adjustment must be viewed primarily as an entry-point to longer-term sustainable and people-centred development. Part of what must be improved upon in conventional structural adjustment packages implemented in recent years is that they have been attuned primarily towards short-term goals. There should properly be a continuum between adjustment and development. Adjustment must be undertaken with long-term development objectives firmly in mind. This implies for example that social and physical investments which have long-term development pay-offs must be rigorously protected during periods of adjustment. The health and education of children with its long-term ramifications must not be sacrificed to short-term budgetary circumstances.

- ② The second fundamental principle is that it is not sufficient to pursue economic adjustment in

isolation from broader "social adjustment". Social adjustment entails appropriate redistributive measures and institutional changes which ensure that both the burdens and benefits of adjustment will be spread in a more equitable manner both nationally and internationally. The development of participatory institutions, the broadening of access to existing assets (for example through land reform at the national level and debt relief at the international level), and changes in the uses to which existing resources are being put (for example, through diminished military spending), can all be parts of this process.

3 The third fundamental principle is that adjustment directed towards sustainable human development must be designed in a manner which is appropriate for and specific to national circumstances. Past structural adjustment programmes have often been relatively inflexible and insensitive to national contexts, and have sometimes had economic, social and environmental failings as a result. For example, countries with extensive natural resource endowments must be treated differently from countries with meagre endowments. Countries with widespread existing ownership of land must be treated differently from countries with highly unequal land ownership. Countries with strong trade-unions must be treated differently from countries without them. The surest basis for ensuring that adjustment policies are indeed more appropriately context-specific is to involve a wide array of social actors from within nations concerned, drawing from across civil society and the state, in the formulation of adjustment programmes.

These three fundamental principles -- a new focus on long-term development, social

adjustment, and context-specificity -- must serve as the foundation stones for new policy directions.

Adjustment and Economic Performance

I hope to discuss with you today a range of issues related to the relationship between adjustment policies and long-run development goals, with a special focus on issues related to equity and human development, and to environmental sustainability. However, adjustment policies have been in most cases triggered by economic crisis, and they have most often been judged by strictly economic criteria. Although I do not wish to focus on these considerations exclusively, I do not wish to neglect this central dimension either, and will therefore begin my remarks with a discussion of it.

What is the record on the successfulness of the adjustment policies which have actually been practised over the last decade in the economic domain? I would be happy if there were a straightforward answer to this question as in that case we would have a clear view of the way forward. Unfortunately, there is not. Most independent observers agree that the record even on strictly economic matters is mixed, although there is considerable controversy as to in exactly what way.

1. growth $\text{D} \ominus$

The area of greatest controversy exists on the growth record of adjustment policies. Some observers have claimed that pursuit of conventional adjustment packages has led to increased

growth.¹⁰ Many others have questioned this view, and argued that there is no evidence of such a relationship.¹¹ Answering this question is complicated by external influences and the difficulty of separating the impact of adjustment programmes from that of the economic conditions which precede them. Some observers have also judged the effects of adjustment programmes on inflation rates to have been ambiguous.¹²

The record is clearer in other areas:

Most observers concur that adjustment programmes have been associated with improvements in the external balance (at least in the short term).¹³ On the other hand, as I shall

describe further below, there are doubts as to how sustainable these improvements have been, and the extent to which they are reliant upon continuing inflows of supportive official external

¹⁰ E.g. Corbo, V. and S. Fischer, "Adjustment Programs and Bank Support: Rationale and Main Results", and Corbo, V. And P. Rojas, "World-bank Supported Adjustment Programs: Country Performance and Effectiveness", in Corbo, V., S. Fischer and S. Webb ed., Adjustment Lending Revisited, The World Bank, 1992. Also, Adjustment in Africa: Reforms, Results and The Road Ahead, The World Bank, 1994. Mosley, P., J. Harrigan and J. Toye, find a weak (not statistically significant) positive relationship (Aid and Power, Routledge, 1991).

¹¹ E.g. Lipumba, N. "Structural Adjustment Policies and Economic Performance of African Countries", in International Monetary and Financial Issues for the 1990s, Volume V (UNCTAD). Doroodian, K., "Macroeconomic Performance and Adjustment Under Policies Commonly Supported by the International Monetary Fund", Economic Development and Cultural Change, 1993, and Khan, M., "The Macroeconomic Effects of Fund-Supported Adjustment Programs", IMF Staff Papers, V. 37, 1990, find no clear relationship between growth performance and adjustment policies.

¹² See for example, Khan, M., op cit; Doroodian, K., op cit., finds only a moderate reduction in inflation rates.

¹³ See for example Conway, P., "An Atheoretic Evaluation of Success in Structural Adjustment", Economic Development and Cultural Change, 1993; Doroodian op cit; Mosley, Harrigan and Toye op cit; Corbo and Rojas op cit.

finance.¹⁴ In many ostensibly “successful” countries, stocks of debt built up to settle earlier accounts may be generating a new debt crisis. A fact which should caution us in this respect is that between 1982 and 1991, the total foreign debt of Sub-Saharan African countries grew from 57 billion dollars to 144 billion dollars and that of Latin American countries 354 billion to 470 billion dollars. In the case of Africa this implies an increase in the ratio of debt to GNP from 60 to 110 per cent.¹⁵

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Finally, an almost universal finding in statistical comparisons is that adjustment programmes have been associated with a sharp decline in ratios of aggregate investment to output.¹⁶

The overall decline in investment -- both public and private -- has been particularly severe in Africa, where median gross domestic investment in African countries undertaking adjustment declined from more than 21 per cent of GDP in the second half of the 1970s to 16 per cent in the second half of the 1980s.¹⁷ These declines are very disturbing from the vantage point

¹⁴ E.g. Lipumba, op cit; Taylor, L. “Stabilization and Adjustment”, in Stabilization and Adjustment, UNDP, 1991; Taylor, L., Varieties of Stabilization Experience, Oxford: Clarendon Press, 1988.

¹⁵ UNRISD, Structural Adjustment in a Changing World, World Summit for Social Development Briefing Paper no. 4., Geneva.

¹⁶ E.g. Conway, op cit; Corbo and Rojas, op cit; Mosley, Harrigan and Teye, op cit. There is, however, controversy as to the interpretation of this relationship. For example, Corbo and Rojas argue that adjustment has “increased the average efficiency of investment and utilization of capital”, although “the result is nonetheless worrisome”. Others, [World Bank, 1994, op cit; World Bank, Adjustment Lending and Mobilization of Public and Private Resources for Growth, 1992; Servén, L. And A. Solimano, “Private Investment and Macroeconomic Adjustment: A Survey”, World Bank Research Observer, vol. 7, 1992] argue that “Investment generally responds slowly to adjustment programs” [emphasis added].

¹⁷ Adjustment in Africa, The World Bank, 1994.

of long-run development, since enhanced investment in productive capacity, alongside improved resource use, is an essential prerequisite for rapid and sustained growth.¹⁸

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The record of standard approaches to adjustment on the basis even of the strictly macroeconomic criteria described above appears to be mixed at best. At any rate, we do not still have a strong basis on which to approve of standard adjustment policies, to the exclusion of alternative approaches, on these grounds. Moreover, specific country experiences should give us further pause for thought on these questions of economic policy.¹⁹ One view on the 1994 Mexican crisis, for example, is that it had its inexorable origins in the adjustment policies pursued over the preceding dozen years. Severe macroeconomic crises were faced by Mexico in 1982 as a result of the debt crisis -- falling output, a 100% annual inflation rate, and the need to transform an external current account deficit of about 5% of GDP to a 3% surplus to sustain debt repayments. A current account adjustment was achieved through the recessionary instruments of a currency devaluation, and fiscal and monetary contraction. Mexican GDP was accordingly stagnant for six years, while prices rose rapidly. This type of "stagflation" is not unique to the Mexican experience but in the view of some critics has been observed widely in adjusting countries. In Mexico, it was dealt with by the 1987-88 "economic solidarity pact" which drew upon non-orthodox measures such as a wage freeze.

¹⁸ Watkins, 1995, op cit, reports a study of 15 African countries which found budget cuts falling disproportionately on public investment expenditures, "with adverse consequence for economic recovery".

¹⁹ The following draws heavily, occasionally verbatim, from "Social Implications of Structural Adjustment: A Critical Survey", by Lance Taylor and Ute Pieper, prepared for the UNDP Office of Development Studies.

However, lack of growth led to further reliance on market-oriented policies such as extensive privatization and the liberalization of investment rules. These policies would, if standard adjustment measures were guaranteed success everywhere regardless of context, have led to a sustainable growth path for Mexico. In the event, they did not. Inflows of foreign capital led to a worsening of the trade balance, as the peso appreciated. Most capital flows entered the stock market rather than fixed investment, while overall private investment levels stagnated due to high interest rates (intended to hold down inflation and attract foreign capital) and the lack of complementary public investments. Private savings fell from 15% to 5% of GDP, despite high interest rates, as a result of the boom in consumer imports, and the shortfall was covered by foreign capital. The foundation for this house of cards, which was an ever increasing inflow of external funds, began to crumble when stock prices ceased to rise in 1994, and as we know collapsed entirely in late 1994.

⇒ I have surveyed this example at such length to underline the point that even fastidious adherence to standard adjustment policies offers no guarantee of economic security. Part of this is due to the new environment in which developing countries find themselves, in which large and highly unstable short-term flows of capital are very attractive but threaten to potentially undermine the economic stability of nations. However, more general lessons also apply, regarding the need to demonstrate greater caution in the across-the-board application of market-oriented policies. We cannot afford to ignore the power of markets, but we must also be willing where necessary to restrain them. In the Mexican case, a more sustainable approach to adjustment may have, in particular, involved continued restraints on imports, and some regulation of foreign investment (especially portfolio investment), and domestic capital

outflows. Too rapid liberalization of either the current or the capital side of the external accounts can provoke destabilizing reactions, as evinced by the savings collapse in Mexico as wealthier Mexicans increased their consumption of imported consumer goods, or the sudden foreign capital withdrawal in late 1994 as returns on the Mexican stock exchange began to diminish. The resulting economic crisis has posed serious challenges to Mexico's human development efforts. In providing the above example, I do not mean to suggest that other precautionary steps such as earlier and more gradual exchange rate devaluation could not have helped to alleviate the extent of the crisis. What I am suggesting however is that the crisis had deeper structural roots which could also have been addressed through earlier choices of some alternative approaches to macroeconomic policy.

4. Turkey
Turkey's experience provides another kind of example of macroeconomic crisis flowing from inadequately context-specific policies. Turkey, like Mexico, was for some time touted as an example of the success of standard policies where applied. Turkey's experience serves an illustration, however, of the possible dangers of neglecting distributional considerations in the design of an adjustment programme. Reductions in agricultural prices and in government spending led subsequently to widespread discontent followed by substantial upward pressure on agricultural prices and industrial wages, with resulting high inflation. As well, external financial inflows began to sharply reverse themselves, which forced rises in interest rates to a level which jeopardized the survival of the domestic financial sector and ultimately required large-scale bail-outs of the financial sector and a sharply recessionary stabilization. In Turkey's case, a more sustainable adjustment programme could have paid more direct

attention to distributional considerations from the first, and thereby avoided a subsequent inflationary spiral founded on distributional tensions. A more sustainable approach to adjustment would also have likely involved greater regulation of foreign portfolio investment.

There are a large number of other examples of adjustment policy choices which may have been inappropriate in particular national contexts, even when judged from the point of view of their economic goals alone. I do not have the time to go into all of these examples in detail here. Let me rather use the examples I have just provided to call for more context-specific and sensitive policies in order to establish the stable and continuous economic progress which is required for sustained human development. At the same time, appropriate policies must be alive to new aspects of our external environment such as the rapid global increase in relatively unstable portfolio investments and flows of speculative capital. National policies to come to terms with developments such as these should be complemented by international policies and coordinating measures, such as for example a levy on speculative international capital flows, which may help to reduce their volatility.

sequencing

One aspect of adjustment programme design which has received a great deal of attention concerns the need for appropriate “sequencing” of adjustment policy measures.²⁰ This is

²⁰ An early and important contribution in this regard in the standard adjustment literature is Edwards, S. (1984), “The Order of Liberalization of the External Sector in Developing Countries”, Essays in International Finance, No. 156, Princeton University. For a more critical treatment see Fanelli, J. And R. Frenkel, “On Gradualism, Shock Treatment and Sequencing”, International Monetary and Financial Issues for the 1990s, Volume II,

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trade liberal.

lib. of import of capital goods
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lib. of import of consumer goods

public infrastructure
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financial liberal.

certainly one aspect of the design of more appropriate adjustment policies which deserves greater attention in practice, despite having already received considerable attention in theory.

For example, exchange rate adjustment should likely precede liberalization of trade, so as to avoid worsening trade balances. Similarly, if import liberalization is to be pursued, then removal on restrictions of intermediate and capital goods to facilitate the promotion of exports should likely precede the liberalization of imports for consumer goods, especially those which are domestically produced, so as once again to keep trade-balances in check and to protect domestic industrial capacities. In the words of one analyst, "Development-oriented liberalization should be producer-oriented rather than consumer-oriented".²¹ Liberalization of domestic financial markets should likely follow stabilization of the domestic economy and the installation of an appropriate regulatory and supervisory apparatus. Finally, external financial liberalization should be especially carefully initiated, if at all, in view of the risks of vulnerability to short-term speculative movements. Public infrastructure supportive of long-term socially beneficial foreign investment should if possible first be enhanced, and a distinction should be made between productive and speculative investment. Prior to the provision of such infrastructure -- physical and social -- which is a long-term goal, it may not be realistic to expect large inflows of productive foreign investment. This policy sequence is not meant as a universal prescription but must itself be applied in a context-sensitive fashion, according to national needs, priorities, and conditions. In many cases, it may not be desirable to apply all of these measures. Although the term "sequencing" has been used by many in a

UNCTAD, Geneva.

²¹ Lipumba, 1995, op cit.

manner which suggests that the destination is pre-determined, the issue of sequencing is really a general one involving a set of policy instruments, in the context of conventional adjustment or otherwise.²² All of this is simply to bring out that some degree of context-sensitivity, both in the choice of reforms and in the sequencing of the reforms chosen, is necessary in order to ensure that adjustment designed to eliminate imbalances does not in turn generate new ones.

Context sensitive
adjustment

More context-sensitive adjustment policies could have many other dimensions, even when considered narrowly in relation to economic goals. Unfortunately, time does not permit me to go into all of them here. Let me provide a few examples however. Where there are significant existing investments in industrial infrastructure, it may be desirable to protect these, at least in the short-term, if the alternative is de-industrialization. There is a pressing need to increase the efficiency and competitiveness of such industries. However, proceeding with reforms with greater gradualism can provide the time necessary to prepare for international competition. Examples of rapid across-the-board liberalization of consumer imports in countries with a significant but uncompetitive industrial base resulting in de-industrialization are provided by Kenya, Zimbabwe, and Cote d'Ivoire.²³ Another example concerns the increases in agricultural prices which often accompany conventional adjustment.

e.g.
Kenya
Zimbabwe
Cote d'Ivoire

²² On the former use of the term "sequencing" see Fanelli, J. And R. Frenkel, "On Gradualism, Shock Treatment and Sequencing", in International Monetary and Financial Issues for the 1990s, Vol. II (UNCTAD).

²³ Lipumba, op cit; Riddell, Roger, "The Future of the Manufacturing Sector in Sub-Saharan Africa", in T.M. Callahy and J. Ravenhill, eds., Hemmed in: Responses to Africa's Economic Decline, New York: Columbia University Press.

Although there may be ample willingness to increase output on the part of producers, there may not exist the ability to do so, in the presence of weak infrastructural or marketing systems. In this case, prior focus on the development of appropriate physical infrastructure and the renovation of extension and marketing institutions may be necessary. I will discuss the potentially deleterious social consequences which can result if agricultural liberalization occurs in the absence of such institutional development subsequently.

2
 "conventional issues"

Until now, I have been dealing with conventional issues of macroeconomic policy. I have outlined some of the concerns -- involving the content, pace, and sequence of policy reforms -- which have been raised with regard to the success of conventional adjustment policies in relation to economic criteria. However, adjustment for sustainable human development should also concern itself with broader institutional issues where this is likely to have ramifications for future growth.

order
 of
 issues:

One of the most important of these broader institutional issues concerns the role of public-private collaboration and elements of state coordination in economic development. As we all know, the most spectacular success stories of the last three decades when judged in narrowly economic terms involve East Asian countries. Increasingly, it is widely acknowledged that certain forms of public-private collaboration and deliberate industrial policy were at the heart of the rapid East-Asian growth experience. Continual state focus on industrial and technological upgrading, and assistance to firms to achieve this, as well as extensive export incentives including subsidies and state coordination of private firms so as to create

public-private
 collaboration

cooperative as well as competitive relations were all indispensable to the East Asian success stories. Multiple exchange rates and cheap credits furnished by a heavily state regulated or controlled financial sector also often played a critical role.²⁴ All of these strategies are however potentially at variance with the market-dominated policies which are demanded by the standard approach to adjustment. If adjustment policies are to be truly oriented toward the longer-term, then they must make room for policies of this kind. More conscious elements of public-private coordination may be required in particular in order to bring about the greater diversification of exports which is essential if export incomes are to rise, given the likelihood that terms of trade for primary products are likely to continue to fall, and that there are limited opportunities for and gains from low-skill labour-intensive production.²⁵ In some contexts however, especially in Africa, the capacity to implement administratively challenging policies of this type seems distant. This is however no reason to neglect to develop these capacities. Some have argued that although industrial policies of the East Asian type can conceivably improve on market outcomes, in practice they are not likely to in the presence of rent-seeking behaviour on the part of economic agents and states with highly limited capacities²⁶. It is true that limited state capacities constrain the ability of many countries to engage in this highly effective style of industrial development. However, we should not

²⁴ For further discussion of these points see Robert Wade, Governing the Market, **; Alice Amsden, Korea: Asia's next Giant, **, Chalmers Johnson, MITI and the Japanese Miracle, **; World Bank, The East Asian Miracle, 1993; World Development, Special Issue, June 1994 (?).

²⁵ "Between 1965 and 1987, the proportion of exports accounted for by primary products rose from 92% to 94% in low-income African countries, falling slightly (from 95% to 90%) in middle-income countries", Stewart, 1994, op cit.

²⁶ See for example, The East Asian Miracle, the World Bank, 1993.

renovation of state capacities simply see this as a constraint but as an opportunity. The renovation of state capacities is a historical challenge which will be essential for any form of sustained development. The East Asian example suggests the possible value of travelling the difficult road to creating effective and capable states in order to accelerate the pace of development. It also suggests that departures from market-dominated orthodoxy, when combined with state-provided coordinating discipline and export-orientation, can bear considerable fruits in the economic realm.²⁷ Strengthening the managerial and analytical capacities of states and institutions is no easy task, but sharply accelerated development seems most likely to occur through doing so.²⁸ UNDP has signalled its commitment to this general task through initiating the Special Action Program for Administration and Management (SAPAM) in Africa, and the Management Development Programme (MDP) among others. However, there is much greater scope for technical cooperation activities in this area, drawing directly from more successful developing countries' recent experience of implementing industrial policies.

A final set of more general issues relating to the economic record of conventional adjustment policies and extending beyond national level macroeconomic policy choices concern the value

²⁷ Indeed, one set of observers has gone so far as to write: "history suggests that no economies developed without developmentalist states...states have to transform themselves to that end, and be accountable for their reforms. In many (if not most) low and middle income nations, restructuring the state will be no easy task. But there will be no real development until it is done". [Pieper and Taylor, op cit].

²⁸ An example of how effective government oriented towards public purposes can be generated and maintained is provided by Tendler, J and S. Freedheim, in "Trust in a Rent-Seeking World: Health and Government Transformed in Northeast Brazil", World Development, Vol.22, 1994.

collaboration among dev. countries
 of greater collaboration among developing countries. Many observers have drawn attention to the fact that conventional adjustment policies may have led to inconsistent results because of the failure to take a global view of their effects. For example, simultaneous promotion of exports of a single primary commodity in more than one country may lead to reductions in the world price of the commodity in question sufficient lead to net revenue losses.²⁹ This interaction may also take the more complicated form of spurring competitive devaluations.³⁰

As was noted earlier, steeply falling prices for many primary commodities have been among the underlying causes of the widespread necessity for adjustment in developing countries. An alternative adjustment paradigm should not accept this fact as a given, but should rather challenge it head on. Here, concerted cooperation among developing countries is essential. In particular, coordinated policies in relation to traditional exports, involving agreed upon restrictions on export production rather than expansion in the case of commodities which face

²⁹ There is of course considerable controversy as to whether the relevant elasticities of demand for primary commodities are of a magnitude sufficient to generate this effect. On this see for example, World Bank (1994), Adjustment in Africa, and Stewart, F, "Are Short-term Policies Consistent with Long-term Development Needs in Africa?" in Cornia, G. And G. Helleiner ed., From Adjustment to Development in Africa, New York, St. Martin's Press, 1994..

³⁰ For example, "if devaluation is recommended to say Kenya in order to increase the export of tea, the impact of this on the tea exports of say Sri Lanka cannot be disregarded. If Sri Lanka at the same time is induced to devalue its currency to bolster its tea exports, the backlash on Kenya will undo at least some of the intended advantages of Kenya's own devaluation; in the end both countries may be worse off, with the tea importing countries as the main beneficiaries" [Singer, H. And S. Griffith-Jones, "New Patterns of macro-Economic Governance", Human Development Report Occasional Paper No. 10, UNDP New York].

low price elasticities of demand, are likely to be in the interests of developing countries.³¹

regional integration
 Finally, further cooperation between developing countries may take the form of more significant regional integration. Although there have been many attempts to initiate such integration in the past, these have met with varying degrees of success and none has yet been entirely successful.³² However, such regionally integrated economic areas may offer opportunities to combine on the one hand the ability to make use of enlarged markets, to benefit from differences in comparative advantage, and to heighten the discipline of market competition, and on the other hand to engage in selective protection from global markets in the case of genuine infant industries. This approach has been advocated in recent years in a number of conceptions of alternative strategies.³³ In these strategies, protection is viewed as applying to selected industries on an industry-wide basis, as applying across an entire region, and as to be commonly understood as temporary, unlike previous protective structures which were often firm rather than industry-specific, applied nationally, and were effectively semi-permanent.

³¹ Such commodities include coffee, cocoa, bananas and plantains, tea, and tomatoes [Stewart, F. , 1994, op cit].

³² For example in Africa ECOWAS (the Economic Community of West African States), CEAO (the Economic Community of West Africa), the MRU (Mano River Union), the Preferential Trade Area (PTA), and the Customs and Economic union of Central Africa (UDEAC). There are over 200 regional agreements on trade and fiancé in Africa [Stewart, 1994, op cit (in Van der Geest, ed., Negotiating Structural Adjustment in Africa)].

³³ See for example Cornia, van der Hoeven and Mkandawire ed., Africa's Recovery in the 1990s: From Stagnation and Development to Human Development, 1990, UNICEF; Stewart, F. 1994, op cit; Oyejide, T.A. and M.I. Raheem, "Long-term Development in Sub-Saharan Africa: Would Regional Integration Help?", in Cornia and Helleiner, 1994, op cit.

I have touched briefly here on many issues of economic policy. Before I move to issues of the human impact of adjustment, let me say a few words about the significance of human development for sound economic policy itself. Alfred Marshall, one of the fathers of modern economics, wrote in 1885 that "The poverty of the poor is the chief cause of that weakness and inefficiency which are the cause of their poverty".³⁴ This statement has never seemed more clear than it does today. Increasingly, it is evident, and widely acknowledged, that social investment -- in health, in education, and in the basic livelihoods of the poorest -- is sound investment, and that there are few investments which are sounder. Moreover each of these investments enriches the others. Greater health, greater education, and greater economic opportunities all potentially reinforce one another.³⁵ Reduced fertility and environmental degradation are also likely consequences of increased social investment.³⁶ Aggregate economic outcomes in the form of national rates of economic growth increasingly appear to be related to these social factors.³⁷ Finally, concerted public action is indispensable to the attainment of human development goals. Private activity is incapable of fully substituting for public action in support of social development.³⁸

The Present Position of Economics (1885).

³⁴ On these points see Schultz, T.W. (Ref), Psacharopolous (Ref), Birdsall (Ref).

³⁵ See for example Dasgupta, P., An Inquiry into Well-Being and Destitution, Oxford: Oxford Univ. Press, (1993).

³⁷ See for example Barro and Lee (Ref.), Levine and Rennelt (Ref.), Summers (Ref.).

³⁸ For strong empirical evidence on this point, see Anand, S. And M. Ravallion, "Human Development in Poor Countries: On the Role of Private Incomes and Public Services", Journal of Economic Perspectives, Vol.7, No. 1, 1993.

One of our sources of strength and opportunity today is that so many of us agree upon these facts. Almost all of us in the development enterprise are committed to increasing levels of social development, and are expanding our commitment of resources towards this end.³⁹

Our shared focus today on investment in the health, education and well-being of the many is very much to be welcomed.

However, we have still sometimes failed to incorporate these concerns into all of our policies and practices, despite the importance of doing so both for economic development and for human development

Adjustment, Equity and Human Development

I have discussed above the relationship between adjustment policies and aggregate economic performance, and some alternative approaches in this regard. This is an important discussion. However it is only important because ultimately it has consequences for human lives. In the following, I will focus more directly on these consequences.

What consequences adjustment policies have had for individual lives, and in particular for the elements of human development, is a deeply controversial question. I have earlier cited the depressing litany of statistics on the social development of Latin America and Africa over the 1980s. However, once again there are difficulties in interpreting to what extent these

See, for example World Bank Annual Report 1994, Washington D.C.: The World Bank.

outcomes have resulted from adjustment or from other conditions including the possible failure to fully adjust.⁴⁰ The widespread character of adjustment programmes in developing countries over this period does however suggest some relationship.

There are a variety of channels by which poverty and indicators of human development might be affected by adjustment policies. Changes in public expenditures, shifts in the prices of goods and services consumed by the poor, and changes in the level of employment or real wages in sectors where they work may all potentially affect the poor. For example, budgetary contraction may lead to reductions in direct transfers to the poor (for example in the form of food subsidies) and social sector expenditures (availability of health treatment or education). If the poor produce exportable commodities or consume imports, then devaluation may directly effect their incomes (for example by increasing the demand for export crops or the price of imported foods), although the cumulative effect would depend on the relative importance of these activities. Changes in the rate of inflation may affect the poor as well. For example if the poor hold a significant proportion of their assets in the form of cash then they may be benefitted by reductions in the rate of inflation. There may also be indirect effects which operate through the cumulative links of the economy. For example, the

⁴⁰ Some of the different positions in this controversy are represented by: Maasland and Van der Gaag, "World-Bank Supported Adjustment Programs and Living Conditions", in Corbo, Fischer and Webb, 1992, op cit; Sahn, D.E., "The Impact of Macroeconomic Adjustment on Incomes, Health and Nutrition: Sub-Saharan Africa in the 1980s", in Cornia and Helleiner, 1994, op cit.; Pio, A. "The Social Impact of Adjustment in Africa", 1994, in Cornia and Helleiner, 1994, op cit; Cornia, Jolly and Stewart 1988, op cit; Jolly, R. And R. Van der Hoeven ed., 1991, "Adjustment With a Human Face -- Record and Relevance", special issue of World Development, Vol. 19 # 12.

contractionary effect of rising interest rates or reduced employment in state industries may in turn lead to decline in the incomes of the poor, as the economic activity of those who employ them or purchase their products is in turn reduced. Adjustment induced relative price shifts and budgetary reductions may also have gender-specific effects and environmental consequences, with implications in turn for poverty (these will be discussed subsequently).

*Compensatory
social
responses*

Balancing short-term budgets at the expense of the poor is doing so at the cost of long-term losses. When this occurs, it results from the comparative voicelessness of the poor and of the lack of a constituency on behalf of the social sectors as powerful as that which supports military expenditures and subsidies for the better off. Given these realities, it is perhaps unsurprising that short-term effects on the poor were given little notice in the early design of adjustment programmes.⁴¹ More recently, however, a range of compensatory social programmes -- social action funds, social emergency funds, or social safety nets -- have been developed as a response to the social trauma of adjustment, and employed with increasing frequency. PAMSCAD⁴² in Ghana, and the Bolivian Emergency Social Funds were early examples of such programmes, designed to generate compensatory employment and income, and to support and extend access to social services in order to protect those hurt by adjustment. These compensatory programmes seem to correspond to the realization that

⁴¹ Hence, Per Pinstrip-Andersen observed in 1989 "until recently, and with a few notable exceptions, short-term effects on the poor have usually been ignored or given low priority in the design of adjustment programmes unless they were perceived to threaten political stability" [quoted in Walton, J. And D. Seddon, Free Markets and Food Riots. Cambridge, MA: Blackwell, 1994].

⁴² The "Program of Action to Mitigate the Social Costs of Adjustment".

“even a well-designed adjustment programs harms some groups” .⁴³ Although such programmes can help to mitigate the social costs of adjustment there are at least two sets of reasons to be concerned about them. The first is that compensatory social programmes are not substitutes for fundamental re-design of adjustment programmes in order that they may have more adequate human development and equity consequences. The second set of reasons for concern relate to the various and widespread deficiencies in the implementation of these programmes. Given the systematic nature of these difficulties, it seems clear that replication of these programmes is not a satisfactory approach to the mitigation of the social costs of adjustment. Rather a fundamental re-orientation of policy may be required in order that adjustment may be fully consistent with broadly based human development. Among the complaints which have been made about adjustment-related “social safety nets” is that they have benefitted a fairly small and select group (in particular the comparatively privileged newly unemployed), rather than more a broad based group of the pre-existing poor who may also be adversely affected by adjustment. They have also been slow to get off the ground or quick to end, publicity rather than action oriented, heavily dependent on external funding, and characterised by a high degree of pro-male bias in relation to the choice of beneficiaries.⁴⁴

⁴³ World Bank, World Development Report, 1990, quoted in Jolly, R. “Adjustment with a Human Face: A UNICEF Record and Perspective on the 1980s” in Jolly and Van der Hoeven, ed., 1991, op cit.

⁴⁴ On these points see Vivian, J., “Social Safety Nets and Adjustment in Developing Countries”, UNRISD Occasional Paper No. 1, 1994; Fergany, N., “Targeting and Social Fund Schemes in Poor Countries Undergoing Economic Restructuring: the Case of Egypt”, UNRISD, 1994; Gayi, Samuel, “Adjusting to the Social Costs of Adjustment in Ghana: Problems and Prospects”, UNRISD, 1994; Graham, C. “Comparing Experiences with Safety Nets During Market Transitions: New Coalitions for Reform?”, UNRISD, 1994; Graham, C., Safety Nets, Politics and the Poor, The Brookings Institution, 1994; Watkins, K. 1995, op cit..

In the case of the Bolivian Emergency Social Fund, which provided by 1991 the equivalent of one-third of public spending, over half of the beneficiaries of the programme already had a job, the poorest region of the country received the least funding, and only one percent of the jobs created went to women.⁴⁵

The relative lack of success of compensatory social programmes designed to mitigate the costs of conventional adjustment suggests that an approach to adjustment which puts human beings at the centre should seek to identify policy choices which have fewer human costs to begin with, and which are more consistent with sustained human development.

Reducing the social toll of adjustment is relevant not just for reasons of equity and fairness but also because this is essential to creating the preconditions for sustained economic growth and for the sustained human development of all. Short-term losses of human potential in the context of adjustment can create severe long-term costs, which would be far better even from the vantage point of long-run economic goals to avoid. Moreover, as the periods over which adjustment policies are carried out has been extended, it has become all the more important to pay special attention to potential human losses, in order to lay a solid foundation for future development.

One instrument to achieve this is the direct protection of social expenditures. Although there is ongoing controversy as to how basic social expenditures have been affected by adjustment

⁴⁵ Watkins, K. 1995, op cit.

we can identify this as a priority area from both the vantage points of equity and of efficiency. Undoubtedly, in the short-term crush to cut expenditures and balance budgets, vital social investments have often been sacrificed.⁴⁶ Hence, clear boundary lines should be established with regard to social expenditures which will not be affected in times of budgetary austerity. Here, external donors have a much larger role to play in ensuring that such boundary lines are maintained.

Secondly, if at all possible, the introduction of measures such as user fees which despite the good intentions of policy-makers often harm the access of the poor to vital social services, and provide little in the way of compensating revenues, should be determinedly avoided.⁴⁷

And, "subsidies that have a large impact on the incomes of the poor (even if only a small proportion of the subsidy reaches them), should not be reduced or eliminated unless alternative means of reaching the poor are introduced".⁴⁸

As a generalization of the principles above, more socially appropriate adjustment programmes

For instance, Behrman (1988/Ref) finds that social sector expenditures in developing countries have been "usually the first to go in times of retrenchment". See also Cornia, Jolly and Stewart, 1988, op cit. On the other hand, Sahn (Ref) disputes in the case of Africa that social sector expenditures have been diminished in a manner which has hurt the poor. A powerful anecdote is that in the year after Zimbabwe's structural adjustment policy was introduced the number of women dying in childbirth in Harare doubled [Adjustment, Globalization and Social Development, UNRISD, Geneva, 1995].

Evidence of the harmful effect of user fees on the access of the poor to basic social services is contained in, for example, Creese (Ref), Watkins, op cit, Human Development Report (1993?).

⁴⁸ These words are drawn from Ribe, H. et al, 1990, "How Adjustment Programs Can Help the Poor: The World Bank's Experience", The World Bank.

should place far greater stress on revenue generation and far less stress on expenditure reduction than has been the case in the past. Reduction in fiscal deficits must be an important goal of any adjustment programme, but this can be achieved through either greater taxation or lesser spending. In the past the latter has been emphasized far too much, and the former far too little. In the interests of equity, a highly progressive tax structure should be emphasized, with higher rates of taxation on luxury goods and exemption of basic foods and energy used by low-income households. Corporate taxes and taxes on wealth are likely to be indispensable as well.

In general, there is scope for a more expansionary policy stance even in the context of adjustment. Emphasis on raising real resources through taxation will help to support this. However, even otherwise, there is scope for greater medium-term tolerance of fiscal deficits in the interests of less painful transition. Lesser use of contractionary policy instruments such as restrictive monetary policy with the resulting high interest rates and recessionary implications is merited. There is a danger of creating lasting damage to industry as a result, which may have counterproductive economic implications in the longer run.

Each of the policy instruments which typically make up a conventional adjustment package -- fiscal contraction, devaluation, trade liberalization, restrictive monetary policy, labour-market deregulation, and privatization -- potentially has effects on the poor, which must be considered in conjunction. More socially appropriate adjustment policies must be formulated with the interaction of these complex chains of causation and their relationship with both

equity and efficiency in mind. Consider the effects of agricultural sector liberalization in combination with devaluation. It has been widely argued, especially in the context of Africa, that the poor are very likely to have benefitted substantially from these measures. There are certainly powerful arguments of this kind, but it is equally important that they should be qualified where the empirical record demands it. Where agriculture was overtaxed, and domestic industries over-protected, and exchange rates overvalued it has been argued, the terms of trade between agricultural and non-agricultural goods were highly unfavourable. The elimination of sometimes inefficient and predatory parastatal agricultural marketing boards and taxes is thought to increase farm-gate prices, while trade liberalization is thought to reduce the price level of non-agricultural goods to the benefit of the agricultural sector. Finally, devaluation improves the international viability of agricultural exports and thereby potentially increases farmers' incomes. This story seems powerful in theory.⁴⁹ But it has not always worked in practice. For example, farmers may be willing to increase production in response to price incentives but be unable to do so or to gain satisfactory returns due to infrastructural constraints. In Zambia in 1993 the elimination of the state agricultural marketing system led to a vacuum in which farmers were unable to bring their produce to market and much of it was wasted. Where private traders operated, they favoured more commercially viable areas close to transportation facilities and markets and neglected other less favoured areas. Finally, monopolistic private traders in some areas provided farmers with prices substantially lower than those they had received from the previous state marketing

⁴⁹ See Krueger, Schiff and Valdes (ref?).

boards.⁵⁰

It was undoubtedly the case that Zambia's maize marketing system required reform.

However, its complete abolition may have in many cases led to outcomes which were worse.

Zimbabwe provides an example of an alternative and more context-sensitive market-oriented reform in the agricultural sector, in contrast. There, the maize marketing system has been opened to market competition, allowing many small-scale millers to flourish. At the same time, however, the government "has remained a buyer of last resort, setting a floor under market prices in the more marginal areas".⁵¹

These examples illustrate that in the design of more socially appropriate adjustment programmes, greater attention must be paid to institutional development, as well as to the continued role of well-designed state interventions designed to protect equity and efficiency.

Another example of the need for greater attention to the complexity of the actual interaction of the different economic instruments which make up a conventional adjustment package concerns the effect of high interest rates in undermining the goals of increased export orientation. In the agricultural sector, where there are extensive credit market imperfections, high prevailing interest rates which result from adjustment policies can lead to farmers being unable to gain the credit necessary to produce export crops, thereby undermining another goal of the adjustment process as well as harming the interests of the poor. An example of this kind of experience is provided by Nicaragua between 1990 and 1993. Rises in interest rates

⁵⁰ This example is from Watkins, 1995, op cit.

⁵¹ Ibid

led to sharp declines in production of export crops and especially in the earning of small-holders. This example re-inforces the need to pay greater attention to institutional development (in this case rural credit schemes) prior to engaging in wholesale market-orientation of policies as well as to choose macroeconomic instruments with the particularities of the institutional situation more clearly in mind. In this particular case this would likely have entailed more expansionary monetary policy and lesser export orientation.

In general, where rises in the prices of inputs to the production activities of the poor or to their subsistence goods are not met with corresponding increases in the wages of the poor or returns on their assets or produce, their situation will be worsened. Given that this is so, it is of vital attention not only to pay attention to shifts in relative prices in the course of adjustment (although this has been the primary focus of discussion in relation to equity and adjustment) but also to the distribution of assets and opportunities of the poor. Here we approach two important and intertwined themes. The first is that of widely diffused or shared growth. It is essential that growth should be widely shared if it is to be equitable and more socially appropriate adjustment will have to have at its core policy measures which ensure this. The second theme is one which I have raised already -- the need for social adjustment. This entails the possible redistribution of some existing assets and opportunities in favour of the poor in order to make the development process more equitable. This theme -- which includes issues such as the need for land reform -- has been remarkably in the background in many discussions of adjustment. One of my goals today is to bring it back to the centre.

In Zimbabwe for example, export-oriented commercial-crop expansion which has been a consequence of adjustment policies has led to large benefits for larger scale farmers while small-scale farmers in more overcrowded, low-rainfall and ecologically vulnerable areas have not been able to gain from this. Moreover, small-scale farmers of this kind are largely net food purchasers, and hence have been directly hurt by rising prices. An essential component of a long-term human-development oriented strategy in Zimbabwe would be "a comprehensive redistribution of assets, including land redistribution, coupled with public investment in the social and economic infrastructure of the poorest areas."⁵² Otherwise, the wealthier will inevitably be the prime beneficiaries of economic change, and the poor may actually be net losers.

Although growth is one means of furthering human development, better use of existing assets is another way of furthering this end. Better use of existing assets includes, among other things, more socially appropriate distribution of vital productive assets, such as land. Such social adjustment however necessary, is likely to prove difficult. However, it is an indispensable complement to the equally important goal of widely distributed growth.

Ensuring widely shared and broadly distributed growth requires a broad array of measures which are consciously directed at this end. Free markets, however vibrant, are no guarantee of broadly-based human development and equitable access to flourishing lives. Public action

⁵² Watkins, 1995, op cit.

is vital to ensure equity of access to opportunities and social outcomes across divides of income and wealth, region, ethnicity and gender. A range of forms of interventions can help to serve this end, and creative thinking as well as comparative experience is required to choose that which is most appropriate.

To ensure the access of "small-holders" and small-scale entrepreneurs to opportunities, "structured markets" in which a proportion of resources are reserved (credit, foreign exchange, marketing opportunities, technology, infrastructure etc.) For the small-scale sector can be of tremendous value in ensuring widely diffused growth. In Zambia, for example, a market arrangement in the absence of such provisions led to small firms being almost entirely starved of foreign exchange, with disastrous equity consequences. In contrast, in India, requiring that one percent of major bank credit be allocated to small-scale enterprises led to the successful development of the well-known Self-Employed Women's Association.⁵³ Creative and innovative thought is required to design institutions which both draw upon individual initiative and the power of market forces and structure these so as to safeguard and further equity. Strengthened public capacities, as I have already noted, will also be required to ensure that such measures work well.

Gender balance is another area which has been usually given too little attention in the design of adjustment policies. Women have often been affected in "silent" ways by adjustment

⁵³ These examples as well as the term "structured market" are due to Frances Stewart, 1994, op cit.

policies, because many of their activities, within the household and related to social reproduction, are not accounted for within the conventional indicators of economic and social performance. It is likely, for example, that where adjustment has led to lower availability of resources for poor households, women have worked harder and longer at unpaid activities in order to fill this gap. Moreover, where there is declining public provision of social services, this is directly substituted for by women's labour. Also, where there are already systematic imbalances in the bargaining power and level of resources commanded by women in household or in the workplace, increased austerity is sure to lead to a relatively greater worsening in the situation of women. Finally, there may be less systematic but equally significant gender consequences, as where adjustment raises the relative prices of goods generally produced by men over those of goods generally produced by women.

There exists scattered but substantial evidence of these effects. In Mexico, adjustment appears to have been associated with greater participation of women in the industrial labour force but declining relative wages. A study of the Philippines, Zambia, and Ecuador found that urban formal-sector employment has contracted dramatically, and many displaced male workers now compete in the previously female-dominated informal sales sector. More general social stress has also led to increases in community level conflict, personal danger, substance abuse and intra-household violence which have had especially acute consequences for women.⁵⁴

Another study, of Cote d'Ivoire, Ghana, Jamaica, and Pakistan, found that women bore a

⁵⁴ On this see Moser, C. "Urban Poverty and Social Policy in the Context of Adjustment - Preliminary Results", Internal Briefing Document, Urban Development Division, The World Bank, 1994.

much greater burden than men during the initial "stabilization" phase of an adjustment programme.⁵⁵ Adjustment has not always led to a worsening position for women. In Costa Rica, for example, export-oriented production, especially in apparel and electronics assembly, has created jobs for women, and womens' position in the public sector has been maintained. As a consequence, womens' relative wages and labour force participation rate have increased. This has been accomplished in the context of sustained government support for womens' role in the labour market through appropriate legislation.

In the agricultural sector in many developing countries, cultivation of cash crops for export production is dominated by men, and cultivation of staple food dominated by women. As a result, export-oriented relative price changes tend to benefit men disproportionately, and possibly to harm women. In Uganda, for example, the production and marketing of both coffee and cotton is heavily dominated by men, whereas eighty percent of staple food is estimated to be produced by women.⁵⁶ Even where women are more heavily involved in the production of commercial crops, as with cocoa in Ghana, groundnuts in Niger, or cotton in The Gambia, womens' involvement in such production is proportionately much smaller than is mens'. The resulting marginalization from the benefits of agricultural liberalization is compounded by the fact that women are often systematically excluded from small-scale institutional credit programmes which help to sustain commercial crop production, either because of lack of secure land rights or because of institutional discrimination. In Zaire,

⁵⁵ Mayatech Corporation, "Gender and Adjustment", Silver Spring, Maryland, 1992.

⁵⁶ Watkins, op cit.

where men have increased cultivation of cash crops (specifically maize) as a result of agricultural market liberalization, this has led to increased male incomes but has also led to rising demands on women's time, in some cases drawing women's time away from subsistence crops and female-dominated cash crops, potentially increasing household level food insecurity and changing the gender balance within the household.⁵⁷

I have already noted above the very poor record of adjustment-related social funds or safety net programmes in protecting women. Adjustment has clearly had some negative consequences for women, but women have not simply been passive observers. Women in developing countries at the level of local communities have organized in many inspiring ways to better provide for themselves and their families in recent times of social stress. Women have sometimes organised themselves in cooperative networks to enable them to better deal with increased privation. In Peru, for example, "popular canteens" or *comedores populares* helped women to support each other in providing nutritional support to their families. Women have also been involved in some instances of national level social action to demand greater attention to the needs and priorities of women and children. It is important that we draw upon, rather than obstructing, this tremendous energy of ordinary women in designing more socially appropriate adjustment programmes.

The examples I have given here suggest that more socially appropriate adjustment

⁵⁷ Taylor and Pieper, 1995, op cit. A similar example involves the introduction of swamp rice in the Gambia (Watkins, 1995, op cit).

programmes would incorporate a greater element of institutional strengthening in the agricultural sector, greater attention to explicit gender-related employment protections, and much greater context-sensitivity in the design of adjustment policy. Gender equity must be kept in mind as a key goal of all social and economic policy, but there are no easy formulae to attain this goal. The complex interconnections and range of social factors involved in determining the relative position of women entail that pursuit of the goal of gender equity requires careful and context-specific policy formulation.

Adjustment and Environmental Sustainability

There is still little understanding of the consequences which adjustment to date has had for environmental conditions, despite the necessity of answering this question for identifying policies for human development which are ultimately sustainable. What evidence we do have suggests that the connections are complex and ambivalent, but nevertheless real. The Brundtland Commission drew our attention eight years ago to the likely relationship between debt repayment and environmental degradation, which may have forced countries to more extensively exploit available natural resources in order to earn the revenues necessary for repayment, through for example excessive timber exports and the conversion of forest into agricultural land. For example, it has been thought that devaluation in Ghana in the early 1980s led to accelerated and substantial deforestation due to timber exports. This has had

devastating effects for Ghana's poorest.⁵⁸ This is also likely to have occurred in Cameroon and Tanzania.⁵⁹ Similarly, adjustment in Malawi encouraged the production of tobacco for export, which has led to the depletion of soil fertility. In general, greater orientation towards cultivation and resource extraction for export has likely led to both more intensive and extensive environmental degradation. However, the chains of causation involved are very complex and do not always lead to this conclusion. Where export crops are less environmentally damaging than prevailing subsistence crops for example, export orientation can have environmentally beneficial effects. For example, devaluation-induced increase in the profitability of cash-crops such as coffee and cocoa over food crops has led to lessened soil erosion.⁶⁰ Similarly, increases in small-holder incomes due to cultivation of a soil damaging export-crop may lead to lessened pressure to cultivate marginal areas and therefore to lessened deforestation. High interest rate policy has often had the effect, through reducing rural small-holders' access to credit, of leading to more extensive cultivation and resulting deforestation.⁶¹ Decrease in subsidies has also sometimes had similar effects (for example reduction in subsidies to agricultural inputs in Mali, Cameroon, Zimbabwe, and Tanzania has likely led to the same effect).⁶² Direct reductions in public expenditures on

⁵⁸ This and other empirical evidence is however disputed. See World Bank, op cit, 1994; Watkins, 1995 op cit.

⁵⁹ Reed, forthcoming (see below.)

⁶⁰ Reed, D., ed. Structural Adjustment, the Environment and Sustainable Development, Worldwide Fund for Nature, forthcoming.

⁶¹ Reed, 1992.

⁶² Ibid.

environmental protection have also been near universal and had a negative effect on an environmental outcomes.⁶³ However, it has been argued that such expenditures were in the first instance very small in developing countries.⁶⁴ Tracing the environmental consequences of any one policy instrument used in the course of adjustment, whether devaluation, trade liberalization, or changes in monetary or fiscal policy, is a complex matter, and calls for careful situational analysis. What can be said is that until now this careful and context-sensitive analysis has been lacking, and adjustment policies have failed to be designed with environmental considerations at their heart. This must change.

(Lesson 1)

What lessons can be drawn from our experience to date? Although our factual knowledge is still limited, it is likely that we can draw some conclusions.

In agricultural economies, adjustment is likely in many though not all instances to have led to greater pressures on the capacities of the soil and of natural resources. Deforestation, overgrazing, and soil degradation may have resulted. In resource extracting economies, export-oriented adjustment policies have likely often accelerated the pace of extraction at the same time that fiscal austerity has weakened the capacity of states to regulate this process. Meanwhile, increasing poverty and informalization of the economy, whether due to adjustment or not, has led in the urban sector to heightened sanitary and environmental pressure. Many of the available studies strongly suggest these points.

⁶³ Reed, 1992, op cit; Reed, forthcoming, op cit.

⁶⁴ World Bank, 1994, op cit.

How can more environmentally sustainable adjustment policies be designed?

A fundamental principle is that fighting poverty through creating widely distributed gains, and reducing environmental degradation are in significant measure one and the same battle.

This has been recognized by almost all investigations of adjustment and the environment.⁶⁵

Thus, for example, increased rural incomes lead to lessened pressure to bring new land under cultivation. Similarly, halting and reversing deforestation is essential to protecting the long-term livelihoods of the poor. In the absence of "social adjustment" -- greater balance in the distribution of productive opportunities -- the degradation of natural resources for short-term gain serves as a way to fend off greater demands for distributional equity. In the longer run, however, this is likely to be to the detriment of the poor themselves. To be pro-poor is to be pro-nature.

Adjustment programmes which are consistent with environmental protection and regeneration should therefore aim at spreading opportunities and livelihoods as widely as possible. This is not of course enough. Environmentally responsible adjustment policies should also have at their core a clear vision as to how consistency between environmental goals and economic policy will be ensured. Macroeconomic policy choices, over crucial economics matters such as exchange rates and interest rates, will have to be made with an at least partial view as to their environmental impacts. It must be more widely understood that this is not just sound environmentalism but sound economics. If necessary, market prices may have to be departed

⁶⁵ See for example Munasinghe, M and W. Cruz, Economy-Wide Policies and the Environment, The World Bank, 1995; Reed, forthcoming, op cit; Reed ed., Structural Adjustment and the Environment, Boulder: Westview Press, 1992.

from in order to ensure that the full social costs of economic activities are taken into account, and states must be enabled to exercise appropriate functions of market regulation, price supports, administrative controls and taxation in support of such essential regulatory activity. The universal development of "green" national income accounts which take full account of environmental costs and benefits is also an essential component of such an approach. International support for placing environmental concerns at the heart of adjustment policies is indispensable. This implies for example that "environmental dumping" should not be a source of advantage in the international trading system. International coordination on levels of environmental regulation and appropriate formulation of international trade rules could be of enormous importance in this regard. Finally, debt-for-nature swaps and other supportive financial measures continue to be required from donor countries if environmental regeneration is to be taken seriously as a global goal and a global process.⁶⁶

Adjustment, Politics and Participation

Much of the discussion on adjustment has focussed on its outcomes. It is equally important, however, to discuss the process by which adjustment programmes are generated.

Adjustment programmes have fundamentally transformed a broad range of developing societies. They have however rarely drawn upon a broad range of representatives of those societies in their design and implementation. There is reason to value the participation of

⁶⁶ As of 1992, only five countries had been involved in debt-for-nature swaps, reducing their external debt by close to \$100 million (Bolivia, Costa Rica, Ecuador, Madagascar, and the Philippines) [FAO, Sustainable Development and the Environment, Rome, 1992].

individuals in decisions which affect them with such magnitude in and of itself. But beyond this, a process of decision making which fails to take into account a variety of views is likely to be handicapped in effectively attaining its own goals.

It has sometimes been argued that structural adjustment policies encourage authoritarian governance, which serves to repress any opposition to the implementation of policies which cause some sections of a society considerable pain.⁶⁷ On the other hand, it has been widely argued that adjustment policies have served to "open up" societies by making it increasingly important to achieve a certain degree of voluntary consensus if adjustment policies, which generate sharp social costs at least in the short-term, are to be successfully sustained. As well, the widespread and well-documented social protests generated by some adjustment measures in the short-term may have fuelled the movement towards more democratic political environments.⁶⁸ On this view, the "wave" of democratization" in Latin America and Sub-Saharan Africa over the last decade is related to economic adjustment.⁶⁹

⁶⁷ Ghai, D. and C.H. de Alcantara, "The Crisis of the 1980s in Sub-Saharan Africa, Latin America and the Caribbean: Economic Impact, Social Change and Political Implications", Development and Change, Vol. 21, 1990 argues for example that "This was a pattern characteristic of much of Latin America during the first decade of economic crisis (as it was among a number of states confronted with depression in interwar Europe) and it may become so again". See also Mkandawire, T., "Adjustment, Political Conditionality and Democratisation in Africa", in Cornia and Helleiner, 1994, op cit.

⁶⁸ For example, see Walton and Seddon, op cit, for an extensive list of adjustment related protests.

⁶⁹ For arguments of this kind, see Walton and Seddon, op cit; Haggard, S. and S. Webb, Voting for Reform, Oxford Univ. Press, Oxford, 1994; Ghai and Alcantara, op cit. The latter write: "the extent of reorganization of society during the recession may in fact make the imposition of discipline by force -- discipline of a kind required to maintain a functioning national economy -- increasingly difficult. The informalization of many societies, the

Whichever of these views it is correct, it is doubtful whether the current wave of democratization will survive in the absence of sustained human development. "History suggests that increasingly polarized societies, in which growing numbers are pauperized, are enormously handicapped in the search for democracy".⁷⁰

Whether or not adjustment has had any direct effects on formal political structures -- and this is a controversial question -- it has undoubtedly had many indirect effects on the social and political order, which have affected the extent of social and political participation in many societies. The growth of the informal economy in Latin America and Sub-Saharan Africa over the last decade and a half has already been remarked upon.⁷¹ Alongside the increasing informalization of labour markets has been a diminished role for labour organisations, as a result of adjustment and the labour market deregulation with which it has often been associated.⁷² Both of these developments are likely to have made it more difficult to engage in broad-based consultation on social and economic policies.

Indeed, there is a widespread sense that even where elected governments have implemented

tendency for much economic activity to go on without reference to governmental controls, the appearance of new kinds of solidarity which lie outside the traditional corporate structure, imply blockage of major avenues of social control".

⁷⁰Ghai and Alcantara, 1990, op cit.

⁷¹ On this, see for example Ghai and Alcantara, op cit; Standing, G. and Tokman, V., Towards Social Adjustment, Geneva, International Labour Office, 1991 - especially articles by J. Vandemoortele, B. Roberts, and V. Tokman.

⁷² Standing and Tokman, 1991, op cit.

adjustment policies, they have failed to allow for the voices of many of those most affected to be heard. This in turn has made adjustment policies which are implemented less than likely to be equitable. International institutions have also not encouraged such consultations either. They have formulated many of their own policies with an unnecessarily high degree of confidentiality, and conducted their discussions with governments in much the same way.

It is my view that broad-based participation in the process of discussion and decision-making leading to the implementation of adjustment policies is the surest guarantee that such policies will also be broad-based in spreading their burdens and their benefits. In other words, equity is closely related to openness. More socially appropriate adjustment policies are most likely to be generated and sustained in a participatory atmosphere, and this is therefore something that we should work towards. A more open and participatory process of dialogue on the appropriate contents of a national approach to adjustment is more likely to reflect in its design the principle of context-appropriate prescriptions and the principle of social as well as economic adjustment. In turn more participatory decision-making arrangements are more likely to lead to a choice of policy instruments (such as structured markets which guarantee access to various groups) which ensure broadly shared and equitable growth consistent with human development.

I have also spoken earlier about the need to work towards the development of stronger and more effective states which have the capacity to devise and implement dynamic and broadly

beneficial policies. Such states are most likely to develop if they also have political legitimacy. This requires broad-based consent and support for their authority. Extensively enhanced participatory processes are a pre-requisite therefore to the generation of such re-vitalized states. Greater accountability, greater equity, and greater focus on human development will be the results.⁷³

In keeping with a new focus on greater participation at the national level, international institutions concerned with adjustment should also become participatory in their interactions with national level decision-makers. These two sets of developments are likely if put into force to reinforce one another. Greater participation of both of these varieties is more likely to lead to the context-sensitive policies which I have referred to throughout my remarks today, as well as to a higher degree of support from civil society for such policies, which I believe will enhance the economic effectiveness, and the level of equity of adjustment programmes, making them more consistent than before with sustainable human development. There is a need in this regard to weaken existing forms of "conditionality" and to put in their place more dimensions of dialogue. There exist today a number of proposals as to how this might be brought about.⁷⁴

⁷³See Cornia, Van der Hoeven, and Mkandawire eds., Africa's Recovery in the 1990s: From Stagnation and Adjustment to Human Development, International Child Development Centre, Florence, 1992, for strongly stated views in this vein. These points are also made powerfully by Reed, forthcoming, op cit, and Watkins, 1995, op cit.

⁷⁴ One such proposal is the idea of substituting for conditionality a "development contract", first proposed by Thorvald Stoltenberg in 1989. These would "provide a mechanism for medium-to-long-term planning , formulated by developing countries themselves, in consultation with various donors and multilateral agencies. The developing

Greater dialogue between social actors within adjusting nations and internationally is likely to lead also to a more integrated view of social, political and economic life which is indispensable to adjustment which is compatible with sustainable human development. A major flaw of past adjustment policies is that they have often focussed exclusively on economic considerations without regard to political criteria such as the need to furnish resources to shore up a fragile peace on which national and regional security depends. The experience of El Salvador under adjustment is a case in point.⁷⁵ Greater dialogue at all levels will bring the integrated and comprehensive view of social needs as perceived from all sides which is needed to generate adjustment policies which are also policies for sustainable human development.

Adjustment in the North?

country and the donors would agree to a development plan and accept certain mutual obligations as a consequence. The Development Contract would offer a number of advantages including a coordinated and coherent funding base for the development plan, a more co-operative relationship between donors and developing countries, and greater commitment to the plan on the part of the developing country as they had formulated it themselves. The contractual nature of the relationship would mean that obligations rested on all parties -- while developing countries would be required to undertake reforms, so too would developed countries be required to reform their trade policies to allow developing countries access to their markets, to assist in the alleviation of the debt crisis, improve the quality and level of assistance, and accept reciprocal obligations concerning the environment" [Singer and Griffith-Jones, 1994, op cit].

⁷⁵ See Boyce, J. et al, Adjustment Toward Peace: Economic Policy and Post-War Reconstruction in El Salvador, UNDP, San Salvador, 1995.

In my remarks above, I have put forward a number of very general suggestions as to how adjustment policies at the national level can be reformulated so as to better serve the goal of sustainable human development. This kind of reformulation would involve both developing countries and concerned international institutions. But is there a role for the North beyond this? I believe very strongly that there is.

In keeping with the need for "social adjustment" which I have outlined above, developed countries must act to "adjust" their own policies as well, as a moral imperative and out of practical necessity. Adjustment must not be considered to be only a Southern task. For example, many developing countries have substantially opened their markets to developed country exports but the converse is not always the case. There remain substantial barriers to many of the same developing country products the export of which has been aggressively promoted by adjustment policies over the last fifteen years. As well, large subsidies continue to be in place for goods produced in the North which directly compete with and displace developing country goods, (primarily in agriculture). Developed countries continue to be responsible for a dominant share of world pollutants and in general are the prime contributors to the degradation of the global commons. And official development assistance is falling in a time of growing need.

Adjustment in the North, which is in the interests both of global efficiency and of global equity, would involve dealing with each of the above problems squarely. The South in many respects has done its share, and now it is the turn of the North. Trade barriers which

keep Southern exports from Northern markets must be dropped, subsidies for agricultural goods must be phased out, a fundamental revolution in actions of the developed countries affecting the global environment must take place, and more funds must be made available for development activities, especially including relief for now unpayable debts.

Finally, the North can cooperate with the South in the development of new global institutions and the reformation of old ones so as to contribute to shared goals. This too is a form of adjustment which is urgently required. For example, the introduction of a levy on speculative international currency flows can help to generate a more orderly financial environment in which all countries, Northern and Southern, are less threatened by volatile financial markets. As well enhanced global macroeconomic coordination with greater input from developing countries, and new measures to increase the level of global liquidity, can both help to further global goals.⁷⁶ Finally, appropriate structuring of international trading rules can serve to enhance environmental, social and economic goals. For example, to discourage environmental and social "dumping" rules which establish national environmental and social standards as well as measures of international financial assistance to ease the implementation of such rules are needed. One possibility is that "structural funds", modelled on those which exist today within the European Union, designed to cushion regional

⁷⁶ A proposal to accomplish the former is that for the creation of an "Interim World Economic Council" involving the Group of Five countries and a "Group of Non-Five" countries with responsibility for enhanced international macroeconomic coordination [See Jayawardena, L. "Developing Country Coordination in International Financial Institutions", in International Monetary and Financial Issues for the 1990s, Vol. IV, UNCTAD, Geneva, 1994]. A widespread proposal to accomplish the former is to substantially expand developing country allocations of SDRs.

imbalances and facilitate integration be implemented in at least partial form on a global scale. Such funds must be considered part of the global trade regime and understood as additional to existing forms of development assistance. In any event, trade rules must also be designed to permit developing countries to employ forward-looking export-oriented policies of the type employed in recent decades in East Asia, even where these require some deviations from unhindered markets.

These are bold suggestions, and they seem far from today's realities. I acknowledge this. But if we are realistic about the enormous task ahead of us, we may have no alternative but to be bold, and no greater duty than to be visionary.

IV. CONCLUSION

I have discussed today a very broad range of issues related to the search for more socially appropriate adjustment policies. Such policies will be more consistent with sustainable human development than those which have been implemented in recent years. Adjustment programmes have been necessary. However they have not always been well thought-out, nor have they always been well implemented.

Moreover, in some ways they have been fundamentally inadequate to addressing the scope and the scale of the challenges we face, which require coordination and, indeed, adjustment

on a global level, encompassing North as well as South.

More socially appropriate adjustment programmes will be built on the three foundation stones of viewing adjustment not as a short-term endeavour but as inextricably linked with long-term human development, of seeing social adjustment -- which entails fundamental redistributive measures and institutional changes, nationally and globally -- as central to the process of adjustment, and of implementing adjustment policies in a manner which is far more sensitive to national contexts and specificities.

Context-specific design of adjustment policies will fundamentally change our view of the appropriate economic instruments to apply in particular national situations.

More socially appropriate adjustment will entail taking people's participation seriously. It will also require a more equitable relationship between national and international actors.

More socially appropriate adjustment will put environmental concerns, and concerns of wide distribution of economic gains, at the very centre of policy design. This entails that macroeconomic policy instruments can and must be chosen with these overriding social and environmental objectives in mind.

We are not finished with adjusting, in the South or in the North, and we cannot be until and unless we progress towards the goal of sharply accelerated development which is pro-poor and

pro-nature. That day has not come. To reach it requires new tools and a new vision. We must be open and flexible in our choice of instruments though not of goals. This is the intellectual and personal challenge before us.

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**SOCIALLY RESPONSIBLE STRUCTURAL ADJUSTMENT :
PROPOSALS FOR REFORM AND RENEWAL**

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The Copenhagen Declaration adopted by the World Summit for Social Development called upon parties to "Review the impact of structural adjustment programmes on social development" and to "Reinforce the social development components of all adjustment policies and programmes" as well as to "Enlist the support and cooperation of regional and international organizations and the United Nations system...in implementing social development goals and integrating them into their policies, programmes and operations". Structural adjustment policies associated with the Bretton Woods Institutions have affected a very large number of developing countries since the early 1980s, fundamentally re-shaping their economies and societies. Approximately 30 countries in Africa have had near-continuous programmes with the IMF and World Bank since the early 1980s. In Latin America, there were 107 IMF-World Bank programmes in 18 countries during the 1980s. Although structural adjustment lending as officially designated by the Bretton Woods Institutions has diminished sharply in recent years, the larger market and open-economy oriented policy stance with which structural adjustment programmes are associated continues to be vigorously advocated by these institutions, and to be highly influential in developing countries.

Structural adjustment policies, strongly advocated by international financial institutions, emerged as a dominant reality for many developing countries, particularly in Africa and Latin America, as a consequence of prolonged economic crisis. Sharply deteriorating terms of trade for many primary commodities, combined with very large amounts of external debt built up in the 1970s, and in many cases the accumulated consequences of inefficient organization and management of national economic environments and institutions led to large and unsustainable macro-economic imbalances in many countries. These included large deficits in fiscal expenditure and external trade. Stabilization of some variety, designed to restore macroeconomic balance, was therefore inevitable and necessary (if only as a consequence of arithmetic). Although some competing intellectual models for restoring macroeconomic balance existed, in practice one set of such policies, corresponding to those favoured by the international financial institutions, was generally chosen. This set of policies came to be referred to as "structural adjustment". Their dominance may be explained partly by their having been favoured by the international financial institutions, partly by their having been in the interest of particular social groups in developing countries, and partly as a consequence of the more widespread intellectual ascendancy of the market-oriented paradigm, to which the logic of "structural adjustment" corresponded. Structural adjustment policies evolved as an amalgam of policies to bring about short-run macroeconomic stabilization and policies intended to restore long-term economic growth, in both cases exhibiting a very high element of market orientation. To achieve short-run stabilization, in the context of fiscal and balance of payments deficits, structural adjustment policies have been typically designed to sharply curtail demand, through such measures as reducing public expenditures, devaluing the exchange rate, restricting money supply, and raising certain taxes. Among the consequences

were high interest rates and as a result lower levels of investment. The cumulative short-term contractionary impact of these measures typically had the effect of reducing employment and wage income. Reductions in public expenditures generally had a direct negative impact on the poor where social sector and welfare expenditures (for example food subsidies) were cut. To attempt to achieve long-run growth, structural adjustment policies additionally advocated liberalization of foreign trade including removal of import restrictions and export taxes, liberalization of capital markets and foreign investment restrictions, deregulation of labour markets, and "improvements" in public sector management. Both sets of measures might include such more specific policies as privatization of state owned enterprises and the introduction of measures such as the introduction of means-testing and user fees for social services. In recent years, structural adjustment programmes have sometimes been accompanied by "social funds" intended to protect the recently displaced or the poor.

Although there is continuing controversy as to the economic and social consequences of structural adjustment policies, there is increasing consensus among sustainable human-development oriented observers that structural adjustment policies as conventionally applied have in many instances led to adverse social and environmental consequences. These may have sometimes (though by no means always) included significant regressive income redistribution, increased vulnerability to adverse macroeconomic shocks, adverse social consequences including worsening maternal, child and general health, declining school enrolment rates, lowered levels of food consumption, deteriorating environmental conditions, sharpened gender and regional imbalances, weakened institutions of social protection and stalled progress towards increased democracy and participation. Although adjustment policies intended to ensure macroeconomic balance and lay the foundation for sustained growth will continue to be necessary in an economically turbulent and increasingly integrated world, there is an urgent need to identify elements of alternative and more socially responsible programmes of adjustment which are compatible with social development, environmental protection and regeneration, and fuller peoples' participation.

What are the elements of an alternative programme of socially responsible structural adjustment? Part of what has been wrong with structural adjustment as conventionally implemented has been that it has been relatively inflexible and insensitive to national contexts. Socially responsible adjustment in contrast is likely to be composed of policies chosen with more regard to their appropriateness for particular national circumstances. As a result, it is impossible to provide a standardized list of elements of socially responsible adjustment. Nonetheless, it is possible to conclude that socially responsible adjustment should include some or all of the following fifteen components:

- (1) Reductions in fiscal deficits should be executed in accordance with the principle of "last call" upon the resources of the poor. This principle should be adhered to both out of commitment to equity and with concern for the increasingly recognized positive relationship between equity and growth. Social expenditures should be the last category of expenditures to be reduced if aggregate expenditures are cut. Clear "boundary lines" should be established in this regard. Social sector restructuring measures with the potential to hurt the poor (e.g. user fees) should be avoided. "Emergency social funds" which are intended to assist the poor under adjustment should be employed far more widely and be provided with much more support by international financial institutions.

(2) Considerably greater reliance should be placed on revenue generation (through increased and improved tax collection) rather than expenditure reduction as a means of restoring fiscal balance. Progressive taxes such as wealth and property taxes should be favoured over regressive taxes such as sales taxes for this purpose.

(3) Some aspects of macroeconomic reform should be implemented with much greater gradualism, if at all. Too sudden and uniform import liberalization for example can have a deindustrializing effect, and exacerbate structural trade deficits. In general, import liberalization should be entered into with greater caution and sometimes less uniformity. Selective capital controls should be considered under specific circumstances, as a means of reducing vulnerability to external fluctuations and speculative movements, as well as to safeguard available foreign exchange for higher priority uses (for example through regulations on profit repatriation and taxes on short-term capital, as have been employed in Chile and South Korea). "Structured markets" should be employed rather than no markets (for example to ensure balanced access by different sizes of firms to foreign exchange). Similarly, unrealistic and over-high targets for reducing inflation can lead to increases in interest rates which have avoidable and unnecessarily sharp contractionary effects. The most appropriate mix of alternative policies will strongly and unavoidably depend on national contexts and circumstances.

(4) Productive investments which are essential for further growth should be better protected during adjustment related budgetary cuts. Expenditures related in particular to productive physical infrastructure and to scientific and technological capacity should be vigorously safeguarded, as there are large productive externalities associated with these expenditures and therefore little alternative to public provision.

(5) Comprehensive market-oriented reform in agriculture can sometimes be growth and equity enhancing but can also have significant detrimental effects. Socially responsible adjustment in the agricultural sectors should avoid favouring larger-scale producers and producers of commercial crops. Specific measures should be taken to support small scale and subsistence farmers including making credit and extension services much more widely available and providing minimum price supports where productivity or equity-enhancing (a measure which is rejected by conventional adjustment). Favouring these forms of agricultural production avoids the gender and environmental imbalances otherwise often generated by market and commercial crop oriented structural adjustment. The dismantling of state marketing boards has sometime exacerbated regional imbalances and hurt the poor where market failures and private market power have been substantial and prevented equitable access of the poor to market opportunities. Equitable land-tenure arrangements including land-reforms are also indispensable to providing the poor with productive opportunities. Enhancing the productive potential of the poor in these ways, which conventional adjustment has usually failed to support, can generate enormous economic benefits despite direct costs.

(10) Socially responsible adjustment should aim in general at ensuring widely *diffused* growth, although this may require modification of unhindered markets, through enhanced support of small-scale enterprises, credit programmes, land reform, and measures for the enhancement of intra-national regional balance.

(6) There is a need for more explicit national and international safeguarding of environmental resources in the context of market-based reforms. The capacities of states to monitor and regulate environmental deterioration should be enhanced through international cooperation. Where foreign trade or foreign direct investment is associated with such deterioration (as for example in the case of timber exports), regulation should be considered at the international level, through appropriate forms of cooperation between states. There is a particularly urgent need for greater protection of common property resources both within nations and at the international level. As the expansion of markets is often associated with the privatization and breakdown of common property management systems where they already exist, international institutions and national governments should when undertaking market oriented reforms also simultaneously devote funds to the creation of explicitly countervailing environmentally protective measures (such as environmental funds designed to finance incentives for sustainable use of common property resources).

(7) While recognizing the need for greater equity between better protected formal sector workers and other workers, social responsible structural adjustment should not require (as conventional adjustment often has) forms of labour market deregulation which curtail basic labour rights. There is a need to continue to recognize, maintain and indeed extend minimal employment standards, and enforcement mechanisms, if possible within the framework of international cooperation.

(8) Where appropriate, industrial policies which generate and foster national competitiveness, involving elements of deliberate state coordination and public-private collaboration should be considered and advanced, in view of the successfulness of such policies in recent development experience, in East Asia and elsewhere. The capacities of states to engage in such collaboration should be raised through sustained technical cooperation, involving among others representatives of states which have successfully employed these policies. If such measures are inconsistent with states' obligations under the WTO there is a strong case for reviewing and relaxing the relevant provisions, in view of the overwhelming interests of the South. Where significant elements of market power or other market imperfections are present the capacity of states to provide efficiency-enhancing market regulation must be safeguarded and strengthened.

(9) It is likely that expansion in primary commodity exports encouraged by the international financial institutions simultaneously in a number of countries has contributed to deterioration in primary commodity prices. Cocoa is an example of a commodity for which this is likely to have been the case. Socially responsible adjustment should strive to avoid this outcome by encouraging national vertical and horizontal export diversification through focussing on the generation of increased technological and productive sophistication and national research and development capacities, rather than simply on increasing exports in existing areas of comparative advantage. Support for commodity price agreements through limits on production by all producing countries could also be an important element of socially responsible adjustment.

(11) Regional international trade and limited regional import substitution should be encouraged and directly fostered by international financial institutions. This is likely to

permit some of the advantages of scale economies and international competition while continuing necessary protections.

(12) In certain cases, international institutions advocating structural adjustment have been highly insensitive to the need for greater gradualism and economic support for countries undergoing fragile political processes (democratization or an extended peace process) vital to regional or national peace and stability. El Salvador's recent experience serves an example of adjustment measures focussed on narrowly economic goals endangering this type of political process. Socially responsible adjustment must take a more integrated view of social, political, and economic goals.

(13) Reform in the structure and functioning of the international financial institutions (IFIs) could serve to enhance socially responsible structural adjustment. Change in the voting structures of the IFIs would help to further their social sensitivity. Greater cooperation and coordination with other UN system agencies would also help in this regard. Less routine secrecy and greater public debate would allow for significant enhancements in the social orientation of adjustment policies, in part by enabling policy decisions to be better informed by broad-based public information and experience. Finally, the role of conditionality should be comprehensively reviewed. Opposing proposals to introduce an element of "social conditionality" in IFIs policies and to weaken even existing forms of conditionality should both be seriously considered. Proposals to substitute mutually binding "development contracts" between international institutions and national governments for conditionalities should be given especially serious consideration. Such "development contracts" could conceivably have social as well as economic content.

(14) The possibility of creating a "development link" with IMF resources should be reconsidered in the context of socially responsible adjustment. Previous proposals to use IMF gold holdings for development purposes should be considered in this connection, with the possible partial use of the realized revenues for a global social "cushion" or "socially responsible adjustment fund" with the express aim of easing the social costs of adjustment and financing alternative adjustment mechanisms. At the least, a new issue of SDRs should be considered as part of a discussion on socially responsible adjustment, as the low level of liquidity enjoyed by many developing countries is one of the sources of endemic financial crisis giving rise to the ongoing need for emergency adjustment.

(15) Adjustment should not be considered to be only a Southern task. A principle of global burden-sharing as well as the need for greater consistency in the application of principles of structural adjustment which have until now been applied selectively to the South requires that economic and social adjustment should also occur in the North. Among the measures which could be implemented in this regard are more open Northern import policies, fewer subsidies for Northern agricultural and other goods, debt relief and enhanced flows of official assistance. Enhanced resource flows from the North could be generated in part through innovative global financing mechanisms such as a levy on short-term international currency flows. Since many of these flows (where they relate to developing countries) have been made possible by the international openness generated by market-oriented structural adjustment it is appropriate that resources derived from such a levy should be applied to developing countries' needs. In particular, some of the funds thus generated might be applied toward the "socially responsible adjustment" fund proposed above.

Many of the policies proposed above as components of socially responsible structural adjustment (adjustment which is consistent with sustainable human development), demand capable and effective public institutions. Much of the conventional structural adjustment paradigm has been based on the notion that such institutions are unlikely to exist. The proposals offered here, in contrast, suppose that strengthening of public capacities is both possible and indispensable to the attainment of sustainable human development. Although strengthening public capacities does itself in many cases present a difficult challenge, it is one which cannot be avoided. There is little or no alternative if policies are to be identified which will better serve the human good on the eve of the twenty-first century.