From Legacy to Vision

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IISD
INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT
INSTITUT INTERNATIONAL DU DÉVELOPPEMENT DURABLE

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Sustainability, Poverty and Policy Adjustment

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Canadian Cataloguing in Publication Data

International Conference on Sustainable Development, Poverty Eradication and Macro/Micro Policy Adjustment (1993: Winnipeg, Man.)

Sustainability, poverty and policy adjustment

"Proceedings of the International Conference 2-4 December, 1993 on Sustainable Development, Poverty Eradication and Macro/Micro Policy Adjustment."
Includes bibliographical references.

ISBN I-895536-01-4

1. Sustainable development – Congresses.
2. Poverty – Government policy – Congresses.
3. Economic policy – Environmental aspects – Congresses.
I. Singh, Naresh C. II. Strickland, Richard S.
III. International Institute for Sustainable Development.
IV. Title.

HC79.E5153 1993 333.7 C96-920035-8

This book is printed on paper with recycled content.

Printed and bound in Canada.

Published and distributed by:

International Institute for Sustainable Development
161 Portage Avenue East - 6th Floor
Winnipeg, Manitoba, Canada
R3B 0Y4

Phone: 1 (204) 958-7700
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Contents

Acknowledgments

This document consolidates results of work done at the International Institute for Sustainable Development (IISD) with the contributions, ideas and discussions of participants at an international conference on sustainable development, poverty eradication and macro/micro policy adjustment, convened by the IISD in December 1993 in Winnipeg, Canada. It has benefited from insights and comments offered by Hans W. Singer (University of Sussex, UK) as an external reviewer and by the internal review conducted by other IISD staff.

Acronyms

BOP	Balance of Payments
BCAS	Bangladesh Centre for Advanced Studies
CGIAR	Consultative Group on International Agricultural Research
GATT	General Agreements on Tariffs and Trade
GDP	Gross Domestic Product
GFEP	Global Forum for Environment and Poverty
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank Group)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation (World Bank Group)
IFI	International Financial Institution
IFPRI	International Food Policy Research Institute
IIED	International Institute for Environment and Development
IISD	International Institute for Sustainable Development
IMF	International Monetary Fund
IPG	International Public Good
IUCN	World Conservation Union
LDC	Less Developed Country
MIGA	Multilateral Investment Guarantee Agency (World Bank Group)
NAFTA	North American Free Trade Agreement
NGO	Non-governmental Organization
NIC	Newly Industrializing Country

ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PAMSCAD	Program of Action to Mitigate the Social Costs of Adjustment (Ghana)
PFP	Policy Framework Paper
R&D	Research and Development
SAARC	South Asian Association for Regional Cooperation
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Program (i.e., World Bank/IMF approach)
SECAL	Sectoral Adjustment Loan
SME	Small and/or Medium Enterprise
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNICEF	United Nations Children's Fund
WCED	World Commission on Environment and Development
WRI	World Resources Institute

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Part 1

Laying the Foundation for Analysis and Change

From Legacy to Vision: Sustainability, Poverty and Policy Adjustment

1

Preface

The International Institute for Sustainable Development (IISD), an independent non-profit corporation funded by the governments of Canada and Manitoba located in the city of Winnipeg, is charged with the mission to promote the concept and practice of development which integrates the needs of people, the economy and the ecosystem in decision making. IISD's past work in the area of poverty and empowerment has included examination of: a systems approach to impoverishment processes and sustainable development[1]; the views and perspectives of the indigenous peoples on poverty and sustainable development[2]; and reviews of the *World Development Reports* of the World Bank and the *Human Development Reports* of the UNDP.

The Institute's Poverty and Empowerment Program Area is currently focused on four major result areas: (i) the integration of poverty and empowerment concerns into all program areas of the Institute; (ii) the conduct and review of case studies of poverty alleviation to understand ways of integrating concepts of sustainable development; (iii) the examination of macro-micro policy adjustments (especially structural adjustment) and their implications for poverty and sustainable development relationships; and (iv) processes and strategies of empowerment for sustainable development. These elements emanate from the previous work conducted at IISD, and have been reviewed and expanded upon during discussions held internally and with the IISD Board of Directors. Their strategic importance for policy and research was underscored by discussions at program development workshops held in Nairobi, Kenya in April 1993 which focused on issues of impoverishment, empowerment and sustainable development, highlighting the importance of linkages among these processes and the formation of partnerships aiming at poverty

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1 Gilberto C. Gallopin (1994). *Impoverishment and Sustainable Development: A Systems Approach.* International Institute for Sustainable Development (Winnipeg, Canada).

2 Linda Clarkson, Vern Morrissette and Gabriel Regallet (1992). *Our Responsibility to the Seventh Generation: Indigenous Peoples and Sustainable Development.* International Institute for Sustainable Development (Winnipeg, Canada).

alleviation and sustainable development. Presentations and discussions at an IISD workshop on empowerment, poverty alleviation and sustainable development in Toronto, Canada in November 1993 further defined some of the crucial linkages and emphasized the role of educational and institutional elements supporting empowerment and sustainable development. It is recognized that the characteristics, concepts and measurement of poverty are subjects of continuing debate, particularly with regard to the causes of poverty and strategies for its reduction. This initiative sought to generate fresh opportunities for analysis, review, and recommendations concerning existing and new relationships among policy adjustments, poverty alleviation and sustainable development.

Worldwide, there has been growing emphasis given to the environmental consequences of economic development and reform processes, with increasing concern for their impact upon sustainable development. This has included a special focus on the persistence of poverty and the effects of economic and environmental change upon low-income populations, particularly during periods of comprehensive macroeconomic and microeconomic policy adjustments. These are applied primarily within the context of developing countries in pursuit of economic equilibrium and renewed economic growth, mainly taking the form of structural adjustment packages. Work previously done by the IISD has reviewed the fundamental concepts of sustainable development as linked to poverty and the processes of impoverishment and examined approaches to poverty reduction and empowerment in support of sustainable development.[3]

In an effort to further examine and develop the relationships between economic policy decisions, poverty reduction and sustainable development and to establish a framework toward future policy formulation, the IISD convened a conference on the subject in Winnipeg during 2-4 December 1993. Participants included academics from the fields of economics and political science, consultants in areas of economic development and social change, members of bilateral and multilateral organizations devoted to programs and research in international development, and representatives of NGOs.

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3 In addition to those previously cited, relevant works from IISD include two working papers, "Empowerment for Sustainable Development" by Naresh Singh and Vangile Titi (1993) and "Sustainable Development, Poverty Eradication and Macro/Micro Policy Adjustments" by Naresh Singh and Richard Strickland (1993) and a document by Singh and Titi entitled, *Empowerment for Sustainable Development: Towards Operational Strategies* (1995).

Presentations and discussions began by focusing on the general themes of the cause and nature of macro-micro policy adjustments, the linkages between various policy instruments, and their consequences as measured by indicators of poverty, impoverishment processes and sustainable development. As Loxley notes below (Chapter 5), while there seems to be greater consensus among those advocating sustainable development (including the World Bank) around the need to understand and monitor effects of structural adjustment on both poverty and the environment, attention to date has tended to focus on simple two-way channels of causation (e.g., between poverty and environmental degradation); inadequate recognition has been given to the need to study possible interacting cross-linkages between all three.

Conference discussions covered a wide range of issues associated with the fundamental principles of adjustment and its operative mechanisms. Problem areas were identified in which orthodox policy prescriptions have fallen short of promoting sustainable development or have openly served to aggravate existing social, environmental or economic inequities thwarting such development. Efforts were made to identify alternative policy instruments more supportive of the principles of sustainable development, the appropriate direction of a future research agenda, and the definition of the future role of IISD-type institutions in further work in the field. The objectives included analysis of the issues, identification of opportunities for meaningful interventions, and the assessment of current and potential roles of key actors such as national governments, international financial agencies and research institutions.

Notable among the common concerns expressed is the fundamental question concerning the very premise of development when that is based on assumptions of continued global economic growth. Traditional models of economic growth have in fact led to the current stalemate confronted by developing countries and, by extension, by developed countries as well. Within the confines of current technological capacities, endless expansion of the global economy is not viable. The metaphor of the rising tide lifting all boats is fundamentally flawed, considering the natural ebbing and rising of tides: "A rising tide could continuously raise all boats only if the total amount of sea water increased without limit, flooding the earth".[4]

4 R. Goodland and H. Daly (1993). *Poverty Alleviation is Essential for Environmental Sustainability*, Environment Department Divisional Working Paper 1993-42. World Bank (Washington, DC), page 7.

In terms of structural adjustment programs, concern was expressed regarding the "fallacy of composition", that is, the questionable viability of promoting export production of similar primary commodities in numerous developing countries which must then compete with each other in securing shares of the international market for those goods (often driving the international price lower and exacerbating negative trends in the terms of trade). Question was also raised over the implications of extensive export-oriented production for the stock of natural resources (in the short-term and in the longer run), and over the practicality of measures seeking such production shifts when existing resources are relatively immobile or specialized.

According to such standard growth models, the poor are expected to benefit from economic expansion through trickle-down processes in the medium- to long-term. Question is raised by the damaging effects of many adjustment-related measures in the short term and the political impediments which frustrate progress toward poverty alleviation in the longer run. In addition to the national political context, other country-specific characteristics including technological capacities, managerial know-how and internal capital markets complicate the application of standard models of economic growth and adjustment.

The specificity of the national context is critical in terms of the intended and potential policy changes and the observed social and economic outcomes of adjustment. The outstanding economic performance of the newly industrializing countries (NICs) of East Asia may carry important implications for other cases of adjustment in developing countries. However, it should be remembered that in addition to comprehensive trade and export promotion policies, the Asian NICs have been characterized by an unusual number of small- and medium-scale firms and have experienced massive capital inflows and extensive state intervention in areas of internal migration, rural land reform, sectoral investment, and the development of infrastructure and human resources. At the same time, information is emerging that economic expansion in the region has been accompanied by significant negative consequences for the environment.

Regarding various aspects of community participation in decision making, there is general agreement that local engagement in the processes of policy implementation and structural adjustment is critical to what has been called a sense of program "ownership" (i.e., identifying with and having a sense of investing in the reform process). Without this, policy reform is unlikely to last over time. Consensus is also found around related issues of political will and the commitment of national governments to persevere through the negotiation and implementation of policy changes; these are key elements for sustaining the reform process over time. If local action and participatory decision making are the building blocks of the policy process, then the resulting popular support for government decisions will lead to the kind of stable policy environment supporting sustainable development. Community participation is also central to much of the discussion around the principles of sustainable development. Concentrated control over the resource base is said to threaten the short- and long-run welfare of the wider community; such threats can be defused through greater democratization and community control of the resource base (e.g., natural resources, information resources, means of production).

There is also significant concern about the capacity or willingness of Northern economies to adjust, and the limitations of traditional adjustment models toward sustainable development as long as the countries of the North fail to make necessary adjustments in their own economic activities and institutions. Problems include the North's disproportionate consumption of global resources, the ecologically unfriendly aspects of Northern lifestyles, the nature of its markets vis-à-vis the exports of Southern economies, and the pattern of financial flows between the South and the North. In a related way, the structure of global (and domestic) political relations, rather than the economic content of specific policy measures, is a key determinant of the condition of the poor during adjustment; global cultural assumptions concerning modernization further contribute to patterns of environmental degradation. Dealing with the environmental and developmental consequences of structural adjustment cannot be done in isolation from the larger context of international political economy which relates the experience of Southern economies to the institutions of the North in terms of debt, capital flows, trade, technology transfer and migration.

Herein, Part One lays the foundation for analysis and change. Following the introduction, Chapter 2 sets out the framework for the discussion of sustainable development as concept and practice, identifying the underlying principles and relating them to both the legacy of past development processes and the vision of alternative sustainable development strategies. It incorporates the analysis of a "full world" and the limits of current growth-centered development models defined by David Korten and others, as well as William Rees' conceptualization of "ecological footprints" and the need to include the ecosphere's carrying capacity in the formulation of sustainable development models. Chapter 3 is drawn from an IISD working paper by Naresh Singh and Richard Strickland reviewing fundamental concepts of sustainable development, impoverishment and economic crises leading to the need for structural reform, especially in developing countries. Specific policy instruments associated with orthodox structural adjustment programs are examined in this light and alternatives more supportive of sustainable development principles are considered.

Part Two provides analysis of the legacy of current development strategies in the context of structural adjustment and the social and political consequences of comprehensive economic reform. In Chapter 4, Albert Berry discusses policy impacts of structural adjustment measures, impoverishment processes and strategies of poverty alleviation in developing countries. In Chapter 5, John Loxley delves further into the linkages between structural adjustment, poverty and sustainable development, citing examples of developments "on the ground" in a number of country cases. In Chapter 6, Ponna Wignaraja, provides powerful testimony to the insupportable extent of human suffering associated with current poverty levels and the critical need for immediate research attention and policy action to resolve the negative trends associated with current models of economic growth and structural adjustment. He places emphasis on processes of empowerment, putting people at the center of any new development initiatives.

Part Three includes a variety of papers devoted to a critique of orthodox adjustment strategies primarily from the perspective of those countries engaged in the process of structural change. In Chapter 7, Arshad Zaman offers a critique of the current adjustment orthodoxy, suggesting that a most fundamental transformation is required giving greater emphasis to the role of cultural pluralism and international linkages in defining new modes of sustainable development. In Chapter 8, Guy Mhone writes of the specific shortcomings of adjustment measures in the African context, suggesting ways in which current thinking might be fundamentally reformed to accommodate the characteristics inherent in Southern African economies. In Chapter 9, Morris Miller provides an insightful analysis drawing upon previous experience within the World Bank, highlighting ways in which orthodox adjustment falls short in addressing economic and socio-political realities in adjusting countries, thereby thwarting the adjustment effort and precluding any progress toward sustainable development. In Chapter 10, Rehman Sobhan provides a well-rounded overview of the problems of current models and the way in which they are inherently unsustainable in the longer run of countries experiencing economic crisis. In Chapter 11, discussion led by Ben Turok is summarized, in which he draws from the history of struggle and crisis in South Africa to illuminate the dramatic need for reform of standard development models and greater accountability for the diversity and power of social and political relationships both influencing and being influenced by rapid economic change.

Part Four offers a review of the conference discussions, through a summary of remarks and concluding thoughts offered by Kari Levitt in Chapter 12. An agenda for research and thoughts on the future direction of actions to influence the intent and design of macro and micro adjustment policy are given in Chapter 13. The closing discussions focus particularly on the ways in which information covered in the meetings could be made relevant to policymakers and those engaged in the formulation and implementation of measures aimed at comprehensive economic and social reform. Continued emphasis was given to the need to illuminate the linkages between strategies to reverse impoverishment processes, measures to address elements advancing human development (as opposed to growth more narrowly considered), and policies and actions which support the social, political, and ecological integrity of societies toward sustainable development, on local, national and global levels.

Naresh C. Singh

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International Institute for Sustainable Development

2

Sustainable Development: Taking Stock

Richard Strickland and Naresh Singh

From Concept to Practice

Sustainable development contains two key concepts around which balance must be sought: those of "needs" among the world's population, and of limitations associated with current states of technology and social organization and their relationship to the capacity of the ecosphere to satisfy present and future demands. In 1987, the World Commission on Environment and Development (the "Brundtland Commission") led the way in framing a working concept, stating that in essence, "sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations" (WCED, 1987: 46). Development as such would thus meet the needs of the present without compromising the capacity of future generations to fulfill their own needs.

Despite the concerted and sustained application of current growth models and strategies for economic development at national and international levels, the growing body of evidence of the limitations of these models and their negative consequences for natural resources and human development is overwhelming. IISD's previous work on impoverishment processes and sustainable development has observed the following:

> Prevailing development patterns are seriously flawed in the South and in the North, and they are failing dramatically in at least two fundamental realms: poverty not only has not been eradicated but it is rising, and the ecological life-support and natural-resource systems are being seriously damaged from the local to the global

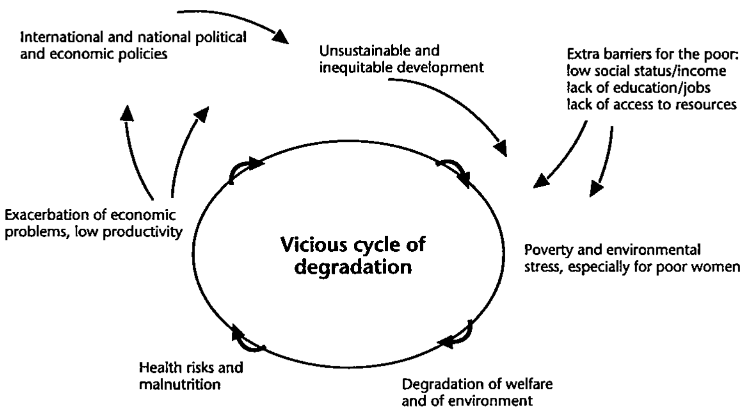
level. The current trajectory is clearly unsustainable (Gallopin, 1994).

For a transition to sustainable development, new and greater emphasis must be given to the full and true valuation of the natural, built and cultural environments. Policymakers as well as those seeking benefits from development-promoting policies and programs must extend their time horizons to consider both medium-term interests and the longer-run future, incorporating greater understanding of the impact of current policy initiatives and consumption patterns on the capacity of future generations to realize their own needs and aspirations. Sustainable development also requires greater equity among members of present societies, with special attention to provide for the least advantaged in terms of access to economic, social and political rights and resources; these would include children in all countries made vulnerable by the paradox of living standards lower than that of their parents' generation. Efforts toward "intragenerational" equity must be accompanied by greater "intergenerational" equity across time promoting fair treatment of future generations in their access to the means for sustainable development.

One must not underestimate the complexity of the system of cause and effect within which problems of development and the ecosphere are linked. Environmental stresses are linked one to another, such that several different problems must be attacked simultaneously. They are also linked to patterns of economic development, requiring that economics and ecology be integrated in decision making processes both to protect the ecosystem and promote development. With further complexity, environmental and economic problems are linked to important social and political factors, suggesting the importance of power and influence within most environment and development challenges. Ultimately, the systemic features of environment-economy links operate on national, international and global levels. It becomes increasingly imperative that new approaches be developed in support of development processes which integrate production with resource conservation and enhancement, with assurances of adequate livelihoods and equitable access to resources.

This leads to the consideration of matters of environmental justice on a global scale, integrating concepts of social justice with principles of sustainable development. It is important to recognize the interactive relationship between poverty and environmental degradation, each being both cause and effect of the other. However, it has been argued that poverty should not be seen as a cause in itself, but rather as the outcome of inequitable structures, uneven development patterns and constraints imposed by ruling elites (Thrupp, 1993). Often, environmental degradation is related to inequitable social structures and resource control, consumption patterns of the affluent, production patterns in developed countries and distortions arising from dominant growth models. A vicious circle of degradation and inequity becomes established (Figure 1), being exacerbated by fallacious assumptions of "trickle down" economics, flawed international investment patterns and contributing ecological and technological factors. Ways to correct the current inadequate models of growth and development, to alter flawed policy designs and to promote the adequate investment of economic and non-economic resources toward a positive "virtuous" cycle of sustainable development (Figure 2) are the subject of this book.

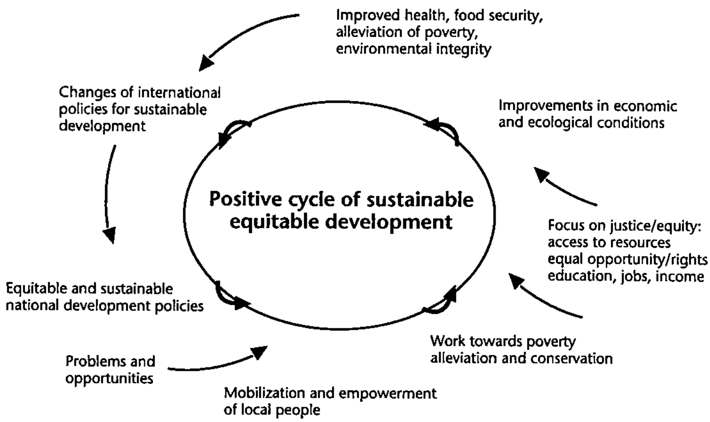
Figure 1



Source: Thrupp (1993)

There is the need for a shift away from the conventional growth-centered vision of development, defined in terms of growth in economic value of the outputs of productive systems, toward a people-centered vision in which the well-being of people and the living systems of the planet take precedence, in support of a balance between the earth's regenerative systems, its resource stocks and the human demands placed on these systems and resources (Korten, 1990). With reference to this complex web of linkages, members of The Hague Symposium in November 1991 debated the issues and concluded:

Figure 2



Source: Thrupp (1993)

> The call for sustainable development is not simply a call for environmental protection. Instead, sustainable development implies a new concept of economic growth - one that provides fairness and opportunity for all the world's people, not just the privileged few, without further destroying the world's finite natural resources and carrying capacity. Sustainable development is a process in which economic, fiscal, trade, energy, agricultural, industrial and all other policies are so designed as to bring about development that is economically, socially and ecologically sustainable (The Hague Report, 1992: 6).

As a comprehensive concept embracing all facets of human life, sustainable development reflects both the global threats to humanity and the opportunities to address the new era of transition toward fundamental global change which avoids the false distinction between national and global environmental problems.

The notion of equity is central to sustainable development and implies a more equal distribution of assets and the enhancement of capabilities and opportunities of the most deprived. At the practical operational level, sustainable development means:

- Ensuring self-sustaining improvements in productivity and quality of life of communities and societies including access to basic needs associated with education, health, nutrition, shelter, sanitation, employment and food security;

- Ensuring that production processes do not overexploit the carrying and productive capacities of the natural resource base and compromise the quality of the ecosystem, thus limiting the options of present and future generations;
- Ensuring that people have basic human rights and freedoms to participate in the political, economic, social and environmental spheres of their communities and societies.

Three sets of issues become relevant: (i) maintenance of a constant natural capital stock including preservation of the renewal potential of natural resources, combined with maintenance of the environmental sink capacity to assimilate wastes, sewage and emissions; (ii) improvements in the quality of life through entitlements to the means of production (e.g., land, credit, technology), entitlements to political and social organization and services, and access to basic needs satisfaction for nutrition, shelter, clothing and sanitation; and (iii) economic development as a process addressing problems of both underconsumption and overconsumption (Singh and Titi, 1993: 6).

We therefore stand at a juncture between a received legacy built upon the past application of growth strategies, harvesting the consequences of misguided policies and shortsighted aims for a purportedly improved quality of life, and the vision of a new path toward sustainable development founded upon principles of equity and the integrity of the ecological, social, economic, cultural and political environments. Some remain committed to the viability of the old ways, seeking to adjust policies and practices at the margin in an effort to correct for their negative consequences. Others follow a more visionary tack, wholly convinced that a successful transition to sustainable development requires a radical break from former models and behaviors and a new conceptualization of the improved and future society. The challenge certainly lies in closing the gap between the two. To bridge the legacy and the vision requires the definition of processes which promote the analysis of the current trajectory and foster the transformation toward new ways of thinking, consuming, producing, relating, organizing, governing — indeed, all the actions which comprise the experience of life on earth toward the full realization of human potential within the framework of sustainable development.

The Ecological Footprint

One useful way to examine the environmental impact of current economic activity and the consequences for sustainable development can be found by applying the concept of the "ecological footprint", that is, the land that would be required on this planet to support our current lifestyle indefinitely (Rees, 1992). The analysis supporting this concept has pointed out the failure of most economic theory to incorporate the concept of "carrying capacity" or rather to assume that it is infinitely expandable. There is no inclusion of the parallel flows of energy and materials needed to sustain the circular flow of income in standard portrayals of economic activity, leading to a shortsighted view of the economy somehow disconnected from the ecosphere.

The idea of the ecological footprint helps to reinforce the fact that we as human beings (like all other organisms on earth) are connected to the ecosystems of which we are a part and cannot exist in isolation from them. The ecosphere is the source of our material resources, the assimilator of our wastes, and the provider of many beneficial and life-supporting functions (e.g., recreational space, climate stabilization, atmospheric maintenance). The human economy is thus an inextricably integrated, completely contained and wholly dependent sub-system of the ecosphere, sustained entirely by low-entropy energy/matter produced by biophysical processes:

> Its internal order and complexity continuously increase as it grows and develops, particularly through the formation of manufactured capital made from natural capital. However, because the economy is an open subsystem of the materially closed, no-growing ecosphere, the increasing order (or reduced entropy) of the former can be purchased only by increasing the disorder (entropy) of the latter. From this perspective, global ecological change is the thermodynamically inevitable result of human population growth and economic expansion. The material closure of the ecosphere means that the continued growth of the human enterprise can be "sustained" only by displacing other species from their habitats and by appropriating an ever greater share of the low entropy energy/matter continuously being formed by biophysical processes in the ecosphere. (Rees, 1992).

While the standard definition of carrying capacity focuses on the population that can be supported indefinitely in a defined habitat without permanent damage to the ecosystem, the idea of the ecological footprint seeks to invert this in order to estimate the natural capital requirements of a given population. The question becomes: How much land in various categories is required to support the region's population indefinitely at a given material standard? This leads to the derivation of "appropriated carrying capacity" which can be represented as the corresponding area of land and water required by the defined population or economy to produce all the resources they consume and absorb all the wastes they emit indefinitely at current material standards with existing technology.

Using this approach, it has been determined that the ecological footprint of the average Canadian (i.e., the amount of land required to supply the resources for each individual's present consumption) adds up to over 4.8 hectares (an area roughly equal to three city blocks). When applied to the settlement patterns of human communities, it is easy to see that the areas are usually far smaller than that needed to supply the resources for their populations and that human settlements affect areas in addition to those where they are built. Assuming the 4.8 hectares figure for the average Canadian, then the Lower Fraser Valley surrounding Vancouver in British Columbia would require an area twenty times larger than that which is actually available for food, forestry products and energy. Added to this is the notion that the ecologically productive land available to each person on earth (decreasing over the last century) amounts to only 1.6 hectares. This suggests that to raise living standards of everyone on the planet to that of the average Canadian would require at least two additional earths to provide all the resources required (Wackernagel, 1993).

Through current practices, continued consumption by those at the center of the global economy (i.e., industrialized countries) will by necessity serve to further impoverish the periphery (i.e., developing countries). Importing carrying capacity by industrialized countries may equate to the export of ecological and social degradation to the developing economies. In countries with little other than agricultural, fishery and forest reserves to offer world markets and with current development models promoting intensified production of commodities for export, production of food staples and locally consumed goods may suffer for the sake of increasing export production, aggravating problems of malnutrition, displacement and problems of economic and political inequality (Rees, 1992). This effect may be ameliorated somewhat in countries able to benefit from a shift in production from primary to manufactured goods and greater processing of domestic resources.

From this, it is clear that a balance must be found between human consumption and nature's limited productivity if we are to ensure communities that are sustainable locally, regionally and globally. This leads us back to consideration of the underlying principles of sustainable development in order to utilize ecological productivity without damaging it, secure adequate resources for sustainable human consumption, and support fairness, cooperation and well-being in the effort toward human development and social health.

A People-Centered Approach

Moving on from the rather academic consideration of the carrying capacity of the ecosphere and the implications of current models of growth and economic expansion, it becomes relevant to question the very nature of the "official wisdom" guiding current developments and to pose an alternative model of growth that rejects the "more-of-the-same" approach while seeking to put people at the center of debate and policy formulation. This serves to move discussion from an analytical discourse of existing circumstances toward a more visionary conceptualization of possible future policy directions and strategies. In this realm, voices are seldom heard in unison and debate is likely to be lively. While not agreed to by all present, some of the ideas presented by David Korten served to promote intensive and wide-ranging discussion and contributed to the identification of priorities and the generation of consensus on a number of key issues by the conclusion of the conference.

According to the received wisdom, efforts to reduce poverty, protect the environment, maintain public order and stabilize population growth all depend upon accelerating economic growth, as an extension of current development strategies into the infinite future. According to this way of thinking, growth is promoted by privatizing public assets, deregulating markets, removing international trade and investment barriers to increase exports, providing incentives for investors and protecting intellectual property rights. Poverty in developing countries would be alleviated by increased foreign aid receipts, foreign borrowing and investment, and greater levels of exports. The economic activity of developed countries would also help to alleviate Third World poverty by increasing the demand for exports from developing countries, thereby boosting economic growth and contributing to the improvement of conditions for the poor.

However, in the four decades since 1950, figures indicate that global economic output is five times what it was while population has doubled; despite the anticipated benefits of such rates of economic expansion, the incidence of absolute poverty has doubled over the same period of time (Korten, 1993). Additionally, there is growing stress on ecosystems, reflected in climate change, ozone depletion, greater frequency and concentration of toxic contamination, and the degradation and/or loss of soil, water reserves, forests and fisheries. There is also a worrying escalation in social stress and trends toward disintegration, as demonstrated by the proliferation of crime, drug abuse, family breakdown, civil war and civilian war casualties, refugees and displaced persons, and by increased expenditures on police, security and social control. These destructive trends were accelerated during the 1980s by conservative governments deregulating their own markets and imposing deregulation and global market integration on indebted developing economies (via structural adjustment programs). As a consequence, the world has been moving toward a single borderless and unregulated market economy, amid a growing sense of personal insecurity and social confusion.

It is well to ask why the so-called solutions espoused by the politicians, official development agencies and the business sector seem to aggravate rather than ameliorate the situation. Two unacknowledged limits have been identified in this regard (Korten, 1993). One is that of physical consumption: The physical throughput of the human economy exceeds what the natural ecosystem can realistically sustain within the relevant timeframe. This idea is congruent with the earlier discussion addressing the carrying capacity of the natural resource stock. The second limit pertains to inequality and competition: Extremes of poverty and wealth coupled with a growing dominance of market forces over community forces stretches the social fabric beyond sustainable limits. The implications of such limits are profound in terms of current and future problems of human development.

One consequence is that we find ourselves residents of a "full world" in which the expanding economic subsystem embedded within the greater ecosphere begins to bump up against the confines of the natural resource base; greater and greater exploitation of resources and energy toward ever higher levels of production and consumption to satisfy a growing population yields increasing amounts of waste and expended energy while running down the natural stock supporting such cycles of production and consumption. The continued pressure for growth in a full world destroys the regenerative capacities of the ecosystem on which present and future generations rely, and increases inequality by transferring control of ecological resources from the financially weak to the financially powerful. This suggests that the acceleration of economic growth is no longer an appropriate public policy goal. The priority now is to reallocate available physical resources to meet the basic needs of all people and to assure the sustained availability of comparable resource flows to future generations. Both require greater community organization and participation, and relate to the importance of empowerment as a process in support of sustainable development.

The pernicious effects of inequality in the distribution of income, assets and power contribute to social stress and hamper the transition to sustainable development. Figures from 1992 indicate that the top 20 percent of the world's population receive over 82 percent of global income, whereas the bottom 20 percent receive less than 1.5 percent. The consequences of such inequality are dramatically destructive to those living in poverty, depriving the poor of the basic necessities of life; by severely threatening the human and social development — indeed, the very survival — of children in particular, such inequality truly endangers the welfare of both present and future generations.

Korten suggests that the human economy has evolved from one founded on love and community forces (incorporating values of love and mutual obligation to nature, place, family, people, community and nation) to one based on money and market forces (focused on values of competition and material acquisition) (Korten, 1993). As the money economy has subsumed the love economy and as centrally planned economies have recently fallen by the wayside, regulated market economies (i.e., western economies) and state command economies (i.e., eastern economies) have merged into a system of global unregulated markets responding to corporate command. Power once centered in the community is now controlled and increasingly concentrated by small interest groups representing transnational capital; accountability is weakened. Spiritual values are replaced by financial values, and the replication and accumulation of money becomes the goal of human society.

In such a globalized market economy, the growth priority justifies high consumption lifestyles and investment incentives for the wealthy. While the market responds to their whims, the poor are ignored. Open borders place localities in competition to attract investment by absorbing social and environmental costs. Workers compete to keep their jobs by taking wage and benefit cuts. The power of economic decision making passes from governments to corporations, while constraints on the concentration of corporate power and monopolies are relaxed. Wages and community standards fall while profits and executive salaries rise. Management of the globalized economy is said to rest in the hands of the Group of 7[5] and the Bretton Woods institutions, which operate in secrecy and favor corporate

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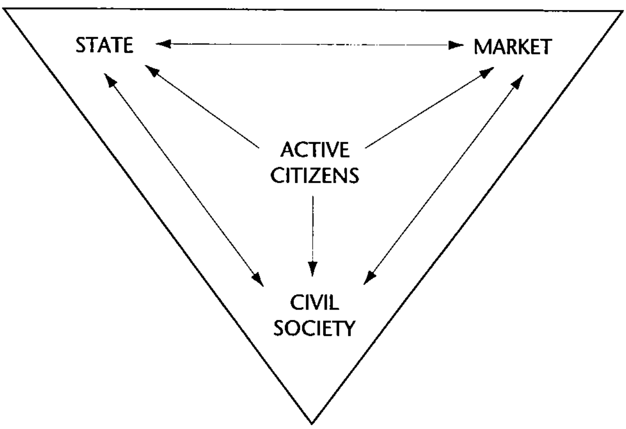
5 The Group of 7 refers to the seven main pluralist economies: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States of America.

interests. International intellectual property rights agreements give corporations monopoly power over information.

An alternative vision of society might be one which promotes democratic pluralism, with a people-centered focus placing active citizens engaged in social, economic and political discourse at the center of the social construct (Figure 3). State systems interact with those of the market sector and the institutions of civil society.

Figure 3



DEMOCRATIC PLURALISM

The competing development visions might be categorized as those being growth-centered (as currently realized) and those which might be called people-centered. Growth-centered models are founded on principles of material consumption, the wants of the moneyed classes, economic returns to firms and to capital, and market competition. In contrast, people-centered development focuses on the quality of life, the needs of all without exclusion of any class or group, economic returns to households and to people, and community cooperation. In current growth-centered models, a borderless unregulated global market favors production for foreign markets, transnational ownership, local specialization, international dependence, financial and environmental borrowing and debt, externalized social and environmental costs, open competitive access to basic resources, and legally protected corporate monopoly control of marketable technology. In the vision of people-centered development, interlinked and regulated market economies would favor local production for local markets, local ownership, local diversification, self-reliance in basic needs, financial and environmental conservation and saving, internalized social and environmental costs, taxed and regulated removal of basic resources, and assured free access to information and beneficial technology.

The following key elements might be identified toward an agenda for people-centered sustainable development:

- Distribute and decentralize economic power through radical asset reform, strong national and international anti-trust laws, and taxing large international financial transfers.
- Change the spatial distribution of habitat and eliminate the need for private automobiles by investing in mass transit and regulating land use to integrate home, work and recreation.
- Encourage energy conservation, solar conversion, and regionalization of markets by imposing carbon emission taxes and energy conscious building codes.
- Eliminate military expenditures, use of harmful and nonrenewable agricultural chemicals, garbage, toxic wastes and long-term international borrowing.
- Finance frugal lifestyles education through a tax on advertising.
- Reduce population by incentives for one child families.
- Reduce luxury consumption by imposing taxes on luxury goods and services.

Toward the realization of the vision of people-centered development, transformational forces are required promoting the political and spiritual awakening of the people. Greater political awareness and participation — including greater access to political resources — will be required by those suffering the consequences of system failure such as forced displacement by "development" projects, job loss due to "international competitiveness", toxic poisoning and falling real incomes. The growing social and ecological crisis also calls for a spiritual awakening to confront the shallowness of money-oriented growth-centered development, reflect on the meaning of life and community, avoid social pressures to conform to the worship of money, and seek responsible and satisfying lifestyles based on nurturing bonds of sharing within community and a reverence for life and nature.

Conclusion

Some of the foregoing analysis must be read with an open mind and is readily open to debate on aspects of alternative ways of thinking. However, there is reason to believe that some of the fundamental questions raised in the nature of such discussion are instrumental in shaping the necessary policy dialogue that must be undertaken in the quest for sustainable development. Basic to the thinking of both Rees and Korten, and relevant to the illumination of the underlying principles of sustainable development, are the elements of an alternative human agenda which seeks to balance human demands with ecosystem capacity, give basic needs first priority in allocating ecosystem resources, and increase the democratic accountability of economic and political institutions. Given the often contentious nature of the myriad of issues informing the debate over sustainable development, such consensus over some of the fundamentals represents an important point of departure and leads us further on the search for the bridge between the legacy and the vision.

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3

Sustainable Development, Poverty Eradication and Macro/Micro Policy Adjustments: An Overview

Naresh Singh and Richard Strickland

Introduction

It is important to define the linkages between impoverishment and development processes, in order to identify ways in which strategies toward sustainable development can work to reverse the slide toward impoverishment and ultimately eradicate poverty. Economic policy adjustments at both macro and micro levels will influence progress toward sustainable development and poverty reduction. This chapter reviews concepts of poverty and impoverishment in light of the fundamentals of sustainable development. It discusses the circumstances contributing to economic crisis, particularly in developing countries, and the nature of macro- and micro-economic policy adjustments commonly taking the form of structural adjustment programs implemented in conjunction with the World Bank in pursuit of economic equilibrium and renewed economic growth. Linkages between the various economic policy instruments and the consequences of policy reform upon indicators of poverty, impoverishment processes and sustainable development are considered. The ability of orthodox adjustment programs to promote sustainable development is questioned, and consideration is given to the need for an alternative approach capable of fostering necessary economic reforms while alleviating poverty and upholding the principles of sustainable development.

Impoverishment and Empowerment

In its examination of global issues associated with poverty and sustainable development, the Brundtland Commission addressed the relationship between the environment, the economy and the incidence of poverty:

> There has been a growing realization in national governments and multilateral institutions that it is impossible to separate economic development issues from environment issues; many forms of development erode the environmental resources upon which they must be based, and environmental degradation can undermine economic development. Poverty is a major cause and effect of global environmental problems. It is, therefore, futile to attempt to deal with environmental problems without a broader perspective that encompasses the factors underlying world poverty and international inequality (WCED, 1987: 3).

As the Commission observed, a world characterized by endemic poverty will always be prone to ecological and other catastrophes. Poverty reduces people's capacity to use resources in a sustainable manner, intensifying pressure on the ecosystem. A reversal of negative growth trends and a rise in per capita incomes in developing countries are fundamental preconditions for eliminating absolute poverty, and yet are not in themselves sufficient for achieving the task. The content of growth itself must also change in order to support sustainable development, becoming less material- and energy-intensive and more equitable in its impact. The entire process of economic development must be more soundly based upon the realities of the stock of capital sustaining it.

Poverty may be defined in different ways. Among many constructive concepts on the subject, work by Sen is useful in its identification of the poor through the specification of a set of basic or minimum needs and the inability to meet those needs, and its aggregation of the characteristics of the set of poor people into an overall image of poverty (Sen, 1981). For purposes of the present discussion, some key definitions and measurement concepts follow:

- *Poverty line:* This may refer narrowly to measures of income per capita, or more broadly to measures of the incidence of energy-deficient diets, defined as being below a standard amount required to prevent stunted growth and serious health risks (or alternatively, the amount required to maintain an active working life). The poverty threshold or line thus reflects the minimum level of socially acceptable household consumption, usually calculated on the basis of an income two-thirds of which would be spent on a "food basket" providing essential calories and proteins at lowest cost.

- *Absolute and relative poverty:* Absolute poverty includes those who fall below the minimum standard of consumption (the poverty line) and is relatively more prevalent in developing countries. Relative poverty, on the other hand, exists above the poverty line and is perceived as a state of deprivation relative to existing societal norms of income and access to social amenities.
- *Pockets of poverty versus mass poverty:* The phrase "pockets of poverty" has been applied to localized poor communities in the midst of affluence, mainly in developed countries where it is assumed that the problem is relatively insignificant and easily dealt with. On the other hand, mass poverty has been used to describe poverty in the developing countries where the poor constitute a major portion of the population and where it is becoming increasingly difficult to conceptually isolate the poor.
- *The seasonally poor:* This group includes those who encounter temporary poverty with the fluctuation of seasons. The rural poor tend to suffer most during the period before the first harvest; food is short, prices are high, work is hard and disease is common. This is the season of hunger, sickness and poverty ratchet effects which lead to irreversible downward movements into poverty through the sale or mortgaging of assets, further impoverishing the poor (Chambers, 1983).
- *The structurally poor:* These people have lived consistently in poverty and are unlikely to achieve improvements in living standards without long-run development of the economy; growth may not favorably impact upon them unless measures are consciously designed to do so.
- *The newly poor:* These include the direct victims of recession and austerity programs (e.g., the newly unemployed), as well as those vulnerable groups pushed over the borderline into real poverty by the interaction of economic problems and reform policies (e.g., social expenditure reductions, higher consumer prices) (Helleiner, 1990).

Following the convention adopted by most authorities, poverty as considered in the present chapter will pertain to the definition based on the nutritional status of the poor where a person receives less than the level of caloric intake needed to function fully and in good health. The dominant assumption holds that such poverty as found in developing countries does not exist in the developed world; where "straitened circumstances" do occur in developed countries, relief is extended in the form of income and employment guarantees through state-supported public welfare and social security systems. For present purposes, poverty shall be defined as a condition of lack of access to options and entitlements which are social, political, economic, cultural and environmental.

The poor are found in diverse socio-ecological communities, from arid and semi-arid lands to humid rainforests, in river and lake basins, on estuaries and coasts, in mountain communities, on small islands, in the slums and shanty-towns of Third World cities, on large agricultural plantations and isolated small farms, on the prairies and in urban areas of the developed countries (Singh and Titi, 1993). They include peasants, landless rural laborers, those displaced by famine and war, the aged and infirm, nomadic and indigenous peoples, urban unemployed workers, slum and shanty-town dwellers, fishermen, petty traders, farmers, women, children and infants. Current estimates (1988 data) suggest that the total world population below the poverty line numbers more than one billion, of which about 939 million are in rural areas (Jazairy *et al.*, 1992).

Chambers (1983) has characterized the poor according to their state of:

- *Isolation,* due to their peripheral location away from centers of trading and information, lack of advice from agriculture and health extension workers, and lack of adequate means of travel;
- *Vulnerability,* due to their lack of buffers against contingencies such as disasters, social conventions, physical incapacity and exploitation. Needs are met by drawing upon meager reserves of cash, reducing consumption, bartering and borrowing, making people poorer and more vulnerable to becoming poorer still; and
- *Powerlessness,* due to ignorance of their rights in the face of abusive exploitation by elites, their lack of access to legal advice, and their inability to bargain.

There are various reasons underlying the poverty of different groups. Smallholder farmers (numerically the most important group) often work marginal areas with low yields and suffer from lack of services and access to markets; the most marginal of such farmers may eventually join the ranks of the landless. Lacking adequate resources to respond effectively to change, both groups are disproportionately negatively affected by environmental degradation, natural disasters, policy biases, commercial pressures and civil strife. Other groups on the periphery (e.g., indigenous peoples, artisanal fishermen and pastoralists) similarly suffer from such structures and processes. Across all such groups, the situation of women requires special attention since they are doubly disadvantaged as poor and as women. Female-headed households now account for 20 percent of all rural developing country households (excluding China and India) and are usually among the "poorest of the poor"; the number of rural women living in absolute poverty has risen 50 percent over the last 20 years compared to a 30 percent increase for men (Jazairy *et al.*, 1992).

Impoverishment, closely tied to the concept of poverty, represents an active process leading to diminished access to options and entitlements, found in both developing and developed countries. Impoverishment is continuously reproduced and generated by a number of currently active global mechanisms including environmental degradation, resource depletion, inflation, unemployment and debt. These mechanisms have set in motion the erosion of safety nets and the widening gap between rich and poor nations. In developing countries, processes of impoverishment arising from patterns of colonization and commodity exploitation were exacerbated by subsequent post-colonial attempts addressing poverty through modernization approaches which fostered modes of industrialization and trade dependent upon imported technology and capital. Such trends contributed to increased stress on natural resources and patterns of production and consumption which were incompatible with the long-term requirements of sustainable development. These have included rising landlessness, alienation from productive resources, and increased migration to urban areas already under stress from economic and environmental pressures.

Impoverishment occurs within both the human subsystem and the ecological subsystem (Gallopin, 1994). Human impoverishment relates to a reduction in one or more of the following:

- The availability or value of resources (e.g., economic, human, environmental) necessary to satisfy human needs and aspirations;
- The capacity to make adequate use of available resources (e.g., due to prolonged illness, malnutrition, lack of access to information);
- The autonomy to use resources and make decisions;
- The capacity to respond and innovate towards internal and external changes; and

- The capacity to sustain a future-directed orientation toward social options and natural resources.

Impoverishment of the ecological subsystem can result from a reduction in its productive and reproductive capacity (e.g., degradation of current conditions), its homeostatic capacity (i.e., capacity to adjust to change), and/or its evolutionary capacity. The linkage between these various factors underscores the necessity to consider issues of poverty reduction and sustainable development in tandem.

At the same time, it is important to recognize the role of power and of access to instruments of decision making in determining the relationships between poverty and development. As was noted in WCED hearings in 1985, it is necessary to consider the participation of those people targeted by the development process: "Their basic needs include the right to preserve their cultural identity, and their right not to be alienated from their own society, and their own community....We cannot discuss environment or development without discussing political development. And you cannot eradicate poverty, at least not only by redistributing wealth or income, but there must be more redistribution of power." (WCED, 1987: 31).

Empowerment refers to building the capacity of communities to respond to a changing environment by inducing appropriate change internally and externally through innovation. It involves processes that build critical consciousness about inequality, social support to overcome self-blame, and the perceived power to effect change (Morrissette, McKenzie and Morrissette, 1993). Drawing from a "bottom-up" approach to development, Singh and Titi (1993) define the goal of empowerment as the capacity of communities to respond to change and associate it with:

- Good governance, legitimacy and creativity for a flourishing private sector;
- Transformation of economies to be self-reliant, endogenously defined, and human-centered;
- Community development through process-oriented self-help;
- Collective decision-making and collective action; and
- Popular participation.

This leads to the affirmation and realization of the principles of inclusiveness (i.e., engaging the relevant stakeholders in a process), transparency (i.e., openness) and accountability (i.e., giving legitimacy to any process and decisions reached), which are held in common with notions of democracy and sustainable development as articulated at the 1992 Earth Summit and have come to be known collectively as "the Rio way". Conceptually, this includes enabling people to understand the reality of their environment (social, political, economic, ecological and cultural), to reflect on the factors that shape the environment, and to take steps to effect changes to improve their situation.

As a tool for the reversal of impoverishment processes, empowerment embodies key aspects including: (i) a process through growth of consciousness, group identity and practical realization of the creative potential of the poor; (ii) the reconstruction of group identity by imparting new skills and upgrading the knowledge base and assets of the poor, as they become initiators of interventions and thus subjects (rather than objects) of the process; and (iii) participation by the poor as they exercise power for themselves within organizations and through collective decisions and actions (Independent Group on South Asian Co-operation, 1991). Singh and Titi (1993) identify the following as necessary conditions for empowerment:

- Direct participation in community decision making and representative government, particularly by women and youth;
- Provision of space for cultural assertion, spiritual welfare, experiential social learning, and the articulation and application of indigenous knowledge;
- Access to entitlements to land and other natural resources, change-oriented education, housing and health facilities;
- Access to opportunities for generating income, assets and credit; and
- Access to knowledge and skills (both endogenous and external) for the maintenance of a constant natural capital stock and environmental sink capacity.

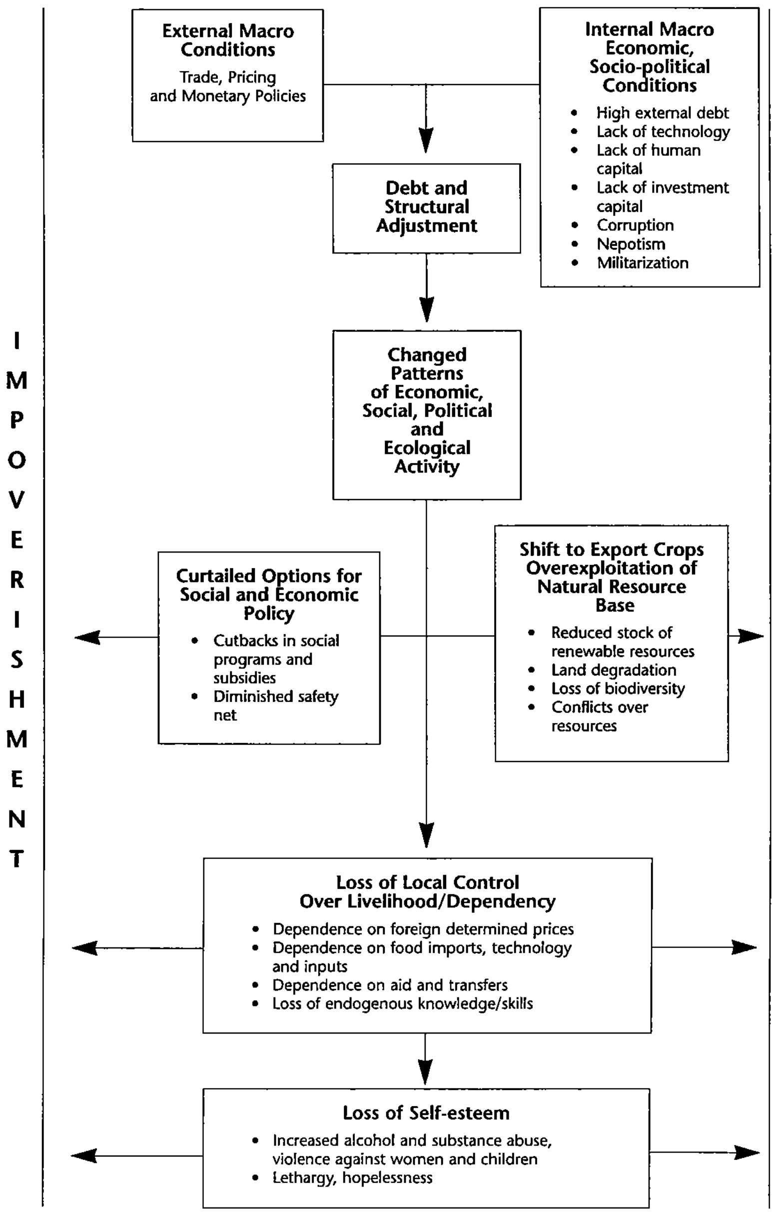
In order to understand how empowerment might serve to mutually support poverty reduction and sustainable development, it is useful to consider how the relevant impoverishment processes might be reversed. Given that there are mutual and dynamic interactions between social, political, cultural, economic and ecological factors within and between socio-ecological systems (both within a given society and across various levels of socio-political organization), it is clear that a change in one element or factor will likely trigger changes in others (Gallopin, 1994). Such a chain reaction can be triggered by both external macro-level conditions (e.g., a fall in the terms of trade) and internal conditions (e.g., discriminatory economic policies contributing to production and/or marketing distortions), leading to disempowerment and impoverishment of communities at a local level. Reversal of this process begins by increasing options available to the poor, allowing them to engage their true capacity to cope with a changing environment, to be self-reliant and to endogenously define goals, priorities, identities and values. As Gallopin noted:

> It seems thus clear that the analysis of impoverishment and sustainable development must take into account the multi-level nature of the problem: changes in local socio-ecological systems contribute to global ecological changes, and also to international political and economic changes; and changes in the global socio-ecological systems generate opportunities or constraints for the sustainability and development of the local socio-ecological systems (Gallopin, 1994).

Figure 1 schematically represents the linkages between impoverishment and unsustainable development, tracing the path between changing environmental conditions (including the economic, socio-political and ecological) and the processes leading to disempowerment and impoverishment. Following from external and/or internal macro changes generating unstable and unsustainable socioeconomic conditions, adjustments in the form of increased borrowing and structural reforms may lead to new patterns of economic, social, political and ecological activity. This may in turn generate unsustainable shifts in production reliant upon overexploitation of the natural resource base, while curtailing options for social and economic policy at national and local levels. As a result, disempowerment may occur as local independence and control over livelihoods is reduced; the diminished access to options will reinforce the downward spiral of impoverishment.

Empowerment, then, becomes crucial to the task of breaking the path toward impoverishment and thereby eradicating poverty. Previous poverty alleviation strategies have typically adopted modernization and trickle-down paradigms aimed narrowly at urban development (e.g., focused on improved housing) or rural development (e.g., resettlement or integrated rural development). They have failed to empower the poor and eradicate poverty on a sustained basis because they have not included an interactive process to learn from the poor about their needs, aspirations and knowledge, nor provided the poor with opportunities to solve basic problems for themselves. They have not identified the national and international structural problems impacting on poverty alleviation processes.

Figure 1 Impoverishment, and Non-sustainability Linkages (Economic/Socio-political/Ecological)



Source: Singh and Titi, 1993: 14 (modified for representation here).

Alternative development thinking focuses on transformation of economic, political, environmental and societal institutions and values through empowerment. The participation of societies, of women and youth in agendas and activities defined by them has become dominant in the sustainable development paradigm. Empowerment for sustainable development promotes the capacity for people to cope with the changing environment as societies and communities moving toward sustainable development. This requires growing social awareness, higher levels of social participation, and new insights on ecological processes of change and self-renewal. Empowerment strategies advancing methods of appraisal, planning, implementation, and review directed at improving the livelihoods of the poor have stressed the importance of fact-finding, education and evaluation, with the poor themselves engaged in the processes of development planning and action (Singh and Titi, 1993). Alternative education creates conditions for full and equal participation of people in discussions and decisions, enabling them to critically evaluate and understand themselves and the world around them, "to see themselves as creators of culture, history, and an alternative social vision" (Arnold *et al.*, 1991: 151).

Within this framework, various actors include: the poor themselves (most notably women, children and youth); non-governmental organizations (NGOs) which might act as both enablers of empowerment at the local level and as subjects of empowerment themselves as they intervene on behalf of the poor; business enterprises and transnational corporations; and the host of internationally recognized institutions of governance, trade and finance, including national governments, multilateral organizations (e.g., World Food Programme, UNDP, UNICEF), and the international lending and trade bodies (e.g., IMF, World Bank, GATT). How these various actors relate one to another within the framework of empowerment and sustainable development will be determined by the level of political will and the scale of the long-term vision on the part of all such institutions. The Earth Summit in 1992 underscored the need for reform and transformation of existing global systems of governance, finance, trade and debt in support of sustainable development. The body of evidence growing out of the work of the International Fund for Agricultural Development (IFAD) helps to define the direction of such new approaches to poverty reduction through empowerment. IFAD strives to perceive the rural poor as actors rather than objects in development:

> This implies that poverty should be confronted directly at its roots by overcoming the constraints that give rise to it rather than merely treating the symptoms of poverty through welfare transfers. It means listening to the poor and learning from them. It means enlisting their participation in projects from the design stage through to evaluation. It means greater specificity in understanding the needs of the poor and sharper focus on the poverty processes that create those needs. It means different instrumentalities — for example, more dedicated volunteers of the kind associated with NGOs and fewer transient "experts" who advise and depart without impact. It means an internalization of the development process which strives to make poverty internally solvable by tapping the wasted resources of the poor and building on them from the grassroots up (Jazairy *et al.*, 1992).

Empowerment for poverty alleviation and sustainable development has been limited by persistent patterns of resource distribution and communities' limited access to their own internal resources. Further intervention requires a greater network of linkages between the various levels of actors and the policy initiatives adopted. Sustainable development requires putting greater emphasis on the dynamics between national and international spheres, incorporating larger institutional and structural factors that inhibit local change. There is need for reform within national and international institutions towards decentralization and distribution of economic power, support for cultural diversity, and greater transparency and accountability in the development and implementation of policies directed at sustainable development. Recent discussions at the IISD Toronto workshop on empowerment, poverty alleviation and sustainable development underscored the strategic importance of education and institutional change to break the path toward impoverishment and to support the principles of sustainable development (Singh and Titi, 1995).

Having established the integrated linkages between sustainable development, poverty reduction and economic policy, it becomes easier to examine the impacts of macroeconomic and microeconomic policy reforms associated with structural adjustment programs and their implications for poverty reduction and processes of development. This is the subject of the following section.

Macro-Micro Linkages and Outcomes of Policy Adjustments

The pattern of macroeconomic policy reforms proposed or pursued in developing countries throughout the 1980s and into the 1990s has its origins in economic shocks occurring at the global level in the 1970s. The international oil price shocks of 1973-74 and 1979 contributed fundamentally to the extended period of global recession during the latter 1970s. Changes in the barter terms of trade during the 1980s broadly led to falling prices and reduced earnings for many of the traded commodities exported by developing countries; by the end of the 1980s, commodity prices of all food exports stood at 61 percent of their mid-1970s values and those of metals and minerals at 80 percent of earlier values (World Resources Institute, 1992). As a result of rising world interest rates, borrowing countries in the Third World faced increased debt burdens associated with the rising costs of servicing dollar-denominated debt incurred at floating rates of interest. Many countries also experienced increasing socio-economic instability exacerbated by persistent internal economic distortions related to uneconomic state enterprises, inefficient loans, political bias in banking and marketing, inequitable internal terms of trade favoring urban areas, and public employment and services shaped by political rather than economic rationale.

In the absence of a world system which shifts the burden of adjustment to the surplus or creditor countries, the current choice facing a country experiencing a balance of payments crisis is not between adjustment and non-adjustment but rather between different forms of adjustment. Countering charges of negative consequences of traditional adjustment packages, the World Bank has urged consideration of the implications for national welfare if a response to crisis (including almost certainly public expenditure reductions) is sought in the absence of a Bank-supported program (World Bank, 1990). In a similar vein, Killick (1993) assumes that all countries experience changing demands and opportunities through both automatic market forces and deliberate policy manipulation; defining adjustment as adaptation to such change, he distinguishes between that which is "induced" and that which is "planned". In the former case, a government seeks to avoid the hard policy decisions regarding its previous policy mistakes and the need for reforms. Nevertheless, the economy will continue to respond, although probably suboptimally and with heavy avoidable costs for the country's citizens; erosion of its international creditworthiness, loss of foreign exchange and reduction of imports will force the economy to live with whatever reduced volume of imports it can afford. In such cases, "adjustment" takes the form of reductions in output, income, employment and living standards. Conversely, pursuit of "planned" adaptation via adjustment relies upon instruments purposely employed to achieve desired change and enhance the national capacity to respond to future changes. Despite continuing debate over the desirable nature of specific adjustment policy instruments themselves, there is currently general consensus that orderly adjustment to economic crisis is preferable to disorderly adjustment.

The established policy orthodoxy for countries to address balance of payments disequilibria has held that structural adjustment will restore economic growth in a context of internal and external balance; as a prerequisite for growth, balance is achieved through the reduction of inflation, fiscal deficits and gaps between savings and investment. Subsequent to growth being restored, greater equity in the distribution of income and alleviation of poverty will result through assumed trickle-down processes. The injection of resources associated with a structural adjustment loan (SAL) from the World Bank (subsequently augmented by the evolution of the sectoral adjustment loan or SECAL) has traditionally been accompanied by efforts to restrain domestic demand through cutbacks in public expenditure and through monetary policies controlling the money supply. Demand restraint has been reinforced by realigning national currencies with international markets, "getting the prices right" and promoting expenditure switching (i.e., toward a more efficient allocation of productive resources). Together, such measures have sought to ease pressure on the national reserves and correct the imbalance in the national accounts.[6]

Global economic developments and structural adjustment policies have led to changes in incomes and the incidence of poverty. While changing patterns of labor flexibility, international competition and technological change have led to a rising importance of casual, part-time and informal employment, reductions in social expenditure and increased reliance on indirect taxes have generated regressive changes in fiscal policy. In developing countries, economic stagnation has contributed to increased impoverishment as debt burdens, falling terms of trade and reduced flows of international capital led to net resource transfers out of developing countries: "Stabilization and adjustment efforts further reinforced poverty and inequalities through such policies and mechanisms as restraint or decline of public expenditure, especially on social services and welfare;

6 The field is crowded with literature detailing the theoretical model of structural adjustment and the variety of adjustment experiences across countries. For founding principles of the model, see Cline and Weintraub (1981), IMF (1985) and Williamson (1983). Lucid critical analysis is provided in Helleiner (1990), Killick (1984, 1993), Picard and Garrity (1994), Reed (1992) and Taylor (1988). Discussion of political pressures related to adjustment may be found in Haggard and Kaufman (1992), and Nelson (1989, 1990).

reduction in progressive taxation; removal of subsidies on goods and services of mass consumption; the increase or imposition of user charges; increase in real interest rates; decline in employment and real wages and rise in casual, part-time employment and in informal sector activities" (Ghai, 1992: 13).

Structural adjustment programs share many of the same policy instruments from country to country, although specific performance criteria are defined on a case-by-case basis. As of the mid-1980s, exchange rate reform was found in more than half of all IMF-supported stabilization packages; two-thirds included measures aimed at the development and restructuring of a given sector. Virtually every stabilization program included limits on credit expansion, in the form of ceilings on total bank credit or credit to the central government; many also included measures to mobilize domestic savings. Nearly all imposed restraints on central government current expenditure (including cuts in wages and in goods and services); additionally, two-thirds included measures to reduce government capital expenditure and government transfers and subsidies. Most (88 percent) also defined price and wage guidelines aimed at wage reforms, more flexible pricing structures and higher (i.e., more realistic) energy prices (IMF, 1986). Among World Bank adjustment programs during the latter half of the 1980s, much attention was given to the agricultural sector, particularly in countries receiving sectoral adjustment loans (SECALs). More than half of all adjustment programs in the above-cited reviews included reform of agricultural producer prices, removal of subsidies and reform of agricultural institutions. Nearly half also included a change in public expenditure on agriculture (as opposed to 19 percent on industry). In countries with SECALs, agricultural reform has often received top priority, including measures to improve marketing systems and infrastructure, pricing structures and credit facilities. Subsequent SECAL programs have also developed measures addressing the manufacturing sector (emphasizing subsidy removal and increased efficiency) and the financial sector (following increased efforts toward privatization of public enterprises).

Evidence is mixed on the environmental impact of adjustment measures in themselves. Where agricultural producer prices have been increased, the impact will be determined by the nature of the crops enjoying price increases; evidence to date suggests that adjustment lending has encouraged environmentally benign crops (i.e., perennials with continuous root structure and canopy cover) more than erosive ones (Pearce and Warford, 1993). The environmentally benign crops include many destined for export (e.g., bananas, cocoa, coffee, tea) but exclude many food crops grown for domestic consumption (e.g., cassava, maize, millet and sorghum), suggesting differential income effects based upon the nature of the producer groups; small-scale women farmers may represent a disproportionate share of the producers of the latter crops and may, therefore, fail to benefit from the sectoral adjustment. In a similar way, the effect of currency devaluations upon producer prices and the net environmental impact will depend upon the range of crops being encouraged. However, policy implications of devaluation are obscure; environmental consequences of ensuing crop substitutions will depend on the nature of the higher priced crops, while the effects of any aggregate increase in supply will depend on whether the increase is achieved by breaking new land or using land more intensively. Reducing subsidies on various farm inputs (e.g., pesticides, fertilizers, machinery, energy) can lead to a more rational, appropriate and environment-friendly use of existing resources.

While noting several potentially positive environmental effects from policy reforms, conclusions by Killick (1993) on the subject also urge caution for makers of policy. A relative shift in production from nontradables to tradables is likely to be environmentally damaging if there is intensified cultivation, accelerated exploitation of nonrenewable assets and greater industrial pollution. The short- and medium-term nature of adjustment programs supported by the international financial institutions may detrimentally create pressures for quick results, especially in exports, overlooking environmental concerns in the bid to meet financial targets. Pressures for the state to disengage from the economy may also serve to dissociate the state from proper roles of intervention addressing environmental externalities and long-term environmental planning.

Understanding consequences of structural adjustment measures upon the ecosphere requires a specific focus on local conditions. Since the effects of adjustment measures on the ecosystem are mixed, the risk of inadvertent damage to environmental quality underscores the need to ensure that they are monitored and evaluated for such effects and that they are designed specifically to enhance environmental quality (Pearce and Warford, 1993). Given the variety of structural, political and environmental conditions across the range of adjusting countries, it is imperative that the goals and implementation of adjustment policies be considered on a case-by-case basis as a function of the socio-political milieu of each country. This will ensure that specific adjustment measures accurately respond to the national context of environmental conditions, incidence of poverty and relevant factors supporting the nation's sustainable development.

As with environmental impacts, adjustment's micro-level effects and implications for poverty are significantly determined by the pattern of public expenditure reductions by which the government attempts to control the deficit. While costs and benefits associated with lowered expenditure on tradables (largely consisting of imports in developing countries) may be measured in a relatively straightforward manner, those associated with expenditure reduction on nontradables (assumed to comprise domestically produced goods and services for domestic consumption) may have more profound local consequences in terms of incomes and measures of welfare. With a heavy emphasis on services, the nontradable sectors tend to be more labor-intensive than tradable sectors, such that a significant negative impact upon employment and incomes may result in the event of reduced expenditure on nontradables (including publicly provided services). Where attempts are made to divert expenditure to agricultural support and extension, forestry and development of the rural infrastructure, the adjustments may be environmentally beneficial. However, any loss of welfare services to the poor resulting from reduced expenditure may increase pressure already exerted on free natural resources, and thus may generate negative environmental consequences. The challenge to design adjustment programs which include environmental protection and other tools to cushion the impact on the poor suggests a way by which to incorporate principles of sustainable development into adjustment strategies.

In this regard, it is instructive to consider poverty as not so much a cause of environmental degradation as a mechanism by which underlying causes are transformed into actions that degrade the ecosystem:

> Put another way, poverty does not necessarily in and of itself lead to environmental degradation. That depends on the options available to the poor and on their responses to outside stimuli and pressures. Poverty, however, removes their ability to respond and adapt because the time horizon is typically short and few feasible options are available. This leaves only two types of reaction: they can attempt to supplement scarce assets by using free common property or open-access resources, or they can leave the land altogether and move to urban areas. The result of using up resources is to degrade the rural environment. The result of moving to urban areas is to swap one form of degradation for another....Poverty in all its manifestations keeps the poor from being able to respond to environmental degradation arising from other underlying causes; it thus becomes a disabling factor (Pearce and Warford, 1993: 272).

It can be presumed that, all else being equal, macroeconomic contraction will worsen poverty: "While the relationship is not tight, and there is room for offsetting policies, there must also be a presumption that the greater is the reduction in overall absorption the greater is the adverse impact upon poverty" (Helleiner, 1990: 160). By most measures of key social indicators, it can be argued that government expenditure will be more equitably distributed than private expenditure; consequently, reductions in public sector expenditure are more likely to harm the poor than are equivalent private expenditure cutbacks. Lowered social expenditures on services such as dispensary health care, primary schooling, school feeding programs, community water supplies, and key public health interventions are likely to be particularly critical for the poor. At the same time, it is important to recognize that changes in the composition of various categories of public expenditure may be as important as changes in aggregate expenditure; the poor may receive far less benefit from spending on secondary and tertiary level services than they do from expenditure on primary education and primary health care. Targeting expenditure cutbacks and increasing taxes or user fees to minimize the effects upon the poorest becomes a critical technical issue in the design of adjustment measures.

Similarly, it is important to consider improved targeting of consumer subsidies ranging from food and water to medicine, education, shelter and transport services. Rather than dwell on the question of whether or not such subsidies always raise the welfare of the poorest, it is more productive to examine the likely fiscal effects of their removal in specific country cases. For instance, cutting food subsidies and raising agricultural prices may significantly aggravate poverty problems, especially in urban areas (Helleiner, 1990). Amelioration of the poverty impact of measures adopted to reduce the fiscal deficit might include such policy responses as:

- Careful analysis of the human costs of cutting government expenditures and employment in alternative ways, rather than in across-the-board cuts which are unlikely to be socially or economically efficient;
- Assistance targeted to those left unemployed by the measures, particularly those with low incomes; and
- Improved targeting of assistance to those in greatest need of employment, income, nutrition, education and health care.

Some compensatory program packages crafted around these issues have succeeded in attracting external support, especially among bilateral donors, NGOs and UN agencies. Expenditures on child health, nutrition and education are especially important in terms of human capital formation and long-term investment. Despite earlier rhetoric from the Washington institutions focused on a basic-needs strategy stressing human development investment, cutbacks in social expenditure associated with adjustment measures have led to serious and lasting deficiencies in human capital and the long-term development potential of many developing countries.

Those sectors with low political visibility or serving disparate populations are more vulnerable during adjustment and expenditure reduction exercises. Gender is an important issue throughout all such changes since any reorientation of production entails a parallel reorientation of family labor; where women have been marginalized in decision making processes and the allocation of productive resources, they may suffer negative consequences arising from policy adjustments. Spending on social services and programs where little organized popular resistance is likely may be easily targeted for reduction, thus jeopardizing primary services, remote rural areas, capital expenditure and non-wage recurrent expenditure. Such allocation of public expenditure cuts threatens low-income groups reliant upon publicly provided goods and services for even the most basic needs. Particularly in areas of health and education, short-term gains won by expenditure reduction may be outweighed by long-term costs to human capital formation and the quality of life (Cruz and Repetto, 1992). Wherever reform measures may lead to reduction in a group's access to options and resources, the adjustment process feeds into the process of impoverishment and may thereby impede progress toward sustainable development.

Compared to changes arising from expenditure reduction, effects of monetary contraction, credit ceilings and associated policy instruments are more difficult to assess as they are mediated through a complex system of credit rationing and financial markets. The identity of those groups hit hardest by credit restraint and interest rate increases will vary across economies; however, those with greater access to assets and options at the outset (i.e., those able to finance themselves) will usually be least affected while those most dependent on credit with less access to assets, less flexibility and less influence in financial institutions will suffer more. Financial liberalization may in fact encourage the flow of savings into formal financial institutions, reduce capital flight abroad and even promote inflows of previously expatriated capital. However, the consequences for allocation, stability and equity are not immediately clear; the potential reduction of curb markets, of total loanable funds and of the role of the state in credit rationing may be detrimental to the welfare of low-income groups (e.g., small enterprises and marginal farmers) as credit allocation mechanisms change. Consequent lack of access to financial resources may lead to alternative strategies for short-term survival which ignore long-run impacts and thereby threaten the integrity of the environment.

Changes in the production of tradables and nontradables arising from exchange rate adjustments and relative price changes will imply changing income levels and measures of well-being related to the different productive sectors and the participating producers in each sector. For instance, in many rural areas, households headed by women tend to be engaged in small-scale farming only marginally oriented to commercial production; this is largely a function of women's limited access to productive resources, including land, agricultural credit and farming inputs. As a result, they will have less capacity (i.e., less access to options) to respond to price incentives associated with a schedule of exchange rate adjustments and the subsequent changes in prices for inputs and outputs. It will be harder for them to adapt to relative price changes and to shift toward the more profitable production of tradable goods. This is especially true where women produce traditional food crops which may not be officially traded or generate smaller profits than the leading commercial crops; in many cases, women in dual-headed households also often have less control over intra-household income distribution and the profits associated with household production of cash crops. For example, agricultural reforms implemented in Zambia, including price restructuring, subsidy reduction and infrastructural improvements, were found to benefit the minority of commercially oriented maize farmers in the country; small-scale farmers producing outside formal markets (especially women) did not share proportionately in such benefits (Strickland, 1989).

Small-scale producers may thus remain on the periphery of the adjustment process, and may even suffer a loss in relative terms if other rural producers with greater access to productive resources (whether legitimately derived or not) are able to benefit from the policy adjustments. In this sense, measures aimed broadly at such sectoral changes without adequately taking into account the stratification of producers within the sector may contribute to the impoverishment process; changes in pricing policies without an improvement in access to inputs and rural infrastructure for small farmers may worsen rural income distributions and frustrate the broader goals of sustainable development (Cornia and Strickland, 1990). Promoting long-term sustainable development in agriculture requires consideration of existing urban/rural and gender biases and the increasing differentiation of producers within the sector. In addition to improved pricing policies, action to support sustainable development is needed in areas of land reform, increased investment and human-capacity building, and access to current inputs such as fertilizers, seeds, pesticides and implements.

Short-run effects of exchange rate adjustments will frequently be both deflationary for demand and inflationary for prices. This may lead to a short-run increase in unemployment, testing the government's political resolve and increasing pressure on the stock of natural capital where the unemployed may turn to the exploitation of reserves as a means of maintaining their livelihood. The link between the employment effects and changes in poverty levels will depend on the nature of the specific economy undergoing adjustment; often the poorest are not the urban unemployed.

In developing countries, generalization of the distributional consequences of price inflation is less straightforward than in higher-income countries, where it is often assumed that the poor are the hardest hit since they have the least access to inflation-resistant assets. In Sub-Saharan Africa, for example, subsistence producers are among the poorest and yet may be little affected by inflation in the monetized sector of the economy. Casual and informal sector laborers may experience such frequent recontracting that they are effectively protected from real-wage deterioration common among formal sector labor markets. On the other hand, rapid inflation often generates faster increases in food prices than in the general price level, with a disproportionate impact upon major poverty groups (e.g., landless rural workers, urban labor and urban unemployed) (Helleiner, 1990).

The final distributional implications of whatever adjustment and restructuring is ultimately achieved will depend upon the nature of the productive activities experiencing expansion (i.e., tradables) or reduction (i.e., nontradables) and the relative labor intensity of each. Assuming that nontradables are generally more labor-intensive (e.g., construction, government and other services), expenditure switching to tradables may result most notably in lower wages and employment in government and other organized services. Much will depend upon the intersectoral mobility of labor and other productive resources (Helleiner, 1990). With respect to the specific linkage between development processes, poverty and incomes, it is important to recognize that strategies for poverty alleviation are not compatible with just any kind of economic growth. They require implementation of mutually consistent and reinforcing multifaceted programs which ensure that growth will alleviate poverty and promote access by the poor to assets and jobs without degrading the natural environment (Lewis and Kallab, 1986). The choice of policy instruments used to achieve each element of the package (an inherently political process) must be tailored to a given country's particular initial conditions, resource base, asset distribution, institutional structure and socio-political condition, and experience of external conditions.

The specific managerial and implementational capacities of the national governments in countries undertaking adjustment programs and the operating relationship between the public and private sectors will directly affect the outcome of the policy reform efforts. In many cases, a serious lack of well-trained economic managers and technical personnel, particularly in the public sector, will constrain the realization of the policy objectives. To be successfully implemented, structural adjustment programs require effective state competence and programmatic capacity in areas of price and trade policies, banking and finance, economic monitoring and data analysis, and policy planning and initiation, i.e., "a capable, though not necessarily large, public sector committed to rational economic and social growth strategies" (Picard and Garrity, 1994: 3). In the broader scope, recognition of the impact of economic decisions upon the exploitation and quality of the ecosystem also underscores the need for official capacity to monitor the environmental (and social and cultural) effects of economic policy and enforce regulations established in support of sustainable development.

Political consequences of the reform process and their variation from country to country must not be discounted; adjustment policies tend to be costly in political terms, imposing a series of pressures on national governments brought on by those benefiting from the status quo and those bearing the transitional costs of adjustment. The negative short-term impact on low-income groups increases the fragility of domestic support; sudden sectoral dislocations of resources and employment generated by radical policy initiatives are often politically unsustainable, as demonstrated by episodes of civil unrest in numerous adjusting countries (e.g., Tunisia, Morocco, Zambia, Sri Lanka, Venezuela). Experience suggests that poverty levels and social indicators must be explicitly considered as constraints to enactment of policies:

> Existing imbalances tend to reinforce and strengthen one another, as policy distortions pile up as a result of protracted adjustment. After a long period of artificial controls, not only

> may market distortions be the rule and rent-seeking opportunities develop profound roots in the institutional and social codes but their removal may require more than legislative changes and political will (UN, 1992: 58).

Structural adjustment involves nothing less than the restructuring of a country's political economy, changing the control of and access to national resources, and diminishing the relative influence of some social sectors or groups effectively blocking the efficient use of those resources. The smooth implementation of an adjustment program requires the construction of a domestic power base of social groups able to displace the previous coalition of economic and social interests and to perceive a sense of ownership of the adjustment program of benefit to themselves (Haggard and Kaufman, 1992; Nelson, 1990). While necessary, such processes toward democratization and public participation are not in themselves adequate to mitigate the effects of structural adjustment in all cases; for example, the change of government in Zambia in 1991 ushered in a new era of democratic representation, yet the hazards and costs of structural adjustment measures continue to dog the government. Question therefore remains over the nature of democratization and institutional capacity necessary to effectively manage adjustment and foster the empowerment of key groups and actors vital to the adjustment process.

Concerns Raised by Orthodox Structural Adjustment Programs

The ideal achievement of the goals contained in orthodox structural adjustment packages is often circumvented by local economic, social, political and environmental conditions which impinge upon the successful and sustained implementation of the policy reform measures. Having considered the nature of adjustment instruments and their policy linkages to poverty and sustainable development above, it is relevant to examine some of the common problem areas and their feedback effects associated with the implementation of structural reform.

Despite case-by-case definition of performance criteria associated with adjustment packages, the orthodox adjustment process as a whole remains characterized by uniformity across countries. However, differing conditions among economies at the outset of adjustment will lead to varying degrees of success in realizing postulated reforms and benefits. Some conditions may have resulted from a prolonged history of inappropriate policies; the supply response to expenditure-switching strategies will depend upon whether or not there is slack capacity in the short-term or an ability to change product mix or increase capacity in the medium-term. Where agricultural production is dominated by small-scale farmers, the production response will be influenced by the availability (or lack) of research and extension services, agricultural credit facilities, and pre-existing patterns of land tenure and intra-household labor and income allocation. Where manufacturing is characterized by small private businesses, the adjustment response will be shaped particularly by the degree of specialization, access to innovative technologies and credit, and experience in adapting products for international markets, all of which may be limited among small-scale producers. The narrow balance-of-payments focus of orthodox adjustment programs is not well suited for creating the economic conditions sustaining medium-size and small enterprises (Reed, 1992).

The standard adjustment strategy is also constructed around the flawed assumption that there will be sustained growth in the world economy and favorable external conditions. On the contrary, the likelihood of continued high interest rates, the slow growth of official capital flows and the increased global competition for development assistance (e.g., needs arising among formerly socialist economies) through the 1990s will limit developing countries' access to international finance. Furthermore, the uncertainty over international trade reforms stifles the expansion of markets and international trade, frustrating long-term prospects for the export-led growth that lies at the heart of many adjustment programs.

The first attempts at structural adjustment lending and related policy reform in the early 1980s have in retrospect been criticized for their narrow time frame and excessive optimism in assuming rapid global recovery from the economic downturn of the period. Their emphasis fell upon expansion of the tradable goods sector (by increasing production efficiency) and the reform of public enterprises. The weakness of some of the original policy assumptions was revealed following the Mexican default on commercial debt obligations in 1982 and the subsequent global debt crisis which underscored the durability of global economic problems. In an effort to address the changing policy climate and nature of global integration, the adjustment process shifted toward a longer-term restructuring effort focused on both macroeconomic and sectoral reforms promoting specific sectors toward an expanded, more competitive volume of tradable goods. In many instances, this included a new priority upon agricultural production as a primary sector, with emphasis given to marketing systems and credit facilities.

With the shift in focus toward domestic structures and policies, the time frame of structural adjustment programs was subsequently lengthened to accommodate the long-term nature of the institutional and policy reforms required. At the same time, the number and complexity of conditions attached to adjustment loans tended to increase. This has led to concern at local, national and regional levels about the influence wielded by the international financial institutions over the process of domestic policy formulation. The conditionality attached to adjustment lending is qualitatively more severe than that of normal project loans, granting the international financial institutions, as creditors, greater leverage in influencing more directly and (some would argue) more intrusively the main policy instruments and institutions of the debtor countries (Miller, 1991). There has been widespread and heated disagreement over the appropriateness of the degree of conditionality in program lending and the terms of the conditions imposed. Critics charge that orthodox adjustment conditionality is too rigid and excessively influenced by the assumption that balance of payments problems are the product of domestic mismanagement; in addition, the adjustment orthodoxy is argued to be biased by assumptions of neoclassical conventions overemphasizing market measures while downplaying the influence of national and international institutions and the distributional consequences of policy reforms (Helleiner, 1990).

By the mid-1980s, there was a rising demand for consideration of the impact of the structural adjustment process upon vulnerable groups within the population, notably low-income households, women and children, the aged and the infirm. With the emphasis in the early 1980s upon promotion of productive sectors to restore economic equilibrium, little direct attention had been given to the human resource sectors. Nor was much thought given to the nature of the variety of costs associated with policy changes: absorption costs (i.e., resulting from reduced consumption and/or investment), frictional costs (i.e., losses of output, employment and consumption resulting from reallocations of resources), and distributional costs (i.e., the gains and losses accruing to differing groups with conflicting interests) (Killick, 1993). Changes in public services resulting from fiscal expenditure reductions, coupled with changes in production and pricing structures, had not been monitored for their impact upon the poor, for whom the loss of publicly provided services (e.g., health care, education) and consumer subsidies created a disproportionate social burden. Early structural adjustment programs had been guided by the assumption that restored economic growth would generate resources that would trickle down to low-income and vulnerable groups;

macroeconomic performance was considered key while it was assumed that micro-level issues would be resolved in due course.

In the wake of adjustment experiences and global economic activity throughout the 1980s, it is generally accepted that failure to restructure severely distorted economies only exacerbates their financial crisis and the accompanying pressures toward impoverishment. Earlier efforts by the Bank and Fund to distance themselves from consideration of the social impact of adjustment programs have given way to a greater emphasis in more recent years upon the consequences for the poor. Work by UNICEF proposing reform toward "adjustment with a human face" was fundamental to this shift in thinking (see Cornia, Jolly and Stewart, 1987). While greater recognition has subsequently been given to the fact that a decline in measures of income and welfare may result from the economic contraction associated with adjustment in the short term, some critics continue to argue that the "human face" approach represents "more of the same", tinkering with policy instruments while failing to attack the fundamental (and, it is argued, fundamentally flawed) mechanisms of adjustment itself.

In more recent programs, the Bank has encouraged restructuring of public expenditure to promote human resource development and strengthen social services, with emphasis placed upon access of the poor to education and health services, adequate shelter and sanitation, and the means of generating incomes. This has included work seeking to engage bilateral donors in support of social compensatory programs and provision of technical assistance to help governments manage short-term social and economic consequences of adjustment measures (e.g., on the order of the program of action to mitigate the social costs of adjustment, or PAMSCAD, in Ghana).

While it is important to recognize that there is a high price to pay for delayed or inadequate adjustment to economic crises, there is a growing body of evidence indicating that the traditional structural adjustment package of policy reforms fails to give needed attention to issues touching on impoverishment, the ecosphere or sustainable development:

> The focus of macroeconomic policies in the Third World must extend beyond the immediate crises and encompass longer-term goals of sustainable development. At present, stabilization programs do not. Structural adjustment programs, even though they are intended to create an appropriate policy framework for long-term growth, also omit crucial environmental safeguards.

> Macroeconomic policies determine patterns of production, trade, investment and income distribution. For good or ill, they therefore inevitably also influence how natural resources and the environment are used (Cruz and Repetto, 1992: 67).

It is thus useful to emphasize the complementarity of development and environment (shifting away from common misconceptions of development versus environment), as this points the way toward sustainable development. Environmental quality will enhance economic development, especially as development is defined in more inclusive terms of social indicators and the quality of life rather than merely in terms of incomes and economic indicators; trade-offs must be made on the basis of a full understanding of the issues and a proper valuation of the ecosystem. Traditional measures of economic growth generated from the national accounts (e.g., GNP) have been misleading due to their inability to accurately reflect the standard of living of the population (associated with changing environmental conditions) or the depreciation of the natural capital stock (Pearce *et al.*, 1989). This relates directly to the need identified by the WCED to integrate economic and ecological considerations in decision making, requiring a change in attitudes and objectives, new institutional arrangements at every level, and an increase in community knowledge and public participation in decisions affecting the ecosystem. Some progess on this front might be cited in the use of purchasing power parities rather than official exchange rates to more accurately reflect values across national borders. Additionally, the new system of national accounts (SNA) promoted by the UN seeks to incorporate services, self-employment and other previously excluded economic activities in measures of national production; efforts are constantly being made to update the system to include additional inputs such as implicit environmental costs and benefits.

Interpretation of the data concerning the performance of adjustment programs is complicated by the need to consider alternative outcomes in the absence of the actual adjustment measures implemented, i.e., adjustment as "induced adaptation" (Killick, 1993). Often referred to as the "counterfactual scenario," this exercise ponders the likely decisions and policies that would have been adopted by the government in response to the economic crisis without adjustment assistance from the World Bank and IMF. Given the economic conditions leading to adjustment in the first place, change in some form would have occurred with or without the actual policy measures adopted. It is becoming increasingly relevant to locate orthodox and alternative adjustment strategies within the context of sustainable development; the most successful reform efforts will be those that incorporate measures promoting an equitable model of development that ensures that both future and present needs are reflected in the exploitation of resources, the pattern of investments, the nature of technological development, and the process of institutional change. There is now general consensus that matters of poverty and vulnerable groups must be incorporated into structural adjustment processes; the compelling question remains as to how the interests of the poor and measurement of economic success might be better incorporated into a macro policy structure that is consistent with the principles of sustainable development.

Conclusion

After more than a decade of structural adjustment programs, there have been markedly few improvements (and indeed cases of decline) in the economic performance of many low-income developing countries. During that period, the number of questions has grown concerning the social, political and environmental impacts of adjustment lending. As Reed (1992) has observed, whatever else might be said about the structural adjustment model, it can be stated with certainty that it has failed to place adjusting countries on a sustainable development path. To the extent that adjustment measures act to reduce access by the poor to options and resources in the short-run, it leads to temporary (or protracted) impoverishment. The resulting increased vulnerability of the poor to future crisis is inconsistent with sustainable development. There will also be increased stress on the finite reserves of the natural capital stock as the poor adopt coping strategies seeking to maintain their livelihoods under adverse economic conditions. This will exacerbate unsustainable patterns of exploitation and negate efforts to achieve sustainable development. While many questions remain around the design and implementation of sustainable development, consensus is emerging much more clearly in terms of what is not sustainable development.

To date, adjustment policies have failed to have as central goals the reduction of poverty, direct support for environmentally positive policy, or support of sustainable development. With hindsight, we may observe where adjustment has contributed to both positive and negative consequences, although often through default rather than design. In cases of observed negative impacts, it becomes necessary to ask what might have been done differently to mitigate or avoid such consequences (e.g., the nature of crops promoted through pricing reforms, alternate credit provisions for small-scale producers, attention to governmental monitoring and regulatory capacity). This will require a new analytical framework, as suggested by Hansen (1990), which can integrate the political dimension, technical change, macroeconomic policies, and effects on production in the principal economic sectors of countries undertaking adjustment. Such a goal is the focus of this initiative on sustainable development, poverty eradication and macro/micro policy adjustment. Key analytical issues are raised in Part Two below. Elements of the critique of orthodox adjustment models are discussed in Part Three, while efforts toward the definition and realization of alternatives supporting the transition from legacy to vision are the subject of Part Four.

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Part 2

The View from the Crossroads: Linkages Between Policy Change and Sustainable Development

4

An Analytical Framework for Sustainable Development and Macro/Micro Policy Adjustment

Albert Berry

Background

Without entering into an extended definition of "sustainable development" which has already been established, it is nevertheless useful to distinguish the following categories of proximate or direct "economic" threats to sustainable development:

- The depletion of natural resources, whether using up nonrenewable resources (e.g., mineral reserves, forests, good soil, aquifers) or failing to maintain those which are in principle renewable;
- The failure to control negative externalities (i.e., pollution) arising from economic processes, which may cause direct damage to consumers or lower the effectiveness of production processes;
- Overcrowding externalities resulting from high population densities or rates of growth; and
- Adoption of any combination of economic policies which promote short-run growth while lowering the potential of medium- and long-term growth.

Depletion of natural resources may be one path to the latter unhappy outcome, but the same outcome may occur when a country does not take maximum advantage of time-specific opportunities such as high prices on its export goods or good weather promoting high crop yields. When export earnings come too easily (e.g., an oil bonanza or a coffee boom), two common threats may arise. First, the country may learn to live more easily than before, raising its investment level, expanding public sector employment and increasing the import of luxury goods without commensurate increases in internal savings or taxes. Second, other tradables-producing sectors outside the booming sector may become less competitive, a process of sectoral atrophy known as "Dutch disease"; if they shrink enough, they may no longer be sufficiently productive when the boom is over and the country needs them again. The lack of "sustainability" of this boom-supported growth process may be most closely identified with strictly economic causes, as opposed to the other categories of threats to sustainable development which all involve environment-specific causes.

Each of these categories poses a different sort of challenge to the functioning of the economy and the evolution of the society. Underlying them and/or their seriousness as threats are several key economic processes or factors:

- Current technologies in use and the process of technological change, affecting current rates of resource depletion and consumption-related pollution as well as the search for new technologies and regulatory structures supporting environmental integrity;
- Pressures for economic production and growth, some of which are healthy (e.g., toward poverty alleviation), some of which are detrimental (e.g., toward conspicuous consumption), and many of which arise from environmentally-threatening high rates of population growth; and
- The capacity of governments to control the negative aspects of economic processes and avoid actual damage.

On Causes of Third World Poverty

Absolute poverty, whether defined against some absolute level of per capita income or consumption, life expectancy, nutrition or housing conditions, is the type of poverty easiest to think about in economic terms. While relative poverty is a less tangible (but no less important) concept, it is assumed that the main single indicator of how serious poverty is in a society is the percent of people who suffer from it rather than their absolute number. There are also various opinions on the suitability or preference of specific poverty lines (e.g., lines demarcating indigence, absolute poverty, relative poverty), while some prefer analysis in terms of degrees of poverty rather than along any particular line.

Accepting the "absolute" concept of poverty, it is useful to think of the extent of poverty in a country (or region or group) as a tautological result of two things: the average income (or consumption, or welfare) and the extent of inequality. One may then try to sort out the causes for low average income and for high inequality, each of which contributes to the extent of poverty observed.

Among the factors which often accentuate poverty by contributing to a low average income are:

- Lack of physical resources relative to the number of people;
- Lack of accumulated physical and human capital relative to the number of people;
- Unproductive technologies (which are not the same as rudimentary, traditional or capital-saving technologies);
- Inefficient functioning of the economy given the resources and technologies at hand, whether resulting from the outright failure to use available resources (e.g., when labor, capital or land lies idle) or from their misallocation into less productive activities; and
- Unsatisfactory international terms of trade, leading to a country's faring badly in international exchange despite its relatively productive use of resources and thus lowering the income accruing to its citizens.

Major (and interacting) sources of inequality contributing to poverty include:

- Unequal distribution of physical resources (capital in a broad sense), especially the distribution of and rights to land in early stages of development;
- Unequal access to education, a key factor for middle and higher income developing countries;
- The character of technologies in use, in particular whether they tend to be labor-intensive (tending to raise wages and improve income distribution) or capital-intensive (tending to raise capital incomes and worsen income distribution);
- High population levels and growth rates, leading to crowded labor markets which act to depress wage levels in absolute terms and in relation to those who receive income from capital; and
- Unequal support from or harassment by government due to unequal political power, which may further accentuate the other problems listed.

Each of these categories can be broken down and considered in much detail. Several relevant points associated with these categories are worth mentioning. First, one must consider the relationship between inequality and the lack of "empowerment" in many countries and regions; where a small elite group tends to control virtually all resources, it often also monopolizes the decision-making process in a variety of ways, leaving the poor with few resources or with little control over those they do possess. Second, many "modern" technologies are unsatisfactory or negative in the sense that they do not contribute significantly to growth, they worsen income distribution and they pose a threat to the environment. Finally, the role of education in economic growth is one of the great issues at this time, its contribution to growth being supported by some very interesting evidence; to the extent that government policy can determine the beneficiaries of the various types and levels of education, such policy can thus affect both growth and distribution in significant ways.

Common Mechanisms of Poverty Alleviation

In a mechanistic sense, it is worth assessing the relative importance to poverty alleviation of (1) increases in the average income level, (2) improvements in the distribution of income, and (3) direct effects of government policies (e.g., health programs, food distribution systems). In some cases, all may be contributing to poverty alleviation simultaneously; in other cases, one or more factors may be working in opposite directions, effectively exacerbating poverty. It may be useful to conceptualize the process of poverty alleviation in developing countries by distinguishing between (1) the benefits of an expanding modern or formal sector contributing to higher incomes and job security, (2) the benefits of increasingly productive traditional and/or informal sectors, and (3) the benefits of government policy with direct impact on poverty. The relative importance of these channels of poverty alleviation (when realized) depends upon country-specific social, economic and political factors.

A question of practical interest is the extent to which growth of per capita income is really a necessary condition for poverty alleviation; people who so argue often say that if a government focuses much on redistribution in the earlier stages of development, it may only achieve a redistribution of poverty. More generally, critics of public intervention in the market process aimed toward poverty reduction similarly argue that this runs the risk of stopping growth without achieving much in the way of poverty alleviation. What the evidence and the partial historical record suggest is something more complicated. It is clear that growth has been a more important contributing factor to poverty alleviation than improvements on income distribution, the latter having been the exception rather than the rule among countries where the incidence of poverty remains high. It is more difficult to determine how much government policy typically contributes to poverty alleviation; in most countries, only a small share of the public budget is designated for this purpose, although expenditures on health (especially on preventive care), nutrition and a few other categories do seem to pay off highly in some countries. On balance, it seems that in most developing countries, the main factor has simply been growth.

It is important to recognize that a large amount of poverty alleviation has taken place, as judged by economic data (e.g., see Meier, 1982), although one must be careful to determine that this has not occurred at the expense of other harder-to-measure indicators of quality of life. Over the period from 1950 through about 1980, the incidence of poverty was falling in most parts of the developing world; using one particular poverty line, the share fell from nearly half in 1950 to under a quarter in 1977 (Berry *et al.*, 1991: 73). This strong performance was influenced by the fact of poverty reduction in China, but even excluding the socialist countries, the incidence of poverty fell from 43 percent to about 25 percent (Berry *et al.*, 1991: 77). The years since then have probably seen slower reduction, with two major areas finding themselves in serious difficulties — Sub-Saharan Africa and Latin America. Continued growth in China and the resurgence of the Indian subcontinent (locus of a substantial share of world poverty by the end of the 1970s) has allowed the reduction to continue, albeit at a slower pace. It may be roughly estimated that nearly all of the observed poverty reduction in the non-socialist world has been related to growth rather than a decrease in inequality, since only a few countries in that category have achieved clear and significant inequality reduction. In the socialist countries especially, it is hard to distinguish between improvements in distribution and the benefits of direct government actions, but these together have played a significant role as evidenced by the fact that poverty is by most indicators considerably less in socialist countries (relative to levels of productivity or per capita incomes) than in the average market economy.

Does this interpretation of the record imply that the pursuit of growth is inevitably the main (or only) realistic route to poverty alleviation in market economies? At a mechanistic or technical level, the answer is clearly no. Many developing countries (for example, most of those in Latin America) suffer such high levels of inequality that it only requires a small percentage reduction in the income of the top 10 percent to double or even triple the incomes of the bottom few deciles (each decile corresponding to 10 percent of the population). In very few countries is it valid to say that the pie is already evenly distributed to the point where one could not much improve the condition of the poor by a reasonable reduction in the income of the rich. Of course, it must be noted that in a country like Bangladesh, much less could be done with such redistribution than could be done in Brazil, since the average level of income in the former is so much lower and the inequality notably less extreme.

Some would argue that while it might thus be easy to achieve such an arithmetic reduction of poverty by incurring a modest income loss for high-income groups, the policies required to achieve this redistribution would necessarily slow growth by reducing the incentives for the rich to save for future growth or invest in modern capital intensive technologies. These arguments are fallacious in the sense that there is nothing inherently inconsistent between rapid growth and improvements in the distribution of income, as suggested by the case of Taiwan where the rate of poverty reduction was breathtaking. There, the incomes of the people at the bottom of the income distribution rose systematically at something like 10 percent per year for two or three decades. The real problem in achieving growth while improving the distribution of income relates to political economy. The political resistance to a reduction in inequality can be strong from both the upper and middle classes. Furthermore, many governments do not have a good understanding of which policies will reduce inequality and poverty, providing an opening for some reasonable programs to be highjacked by groups who are not poor: for many decades, most urban housing projects benefited the middle class rather than the poor, but were claimed in the political rhetoric to be "popular" in character. Similar targeting errors were made in much labor legislation which has benefited only a limited labor elite rather than the bulk of workers.

By the same token, the record in most socialist countries and a few non-socialist ones (e.g., Sri Lanka) indicates that fairly low-cost programs in education, health and nutrition (e.g., subsidies on staple foods) can have major impacts on life expectancy, nutritional levels and measures of literacy and numeracy. However, the number of countries with such successes has remained discouragingly low. Rather than the technical or financial difficulty of achieving such gains, the problem has been the low levels of government commitment and competence in these areas, and the resistance on the part of more conservative members of the societies.

Impacts of Policy Adjustments on Poverty and Sustainable Development

The term "structural adjustment" is usually used to refer to changes a government introduces to increase its exports and/or reduce its imports, in order to rectify a balance of payments deficit and/or a foreign debt crisis resulting from earlier deficits. The objective is thus to either prevent a further increase in foreign debt or repay some of that which exists; at any given time, the level of foreign debt is equal to the accumulated balance of payments deficits of past years. Frequently, governments are at the same time trying to bring down the rate of inflation, since serious inflation often goes with balance of payments difficulties, both problems owing a lot to the attempt to absorb more goods and services than the economy is currently producing. More often than not, the country's currency is overvalued in relation to those of its trading partners so that a devaluation would be required as one of the ways to encourage more exports and reduce the present flow of imports in order to close the trade gap.

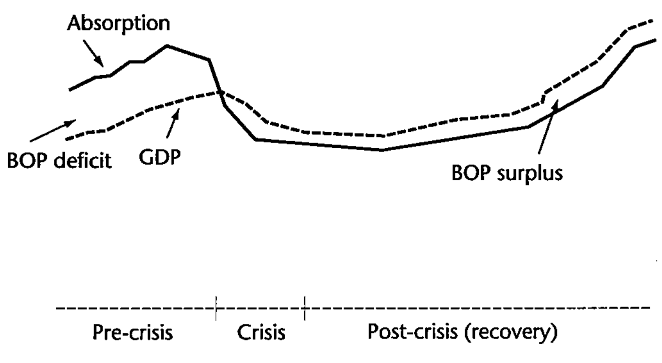
It is very important to distinguish this goal from any others which governments might be pursuing or outside agencies might be pushing them to pursue. Opinions vary on the exact combination of policy changes which will best achieve the balance of payments equilibrium sought; some argue for privatization, others for export subsidies, and yet others for a floating exchange rate. The key point is to distinguish the basic end (i.e., balance of payments equilibrium, which by definition is unavoidable) from the means to that end, which can include several interesting alternatives. The first real debate is whether equilibrium should be sought more by increasing exports (i.e., adopting a more outward orientation) or by decreasing imports (a more autarchic stance). A whole series of debates then follows from this point concerning best choices to achieve either or both of these goals. Within the present state of world politics, structural adjustment — when it is narrowly defined to mean ending a balance of payments deficit — has become the only game in town. When it is defined more broadly, it is not necessarily the only game in town. Certainly, the currently popular prescription for "liberalization" is not a technical requirement of balance of payments equilibrium; the pros and cons of a country adopting such a strategy depend upon both the technical arguments for and against it and on the way international pressures (i.e., the carrots and sticks which the international community can bring to bear) affect the decision.

Control of inflation (mainly by reduction of the budget deficit) is sought in many of the same programs directed toward balance of payments equilibrium; often this is sought with greater vigor by the IMF than by the country in question, and the two objectives may become confused and intertwined. A country which depends significantly on outsiders for collaboration or assistance in dealing with its balance of payments problems may wind up receiving advice/pressure on other "problems" and how to resolve them. Thus, many of what are referred to as "structural adjustment programs" include policy components which may have little or nothing to do with balance of payments equilibrium, but relate primarily to fiscal issues or to other things touching upon more sensitive and ideological aspects of economic policy advice and conditionality (e.g., the role of the government, market intervention, social policy). Usually the foreign institution argues that all elements of the package have to do with fiscal rectitude or the effective pursuit of economic growth, but some of these are open to debate.

On the general question concerning alternatives to the standard structural adjustment program (SAP) typically associated with the World Bank, it is fair to say that the country must deal with its balance of payments problems one way or another, unless the rest of the world is ready to subsidize the country indefinitely — an unlikely condition unless the country has some uniquely strategic geopolitical significance (e.g., the earlier cases of Taiwan and Korea, more recently the cases of Turkey, Egypt, Israel and Pakistan). In the typical case of a country seeking to "go it alone" without the short-run assistance built into the orthodox SAP, the immediate task will be harder and might involve defaulting on some of the country's foreign debt (with resulting repercussions from the international community) or plunging it into severe recession. In either case, the balance of payments problem would still have to be brought under control. Some other elements of the typical SAP are not essential in the same technical sense; even a country with high rates of inflation can avoid balance of payments deficits if it really wants to. However, the international agencies have such firm guidelines that any balance of payments support they do provide will be contingent upon the country's accession to the advice offered on other areas as well. How much freedom a country has in negotiating arrangements with its set of international actors will depend upon on how well it can "go it alone", servicing and paying off enough of its debt to keep the creditors minimally satisfied without the short-run international aid that comes with SAPs.

Often it is a foregone conclusion that a country seeking to close a balance of payments deficit will suffer a decline in per capita absorption of goods and services; since the absorption of goods has been greater than the level of production, absorption must fall once the rest of the world stops loaning to the country (see Figure 1). If the country is forced to reduce its deficit and simultaneously produce a current account surplus with which to repay some of the foreign debt, then absorption must fall even more sharply. There may be at least two other sources of a fall in consumption and investment at this juncture: (1) the switching of resource utilization from other goods and services to tradables may leave some resources temporarily unemployed, leading to a fall in output; and (2) the need to stabilize prices or prevent capital outflows through high interest rates may produce recessionary effects of underutilization of resources through lack of aggregate demand and/or high costs. All these factors may be at work together. Once the economy begins to grow its way out of the slump again, it will normally require some time to recover the previous level of per capita consumption and absorption, since production will begin to surpass the earlier level before absorption does. If population is growing rapidly, output must substantially surpass earlier levels before per capita income rebounds. Occasionally investment is constrained by pressures resisting consumption reduction, by the uncertainty of the economic scenario, or by the high cost of capital; this will further delay the recovery.

Figure 1



The country must undertake at least two challenging types of "adjustment." First, it must learn to live on less, at least for a period. Secondly, it must undertake restructuring which leads to increased production of exportable goods and/or import substitutes, these two categories comprising tradable goods (i.e., "tradables"). The essence of the restructuring is an increase in the output of tradables, which must normally be accompanied by a reduction in the output of nontradables. This shift can be difficult for various reasons: a resource shift toward the production of tradables may be hampered where resources are immobile or very specialized; or the production of exportables may lead to a reduction of important locally consumed goods (e.g., staple crops) with serious implications for income distribution and poverty rates. This will be discussed further below.

Several key distinctions need to be made among the types of adjustment/stabilization. To eradicate a balance of payments deficit (or turn a net capital outflow into an inflow), a country can focus on increasing exports and/or decreasing imports, adopting one of a variety of policy combinations depending on the chosen emphasis. Traditionally, much emphasis in such situations has been placed on curtailing imports by measures such as imposing tariff surcharges, devaluing the currency and tightening exchange controls. More recently, with the "free trade" or "near free trade" paradigm experiencing increased popularity among international agencies and academics, "liberalization" has become a common buzzword. This strategy involves freeing imports as well as encouraging exports through the use of an equilibrium exchange rate; markets are given the dominant role in determining the choice and levels of exports and imports. It may seem an ironic strategy with which to address a balance of payments problem since it involves the freeing of imports (i.e., reduction of import restrictions) which will directly worsen the balance of payments deficit and make it necessary to achieve a bigger increase in exports than would otherwise be necessary to reach equilibrium.

It may still be early to judge the efficacy of such liberalization policy. The East Asian countries, whose dramatic growth performance has been closely associated with rapid growth of exports, did not follow it but rather tended to use the Japanese model of a closely protected domestic market coupled with a strong push on the export front. The only two countries which have pursued the liberal trade model with few or no trade restrictions in the post-war era over a period long enough to allow assessment are Hong Kong and Chile. Both have shown good growth performances, although in the case of Chile there was a decade-long period of slow growth and high unemployment before the country started to take off. At a purely technical level, there is no obvious reason why a large developing country like India or Brazil cannot resolve its balance of payments problems primarily by cutting imports, but it is an empirical question whether such an approach can easily be squared with rapid growth. One aspect of that question is the extent to which the country is impelled to follow the consumption patterns of the developed countries; it may be virtually forced to import a large amount of consumer goods or of capital goods needed to produce consumer goods.

In the discussion of structural adjustment, poverty and sustainability, we accept that structural adjustment is inevitable but try to consider more than one means to that end. It is also important to distinguish the short- and long-run consequences of policy change; whatever the implications of the need to close a balance of payments deficit for poverty, there is another set of implications relating to the medium- and long-run effects which depend on how the structural adjustment is pursued (i.e., on the policy package chosen and the degree of inward or outward orientation adopted).

The Poverty Impact of Structural Adjustment

Because per capita income is almost certain to fall at least for a short period as a result of the economic difficulties associated with structural adjustment, poverty will worsen unless the distribution of income improves. If distribution remains unaffected (i.e., per capita income or consumption falls by the same percentage for each group), those already in poverty will fall deeper into that state and some near the poverty line will fall below it. Our main concern is the way in which structural adjustment and associated income declines affect people living in poverty. There is no empirical evidence to indicate that the share of these lower income people will normally rise under structural adjustment; while not technically impossible, this outcome has been quite rare and would not happen easily in most developing countries given that governments commonly lack the instruments and the will to support such improvements effectively. More worrying is the possibility that income distribution may actually worsen during adjustment, in which case two separate factors are working together to accentuate the level of poverty. In any case, an increase in the extent and severity of poverty is to be expected at least for a few years; the main issues are the extent to which this will happen, the potential for action to alleviate the negative welfare impacts of this increase, and the implications of such impacts and their associated policy reactions for sustainable development.

Present evidence and understanding does not suggest any general or systematic tendency for distribution to move one way or the other under the influence of structural adjustment and stabilization. It does suggest that the effects on distribution and poverty may vary quite a bit depending on characteristics such as the economic structure of the country and the policies implemented (e.g., whether the country adjusts by turning inward or outward). It is useful to review both the empirical record (limited though it is by the lack of good data) and some theory-based predictions as to the sort of impact one might expect. The great majority of the examples of attempts to stabilize and adjust over the last couple of decades have taken place in Latin America and Sub-Saharan Africa, two parts of the world which on average differ rather widely in economic structure and in level of development. One cannot normally be definitive in sorting out the distribution and poverty effects of the stabilization and/or adjustment *per se* since other things are happening at the same time, but it is still worthwhile to mention what has tended to happen to income distribution and poverty levels where some credible evidence is available on those fronts. Unfortunately much of the data from African countries are weak and outdated; most of the usable data come from Latin America.

One conclusion from the empirical record is that a significant fall in a country's per capita income or consumption (e.g., by more than 5 percent or so) will lead to a fall in incomes across all income deciles; it is rare for the rich to gain in absolute terms while the poor lose or vice versa. It is, of course, frequently the case that some narrowly defined groups lose significantly faster than others; this is in fact what happens when income distribution is found to change during an overall decline. Subgroups of the rich or poor may move in the opposite direction to the average, but this is very rare.

In a number of Latin American cases (e.g., Costa Rica, Brazil), it appears that the biggest losers from both stabilization and structural adjustment may have been middle income groups rather than the poorest. Several reasons might be cited for this trend. Imports are typically cut during adjustment, and the direct and indirect consumers of imports (of both consumer and capital goods) tend to be the middle and upper income groups rather than the urban or rural poor. The modern or formal sector is affected more directly by this set of phenomena than is the informal sector (in which many poorer people earn their incomes), though the latter may certainly be affected directly as people losing formal employment opportunities shift into informal production activities and push down average informal incomes. When the public sector budget is cut, the loss of public employment or the cuts in real wages impinge most directly on middle income groups.

One positive aspect of structural adjustment from the perspective of the poor (or at least some of the poor) lies in the fact that the policy reforms represent in part the correction of previous policy patterns which have worked against the interests of the poor. When this is the case, there is some hope for the improvement in income distribution at some point in time, although the general tendency for all income groups to fall together during the first stages of adjustment means that the poor are still likely to suffer somewhat at the outset. Many countries, as they overvalue their exchange rates and provide high tariff protection to manufacturing, discriminate heavily against agricultural exports. Where those exports are produced by small-scale farmers (e.g., cocoa in Ghana or Nigeria, coffee in some countries), this economic policy discrimination against them is likely to penalize the poorer people in the society by discouraging them from producing and by lowering the gains to those who do produce. In the extreme case of Ghana, cocoa farmers at times received as little as 15 percent of the international value of the cocoa they produced, the rest going to the state in the form of high export taxes and overvaluation of the currency. This resulted in a large amount of smuggling and the decline of the country's cocoa industry.

Where a country with the potential to export labor-intensive goods (e.g., clothing, electronics, furniture) is impeded from doing so by currency overvaluation, much potential productive employment may be suppressed. One of the anticipated impacts of structural adjustment designed to increase the export capacity of many countries is the generation of significant employment in labor-intensive export sectors. The rapid growth of such exports had a strong poverty-alleviating effect in some of the Asian countries, most notably Taiwan and Hong Kong. It could have a significant (if less dominant) impact in a number of other regions of the world, although the impact requires years to gain major force in an economy and is likely to be weaker in Latin America or Africa than it was in the Far East. It should however be important in Mexico if the provisions of NAFTA are fully realized.

Pushing in the opposite direction, however, is the fact that in most developing countries, large firms have traditionally dominated production for export rather than for domestic markets, related to the fact that international trade requires considerable scale of operations to make it profitable. Japan and some of the other East Asian countries achieved this effect through the device of the trading house, a commercial company which "collected" the output of many small firms and took charge of their sales on international markets. In regions of the world where this type of company has not emerged, large firms have done most of the exporting even when one might have expected the opposite. The small, labor-intensive firm has many impediments to effective exporting, unless the importer is willing to make the special effort of assisting in their resolution.

One element working against the small producer/exporter is the fact that the buying firms are large, their orders are in bulk and their quality demands are stringent and often technically difficult for the small producer to satisfy. The small firm often has the agility but lacks the necessary access to credit, technology or direct contact with the buyers. The potential of the smaller, less capital-intensive firm can also be diminished when the technological options for the aspiring exporter are narrowly constrained by the consumption patterns in the buying country, although the continuing importance of the labor-intensive clothing sector for many developing countries should not be overlooked. To the extent that the export and import-substituting impacts of devaluation and export pressures generate opportunities for small and medium enterprises (SMEs), the employment effects should be large since such enterprises tend to use a lot of labor.

Depending on the structure of production within a given country, agricultural production for export may affect small-scale farmers and rural laborers through changes in food self-sufficiency or adequate food supplies. Several points are relevant here. First, if it is necessary to achieve some combination of an increase in exports and a decrease in imports to reduce the balance of payments deficit and if this does not come from the category of food products, then it must come from somewhere else; there must be another better candidate for the "squeeze." Second, whether an increase in agricultural or food exports helps or hurts the poor depends on a few structural features. The situation most favorable to a positive result is that in which the poor either produce the export items themselves or work on farms producing them, and where the production of those items is not directly in conflict with that of important staples, so that there is no reason to expect food prices to rise significantly. In this situation, the structural adjustment could have quite positive impacts on the poor, most directly on the rural poor who are normally at the bottom of the national income distribution. At the other end of the spectrum, adjustment may raise the profitability of exporting certain crops which typically are or can be produced efficiently on large farms with few workers, leading to export production at the expense of food output by small, labor-intensive farms. Although not frequent, this situation may occur especially where existing small farmers are share-croppers vulnerable to eviction when the land owners find more profitable uses for the land, or in other cases where land tenure is only weakly established.

One of the dangers associated with any structural adjustment which involves a big export push favoring decisions and decision makers oriented toward big business is the feeling that production on a large scale (e.g., large farms, large firms) is the way to go. Outward orientation need not create industrial concentration; in fact, the economics of the situation often suggest that it should do the opposite, given the relationship between labor-intensive production and small-scale enterprises. However, policymakers may be heavily influenced by big businesses or by the notion that bigness is good (i.e., efficient), as case studies suggest in Latin America and Africa.

Depending on the agrarian structure of the society, adjustment may involve an increase in the relative price of agricultural goods (relative to manufactured goods) which favors the poorest sector of society. However, when food staples are among the important exports or imports and the majority of the poor are in urban areas, this price effect may work against the poor (e.g., Argentina).

Regarding the policy linkage between structural adjustment and income distribution, employment and other economic outcomes, there is an intriguing and somewhat confusing array of empirical evidence. One worrisome hypothesis is that economic openings to the rest of the world will have the effect of worsening income distribution (e.g., because wages will be held down in order to enhance international competitiveness), hence delaying the process of poverty alleviation through growth. But a number of experiences with certain types of openings elsewhere in the world have been more positive, suggesting that it depends upon what sort of adjustment is undertaken and how it is pursued. Proponents of the merits of export-based growth point to examples from East Asia; the favorite case is Taiwan where fast export growth and an economy based to an unusual extent on small and medium firms produced fast growth with a very egalitarian income distribution (in fact, the most egalitarian of all market economies in the developing world). Earlier, and perhaps more important elements in the recipe which produced these outcomes in Taiwan were an agrarian reform which left a quite even distribution of land and a strong, egalitarian educational system.

The evidence from Latin America, on the other hand, appears to be much less positive regarding distribution. Among the countries undergoing serious structural adjustment, there is no general tendency for distribution to worsen or improve. Among those which have undertaken major import liberalizations, there are two clear cases of worsening income distribution (i.e., Chile and Argentina) and one without sufficient evidence yet to permit an assessment (i.e., Mexico). One optimistic view for the Chilean case would be that the worsening was associated with the return to fast growth, not with the specific policies which led to that return; a second interpretation might be that it is a short-run phenomenon which will be reversed in the medium-term, while another might suggest that it was associated with policies in other domains, such as a the capital market. Whatever the reason for the apparent worsening, the record clearly offsets some of the optimism for distribution which one might have felt based on the record in East Asia. The different outcomes might be related to variations of an export push when accompanied by liberalization and when not. In the East Asian cases, the beneficial effects on distribution might have resulted from their comparative advantage in cheap labor, allowing them to promote labor-intensive production which helped to pull wages up. In Latin America, the comparative advantage taps a more skilled labor force with a different set of distributional implications.

How do labor market reforms fit into this picture? Standard components of conservative rhetoric and of SAP recommendations are steps to make the labor market work "better" by attacking labor market "imperfections" and curtailing "excessive" union power, with the aim of improving the economy's efficiency and growth performance while enhancing its cost competitiveness internationally. One might naturally worry that the dismantling of policies and institutions designed to protect labor would lead to increased unemployment, lower incomes and greater worker harassment, as appears to have been the case in Chile. However, the issue is more complicated than might first appear. International comparisons leave no doubt that wages have risen fastest in countries with weak labor legislation and unions (especially in East Asia), whereas wages in Argentina have barely increased over four decades despite the country's powerful labor movement and Peronist party.

This raises question over the true nature of "pro-labor" policies, both in general and within the context of structural adjustment. The contrast between the experiences of Costa Rica and Chile during economic crisis is instructive. In Costa Rica, the government intervenes extensively in the market, there are detailed minimum wage guidelines, the president (during the period of the crisis) had a background in the labor movement and commanded much confidence and support from workers and from the population. However, from the early 1980s, union power *per se* has been weak. Although wages fell sharply with the onset of the crisis and unemployment reached 10 percent, recovery was quick on both counts and the whole process was much less socially stressful and disruptive than in many other countries. In Chile, the social costs of adjustment were borne in the form of lower wages and higher unemployment over more than a decade. In general, there is a clear need for a re-thinking of labor policy, identifying socially safe limits to union bargaining and the desirable focus of labor market legislation.

For Africa, there is not as yet much hard evidence to go on, although in many countries it does appear that government tendencies to overvaluation of the exchange rate, heavy taxation of exports and subsidization of the urban middle classes have worked against the poor (mainly in rural areas). Under such circumstances, adjustment measures may work to improve the economic situation of the poor at the same time that other groups might suffer significantly. Imports have often had a considerable consumer good component which has tended to benefit urban dwellers most.

The poor are politically weak and may thus be especially vulnerable to changes wrought by structural adjustment measures. In the struggle to downsize the economic pie and determine its distribution among social groups, the poor will have little voice. One must therefore be concerned that the better off will be able to manipulate the system to push more of the losses off onto other groups. The empirical evidence cited above does not suggest a systematic adjustment-related worsening of the distribution of income as traditionally measured in terms of pre-tax family income or consumption, but the poor are likely to lose along with the society as a whole, and it is important to focus on the major ways in which they may lose. It must also be noted that some of the determinants of welfare not recorded in family income (e.g., government expenditure on social services) may be particularly constrained for lower income groups in times of fiscal restraint associated with adjustment.

One element in most stabilization packages is an end or diminution in the subsidization of services (e.g., electricity, water and urban transport). In some countries, staple foods are subsidized by the state or covered by price controls. Removal of such subsidies and controls can be very important from a fiscal point of view but very difficult politically, and may cause considerable stress for the poor. Egypt is often cited for its continuing subsidy on bread; although it is evident that much of the resulting benefits accrue to non-poor people and other undesirable incentives are generated (e.g., to feed bread to farm animals), some of the benefits do of course matter a great deal to the poorest. The issue thus becomes politically sensitive, one on which the Egyptian government has been more resistant than most in confronting IMF and World Bank pressure.

Finding solutions to this dilemma is very important in some countries where it appears that only a small share of the benefits do finally accrue to the poor; yet dismantling or re-targeting the subsidies can be difficult when the main beneficiaries include the middle classes who are politically powerful. The building of strong targeting systems which help both to direct a higher share of the benefits to the poor and to cut down on the total fiscal cost can help to resolve this dilemma, although well-targeted systems for the poor often lack political support.

In some countries, the processes of adjustment lead to major changes and confusion in the public sector, such that it becomes less able to provide the services it previously supplied to the population (e.g., in the area of health care). It may also lose some of its capacity for innovative attacks on those problems. At the same time, one should note that most observers have been somewhat positively surprised with the extent to which the provision of educational services (and health services, to a lesser extent) have been able to advance quantitatively even during periods of crisis and adjustment (although suffering in quality at times). One reason these services suffer less than production of some goods is that they are less import-intensive and thus less directly dependent upon the total level of imports; they also rely on employees with relatively solid tenure and access to the public budget.

Crises have sometimes produced positive shifts in the efficiency of public policy in social areas, related in part to the recognition that the effective use (including targeting) of scarce resources is crucial if conditions are not to worsen. The case of Chile during the 1970s and 1980s is widely cited in this context. A number of other countries are moving significantly in the direction of targeting as a way of improving the poverty reduction payoff to a given level of resources. In most developing countries, the average quality of public policy in support of the poor has tended to be low for a variety of reasons, including the low technical capacity and status associated with "social ministries and institutions," the related fact that leadership of such ministries is often awarded as a form of patronage without adequate regard to technical expertise, and inherent biases in social service delivery systems which have tended to discriminate in favor of middle and upper income groups. Evaluating social policy and services during economic crisis and resource constraints may at least make it possible for the government to address some of these systemic weaknesses and improve services for the poor.

Economic insecurity increases for many people at times of adjustment and change in the economy and society. Its impact is most severe for those who lack the accumulated savings or the capacity required to switch activities quickly and effectively. Among the relevant effects are the following:

- An increasing share of modern sector workers employed on a part-time basis and thus lacking medium- and long-run job security;
- An increasing share of workers found at the small- and medium-scale end of the modern sector, which may help prevent unemployment but offers less job security than employment in larger firms; and
- An increased vulnerability to food/agricultural price changes in situations where the adjustment involves a more direct tie to world price movements such that national policy is able to absorb less of the price shock than before, with negative impacts for small farmers and urban consumers.

In many countries, the sort of economic crisis typically associated with SAPs brings an increase in unrest and violence, a decrease in state capacity to control it, and an increase in personal insecurity, especially for some poorer groups. Increases in violence, theft and civil disorder bring a reaction from police and military forces which is felt most directly by the poor, some of whom will have had recourse to illegal activities in an attempt to survive. This pattern has led to disturbing trends in social control such as the assaults on street children in many countries (e.g., the recent notorious case reported in Brazil).

Relationships Between Adjustment, Poverty and Sustainable Development

While poverty may be a serious contributing factor to environmental degradation, various models of growth might also carry similarly negative consequences, so that there is no simple growth-related decision which would allow us to circumvent the environmental or sustainability problems now confronting the world. Some threats to sustainability come from the consumption patterns of the rich countries and of the rich within developing countries. Others come from the struggles of the poor to survive, putting pressure on the environment through actions such as agricultural encroachment on vulnerable lands and the cutting of forests for firewood. Societies where population density is low and which use non-polluting technologies may pose no threats, but as soon as population growth exceeds a fairly low level, that potential stability disappears and such a society must either achieve a tight control on population growth and/or learn to grow in non-damaging ways. Few societies have in the last half century opted for slower growth even if that seemed important to the preservation of the environment, indicating the major challenge to persuade societies to grow in less damaging ways.

A number of underlying factors interact to cause the environmental problems confronting the world and the developing countries. Prominent among these are: high population density and growth; technological change in agriculture, manufacturing and other sectors accompanied by a lack of control over the process to assure counteracting improvements offsetting negative environmental effects; colonization; lack of concern or competence on the part of people and their governments to control the negative factors at work; and increased consumption of goods which are polluting in their production or consumption.

In the poorer developing countries, the biggest threats to the environment (both national and global) are related to agricultural growth and the use of forests and other natural resources. This follows from the fact that such countries are primarily agricultural in orientation, most of the population lives in rural areas and the major exports are primary commodities rather than industrial products. Most poor countries have weak control systems to deal with environmental threats. In dry areas like the Sahel, the combination of overpopulation, agricultural growth and vulnerable ecology contribute to desertification; tube-well irrigation in such areas may lead to lowered aquifers, increased salination and other problems. In expanding agricultural areas near forests, deforestation may occur as families collect more kindling and other wood than the forest can produce; encroachment onto fragile lands associated with the expanding exploitation of the natural resources there (whether related to mineral extraction, forest products or agricultural purposes) may cause irreversible environmental damage and contribute to greater pollution of the air, water and land.

The threats to the environment and to the sustainability of development posed by expanding agriculture, forest depletion and mining are all technically manageable (although perhaps more problematic in political terms) as long as population growth does not complicate the equation by pushing people onto fragile lands and exerting pressure to raise land productivity. In developed countries, for example, deforestation is a problem which could easily be handled with reasonable policy steps which would not harm any group inordinately, although the precise mix of policies is always open to debate. Nor is there any important social need to raise agricultural productivity beyond its current levels; the dangerous effects of excessive chemical application in agriculture carry no significant benefits and in fact, we are presented with the anomaly of the simultaneous push for greater productivity through intensification accompanied by problems of overproduction. Opting for lower productivity using safer agricultural technologies would probably "cost" developed countries less than 1 percent in terms of lowered GDP, a trivial amount considering the potential environmental gains.

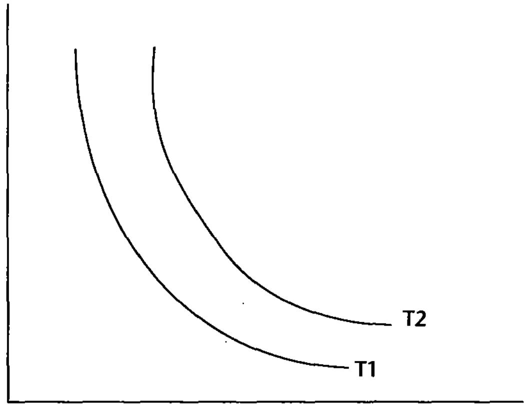
In developing countries, the combination of fast population growth, inadequate levels of food consumption and the need to raise export earnings to finance capital goods for industrialization leads to pressures to raise outputs. Failure to raise output on currently farmed land raises the pressure to cultivate new and often inappropriate land. Unless a strong anti-natalist population policy can be implemented, the country may face the choice of outrunning the population problem without due regard to environmental issues or acting quickly to find environmentally friendly technologies which will promote growth as rapidly as current polluting technologies allow. The biotechnology revolution is assumed by some to be an important part of the answer here, but it also contains some serious risks. Taiwan exemplifies the growth-first approach in some respects; now that it has made significant progress in reducing poverty, the country is embarking on major anti-pollution programs (especially in urban areas).

In the middle and later stages of stages of development, many of the threats of sustainability come more from the industrial and other non-agricultural sectors. Although still serious, they are inherently more manageable since the use of damaging technologies or vulnerable soils and forests is less the result of direct poverty pressures, being more in the realm of political economy than in technology-economics.

The struggle for sustainable growth and environmental protection can thus be conceptualized as involving four key factors: the degree of poverty; the level of population pressure, the availability of productive and environmentally friendly technologies; and the society's regulatory capacity to constrain the use of socially damaging technologies. The more severe the initial level of poverty, the greater the challenge. Severe poverty is normally accompanied by high rates of population growth. At a given time in a country, one can conceive of a trade-off curve as shown in Figure 2, with T1 representing the potential for growth of the standard of living and the attainment of environmental objectives. The shape of the curve describes the seriousness of the trade-off; if it is steep, little growth of living standards can be achieved even at high environmental costs, while if it is flat the opposite is true. (If there is no trade-off at all, there is no curve.) The rate of population growth and the other factors cited affect

Figure 2

Quality of environment



Rate of growth

the position of the curve, and the way it shifts over time. Fast population growth shifts it in toward the origin, meaning that for a given rate of improvement in living standards in the short-run, a greater environmental (or sustainability) price must be paid. The "better" the available technologies in the sense of their combined growth potential and environmental friendliness, the farther the curve from the origin; the same goes for the quality of regulatory capacity. Of key importance is the time path of the trade-off curve. The more a country is able to curtail population growth, find technologies which are better than the previous ones and improve its regulatory capacity, the better is the chance to shift the curve outward (e.g., to T2) and hence raise living standards. With higher living standards, it makes sense to choose points involving less or no environmental damage. But at lower income levels it is possible that, to achieve the short- and medium-term income gains which can lead to a reduction in population growth rates and perhaps contribute to regulatory capacity and accelerated development of environmentally-friendly productive technologies, the country may require a growth spurt which itself will be damaging to the environment. In some countries, there may be a major dilemma: the only way to eventually get to income levels at which the environment can be satisfactorily protected may involve a rush for growth in the early years; yet if this rush fails to get the country over the hump to where population is growing slowly and economic growth is built in, then much environmental damage may have been done to no good effect.

Structural adjustment creates some environmental threats while alleviating others. Its impact is likely to vary a good deal from country to country. It is useful to distinguish effects which follow from the fact that structural adjustment always involves a shortage of foreign exchange, usually involves declining standards of living in the short-run, and entails adjustment of the country's economic structure with a view to raising the output of tradables.

Under structural adjustment, a country is struggling to get by with less foreign exchange (i.e., capacity to purchase imports) than before. One frequent direct effect is the underutilization of capacity in those industries dependent on the import of raw materials and intermediate goods; another is a decrease in capital formation and growth, since most developing countries rely heavily on imports for their machinery and equipment, as well as on foreign capital to help finance investment. In order to avoid a serious economic stagnation, there is inevitably a search for ways to earn more foreign exchange quickly. This naturally puts pressure on the country to sell elements of its economic "birthright": to speed up logging of commercial forests, accelerate production of minerals and accommodate foreign companies engaged in such exploitation, encourage large-scale agricultural land development for export production, and sell off manufacturing and other firms to promote foreign investment in the country.

It has been hard to quantify with any precision the effects of the debt crisis or resulting SAPs on these tendencies, since some of them are chronic outgrowths of poverty, shortage of foreign exchange, and lack of competent and honest administration. Several authors have argued that the debt crisis has contributed to deforestation in developing countries (Rowe *et al.*, 1992); though econometric demonstration of the importance of this factor is still lacking, there is no doubt that it has played some role (Saxona, 1993). There is also no doubt that it has fostered a more welcoming attitude to foreign investment in general; whether this will have a negative effect on the environment depends on whether foreign interests will treat natural resources with more or less dedication to conservation than would nationals.

Structural adjustment and the desire to compete internationally can cause pressure to disregard environmental protection, partly because of the mystery surrounding the idea that one has to compete to survive and that this goal must somewhat dominate all the others, an imbalance which people would not accept if the decisions involved a closed economy. Footloose companies will go wherever things are easiest. In order to deal with them on an equal footing, there must a clear understanding of the trade-off between objectives (whether in an open or closed economy) and a better focus on the environmental needs of the world as a whole.

A major threat from falling living standards associated with structural adjustment is on the agricultural front, especially in those countries whose populations are still rising rapidly and where most of the people are found in rural areas. The push to colonize marginal lands, to clear forest cover, to shorten the fallow periods and to intensify production will naturally be heightened.

Investment tends to fall more sharply than consumption during economic downturns, bringing obvious dangers since it would be expected, *ceteris paribus*, to slow the process of growth in the short- and perhaps medium-term and contribute to a lengthened period during which poverty-related environmental threats are present. In a more specific sense, it may also curtail investments in waste control and other types of environmentally desirable directions, which may be viewed as non-essential and thus postponed in difficult times. The same is very likely to hold for investment in safer technologies and the like. At the same time, there are in some countries and at some times advantages to a tighter investment budget. Countries with easy access to large funds often spend them in ways which are neither economically very beneficial nor environmentally sound. Examples include some large dams, large irrigation works and other big projects built more for reasons of prestige and pressures from powerful professional groups. A tight investment budget may lead such countries to make better investment decisions.

One possible middle- and long-run impact, especially in low-income countries, is the gradual push of economic activity away from some of the major import-substituting industries toward others which are less capital and technology intensive, operating on a smaller scale and being more labor intensive. This may not necessarily involve a lot of outright closings of firms or industries, but rather a reorientation at the margin of the type of economic activity. Many modern capital-intensive industries are heavily polluting (e.g., iron and steel, petrochemicals), especially if there is little attention to environmental considerations in technology choice and if machinery is old and poorly maintained. Small-scale rural technologies vary in their impacts on the environment, though many can be judged to be benign since they have stood the test of time, with impacts that are regionally dispersed and thus potentially less damaging.

In the richer developing countries, a relatively high share of the labor force is and will continue to be employed in the modern sector, using technologies with high labor productivity and often located in medium and large firms. Often the "modernity" of the technologies of this sector poses considerable environmental threats since there are few historical tests of their sustainability, their heavy use of chemicals and their discharge of dangerous wastes. However, it is also true that the modern sector has more research capacity to find ways around the damaging effects in question, and that the technical challenge of monitoring is less than when many small and medium enterprises are involved. The political challenge may be very great if the firms are unwilling to collaborate and the state is either not strong enough or honest enough to force collaboration. When small-scale enterprises dominate the scene, the challenge is different, and it is impossible to generalize about scenarios on the environmental front. Small and medium firms may more often operate in sectors which are not threatening. However when they are engaged in environmentally damaging activities, the challenge for correcting their negative impacts is greater: they have less internal capacity to develop an environmentally satisfactory response; their use of older technologies and equipment will sometimes imply greater environmental damage; and their numbers and their lack of public accountability will complicate the regulatory and monitoring process.

As noted earlier, various policy prescriptions not directly related to balance of payments equilibrium are included in SAPs; some bring environmental risks and others probably bring opportunities. Privatization, for example, may create certain threats to the environment when public forests or lands are shifted to private control. It is not necessarily true that the outcome will be worse when ownership and control are vested in the private sector; rather, the dangers are different and if the change occurs, one must be ready to confront those new dangers. When the control of a resource like this is vested in the public sector, those in charge may be incompetent, corrupt or lack adequate resources with which to act properly. When control is in the private sector, the danger is that the profit motive will encourage short-term exploitation of the resource rather than long-term conservation with sustained benefits. The actual outcome will depend on variables such as the precise conditions of the policy environment, operative social and political structures, and the time horizons and production orientations of firms.

Policies Addressing Poverty and Sustainability During Adjustment

It should be clear from the above discussion that neither economic theory nor any other type of theory offers us much in the way of firm conclusions on the issues. While these bodies of thought provide a number of quite important hypotheses, the empirical record in the countries attempting to carry out structural adjustments contains some useful pieces of information. Although one cannot overgeneralize, one can confront each situation with an understanding of what the main dangers and opportunities are likely to be.

Structural adjustment is normally undertaken at a time of economic crisis. Efforts to alleviate the poverty that accompanies such crisis lead in several important directions. Since funds for social policies are often cut or held constant at this time, it is important to raise the efficiency of expenditures on health, nutrition, and primary education. Usually there is plenty of scope for such improvement, and the challenge is to put a real emphasis on improving administrative practices, the quality of personnel, and workforce morale. In many cases, improved targeting of anti-poverty programs may be a positive step, and there may be improved collaboration with NGOs. The experience of Sri Lanka is one case demonstrating the modest cost of effective programs contributing to improved social welfare.

Furthermore, since informal sector activities and self-employment are typically of increasing importance in times of economic stress and adjustment, policies to assist the many workers who fall into these categories are important, whether to raise their productivity or to better deal with the strains of the adjustment period. There have been a wide range of experiments in policy support for microenterprises and other small-scale firms; some credit interventions clearly help the direct beneficiaries, as do other forms of assistance. Less clear are the conditions under which it is possible to improve the income-creating performance of microenterprise as a whole and increase its capacity to raise labor productivity.

The poverty and sustainability-related dangers which a country faces change with the level of development and the associated patterns of production and consumption. The process of structural adjustment adds a new dimension: it is likely to relieve some threats (e.g., excessive imports in the short-run) but to accentuate a range of others; it may encourage colonization of marginal lands; it may raise imports in the medium- and long-term, shifting consumption preferences in favor of capital-intensive and sustainability-threatening goods and services. But it also creates pressure to improve performance which may be constructive. In addition, various of its economic aspects (e.g., encouragement of labor-intensive exports) are inherently beneficial on the poverty front, though not necessarily on the sustainability front.

In designing a good strategy at the moment of truth created by the pressure to structurally adjust, it would seem that the keys to success are likely to be: (1) a wise choice among the various ways of adjusting to balance of payments problems; and (2) finding poverty-friendly technologies that are also environmentally friendly. Where the combination is possible but requires more or better quality government involvement to set the conditions, provide infrastructure or enforce regulations, then one must simultaneously focus on the availability of the resources and the engagement of the government at this time. From this, several more specific points may be drawn.

First, there are few easy and accessible ways to attack both poverty and sustainability threats from the situation in which structural adjustment is pursued. But perhaps the first place to direct one's attention is that area of policies which may be pushing the wrong way and could be changed. Another important aspect here is getting rid of those aspects of the incentive system which pull in the wrong direction, as with the Brazilian legislation favoring the clearing of forest if one is to get the rights to it.

Secondly, a key element of medium- and long-run policy for the poorer groups and for sustainability is to assist the process of raising productivity in technologies which are friendly to the poor and to the environment. It requires careful analysis to sort out which technologies fall in this category, and thus to avoid wasted or counterproductive initiatives. One starts with the knowledge that many traditional technologies have been well adapted to their environments, both physical and environmental; this provides a reasonable hope that adaptations of many of these may retain their attractiveness while making them more competitive.

However, many traditional technologies, despite their advantages in the past (e.g., respecting the integrity of the culture, the environment, and the socio-economic milieu), cannot remain useful in the long-run unless population growth greatly slows and the level of aspirations of many people abates. In agriculture especially, it is clear that traditional levels of land productivity will no longer meet the needs of populations as they continue to grow dramatically. In such cases, the only serious option in the future may be to improve on the new technologies, making them more accessible to and friendly to the poor (e.g., the smaller farmer, the landless worker) and to the environment, rather than to hark back to pre-green revolution technologies. In other economic activities, the challenge is often even more difficult, since there are no "new" technologies which also have the potential to be as labor intensive as those of the green revolution.

In broad conceptual terms, the challenge is to assure that there be many labor-intensive, environment/society friendly technologies and styles of production which are also productive enough to compete with other options available in the economy. Governments around the world have been slow and ineffective in getting involved in research supporting sustainable development. Apart from mounting a sufficiently large research effort, there is the matter of sorting out where the private sector will contribute effectively (and where it will not) to the sort of development needed. In some sectors, it can be counted on, especially if given sufficient incentive to pursue environmentally friendly technologies (whether new ones or adaptations of existing ones); in other areas, the private sector will not be interested in generating the labor-intensive technologies which would have the potential to generate many jobs and improve income distribution. In this area, state involvement is likely to be especially important, whether doing the research itself, providing a context for NGOs to do it, or creating a strong incentive system for private firms to do it.

Regulation with respect to environmentally damaging activities and technologies is normally weak, and needs to be strengthened. In many countries, it receives little or no priority, and where it is formally in existence, it is subject to corruption or to patterns of enforcement via harassment rather than assistance. Some threats to sustainability arise from the fact that a few people with power choose to reap great benefits for themselves at the expense of their communities in the short- and long-run. This sort of threat is more likely when there is concentration in the control of resources. Democratization and community control probably help to curtail these threats and damages.

Most countries at most points of time are pursuing sets of policies which, for a given economic growth performance, are well below the potential in both the poverty reduction and the sustainability aspects. A major challenge at a time of structural adjustment is to raise the average quality of policies in both those dimensions to preclude a worsening of performance in both dimensions and to make them as compatible as possible.

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5

Adjustment Policies and Sustainable Development: Theory and Practice

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Introduction

The term structural adjustment has been defined by the World Bank as "reforms of policies and institutions covering microeconomic,...macroeconomic,...and institutional interventions...designed to improve resource allocation, increase economic efficiency, expand growth potential, and increase resilience to shocks" (World Bank, 1990: 8). It is one component of adjustment policies generally, which also include stabilization policies designed to achieve domestic and external balance.

Stabilization policies typically focus on restraining aggregate demand by restricting the growth of money supply. In turn, this is achieved by restraining bank credit to the private sector and by reducing government deficits by raising taxes or user fees for government services and by reducing government spending. A key focus of stabilization packages is usually the reduction of government subsidies and the restraining of public sector wage growth, both of which are justified in terms of internal balance and of "getting prices right". Exchange rate adjustment has similar dual goals, helping to reduce the pressure of demand on scarce foreign resources while adjusting relative prices to stimulate supply. Reduced domestic credit is accompanied by rising real rates of interest.

Relative price shifts are an important component of structural adjustment policy, which focuses on liberalizing markets, allowing relative prices to adjust under pressure of supply and demand rather than by state intervention. The distinction between stabilization and structural adjustment is therefore blurred, especially since both types of policy are often implemented simultaneously. Structural adjustment addresses resource allocation and growth through tariff and tax changes, improved budgeting and the allocation of state expenditures. It deals with import liberalization, export incentives and trade policy generally, as well as public sector operating efficiency, interest rate policy, external borrowing and debt management. It considers appropriate pricing policy in the key sectors, especially in agriculture and industry, from the point of view of production incentives, and recommends policies designed to conserve energy and promote increased energy supply.

Apart from pricing and budgetary reform, structural adjustment policy focuses upon institutional reform to improve economic performance. This is very wide ranging in scope, covering privatizing state institutions, improving marketing board and parastatal operating efficiency, and building the capacity to formulate and implement public sector investment programs. In recent years, two important areas of focus have been the operations of state-owned financial institutions and the framework (legislative and otherwise) for promoting foreign private investment.

Since the early 1980s, many third world countries have been implementing adjustment programs under the auspices of both the International Monetary Fund and the World Bank, adjusting domestic economic policy as a condition for the receipt of foreign credits from these institutions. More recently, the countries of eastern Europe and the former Soviet Union have been doing likewise. While formerly the Fund had been responsible primarily for stabilization measures and the Bank primarily for structural adjustment policies, this division of labor is no longer clear cut. The IMF has introduced longer term credits with conditionalities which go beyond those traditionally thought necessary for short-run macroeconomic balance, while the Bank has gradually increased the proportion of its resources devoted to general or sectoral balance of payments support (now over 9 percent of cumulative lending and over 27 percent of current loan commitments) as opposed to its more traditional project lending (World Bank, 1992: 20 and 195). Indeed, for poorer countries the Fund and the Bank have, for some years now, jointly prepared Policy Framework Papers (PFPs), outlining the stabilization and adjustment programs to be followed by borrowers in the coming three-year period.

Not all third world countries with adjustment programs have borrowed for this purpose from the international financial institutions (IFIs). Some, together with many industrialized countries, have been adjusting independently. But for third world countries it is the policy conditionality of the IFIs which shapes adjustment policy, since even those pursuing their own reforms draw heavily on IFI advice and experience. It is, therefore, mainly on the record of IMF/World Bank adjustment programs that this analysis will be based.

While it is not the intention to enter into definitional debates in this chapter, clearly the terms "poverty" and "sustainable development" need some clarification. "Poverty" will be taken to mean "economic deprivation relative to the prevailing living standards of the community" (Osberg, 1981: 205) which, for the purposes of this exercise, can also be taken to mean "inability to maintain a minimal standard of living" (World Bank, 1990c: 26).

Sustainable development will be interpreted broadly to encompass but go well beyond the definition of the term by the World Commission on Environment and Development, which is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987: 43). While this suggests a central concern with maintaining the resource base and safeguarding the environment, there are other dimensions of sustainability of great relevance to the third world. Political sustainability is one of these and is particularly relevant in the context of major changes in economic policy. Some might also link this to the need for social sustainability (Tisdell, 1988; Barbier, 1987) or cultural sustainability (Norgaard, 1988) which, though difficult to define, probably present no fewer conceptual difficulties than ecological or material sustainability. We would also express a preference for building in an ability of economies to "maintain productivity in spite of a major disturbance such as that caused by intensive stresses or a large perturbation" (Conway, 1983: 12). In other words, we would add not just the political, social and cultural dimensions, but also the feature of stability over time. This is not to say that we believe that development can be "sustained" indefinitely in the sense in which it is defined by the WCED; on the contrary, we would agree with Georgescu-Roegen (1972) that development will eventually come up against the entropy limit. Nor do we necessarily accept the premises of the WCED that global growth is consistent with sustainability and necessary for poverty alleviation. However, we believe that, if clearly articulated and accompanied by concrete goals and policy instruments, the notion of "sustainable development" can become more than a mere cliché and help mobilize popular support for "a society living in (greater) harmony with the environment and with itself" (Lélé, 1991: 618, parentheses added).

Structural Adjustment and Poverty

In the early days of structural adjustment, the Fund and the Bank were both criticized for not taking the distributional impact of their programs explicitly into account (Loxley, 1986). At that time, the response of the IMF, which had published only one theoretical piece on the subject (Johnson and Salop, 1980), was that to do so would exceed its mandate. Thus in 1984, Jacques de Larosière as Managing Director of the Fund would argue that such an international institution could not take upon itself the role of dictating social and political objectives to sovereign governments. In 1985, the Director of the External Relations Department of the Fund explained to a conference of African Central Bank governors that "distributional issues are so highly political that for an international institution to seek to influence these issues would be regarded by most, if not all, governments as an intolerable violation of national sovereignty" (quoted in Helleiner, 1986: 150). Critics replied that Fund/Bank adjustment programs would, inevitably, have an impact on income distribution and the IFIs ought to be in a position to tell governments what it would be and offer alternatives should they desire them. In particular, a major set of studies by UNICEF argued for structural adjustment "with a human face" (Cornia *et al.*, 1987) and in particular, that steps be taken to protect the poor and other vulnerable groups from any negative effects of adjustment. A number of bilateral donors supported this call.

As a result of these kinds of pressures, the IMF adjusted its position following its 1988 review of conditionality, concluding that, "While it is agreed that questions of income distribution, as such, should not form part of Fund conditionality, considerable importance is attached to improving program design so as to protect the poorest segments of the population during the period in which adjustment policies are being implemented" (IMF, 1988: 48). The Fund explicitly recognized the need for policies to mitigate the impact of adjustment on the poor and offered to advise governments in this area if requested to do so. Since then, the Fund has continuously emphasized that it is concerned with poverty, and not merely in terms of assessing and mitigating the impact of its adjustment programs on the poor; it also believes that if members follow its policy advice, "sustainable growth worldwide" will be promoted (IMF, 1992: 52), the presumption being that this will reduce poverty.

Having moved away from a major concern with poverty in the early 1980s, the World Bank met with similar criticisms and by 1987 had also recognized the need to give "more direct attention to addressing the social cost of adjustment" (World Bank, 1987: 15). In particular, the Bank sought to protect the poor from the negative effects of adjustment through improved efficiency and targeting of social expenditures, and through compensatory nutrition and employment programs. An early example of such an approach, which owes its origins as much to pressure from UNICEF and donors as to Bank or even recipient government initiative, was the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) of Ghana. Designed in late 1987, this $70 million program provided for jobs creation through public works, for essential drugs and primary health interventions and for educational rehabilitation. It was supposed to be short-lasting and to be financed by additional funds from aid donors. Similar programs have since been introduced in a number of other countries undertaking adjustment (e.g., Uganda, Malawi).

The World Bank has also sponsored a number of Living Standards Surveys to help governments and donors monitor the social impact of adjustment. It has also put some effort into examining the theoretical relationship between adjustment and poverty (World Bank, 1990a, 1990b, 1990c, 1991; Bourguignon *et al.*, 1991). These initiatives help deal with earlier criticisms that, "if policies are to be implemented to assist the poor during adjustment, they should be based on more rigorous empirical and theoretical work" (Demery and Addison, 1987: 1496). In 1988, the World Bank joined with the African Development Bank and UNDP to sponsor the Social Dimensions of Adjustment Program, with the object of developing a general framework for policy data collection and evaluation. The SDA helps individual African countries develop their own programs for poverty alleviation during adjustment.

The World Bank sees its role as being, firstly, to protect the poor and other vulnerable groups from "the undue hardships resulting from structural adjustment and economic reform" and, secondly, to help the poor participate in the benefits of economic recovery induced by adjustment programs. Like the Fund, the Bank sees the goal of adjustment policies as being the restoration of "sustainable growth". Unlike the Fund, the Bank does not appear to believe that growth will automatically reduce the incidence of poverty. Rather, growth must be accompanied by the provision of basic services that the poor need most, and existing services must be made more effective (World Bank, 1990c: 89).

Structural Adjustment and Sustainable Development

Neither the IMF nor the Bank commonly use the term "sustainable development", preferring instead, "sustainable growth", meaning growth which can be maintained over a number of years. Recently, however, the term did creep into an IMF-sponsored conference on the link between macroeconomic policies and the environment (*IMF Survey*, June 14, 1993: 189), and seems to be used synonymously with "high-quality growth", meaning growth which offsets any negative impacts of adjustment not only on the poor but also on the environment. This very loose, even minimalist definition of "sustainable development" represents considerable progress for the Fund. Only in 1991 did the Board of the Fund explicitly discuss the extent to which it should address environmental issues. It concluded that staff should "be mindful of the interplay between economic policies, economic activity, and environmental change", and that modest additional resources would be devoted to drawing on expertise in this area available in other agencies rather than on undertaking research within the Fund (IMF, 1991: 54).

For its part, while also preferring the term "sustainable growth" (see, for instance, World Bank, 1989b), World Bank staff have recently advocated "sustainable development", defining it as "continuing improvements in the present quality of life at a lower intensity of resource use". A central component of this is anticipating and minimizing environmental degradation, much of which, they argue, "hits the poor the hardest" (Munasinghe, Cruz and Warford, 1993: 40).

Concern by the Bank for the inter-relationship between macro policy and the environment pre-dates that of the Fund, but not by much. Less than four years ago, Bank staff observed that "structural adjustment lending has not, until recently, paid specific attention to environmental issues" (Warford and Partow, 1989). They argued that it was desirable that it do so "not only to avoid possibly damaging environmental consequences, but also to fully use the potential of adjustment lending in improving environmental conditions". An example of the Bank approach is to be found in the 1989-92 Ghana Policy Framework Paper, where explicit provision is made for some environmental targets to be met. Thus, the Ghana government committed itself to finalize an environmental action plan to deal with some major problems (e.g., soil erosion and degradation in the north, salination of arable land, problems in managing marine and coastal resources) and to monitor investment projects. It also undertook to monitor air quality in mines and to address problems of mine reclamation (IMF, 1989). It is, therefore, not correct to argue that, "As of 1991, specific undertakings on environmental protection or natural resource conservation had not been included in SAL conditionality" (Mikesell, 1992: 99).

The Bank has determined that in a sample of 81 adjustment loans made between 1988 and 1992 (representing 65 percent of total lending), 60 percent contained environmental goals or addressed environmental concerns in specific sectors, compared with only 37 percent in the period 1979-87 (Munasinghe *et al.*, 1993: 41). But the Bank readily admits that it is handicapped by "the general lack of knowledge about links between economic policies and the environment" (*ibid.*). In its very preliminary attempts to address this problem, the Bank commissioned six case studies from which it drew the following conclusions:

1. "Getting prices right" helps the environment by reducing the use of energy and scarce water supplies, but needs to be supplemented with some degree of regulatory intervention.
2. Subsidies, whether direct or in the form of tax breaks or cheap credit, can encourage excessive resource use. Direct transfers might be more effective as they address issues of poverty while avoiding such distortions in resource use.
3. Devaluation and foreign exchange liberalization might help expand land allotted to wildlife by raising returns to wildlife exports and tourism.
4. Trade liberalization might encourage assembly industries rather than processing industries, which tend to be dirtier. It might also stimulate the decentralization of industry which reduces the concentration of pollution.
5. Common property regimes may frustrate possible positive effects of macro reform on the environment. Thus, communal land ownership might, in the face of rising commodity prices, lead to encroachment on fallow land, thereby reducing soil fertility. State-owned monopoly enterprises with soft budget constraints might be able to avoid reducing resource demand even when prices increase.
6. Policy makers need to identify direct and indirect environmental effects of adjustment policies and design remedial measures (*ibid.*: 41-43).

There is, therefore, some awakening of interest in the Bank on the question of the relationship between macroeconomic reform and the environmental aspects of sustainability. Though very recent and still in its formative stages, this interest represents considerable progress for the Bank. It is, after all, not so long ago that its Chief Economist and Vice-President ruminated aloud about the third world being under-polluted and suggesting, therefore, that it would be rational for the World Bank to encourage more migration of dirty industries to LDCs (*The Economist*, February 8, 1992: 66).

Interconnections Between Structural Adjustment, Poverty and Sustainable Development

It is apparent from the above that the evaluation of structural adjustment programs in terms of their impact on both poverty and the environment is not yet carried out routinely by the main international agencies which sponsor them. That this is so is also evident from an examination of the numerous studies sponsored by the IFIs evaluating macroeconomic performance under IMF or World Bank adjustment programs. Without exception, these studies, including those carried out since 1989, fail to include measures of poverty or environmental performance. Rather, in both areas, the onus is on the recipient government to ascertain these impacts, with or without assistance from the IFIs.

We can also conclude that very little analysis has been conducted on the complex inter-relationships between poverty and the environment and, as Lélé has argued, there is a tendency on the part of those advocating sustainable development, including the World Bank, to adopt a simple two-way causation between poverty and environmental degradation (Lélé, 1991: 613). At the same time and in a related manner, while the necessity to analyze the impact of structural adjustment both on poverty and on the environment is now accepted, there seems to be less recognition of the need to study possible cross-linkages between all three. Perhaps the reason for this is that the World Bank, which has a dominant influence in both the design of adjustment policies and in the academic literature in this field, does not see this as a particularly pressing requirement, given its own views on the impact of adjustment. In general, the Bank believes that structural adjustment has a relatively benign impact on both poverty and the environment. Adjustment is considered essential for growth, which is itself necessary (though not sufficient) for poverty eradication in the medium- to long-term, and is considered to have a generally positive impact on the environment by sending "correct" market signals for efficient resource use. If one accepts this argument, then the main concerns in adjustment reduce themselves to those of how best to ameliorate "new poverty" (i.e., that created directly by adjustment measures) and how to reduce instances of market failure where "correct" signals are not passed on to, or are ignored by, resource users. The first is solved by PAMSCAD-type programs or social safety nets, while the latter calls for more extensive privatization, a central emphasis on the current generation of adjustment programs, or a degree of state regulation. The central point, however, is that this framework does not encourage a closer examination of possible cross-linkages between structural adjustment, poverty and sustainable development.

Critics of orthodox adjustment programs do not agree with this benign view of the impact of adjustment on poverty and the environment. They argue that neither the Bank nor the Fund pay sufficient attention to the environmental impact of adjustment programs, which have often been far-reaching, irreversible and with serious consequences for the poor. SAPs are said to deplete natural resources in three main ways: by intensifying poverty; by spurring the increased production of exports; and by reducing government spending (The Development Gap, 1993: 34-36). The first forces people onto marginal land or into national parks or forests, in the process destroying fragile eco-systems and disrupting the economies and lifestyles of indigenous peoples. The second increases the pace of natural resource exploration and extraction and leads to deforestation, the conversion of mixed farms into unsustainable, monoculture cash-crop farms, and the conversion of wetlands into commercial fisheries; critics claim this contributes to the neglect of smaller, poorer farmers and those producing food (Cheru, 1992: 507). The third has frequently led to cuts in government sponsored environmental monitoring and protection.

In some countries, adjustment programs have also been accompanied by the abolition of industrial licensing. Critics see this as a means of avoiding environmental and other controls over industrial activities and as an invitation to overexploit resources and avoid checks on effluent and pollution. The promotion of the tourist industry is seen as particularly damaging to local fisheries and the coastal ecology, as scarce fresh water is commandeered for swimming pools and other hotel uses and as protective sand dunes and local vegetation are altered or destroyed (Public Interest Research Group, 1992).

Clearly, then, there are conflicting views on the impact of structural adjustment upon poverty and sustainable development, the truth of which cannot be easily disentangled. Ultimately, of course, the acid test will be in the field, in specific case studies. To date, we have no systematic studies which have isolated the specific impact of adjustment on poverty and sustainable development. Two recent studies by the OECD attempt to measure the impact of structural adjustment programs on the poor (Schneider, 1992; Roe and Schneider, 1992) but they do so, not so much by measuring changes in poverty attributable to adjustment, but rather by analyzing static data on the income and expenditure structures of different social groups and projecting the likely impact of adjustment on these. The result is not, therefore, a definitive statement on measured impacts, but rather a speculative, albeit intelligent, first-guess assessment of how current policy is likely to have affected past income and expenditure of the poor and others. The studies show that it is very difficult to be definitive about the distributive impacts in specific situations for, as one would expect in programs with multiple policy shifts, some impacts are positive while some are negative. Secondly, impacts vary greatly from country to country depending on production structures, social structures, income and expenditure patterns, and the structure of economic and household organization.

In Ghana, for instance, the impact of adjustment on the poor has been relatively slight and generally positive. While a high proportion of rural output and consumption is subsistence and, therefore, not affected directly by price reforms, many poor farmers produce cocoa and benefited substantially from higher producer prices, even though richer farmers gained most in proportionate terms. Wage increases and retrenchment had little relevance for the rural poor, and relatively low price increases for food benefited richer farmers most since they purchase more of their food. Poorer food farmers suffered not only from higher input prices but also from relatively low sales prices. Increases in prices of clothing and less basic goods such as cigarettes and beer had a significantly negative impact on the poor, while the impact of PAMSCAD on the rural poor was generally inadequate. Increases in health and education costs affected the rich more than the poor since they use these services more but, as Roe and Schneider point out, these increases would still have been "damaging to poor users of services" (Schneider, 1992: 19). While the overall impact is ambiguous, they feel that there have been many positive implications for the poor, from general gains in output and real increases in government spending, that the measures were most likely progressive and, importantly, that "the negative effects appear to be relatively marginal" (*ibid*: 119).

In Côte d'Ivoire, where there was at least some comparable, albeit inadequate, data from the past, adjustment measures favored large export farmers who had access to relatively cheap labor and additional land and therefore favored the Forest Zone, as opposed to poorer farmers and those in the Savannah Zone. Policy measures which might have had a more progressive impact in rural areas, such as those aimed at food crops other than rice, "were implemented only to a very limited extent" (Schneider, 1992: 74). On the other hand, both the crisis and policy responses to it appear to have reduced educational enrollments and, by increasing the number of poor, further reduced the educational opportunities for women since, among the poor, women enjoy much less access to education than do men. Poor urban households were hit quite badly by increases in the price of rice, water and electricity.

Unlike the Ghana study, the one on Côte d'Ivoire did attempt to assess the impact of adjustment on the ecosystem and had data from the 1970s to compare with that for the mid-1980s. It found that little change had taken place in the pattern of use, but there had been a shortening of the fallow period in the Forest Zone and an increase in rice production in the Savannah marshlands, suggesting greater shortages of land and consequent increased pressure on that which was available.

These studies represent an important start in assessing the impact of adjustment on poverty and sustainable development, but only a start. With the routine collection of data on household income and expenditure in many countries, future studies ought to be more definitive with regard to the impact of adjustment on the poor. However, it is fair to state that the equivalent data on sustainable development is much more difficult to collect and few third world countries have the operational capacity to gather and analyze such data routinely and systematically. Few, if any, countries will collect data which measure the complex interrelationships between poverty and sustainable development. Furthermore, the OECD studies are exceptional in many ways, not least because of the attention they pay to the gender aspect of income and consumption inequality. As things stand today, the literature is replete with references to case studies in which the most basic questions have not been asked. Thus, two otherwise quite detailed World Bank studies on cocoa production in Ghana fail to examine the role of women in production, the source of labor for cocoa farms, or the impact of cocoa expansion on the environment (Bateman, 1990; Stryker, 1990). It might be useful, therefore, to specify some of the issues that need to be clarified in field work so that the impact of structural adjustment is fully understood and, where that impact is found to be undesirable, remedial action might be carefully and sensibly provided for. The next section of this paper makes a first attempt at this.

Some Issues that Need Further Examination

First, a much clearer picture is needed of the structure and dynamics of rural poverty and rural inequality. An underlying tenet of IMF/World Bank structural adjustment programs is that they should generally reduce poverty as they shift resources to the rural areas where most poverty (e.g., 80 percent in Africa) is to be found (World Bank, 1990c: 113). What is becoming apparent, however, is the complexity of third world rural economies, in terms of social structure, land distribution, and income and expenditure responses to price changes and other adjustment measures. This implies that the distributional impact is not readily foreseeable and certainly cannot be generalized (Sahn and Harris, 1991). Thus, the export regions of a country like Ghana seem to contain some of the wealthiest and some of the poorest people in the country (Loxley, 1991: 99). We need to know if there is a causal link here and if so, how it is affected by adjustment. Is rural poverty a function of landlessness and if so, what are the major causes of the lack of access to land? Do the poor work for the rich and if so, do they share in the increased returns to export production? Do enhanced earnings from export production lead to further concentration of land holdings, more landlessness or pressure on marginal lands and more poverty?

Second, there are indeed disputes about the most basic issues concerning the reaction of export producers to price incentives, which have an important bearing on poverty and sustainability. In some instances, at least, it appears that structural adjustment may have led, not to more intensive, more productive farming, but rather to more extensive farming, often into marginal lands. The explanation advanced for this is that inputs required for more intensive farming are made prohibitively expensive by the removal of subsidies, by devaluation, by institutional restructuring and by transport cost increases. The poor, in particular, have therefore been limited in their ability to benefit from increased producer prices and have responded by opening up new, less fertile lands. The concern, in this case relating to Nigeria, is that "given the low level of production technology, and population pressure, it is doubtful if this model of agrarian accumulation — 'on the cheap' — can be sustained for very long without serious environmental and productivity consequences" (Mustapha, 1991: 17). Barbier and Burgess (1992) have raised similar concerns about the recent expansion of farm output in Malawi.

This is not an inevitable outcome of adjustment, and not all intensive farming methods require costly inputs. Better husbandry techniques may require no more than mulching or pruning, and higher returns to farmers may stimulate this. Attention should also be given to the fact that intensive farming relying heavily on fertilizers and insecticides will raise other concerns in terms of sustainability, such as pollution of water supplies and long-term salination effects.

Third, while "getting the prices right" is a necessary component of adjustment, it is not always a sufficient condition for longer term poverty alleviation or environmental sustainability. We need to know much more about non-price constraints and their interplay with prices. For example, in the Sudan and other parts of the Sahel, the gum arabic tree is vital for preventing desertification. It is, however, a source of fuel wood and the gum is used extensively in food processing and pharmaceutical industries. Raising the price of gum arabic generates expanded supply of these products in the short-run, and also leads to longer term replanting by many farmers. However, since the trees take five years to mature, price increases alone may have a perverse long-term supply effect among the poor, who discount the future heavily, reinforcing the environment-poverty cycle (Pearce, Barbier and Markandya, 1990: 134-135). Such situations call for a careful analysis of the non-price constraints on long-term supply, such as lack of rural credit at reasonable rates of interest, inadequate land tenure arrangements and high taxes on traders' margins.

Furthermore, an efficient pricing system is one which gets relative prices right, but it is difficult to know what this might mean, both theoretically and practically, and especially so from the point of view of the impact of relative price changes on natural resource use over time. For instance, producers may not be prepared to adopt new, less-erosive cropping patterns which involve up-front costs and risks unless they can be assured that shifts in relative prices designed to encourage them will be sustained. Environment-degrading mono-cropping could be a rational response to changes in relative prices when viewed in this light (Pearce, Barbier and Markandya, 1990: 142). Government policy needs to be sensitive, therefore, to the constrained willingness and ability of poorer farmers to adjust to such relative price changes.

Poor farmers are not the only economic actors in the rural area with myopia. Rent-seeking mechanized farmers have also been known to "mine the soil" through monoculture and a failure to observe even the most rudimentary environmental guidelines. Local governments facing severe budget constraints have tended to rent out lands to them in order to generate revenue and have not had the resources to police environmental abuse (*ibid*: 144-145).

Analysis of structural adjustment needs to take these possible impacts into account but this would require a degree of knowledge of local conditions which neither the IFIs nor central governments readily possess, underscoring the necessity for adjustment programs to be designed with significant input from below.

Fourth, a related area of concern is the impact of adjustment programs on the output of renewable resources, and the extent to which the standard package of reforms will result in the replenishment of the stocks used so that a sustained yield becomes possible. This sector is notoriously susceptible to "myopia" and the tragedy of the commons! Preliminary findings in this area suggest that short-run supply responses are often unaccompanied by measures to preserve or expand a diversified resource base. Thus, adjustment programs appear to have expanded the output of marine fisheries in a sample of three third world countries (Loxley, 1992). In two of them, Senegal and the Philippines, the main impetus was higher domestic demand, augmented secondarily by increasing returns to export sales. In the third country, Chile, output increased principally to service the overseas market, as austerity measures ended subsidized local consumption of fish by the poor. But part of the increased supply resulted from urban dwellers being forced into fishing as a survival strategy as the adjustment program pushed them into poverty. In all cases, there is evidence of pressure on the resource base, resulting partly from the expanded output by nationals, partly from relatively uncontrolled fishing by foreign fleets, and partly from industrial and urban pollution. In all cases, fiscal restraint in the adjustment programs appears to have reduced the ability of the policing agencies to regulate the industry. Though not attributable entirely to structural adjustment measures, these trends suggest the kind of research needed elsewhere to assess the impact of adjustment programs.

In the area of forestry, it is important to ascertain the steps being taken to ensure sustained yield in the long-term and whether or not diversified hardwood forests are being replaced by monoculture softwoods. It is also necessary to assess the capability of governments to regulate the forestry industry and to ensure that fiscal restraint does not undermine regulation or reforestation. A critical concern here has to be the impact of adjustment measures on the livelihoods of aboriginal people residing in forests. In India, adjustment programs are considered by forest dwellers to be a direct threat to their continued survival and to the ecologies of the main upland watersheds (Bandyopadhyay and Shiva, 1989). Growing international concern over the plight of indigenous peoples has led the World Bank to adopt new guidelines on the involvement of indigenous peoples in the preparation and implementation of projects which affect them (World Bank, 1992: 59). The Bank has also recently adopted policies to check deforestation, calling for more effective regulation, reform of private incentives, and enhanced environmental assessments of public investments, promising assistance to reduce poverty and thereby some of the pressures on forests (*ibid*: 57). At no point in the statements outlining these policy initiatives, however, does the Bank specifically acknowledge that its own adjustment programs might be a source of such pressure.

Fifth, where adjustment programs lead to increased output of non-renewable resources or the building of hydro dams for the export of electricity, it is imperative that their impact on land and water use be assessed. In North America, the expansion of mines, oil wells and hydro dams has often been accompanied by land expropriation, the disturbance or pollution of animal habitat and a consequent impoverishment of indigenous peoples (Sanders, 1973).

Sixth, little is known about the impact of adjustment programs on the rate and nature of urbanization. If, on balance, they shift purchasing power to the rural areas, do they also encourage reverse migration back to the countryside? In Ghana, there is evidence of people moving into those regions specializing in export production (Roe and Schneider, 1992: 116), but we do not know whether the migrants came from urban areas or from other poorer, rural areas. We cannot adequately assess, therefore, the net environmental pressures of such migration. We also need a clearer idea of what happens to industry as a result of adjustment. Do countries lose or gain manufacturing capacity as a result of more liberal trading regimes, more expensive import substitutes, tighter and more expensive local credit, greater access to foreign exchange and more liberalized local prices? What is the net environmental impact of this on urban poverty and the environment? What happens to the urban and rural informal sectors as a result of adjustment and with what consequences for land and resource use, water and sanitation? What happens to urban services, sewage and garbage disposal, and environmental monitoring in the face of tighter fiscal situations, and how are the poor affected by this?

Seventh, a number of questions arise about the long-term coherence and sustainability of adjustment-led strategies of development. To begin with, a major underlying aim of such adjustment is the preservation and servicing of foreign debt obligations. In effect, the IFIs loan more money to third world countries to assist economic recovery which in turn improves the capacity of the debtor to service past loans. The problem with this is that for many countries, and especially poorer Sub-Saharan African countries, debt servicing burdens are so high that they require deep and continuing austerity. Without significant debt write-offs, these burdens are not likely to be sustainable and there is a growing risk of adjustment programs falling apart simply from debt fatigue. Critics also make the link between the need to earn increasing amounts of foreign exchange at the cost of growing pressure on the environment and the need to restrain consumption in order to service debt obligations despite increasing poverty (Cheru, 1992: 504).

For many countries, including "success stories" such as Ghana, structural adjustment is highly dependent on large flows of foreign assistance from IFIs and bilateral donors. Serious questions arise about the long-term reliability of these flows and the capacity of third world countries to replace them with their own increased export earnings. Maintenance or replacement of public capital inflows becomes especially crucial in light of the general failure of adjustment programs to generate inflows of private capital. Indeed, there is a more general concern here, which underlies almost all adjustment programs — that of the widespread tendency of adjustment to lead to a decline in the rate of investment, both public and private. The implication of this is that longer-term growth will suffer as a result and, indeed, a study of adjustment programs in the years 1981-86 suggested that there had been a "sizable output loss because of lower aggregate investment levels during the period of adjustment under IMF/World Bank lending" (Faini *et al.*, 1991: 964). There are, therefore, serious questions about the ability to sustain adjustment programs over time in the sense of creating economic stability and promoting political stability. Failure in these senses could also lead to fiscal difficulties, with resultant pressures on the monitoring of development's impact on the environment. Reduced economic growth might itself lead to a tendency to be less careful in monitoring or regulating the environmental impact of development projects.

Eighth, we do not know what the linkages are between structural adjustment and population growth. One could postulate that adjustment programs might increase population growth if they raise fertility rates by raising growth rates of GDP. Alternatively, by reducing access to medical care and by raising the price of basic foods through subsidy removal and other measures, programs might actually raise death rates and reduce population growth. If poverty stimulates larger family size as a means of providing social security for older relatives and a greater probability of the family escaping poverty, and if adjustment creates more poverty than it eradicates, then population growth might be stimulated. The reality is, however, that we know of no study which has attempted to throw light on these most important issues. Yet population growth is a critical constraint on the sustainability of development.

Recommendations for Reducing Negative Impacts and Strengthening Synergism

Detailed recommendations for reducing the negative impacts of adjustment policy on poverty and the environment in any specific country would need to be preceded, of course, by the kind of micro-level research and analysis referred to above. Nonetheless, it is possible to make general recommendations at a more global level, given the thrust of the arguments so far.

Since much of the pressure on land, resources and the environment appears to be the result of the need to raise export earnings, perhaps the single most important initiative that could be taken to reduce this pressure and, at the same time, to alleviate related increases in poverty and give governments more leeway in addressing poverty, would be to write down third world indebtedness. Debt write-offs are accepted in principle for the poorest countries and have even been enjoyed by middle-income countries, such as Egypt and Poland. By extending them to cover the debt of export credit agencies and even that of the International Development Association (IDA), the need for third world countries to raise exports would be reduced significantly. It would be in the interests of the OECD countries to contemplate this course of action because their ecologies are affected by what happens to the ecologies of the third world, and partly because third world poverty puts pressure on the industrialized world in terms of demands for immigration. Furthermore, the industrialized world ought to be prepared to pay a price for maintaining wildlife, genetic diversity and the natural beauty of third world countries. One could make a case for this because that is where most of the landraces for their staple crops originate, because it would help preserve havens for tourists from the industrialized world, and because the industrialized world has the resources to allow the third world alternatives to pursuing development strategies which create ecological damage and poverty. Apart from self-interest, there is therefore a compelling moral argument for debt write-off.

Domestically, adjustment programs should be re-designed to give much more attention to balanced growth. In particular, more attention should be paid to food self-sufficiency as many of the rural poor are producers of food, not export crops. Furthermore, many of the rural poor are female heads of households, so there would be an important gender gain from such an approach. The focus would be on creating greater access to land through land redistribution and on raising the productivity of land already cultivated using better production techniques and organic fertilizers, rather than on pushing back the land frontier, encroaching on forests or sensitive ecological zones, or applying greater amounts of potentially hazardous pesticides and chemical fertilizers. Combined with incentives for maintaining a balanced export base, such an approach might also help reduce the pressures of rural/urban migration and the pollution, congestion and absorption of cultivable land which accompanies it.

Given that export expansion will still be necessary, even after debt write-offs, it is imperative that third world governments develop the capacity to regulate, monitor and police environmental standards. This would mean not only undertaking thorough reviews of the environmental impacts of large projects, such as dams or forestry operations, but also the systematic examination of the likely effects of expanding traditional export crops. Thus, if the goal of adjustment is to expand cocoa production, for example, then governments ought to know in advance how this is to happen, whether by intensive or extensive means, and policy ought to be shaped accordingly. If it is concluded that output is to be increased by extending acreage devoted to cocoa, then some effort ought to be made to determine in advance what the scope is for this and how such expansion is likely to affect existing land use patterns and sensitive forest zones. A key component of such studies would be identification of the implications for the economic well-being of local people and, in particular, how the incidence of poverty is likely to be affected, positively or negatively. It is imperative that there be substantial local input into such investigations and that they not merely be undertaken by experts flown in for the occasion.

For this recommendation to be effective, provision must be made in the fiscal aspects of adjustment programs for funds to be put aside for these tasks and protected from austerity measures. This would be a major departure from current practice, in which wholly inadequate funding provisions for environmental regulation are actually the victim of budget cuts in the name of sound fiscal management under structural adjustment. In some areas, where environmental management requires large foreign exchange expenditures, as in fisheries protection, international funding should be made available.

It is clear, though, that many of the interconnections between poverty and environmental degradation have to do with policy measures which promote, by design or by accident, more extensive cultivation practices. It is important that consideration be given in adjustment programs to relieving non-price constraints on the promotion of more intensive, yet sustainable, cultivation. Providing access to credit on reasonable terms for the rural poor might be appropriate in some circumstances, the development of appropriate technological packages, in others. Land reform might reduce pressure on marginal lands, while reform of taxation systems might release pressure on local authorities to seek additional revenue whatever the cost to the environment and the poor. The routine provision of social safety nets to assist those adversely affected by adjustment programs might also help to check encroachment by the "new" poor on ecologically sensitive lands.

A more explicit link should be made between economic policy reform and population policy. While we do not know how adjustment programs affect demographic change, it is possible to design policies that might offset any tendency of programs to stimulate population growth. Thus, we know that the education of women and the opening up of economic opportunities to women act as powerful stimuli to lower population growth rates. To the extent that orthodox adjustment programs discourage access of females to educational and other opportunities, or to the extent that they pay insufficient attention to promoting female advancement, then they need to be re-designed. The maintenance or extension of access to family planning clinics and instruments, the improvement of child nutrition and health care, the creation of social safety nets and the support of poorer food producers, many of whom are women, will all contribute to reducing population growth rates, in addition to being worthwhile in their own terms. In this sense, therefore, sustainable development presupposes not only checks to population growth, but also development which is more gender sensitive and more equitable.

Finally, some of the negative reactions to adjustment measures discussed above occur because the poor and others do not believe that policy positions will be sustained into the medium- and long-term. Rational tendencies to myopia will be reinforced if government policy is not stable but swings violently on a whim or at the least sign of opposition. Such stability requires, of course, that there be popular support for policy and this in turn suggests a degree of local participation in national decision taking. Sustainable development requires democratic as well as equitable development.

Conclusion

Considerable progress has been made over the past fifteen years in conceptualizing and refining the theory and practice of adjustment programs. Many of the critiques of earlier programs have at least been addressed to some degree and the World Bank, in particular, has put considerable resources into examining the distributive effects of economic reform programs. Less has been done to deal with the environmental impact of such programs but that has begun to change. There are, however, numerous interlinkages between poverty and sustainable development and we know little about how these are affected by structural adjustment programs. Future research and policy formulation should put this issue high on the list of priorities. This chapter has attempted to outline some of the major interlinkages which need to be studied in specific country situations. Even without such research, however, there are a number of improvements to the formulation and implementation of economic policy which can be made, based on what we already know about the likely negative effects of current adjustment practice and these should be proceeded with as quickly as possible.

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6

Toward an Empowering Model of Macro/Micro Policy Adjustment

Ponna Wignaraja

The Concept of Sustainable Development

Within the present context, the term "development" refers to individual and collective human activity that reaches through the economic to include the several dimensions of culture, and which produces change, the benefits and burdens of which are widespread. "Sustainable" refers to the conditions required for a continuous renewal of society and of the environment on which it depends. "Sustainable development", therefore, is taken to mean human activity that is supportable over time by the interconnected systems of the environment, the economy and cultures, and the benefits of which are equitably distributed.

The human dimension of sustainable development must continually be tested by the crucial notion of equity/fairness, for when basic needs are not met the world pays in severe damage both to society and to the environment. Great promise for sustainability lies in the notion of "stewardship", the widespread and purposeful acceptance of responsibility by individuals and communities. The understanding that is required to produce the necessary change must encompass intuition, emotion and traditional systems of knowledge, in addition to its intellectual aspects. In moving from definition toward designs for action, one can say that sustainable development is an objective which responds to a global and demonstrable necessity. At its core is a new integration of the economy and the environment in decision making and at its heart is a commitment to fairness.

Humanity has the ability to make development sustainable — to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. The concept of sustainable development does imply limits — not absolute limits but limitations imposed by the present state of technology and social organization on environmental resources and by the ability of the biosphere to absorb the effects of human activities. But technology and social organization can be both managed and improved to make way for a new era of economic growth. Widespread poverty can be eradicated. Poverty is not only an evil in itself, but sustainable development requires meeting the basic needs of all and extending to all the opportunity to fulfill their aspirations for a better life. A world in which poverty is endemic will always be prone to ecological and other catastrophes.

Meeting essential needs requires not only a new era of economic growth for nations in which the majority are poor, but an assurance that the poor get their fair share of the resources required to sustain that growth. Such equity would be aided by political systems that secure effective citizen participation and greater democracy in national and international decision making.

Sustainable global development requires that those who are more affluent adopt lifestyles within the planet's ecological means — in their use of energy, for example. Furthermore, rapidly growing populations can increase the pressure on resources and slow the rise in living standards; thus sustainable development can only be pursued if population size and growth are in harmony with the changing productive potential of the ecosystem.

Ultimately, sustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs. The process is not easy or straightforward, and painful choices have to be made. Sustainable development therefore depends significantly upon the application of political will.

While major structural changes are required over time to move from the current realities of national development paths (both North and South) and the workings of the global system toward sustainable development as conceptualized, a practical transition cannot be based on narrow ideologies of the past or on *a priori* theorizing. Any rational transition can only be based on the hard lessons of "success", albeit limited, on the ground.

Fundamentally, the pursuit of a sustainable development path requires of all societies growth, human development and equity. Four basic issues need to be clarified from the outset:

1. These basic objectives of growth, human development and equity cannot be considered trade-offs but must be considered as complementary objectives in the development process. Even in rich industrialized countries of the North, it is now becoming clear that growth first and "trickle down" later will not satisfy the felt needs of the poorer and more vulnerable sections of their people. In the poorer South, the poor have demonstrated that they have reached the limits of tolerance and will not wait indefinitely for the redistribution of the results of growth and technological progress. The old "Social Contract" and Keynesian consensus which was attempted in parts of the North and South has come unraveled.

2. These complementary objectives have to be achieved in the South through the wise use of resources — human, natural, knowledge systems and financial — in a different and more rational mix. This calls for a shift away from the dominant macroeconomic paradigm — whether neo-classical monetarist or socialist — where capital as the factor in short supply, coupled with imported technology, was the major input into the process. There are some differences between private capitalism and state capitalism, but fundamentally both are locked into the "capital fetish".

3. The process must be situated within a specific cultural setting. Within different Southern cultures, a number of basic values common to the philosophical traditions of these societies can be identified. These common values then can inform both the vision and the process. Some of these common values are: sharing and caring; non-predatoriness toward nature; the right to food; the right to work; and the right to participate in decisions that affect one's own life. These values may have initially been fundamental to Northern cultures as well, but have been eroded by the accumulation process historically followed.

4. The development process must have an historical basis, starting with the existing base of the economy and its strength and then building on the "successes" of the recent past. Purely "imitative" development patterns and "leap frogging" cause too many contradictions and soon become unsustainable. Different and distinct time horizons have to inform the differing processes of modernization/industrialization, on the one hand, and the eradication of endemic poverty, on the other. The simplistic "zigzagging" between one development fashion and another has underestimated the necessarily different time horizons for achievement of these different

objectives. The problem of endemic poverty and poverty reproduction is far more complex. Both the depth of the problem and the nature of the solution have been simplified and overly fragmented.

Development in both the North and the South must be informed by the same guidelines. Development in the North cannot be sustained any longer in the North by imposing a separate and different set of standards upon the South with regard to resource use and the distribution of benefits. Both Northern and Southern countries have to "adjust" in order to achieve sustainable development. The goals of adjustment and the alleviation of marginal poverty are somewhat more easily achieved in rich industrialized societies where there is far greater "economic space" for such adjustments to be made.

The Nature of the Poverty Problem and the Erosion of the Resource Base

Without the eradication of mass poverty, particularly in the South, there cannot be sustainable development. The current magnitude of poverty is both quite shocking and a source of worldwide economic, social and political instability. The proportion of the population living in poverty in the South (defined as those living on less than US$1 a day in terms of 1985 prices) had fallen slightly in 1985, but the absolute number of poor had risen (World Bank, 1993). Further estimates indicate that in 1990 there were 1.1 billion people in the South living in poverty. This number was 8 percent more than in 1985. Within Southern countries the income differentials and standard of living between the rich and the poor is widening, as is the gap between the richer Northern countries and the poorer South.

On the basis of various poverty line estimates used by different countries, it is estimated that there were approximately 440 million people living in poverty in South Asia alone in 1992 (Independent South Asian Commission on Poverty Alleviation, 1992). Given present trends in population and economic growth, the number of poor in this region are likely to increase substantially. The Commission concluded that the problems of endemic poverty are aggravated by various social deprivations and patterns of discrimination from which the poor suffer. They often lack access even to those resources to which they are entitled. Furthermore, the structural adjustment policies which accompany the open-economy industrialization strategy, currently being adopted by most

South Asian countries, are likely in the short-term to put further strains on the poor.

An inquiry of this kind into poverty conditions in Africa and Latin America will show many similarities in trends toward the increase and reproduction of endemic poverty. Reports by the World Bank also indicate that the absolute number of the poor and their relative population share have increased in Sub-Saharan Africa, the Middle East, North Africa, Latin America and the Caribbean. The depth of poverty has also increased in these regions.

South Asia had a growth rate of 3 percent in the past decade, compared with negative growth rates in Sub-Saharan Africa and Latin America. Even in South Asia, however, this growth did not "trickle down" significantly. The rate of growth was insufficient to reduce endemic poverty or prevent the process of poverty reproduction. The inability to address the basic poverty problem has put democracy at risk and contributes to an unmanageable political economy in much of the South.

It was not until the decade of the 1980s that the full realization emerged that the South was not only caught in a vicious poverty trap but was indeed falling behind in moving towards sustainable development, mired in an unmanageable multifaceted crisis. The decade of the 1980s was a "lost decade" for development, following upon the optimism generated in the 1950s and 1960s and the illusory debt-led growth of the 1970s.

The multifaceted crisis was not only economic, but also political, human and environmental. Poverty and slow or negative growth were only critical pieces of the whole story. Most countries in the South are characterized by marked dualism in their economies. This dualism is reflected in vast disparities between different regions within countries, the rural/urban divide and polarization between income groups. The limited economic achievements over the past five decades have also been whittled down by the rise in population growth.

A second set of related problems has arisen from social polarization and ethnic conflicts. State structures, political systems and frameworks of governance have yet to evolve in a manner to take cognizance of the plurality and cultural diversity of these societies. In recent years, the resort to violence to resolve some of the differences between these groups has become the standard practice. As the conflict intensifies, national security states begin to emerge, with high military expenditures draining available development resources. As these conflicts intertwine with the poverty crisis, there is further escalation of military expenditure and external debt, putting economic and social security at greater risk without enhancing military security in any real sense.

A third set of conflicts related to the multifaceted crisis arises from adverse global trends. The world situation has changed dramatically over the past 50 years. Most Southern countries, with the exception of East Asian NICs, are weaker in relation to the global system than they were in the beginning of the 1950s. The processes of political and economic marginalization have occurred simultaneously, as seen clearly in the massive reverse flow of financial resources from the South to the North. Aid fatigue, adverse terms of trade and the growing debt burden are contributory factors. The 1980s also saw growing protectionism and the creation of regional blocs in industrialized countries at a time when most Southern countries were opening their economies and trying to adjust to what was perceived as a competitive global system.

One of the sharpest contradictions in the emerging development scenario is that the resource-rich South is unable to use its own resources to eradicate poverty and ensure sustainable development. There is serious erosion and waste of the resource base, including environmental and human resources. The very resource potential which could have been harnessed to eradicate poverty is being eroded through the lopsided economic development process being followed. Today, 80 percent of the world's resources are being used by 20 percent of the world population, mainly in the North, leaving 20 percent of the resources to be used by 80 percent of the people, mainly in the South.

Erosion of the natural resource base is most pronounced in relation to deforestation of the large cover of rainforests, leading to the increased threat of poverty, adverse climate change, loss of bio-diversity and the breakdown of fragile ecosystems. Similar depletion is also taking place with regard to the rest of the South's natural capital stock, including mineral reserves and marine resources.

Secondly, the "brain drain" from the South to the North reflects the erosion of the reserve of human resources. Marginalization of the poor represents another waste of human resources as it ignores the capacity of the poor to contribute to growth, through a new kind of accumulation process at the base of the economy.

A third element in resource waste stems from the underutilization of available knowledge systems in the South. Aside from traditional knowledge which can be validated by modern science and its research and development systems, Southern knowledge systems also contain several traditional and modern information stocks, as well as varying mixes of the two. The total knowledge system, if properly harnessed, could result in the more efficient use of all resources. It could, for instance, not only prevent malnutrition and disease, but also promote greater local creativity, increased waste recycling and better utilization of food and renewable energy resources currently unused or grossly underutilized.

Issues requiring clarification in efforts to address poverty and the loss of resources include the following:

1. Progress Reports from the World Bank conclude that developing countries have made substantial progress in reducing poverty over the past three decades, although recently there has been a loss of momentum. Even if this were true of poverty relatively, other serious questions are raised: If the absolute numbers of poor are still too large for societies to carry and are likely to increase, what is the relevant conclusion that needs to be drawn in planning the transition? Is the magnitude and complexity of the problem being underestimated?

2. If the poverty crisis and the multifaceted crisis cannot be de-linked, what is the capacity of most Southern societies to manage the crises and move toward sustainable development? Is it a "matter of doing more of the same" and doing it "more efficiently"? Or is a new pattern of development and mix of strategic options required in order for development to become sustainable and democracy itself to be safeguarded?

3. If the current development response is itself contributing to erosion of the very resource base required to reverse the process, where does "fire fighting" stop and the process of sustainable development begin? Can the transitional strategy to sustainable development begin by looking at the poor as an asset, with their creative potential as a major input into the process?

Inadequacy of the Mainstream Development Response: The Lessons of Experience

The magnitude of the poverty problem in the South and its linkages to the multifaceted crisis identified above provide a point of departure for an in-depth understanding of the dominant framework comprising simplistic and fragmented development interventions of the past and its inadequacy to support sustainable development. This in-depth understanding and the hard lessons of experience are important prerequisites for determining the strategic options for poverty eradication and sustainable development.

For nearly five decades, countries of the South have followed the conventional development wisdom and models derived from both market-oriented capitalist countries and centrally-planned socialist countries in the industrialized North. These variations were reflected in the concepts of the Welfare State which Southern countries had enunciated. The achievement of this Welfare State, however, went beyond the conventional economic system in neo-classical economics and incorporated several features of centrally planned economies. A lead role was assigned to the State for intervention in the economic system to achieve equity and social justice. Keynesian theory also reinforced the dominant role of the State which was expected to create infrastructure, play the role of entrepreneur in initiating development, and mobilize capital. The government and bureaucratic machinery went on expanding, leading to the emergence of a dominant public sector.

Coupled with this phenomenon of central-planning and control of the economy was the assumption that rapid economic growth would take place if there was emphasis on modernization and industrialization. Capital, the factor in short supply, along with transferred technology, was conceived as the main input into the process.

This dominant framework of development thinking and its related approaches and policies were adopted by the South only in the years following World War II, relatively recently in historical terms. In contrast, several elements of the framework currently in place in industrialized Northern countries reflect nearly two hundred years of effort and experience in very different cultural settings and historical contexts. This raises question over the appropriateness and feasibility of implementing such development strategies in Southern economies.

There were four major and distinct approaches receiving shifting emphasis within the dominant development framework as it evolved in most of the South: closed-economy industrialization; intensive agricultural development; satisfaction of basic needs; and open-economy industrial development. More recently in some Southern countries, one might add the structural adjustment process (with or without a human face) as it encourages the shift from the closed-economy industrialization approach to an export-led open-economy industrialization approach. The market-friendly open economy approach emphasizes liberalization of Southern economies with a view toward export-led growth and incorporation into the global market. Though presented as dichotomies and as separate strategic options with different ideological underpinnings, these approaches were in fact part and parcel of the same dominant framework of development.

Alleviation of poverty has been a stated objective in each of these approaches and in most of the countries. However, this framework was centered on modernization, growth, and a particular kind of accumulation process pertaining to the rich industrialized countries, whether market-oriented or centrally planned. Periodically, there was concern with fragmented aspects of social and human development. The question of redistribution was tentatively introduced into this narrow growth-centered approach as it evolved. Even these periodic concerns in practice took the form of marginal correctives; they were not vigorously pursued to ensure either the kind of redistribution or development that could be sustainable in wider human terms with people's full participation.

The World Bank (1993) has stated its new strategy for poverty reduction as follows:

> The World Bank's fundamental objective is to achieve sustainable poverty reduction in the developing world. Based on a review of country experience, the Bank has articulated a two part strategy for reducing poverty. The first part involves promoting broad-based growth that makes efficient use of the most abundant asset — labor. The second part involves providing the poor with access to basic social services. It is also recommending to Governments that safety nets be established to protect the most vulnerable members of society.

No time horizon for achieving this objective in terms of meaningful numbers has been given. The poor still continue to be viewed as the "objects" of development and as part of the problem, rather than as assets and "subjects" of the development process.

An Assessment of Macro Strategies

The positive side of the overall experience within the dominant framework of development for poverty alleviation over the past decade is that, in a few regions like East Asia, it was able to sustain a growth rate of 8-10 percent. The South Asian Region was able to sustain a 3.1 percent rate of growth even during adverse global circumstances. Africa and Latin America were showing negative growth. There has been some social development in some countries. Even at a low level of income, there have been a few cases where the "Human Development Index" (as compiled by UNDP) has been high. There has also been some reduction in the proportion of the population who are poor.

More specifically, in some countries the "green revolution" resulted in increased growth in output, particularly food production. Intensive farming practices and cropping intensities improved the productivity of land, particularly in parts of India and Pakistan. Where there was no agrarian reform, the benefits accrued initially to the richer farmers, but in some areas benefits also "trickled down" to the poor over time.

In the long-run, increased farm incomes resulting from greater agricultural production and productivity appear to have benefited both large and small farmers. The agricultural practices and the cropping intensities provided both on-farm and off-farm employment for the landless poor. The regular demand for work throughout the year tended to increase real wage levels and raise incomes of the poor. There was also an appreciable reduction in rural unemployment in these specific areas. The abundant food supply kept consumer prices in check and helped to improve the nutritional levels of the poor in these areas.

A second major lesson was that the forward and backward linkages of this intensive pattern of agricultural development also gave an impetus for the manufacture of small-scale farm implements and agricultural machinery, and the development of the machine tools industry and the service sector. With the increased incomes of the agricultural sector, the final demand-induced linkages encouraged the development of a host of consumer durable goods industries. Many of these were labor-intensive involving appropriate technology. ("Appropriate technology" as used here does not connote "intermediate" technology or outdated technology.) The linkages and their multiplier effects resulted in the creation of a substantial level of employment opportunities in small-scale production and the industrial and service sectors.

A further positive lesson was demonstrated by the effects of production for export markets through labor-intensive industries, primarily located in urban areas. The import substitution industrialization approach, combined with the macro policy to establish and facilitate the expansion of an industrial base and infrastructure for agricultural development, contributed in selected areas to the growth of large-scale industries such as fertilizer, steel, transport and haulage equipment, agricultural machinery and other capital goods and heavy industries. This was particularly evident in India.

In some selected areas, there was also evidence that some rural development programs and the "delivery of inputs" benefited some of the poor. The partially successful cases of these "delivered" programs demonstrated that, where there was total political commitment and where the bureaucracy and extension workers were sensitive to and identified with the poor, the latter's condition could be ameliorated to a great extent through the "efficient" delivery of inputs. However, these partially successful cases were fragmented and had limited coverage owing to the lack of adequate resources or proper organizations of the poor to receive the resources intended for them. This suggests that there are several preconditions required for these programs to be successful; if all the preconditions are not met (and by and large, they have not been) then even successes will be partial. Often inputs intended for the poor have been diverted to the rich because of social stratification and the power of the latter. These partial successes, therefore, have been region- and/or sector-specific in most instances. They could not be sustained over a period of time adequate to eradicate poverty. Greater success was found in areas where the average poverty levels were closer to the poverty line; there, the better-off among the poor (having relatively greater access to natural and other resources) could be boosted out of poverty if the administration was effective and efficient, using the "delivery" approach as an "entry point" for the total process.

Positive lessons can also be learned from cases of progress in human development. State policies in Sri Lanka, Kerala State in India, and the Maldives have promoted high levels of human development despite relatively low levels of per capita income. In Sri Lanka, state support for free education and health services, subsidized rice and rationed basic food items over four decades has contributed to a level of human development comparable to that of many middle income countries. In several other countries, state-initiated policy measures to increase the poor's access to resources have streamlined the banking system and extension services and prompted asset redistribution.

Positive aspects of past development experiences which may contribute to the definition of a strategic macro policy thrust for poverty alleviation can be summarized as follows:

1. Some of the benefits did "trickle down" to the poor in areas where there was a systematic emphasis on food production and agricultural development. This in turn led to decentralized labor-intensive industrial activities.

2. In a few countries or states within countries where there was consistent investment in social development programs, a significant level of human development was achieved, even by the poor and at low levels of income.

3. Where massive financial resources were available and the bureaucracy was committed and efficient, poverty was ameliorated through the "delivery of inputs" to the poor in selected sectors and areas.

Another very important lesson has been demonstrated at the grassroots level. Over the past ten to fifteen years, a body of experience has emerged from the ground in several Southern economies demonstrating that where the poor participate as subjects rather than objects of development, it is possible to set in motion a new accumulation process at the base of the economy characterized by growth, human development and equity. The evidence also suggests that the poor are creative and can save and invest efficiently, if organized and provided with sensitive initial support. Poor women can effectively overcome the double burden of being women and poor. This phenomenon provides a material basis for the assertion that a qualitatively and quantitatively significant new element can be added to the strategic options for poverty eradication and sustainable development through this kind of social mobilization.

Despite significant sectoral and national gains, there have been serious limitations associated with current patterns of development. Anticipated rapid growth did not materialize because domestic capital accumulation was inadequate due to slow growth rates and weak internal mobilization efforts which did not tap the resources of the widening parallel informal economy. In addition, surpluses were diverted from rural areas to urban areas. Net foreign capital transfers were grossly inadequate and frequently did not compensate for the reverse flow of resources from poor to richer countries.

Models of Southern development based upon the assumption of a high propensity to save and invest among local holders of capital have failed to reflect their parallel high propensity to consume. The State has thus become typified by a fragmented and weak accumulation process unable to control leakages away from productive investment. The fact that the poor, given the opportunity, can generate income, save, create assets, and contribute to growth directly and efficiently has been ignored. Little attention has been paid to building upon and improving the knowledge and skills that the poor already have, enabling them to contribute to growth through their own efforts.

The early import substitution industrialization approach did not specify either the full range of technological choices or the institutional framework for implementation. It glossed over possibilities of capital substitution through choice of technology and of labor displacement effects. The emphasis on capital as the primary factor of production and the reliance on transferred capital-intensive modern technology aggravated the unemployment situation, with adverse impacts on the poor. Further distortion resulted from widening disparities between the urban industrial centers and the rural areas, fostering dualism in technology and employment. From the point of view of the poor, this approach did not place adequate emphasis on labor-intensive industrialization or the wider technological choices available, restricting employment generation to a very slow pace in the modern sector and further marginalizing the poor.

The theory underlying initial growth-oriented approaches considered development as an economic and technocratic exercise. Distributional aspects were ignored. There was a great deal of rhetoric on poverty alleviation, social development and social justice, based on the assumption that what did not "trickle down" could be administratively distributed. Constraints on the state machinery to implement these plans and reach the poor were played down. Even with the addition of the basic needs approach, the development process was still considered an economic exercise subject to the scarcity of resources and incorporating some elements of redistributive justice; the magnitude of poverty and the availability of resources to bridge the gap were greatly underestimated. It was assumed that a consistent set of technocratic projects and policies, comprising structural changes, investment decisions, creation of employment opportunities, and marginal social welfare measures could be designed to reduce poverty. Implementation implied "delivery" from the "top" reliant upon limited *ad hoc* consultation with the poor (i.e., through the rhetoric of "participation") and the goodwill and assistance of the international community. While this process assumed an acceleration of the "trickle down" effect, the poor themselves dismissed issues of "redistributive justice" and sought to creatively and efficiently contribute to growth.

In addition to the flawed narrow orientation of these reformist options to the original dominant paradigm, this approach relied primarily on net inflows of external capital and technology. The quantity and quality of foreign aid and transfer of technology to supplement indigenous capital (i.e., the factor in short supply) and the weak internal mobilization efforts in most Southern countries made assumptions of rapid growth immaterial in a situation of increasing poverty. Studies by the United Nations, the

World Bank and others confirm that the quantity and quality of aid and the technology transferred from industrialized to developing countries was insufficient and/or inappropriate.

Transnational corporations, which control the stock and transfer of "modern" technology, extract high prices for their know-how and equipment. The "borrowed" highly capital-intensive, import-substituting technology which continues to be implanted in the South bears little relation either to real factor endowments or to the existing technology stock. From the point of view of the poor, the entire process is wasteful and contradictory.

In the 1980s, the emphasis of development shifted from "redistribution with growth" to conventions of monetarist and neo-classical economic theory. Taking a certain income distribution for granted, it was assumed that the poor would and could wait for "trickle down" benefits as growth was generated in accord with the existing distribution of purchasing power. For many in the South, development was also to alter the pattern of skewed income distribution rather than to consolidate it. While some countries may have improved their growth rates in the long-term through these strategies, the initial benefits have accrued to richer groups to the neglect of the poor. The adequacy and social consequences of structural adjustment policies adopted to alter economic structures and processes will be analyzed later in this paper.

Conventional Instruments of Implementation at the Micro-Level: A Critique

The dominant approach to development, with its marginal variations, did not make a major dent in endemic poverty and was inadequate to reverse the process of poverty reproduction. This critique, however, cannot be confined to an assessment of the dominant macro-strategic framework alone and has to extend to the instruments used in the implementation of strategy at the operational level as well. Three interrelated elements of past micro-level development strategies have contributed to the inadequacy of the macro strategy: knowledge systems; patterns of conflict; and service delivery as disempowerment.

Imported vs. Local Stocks of Knowledge: A basic premise of the conventional framework of development was that there is only one relevant stock of knowledge, i.e., the modern knowledge and technology tested and perfected in industrialized countries. A transfer of this knowledge and technology to Southern countries, along with necessary technical assistance, extension services, and capital, was expected to solve the problem of poverty. Sometimes the transfer included intermediate or outdated technology. From the point of view of the poor, there is a much wider range of technological choices for both sustainable development and poverty alleviation. At least five different basic stocks of knowledge can be identified.

First, there is the modern stock in industrialized countries which could be selectively used, with appropriate adaptation and social control, to prevent the perpetuation of dualism and impoverishment of the resource base in rural areas. "High tech" can be selectively used in poverty eradication; "micro chips" and "satellite aerial photography" are scale neutral and capable of being applied universally and cost effectively. However, the necessary research and development systems for adapting this technology in the South are still very fragile or non-existent.

Second, a stock of intermediate technology from industrial countries is available which, while perhaps not the most modern, can be used selectively to transfer appropriate technology.

Third, there is the stock of knowledge available as traditional technology located in the different cultural settings of the South. Some is already half-forgotten and must be retrieved and revived; some needs to be upgraded and validated in its own environment before use. The value of such knowledge has been dramatically demonstrated in examples of agricultural and water use practices, primary and preventive health care, and careful harnessing of renewable and non-renewable forest resources.

Fourth, new technology is being created in the South through a unique research and development system gradually being constructed by committed de-professionalized intellectuals, experts and the poor, living and working together. They are evolving more humane responses and appropriate technological solutions to the problems of the poor, helping them to maintain and improve the ecological balance, as well as all aspects of production. This fragile new research and development system can be reinforced and expanded through regional cooperation to develop labor-intensive, cost-effective technological choices promoting wiser use of natural resources.

Fifth, increasing numbers of individuals and groups in industrialized countries are rejecting modern technology *per se* and experimenting with technologies reflecting new values and institutions in a novel people/nature/technology mix. These experiments may yield a stock of knowledge more relevant for sustainable development in the South as well, reinforcing similar experimentation and choice of technology in Southern countries.

Harmony vs. Conflict Resolution: The conventional development framework assumes poor communities to be harmonious entities. However, in most Southern communities there are sharp contradictions, conflicts of interest and dominance/dependence relationships, both at the village level and among the urban poor. These relationships give power to the dominant group (e.g., landlords, traders, money-lenders, bureaucrats) and threaten the survival of the poor. This is clearly seen in relation to gender and equity conflicts, whereby women suffer both poverty and lack of power to a disproportionate degree simply because of their sex. These conflicts are not only class and gender-based, but may also have ethnic, religious and linguistic origins. Given their adverse influence on the effectiveness of the delivery system and provision of inputs to the poor, these conflicts need to be mediated and resolved locally with the participation of organizations of the poor.

Any meaningful approach of direct benefit to the poor must be political, building organizations of the poor and the vulnerable. These organizations, in turn, must help the poor to assert their right to the resources intended for them. In all countries of the South, particularly with movements for reinforcing democracy, the political space exists for building such organizations of the poor, for the poor, and managed by the poor. This kind of social mobilization is a necessary pre-condition for achievement of a higher growth rate accompanied by human development and equity.

The "harmony" approach may be viable where the contradictions are not sharp. In some tribal areas of Africa and remote areas of Latin America and South Asia, a more harmonious situation prevails as a result of partial land reforms or the existence of a strong culturally conditioned sense of community. Sharing and caring remain a part of the dominant value system, and the harmony approach may thus yield some benefits for the "middle" poor. Even here, it must be continuously monitored through a participatory process. Given the many contradictions of the Southern poverty context, the poorest may initially need to be separately organized and a conflict resolution approach adopted, as part of the social mobilization approach outlined above.

Delivery vs. Empowerment: The dominant growth-oriented, market-friendly development framework neglects the issue of income distribution. It was assumed that the cumulative benefits would "trickle down" to the poor. When this failed to occur, it was thought that the process could be handed down in an administrative fashion or that inputs could be "delivered" through State mechanisms to the large numbers of people outside the mainstream economic development process. Often the delivered programs were not adapted to local socio-economic conditions and paid insufficient attention to detail. The best example of the "delivery" approach is the targeted Integrated Rural Development Program advocated by most donor agencies and governments. In this program, a key element has generally been neglected, i.e., a receiving mechanism at the grassroots level in order for the delivery mechanism to function properly and fulfill its objectives. The organizations of the poor can act as important vehicles for increasing the general capacity of the poor for growth, human development and achievement of greater equity, as part of the same process.

With some exceptions, experience in the South suggests that reliance on the "delivery of inputs" approach has contributed to the failure to alleviate poverty, particularly when the "delivery" was by sectoral ministries and other State structures. The "delivery" approach relied heavily on the bureaucratic system for program implementation. Although assumed to be integrated and well coordinated, it was often a fragmented "shopping list" approach in practice. The administrative and support services were weak, inadequately manned, improperly trained and often lacking commitment, leading to frequent failure of the bureaucratic process. This suggests that rigid procedures and bureaucratic structures are not suitable for poverty alleviation.

In addition to the dangers of an imperfect bureaucracy, the political leadership was fundamentally paternalistic. In the conventional development approach, politicians found a way to avoid the political and real structural changes required to reconcile the conflicting objectives of growth and equity in the "delivery approach", avoiding any deep political commitment. Donor attitudes and procedures compounded the problems. The implementors of the "delivered" programs could not comprehend the real meaning of "participation of the poor" in development as active subjects of the process. There were technical complications in understanding the process approach as opposed to the project approach, and administrative complications in managing a system that had to be based on trust instead of petty financial regulations.

Conventional project appraisal methodology was an integral part of the framework of neo-classical development theory and practice which was borrowed by planners (and donors) to support development planning, resource allocation and the "delivery" approach. There is now a growing body of literature, some of it unpublished, evaluating the targeted poverty alleviation projects which "deliver" inputs such as basic services and credit to the poor. The model uses conventional project appraisal methodology for project design and evaluation, based on cost-benefit analysis, and prescribes a technocratically evolved package identified and imposed from above, with marginal popular consultation. Even when this package is better targeted to an identified group of rural poor and delivered with greater efficiency, it does not in itself ensure that the economic and social benefits will reach the poor or improve their conditions on a sustainable basis. These delivered inputs are often diverted to the more powerful in the villages, thus polarizing the community further by the "rich getting richer and the poor getting poorer". The basic economic and social institutions in most Southern villages are controlled by the rich and powerful; the poor are disunited and unable to stem the inequitable diversion of benefits.

The lack of interdependence and linkages among activities at the village level also seriously limits this conventional project approach in benefiting the poor. The approach assumes that a project has a defined beginning and end, that the inputs and outputs are quantifiable, that the interdependent activities can be formulated externally in a grand design or in a predetermined fashion, supported by an aid package. Experience shows that a poverty alleviation process must take into consideration people's awareness, understanding and acceptance. Projects need to be identified, designed, executed and evaluated by the poor themselves, based on their own needs and perceptions. As the process evolves, its success also relies upon the internalization of the group's needs. None of this can be predetermined, as assumed by the conventional project approach. Participatory monitoring is an essential feature of the process, permitting greater attention to detail and ensuring that self-corrective actions are continuously undertaken as the process evolves.

Experience now confirms that poverty cannot be eradicated without the active participation of the poor themselves in the process. Any strategy of sustainable development, designed with the objective of eradicating poverty, has to involve the large numbers of the poor and has to begin by bringing about unity among them. The conventional project framework takes a technocratic approach to what is essentially a problem of empowerment and organization. *Ad hoc* consultation in an essentially "top-down" process ensures neither participation of the poor in development nor their empowerment, essential prerequisites in asserting their rights to their own resources.

Finally, all rural societies are constrained by the lack of access to resources and the need to minimize waste. In such settings, economic or social activities are guided mainly by the desire to economize on resource use. Thus, one may question the validity of conventional cost-benefit and internal rate of return analyses and the project approach to designing and evaluating poverty alleviation activities. This is especially true in a setting where a multitude of alternative approaches to poverty are now becoming available and known to the poor themselves.

The rhetoric of empowerment of the poor through their participation has entered the vocabulary of conventional development thinking and practice on poverty alleviation, implying alternative instruments to poverty eradication that permit the poor greater access to resources (e.g., land, credit, health, education) and ensure greater equity; however, such instruments have yet to be fully internalized. It also needs to be understood that power is often misused when concentrated in the hands of a few. Participation (as social mobilization) means building countervailing power through which the poor gain access to their just resource entitlements, leading to a healthier democracy. Still we must ask the following questions:

- What have we learned from nearly half a century of development experience?
- Do positive macro/micro lessons provide or suggest strategic options for poverty eradication and sustainable development?
- How can a new dialogue be initiated with donors to sort out the sharp contradictions between dominant donor ideologies, advice and actions, and the real needs of the South in moving towards poverty eradication and sustainable development? Is there a common ground which can be identified as the basis for strategic options?

Impact of Structural Adjustment on Poverty and Sustainable Development

Before proceeding to the strategic macro/micro options for overcoming the limitations of the conventional development framework, it is necessary to further examine structural adjustment policies and advice on economic reform as part of the current donor prescriptions for the South, to identify the underlying assumptions and separate myth from reality.

The remarkable success of the four NICs (i.e., Hong Kong, Singapore, South Korea and Taiwan) in the 1960s and 1970s, combined with the severe balance of payments constraints of the late 1970s and early 1980s, prompted the shift in development strategy to the Open Economy Export-led Industrial Development Approach. Once again neo-classical doctrine regained its theoretical hegemony resulting in export-oriented trade policies based on low wage, labor-intensive industrialization.

This approach, however, overlooked the fact that the NICs had not merely "opened" their economies. Their success was due to a great deal of strategic planning by the State, including land reform, human development, application of new technologies in specific sub-sectors of industry (i.e., the "sunrise industries") and emphasis on rural poverty eradication and the reversal of rural-urban migration. All this was supported by massive inflows of external resources, much of which was also dedicated to defense expenditure. Additionally, world historical circumstances in which the NICs thrived were vastly more favorable than the subsequent tendency toward protectionism in industrialized countries and greater market restrictions.

The reduced flow of foreign aid and external resources in real terms to the developing South clearly demonstrated the limited impact this strategy would have on growth and poverty alleviation in the South. Most Southern economies, limited by their managerial and technological capabilities, may not be able to respond quickly to the opportunities available through liberalization and deregulation of the economy or create a favorable climate for mobilization of foreign direct investment.

The in-built inefficiencies of the Southern economies are compounded by the unfavorable global scenario of declining output, shrinking world trade, monetary and foreign exchange instability and the international debt crisis. The industrialized countries are, for the first time since World War II, in need of markets for their products and services, just as their economies are vulnerable to the international debt crisis. It is under these circumstances that they advocate structural adjustment programs consisting of two parts:

1. Short-term stabilization policies for correcting imbalances in the balance of payments through devaluation, and improving macro-economic balances through curtailment of government expenditure, monetary liquidity and market liberalization (eliminating subsidies and price controls); and

tural adjustment strategies (World Bank, 1992). Sound macroeconomic policies are indeed an important component of successful adjustment programs, but they have underestimated the complexity of "getting the prices right" and moving to rapid growth through market-friendly policies alone. The recommended macroeconomic framework is too simplistic in its use of fiscal policy to reduce inflation, exchange rate policy to correct the current account, and monetary policy to correct the external balance in terms of foreign exchange reserves. The World Bank itself admits that while this simple framework is useful for administrative purposes, it is not necessarily appropriate for all countries. Yet it is advocated rigorously, without examining the interrelationships of policies or the changes in a given situation arising from external shocks that distort the best efforts at internal reform.

A second area of criticism focuses on the objective of open-economy industrialization and structural adjustment policies to increase the efficiency and growth rate of the economy. This is a long-term process requiring the building of technological capability, managerial capability and export capability. In the shorter term, the poor state of the financial sectors in most countries will contribute to slow growth.

Additionally, the World Bank and the adjusting countries themselves have underestimated the social impact of structural adjustment, which differs in accordance with the initial conditions and the design of the macroeconomic adjustment package. While some World Bank studies show that the adverse social consequences of structural adjustment are greater for the urban than rural poor, observable evidence suggests that both groups are adversely affected. The major burden of structural adjustment policies is borne by the poor directly or indirectly, especially in the transition period. The World Bank itself admits that the adjustment process requires a much longer time span than originally anticipated.

The World Bank and other multilateral donor agencies have tried to put a "human face" on adjustments with special social sector programs in primary health care and education and compensatory programs for retrenched workers, the newly unemployed and the "poorest of the poor". However, even targeted assistance such as public works programs, nutrition support and food subsidies are poorly designed and give inadequate attention to capacity-building for the poor to receive these inputs. These safety nets and compensatory programs offer limited coverage and are insufficient to solve the problems of endemic poverty affecting 30-40 percent of the population who continue to be treated as objects of a "delivery" process.

2. Long-term economic reforms (e.g., liberalization of trade, elimination of protective tariff barriers, privatization of financial institutions and public enterprises, streamlining of the State sector, privatization of social programs and rationalization of the tax system).

The main prescription for structural adjustment is, therefore, a reduction in government expenditure which tends to fall disproportionately on social sector services, government subsidies and other forms of safety nets for the poor. This has often been accompanied by devaluation, increases in the prices of public utilities (which again hurt the fixed and low income groups) and import liberalization. Studies of these programs show that they are regressive; that they adversely affect the poor and vulnerable groups such as women, children and informal sector workers; that they are often counter-productive in that they could lead to an intensification of balance of payments difficulties, as well as inflationary pressures; and, more importantly, that the adverse effects on the poor and vulnerable, particularly through the retrenchment of social services, will undermine productivity and competitiveness in the longer term.

Some critics such as UNICEF have advocated the strategy of "adjustment with a human face", in which the objective is to maintain and, where necessary, enhance the quantity as well as quality of social sector programs that favor the poor and the vulnerable. These include enhanced provision for education, health, nutrition, population, water and sanitation interventions and other welfare safety nets. The main argument is that such actions have been undertaken in a number of countries (such as Sri Lanka and the Maldives) or States within countries (such as the State of Kerala in India), with successful results in terms of high human development indicators despite low average household income. Higher productivity and economic growth might be achieved on this basis, as suggested by UNDP's *Human Development Report* data.

Through these latter important lessons, an attempt is being made to modify most structural adjustment programs financed by multilateral agencies. It should be recognized, however, that this is only a starting point for countries that wish to reduce poverty significantly. It is also a re-packaging of the basic needs approach of the 1970s and a re-emphasis of the human factor in development.

While emphasizing the long-term overall benefits of its structural adjustment and sectoral adjustment policies, the World Bank has expressed its concern over the policy design and limited and adverse effects of these programs on growth, as well as on the poor in countries adopting struc-

Recognizing these shortcomings, the World Bank and the IMF have attempted to improve coordination of their advice to countries liberalizing their economies and undertaking structural adjustment operations. There have been some marginal improvements in areas of strategic policymaking, the formulation of structural adjustment operations since 1986, and the design of targeted safety nets and other compensatory programs for the poor. However, the record of reform implementation, the rate of growth and the cushioning of the social impact have been modest.

The World Bank has recognized that in its adjustment operations, successful outcomes will not be uniform across countries. Adjustment strategies cannot be started in countries already saddled with a heavy debt burden. Massive investment would be required to revive economic growth. This would have to be accompanied by heavy investment in infrastructure — physical and social — and in capacity-building for managing the change. Borrower ownership of reforms makes for successful adjustments.

The following basic conclusions are inescapable from the World Bank's own evaluations:

1. These solutions to the poverty problem are still within the inadequate framework of development as previously discussed. They constitute "more of the same", to be more "efficiently" managed by the same fragile democracies, governments and private sectors, i.e., "Growth and Redistribution", "Adjustment with a Human Face", Targeted/delivered Poverty Project and Safety Nets.
2. The role and responsibility of the international community and industrialized Northern countries have been minimized. The total package does not include the massive flow of resources required by the South to carry out these reforms in the long-run, nor the urgent adjustment that needs to be made in the North to permit successful reforms and adjustments in the South. These relate to sustainable development and the need for Northern residents to live within their means, including reducing their debt, adjusting their lifestyles, and opening up their markets to permit the South to compete.

The Report of the South Commission in 1990 highlighted the responsibility of the North in the economic experience of Southern countries. It urged the North to stop the net transfer of resources from South to North, to double concessional assistance, lift protectionist barriers and depoliticize the negotiations between international financial institutions and the South.

Based on the above discussion, several pressing issues can be identified which indicate the direction of further research and clarification, as follows:

1. The market-friendly approach assumes the poor are willing and able to wait for the "trickle down" of benefits as it generates growth. However, evidence suggests that while some countries may have improved their growth rates, particularly through increased export earnings subsequent to liberalization and adjustment, the initial benefits have accrued to better-off sections of the population; the poor have been excluded. Assumptions of trickle-down effects need to be carefully evaluated and alternative actions defined in the event that the assumptions prove groundless.

2. Many countries, despite drastic devaluation, partial convertibility of currencies and significant economic reforms, have not been able to increase exports significantly. While the entire global trade regime must be responsive in support of adjustment objectives, positive reinforcement from the global system has not yet emerged. Further empirical study of the relationship between exports and economic growth is required.

3. While the experiences of the four NICs are often cited as empirical evidence of the success of such a strategy, in-depth country-specific case studies demonstrate that, in addition to free trade and export promotion policies, there was considerable State intervention in human resource development, infrastructure development, land reform, and planning and investment in key strategic sectors of the economy. They received massive external financial in-flows in a more favorable global environment, and vigorous attempts were made to stem rural-urban migration and eradicate poverty in rural areas. Further research must address how orthodox adjustment programs might better incorporate positive lessons of relatively unorthodox policy instruments.

4. Many Southern countries do not have an historically developed framework of technological, managerial and export capabilities to proceed rapidly on the open-economy industrialization pathway. Even in countries where such skills exist, economic and social rigidities coupled with economic crisis contribute to the phenomena of "brain drain", high levels of unemployment among the well-educated, and the alienation of youth. Structural adjustment must be recognized as a long-term strategy requiring fundamental structural and

sectoral adjustments while incorporating the development of human resources and empowerment. As long as world markets are affected by stagnation in developed economies, falling commodity prices, and disarray in global trade regimes, there is no guarantee that the benefits of the strategy will accrue to Southern countries in the short- or even medium-term.

5. The evidence suggests that in the short-run, market liberalization and the opening of the economy is accompanied by social polarization which shifts the burden of adjustment onto the poor and contributes to political destabilization in many Southern societies. This requires critical assessment of the economic and social consequences of the adjustment strategy and the time horizon in which positive results (i.e., growth and sustainable development) can be achieved. This leads to the question: What do you do in the shorter term, while the economic reforms are maturing in the longer term?

The Transition Towards Poverty Eradication and Sustainable Development in the South

From the foregoing analysis, we can conclude that under conditions of endemic poverty (common to most Southern countries) and the limited capacity of State structures, financial institutions and the private sector to manage change toward sustainable development, strategies of open-economy industrialization and structural adjustment require more time than anticipated to ensure sustainable growth. Additionally, this strategy tends to favor the better-off sections of society and has adverse consequences for the poor and vulnerable in the short-run. Targeted income-generating poverty alleviation projects and increased budgetary allocations for human development programs and safety nets provide inadequate protection for the poor. Even in the event of economic growth, this will not "trickle down" in the short-run.

Hence all countries of the South need to move strategically and simultaneously on two fronts, in a strategy that might be called "walking on two legs". One leg of this two-prong strategy requires opening up the economy for export-led growth and industrialization to promote competitive exports to global markets in the longer term (i.e., 20 to 25 years). Where adjustment policies are required, they need to be modified to suit a country's condition and cannot be a blanket ideologically-oriented formula, superficially negotiated and inadequately financed. Opening the economy can only be achieved by building greater capabilities in technology, management and exports and by inculcating the kind of work ethics required for this kind of development pattern. This requires a much longer time horizon than hitherto assumed.

The second leg of the Strategy requires a Pro-Poor Plan for the shorter term (i.e., 10 years). This strategy in the transition would be a new social contract between the State and the poor in the South. It is not based on the old welfare package but rather on the premise that the poor themselves can contribute to growth. If vigorously implemented, this Pro-Poor Plan could eradicate poverty in much of the South within a ten-year time-frame, leaving only a residual number of poor who would need safety nets and social welfare programs. This latter category can be kept within manageable limits and carried by Southern societies until they too become a part of the mainstream of sustainable development.

Since the elements of the first leg are sufficiently well known, emphasis here is given to the identification of elements which can be the basis of the second strategic leg (i.e., that of pro-poor planning). This strategic option is based on the positive lessons of development experience in the South rather than *a priori* theorizing, and proposes that poverty can be eradicated in the South over a ten-year period provided the following elements are part of the dominant development pattern during the decade:

1. It would involve a doubling of GDP per capita during this ten-year plan from the current per capita income levels, assuming a projected population growth rate of 1.8 percent. This means a GDP growth rate of 9 percent per annum, an ambitious but achievable target built upon existing growth rates. Each country can phase its indicative planning targets according to its own potential and pursue this strategic leg rigorously, as it attempts to open its economy.

2. Such an increase in growth rate will have to be produced by a different pattern of development which requires an explicit political commitment by the leadership and the participation of the poor in development. Such political commitment would have to focus on the two conventional targets of growth policy: lowering the incremental capital-output ratio from 4:1 to 3:1 or less; and increasing the marginal saving rate from the current level to 27 percent or more. Such a large shift would also require the involvement and participation of the poor through their own institutions and mobilization of their own savings complementing those of the non-poor. Lowering of the capital-output ratio would involve a growth strategy based on labor-intensive development, with high productivity and human development.

Social mobilization is a key element of the strategy, with the savings by the poor themselves as a first step. Excepting those with large mineral wealth, Southern countries have little choice but to use labor, the factor in surplus. The investment activity of the poor is mainly a result of asset creation through the transformation of labor into capital. With proper organization, it can help unleash new forces of accumulation leading to efficient asset creation. The "sharing and caring" characteristics of the poor in the South and the values of "simplicity and frugality", which are an integral part of most Southern cultures, can also reinforce such an effort. Thus, in addition to the conventional accumulation process by the State and the private sector, there is the possibility of a new accumulation process.

This process must include a net transfer of resources to the poor. In addition to increasing their savings and having access to capital, such a resource transfer can improve the social and physical infrastructure for the poor, again through their own participation. To achieve this target requires a new pattern of development and a major effort at social mobilization leading to the release of the creative energies of the poor and the building of their organizations, through which they can participate in development.

Secondly, most of the poor in the South live in rural areas and depend directly or indirectly on agriculture; food security is an important component, not only of survival but also of the basic dignity and well-being of the poor. Thus the development pattern must give the highest priority to agriculture with a major emphasis on food production and a food security program. The State needs to make an explicit political guarantee of the right of the poor to food security as part of the new Social Contract. The UNDP *Human Development Report* gives further legitimacy to such a policy.

A strategy for small-scale, labor-intensive industrialization, in which many Southern countries have a comparative advantage, forms a third element. This strategy would absorb the unemployed and underemployed poor, including youth, into productive activities. Labor-intensive industrialization is a function of the product mix, technology choice, scale of activity, plant size and supporting institutions.

Fourthly, an essential prerequisite of the poverty eradication strategy is human development, which guarantees the rights of the poor to participate in decisions that affect their lives, to food as a basic human right, to work and to all information services. Literacy, primary education, health, shelter and protection of children have also been included in this list of priorities. Defining and promoting the role and status of women in society and ensuring the full participation of all strata and groups in development decision making is necessary to make human development holistic. The ultimate objective of economic growth is to bring a higher level of human development within the reach of the poor and thus to expand the range of their choices. In this way, development itself will be made more participatory and equitable; growth and human development need not be trade-offs.

Although initially such a pro-poor strategy can be designed and implemented independent of longer term open-economy industrialization and structural adjustment, eventually the two strands of the overall development pattern would have to be harmonized with each other. Since they have different time frames, this harmonization could take place as the two processes unfold. South-South cooperation and the creation of sub-regional economic communities within the South can further reinforce the harmonization process.

The centerpiece of a policy framework for poverty alleviation has to be the mobilization of the poor in order to enable them to participate directly and effectively in the decisions that affect their lives and prospects. Experience after experience on the ground has proven that organizing the poor in the form of self-managing communities can allow them to respond to the myriad of their felt development needs. These organizations also permit them to assert their rights to their fair share of development benefits and resources to which they are entitled.

The broad dimensions of social mobilization are becoming increasingly known in the South, the main objective of which is to induce the poor to create participatory organizations based on the direct and full participation of all members of different and varied socio-cultural backgrounds, irrespective of income, caste, gender or other discriminating characteristics. Therefore, successful programs of social mobilization must revolve around identifiable communities of the poor — villages in rural areas, settlements of the poor in urban areas and special groups such as women, ethnic minorities and other disadvantaged groups. Where the contradictions are sharp, the poor and vulnerable have to be separately organized.

For instance, poor women's voices are seldom heard in the corridors of power. Plans and policies are invariably made at high levels where women's representation is often absent. Unless poor women have access to decisions that affect and influence their lives, policies and programs will continuously fail to integrate poor women into the mainstream of development. This has already become evident from numerous examples at the micro level. Institutional credit programs in most countries still pursue a gender bias against poor women and the need for collateral makes the situation worse.

Additionally, the resources that would empower poor women are not simply access to financial, natural and physical resources, but also involve socio-political "resources" such as neighborhood networks, influential contacts, informal credit organizations, improved patron-client relationships, and a greater role for them in traditional community organizations through which they can combat the forces that undervalue female labor and reinforce patriarchy.

Characteristically, policy interventions in favor of women are being proposed on the implicit rationale that such actions would lead to the control of fertility, income generation for households and investment multiplier effects for the economy. While these economic interventions will undoubtedly help to raise the status of women in society, what is imperative is also the removal of gender bias and discrimination from the attitudinal, legal and institutional domains of society. A foremost innovation to effect this kind and magnitude of social change is to ensure that women are fully and effectively represented in the political processes.

The social mobilization effort for poverty alleviation must be based on entry points as keys to poverty alleviation, to redress problems and obstacles identified by the poor themselves — food security, literacy and primary education, health, shelter, credit, productive infrastructure and employment.

Given the deep-rooted dependency relationships that exist, the lessons from the ground show that the construction of truly participatory development institutions and organizations of the poor is often not a spontaneous process. An internal and/or external facilitator/catalyst, who can work with the poor with identity and commitment, is required to help them form their own organizations. The interaction with the catalyst helps the poor to secure information, analyze their problems and articulate their felt needs better. This interaction sets in motion a process of action-reflection, with mobilization, consciousness-building and organization among the poor, and helps in building collective strength and bargaining power. It is also through their organizations that the poor are able to initiate the myriad small interconnected development actions which increase their incomes, permit them to save, create assets, assert their right to resources to which they are entitled and also enhance their social and human capacities for self-development.

There is also a need for an umbrella support mechanism that would supply other needed services. Past experience suggests that non-governmental organizations, banks for the poor and even some sensitized government institutions can play this role.

In other words, the strategy would establish support mechanisms in an appropriate form in each country or locale. These mechanisms would also have catalysts — animators and facilitators — who would work with local communities in areas where the poor live and bring to them information on the benefits of collective action. They would advise on the formation of small groups and play a bridging role between these bodies and the support system that can provide the necessary services. The program would be accompanied by the transfer of other functions to these bodies at a pace acceptable to them.

While programs of social mobilization have been successful at local levels and even begun to expand to large numbers, nowhere have they been recently undertaken on a national scale. Doing so would need lead action by the State in the form of enabling policies, provision of resources for the establishment of support mechanisms which can reproduce and evaluate the process, and monitoring of the devolution of powers and responsibilities to local communities and the poor. It needs to be kept in mind that local does not mean poor, nor does rural equal poor. There is also a distinction to be made between decentralization of the administrative machinery and devolution of power to the poor.

The success of the social mobilization effort may depend initially on the political space available for a "bottom-up" process. The creation of such a space, or the expansion of the "cultural space" for the poor that exists in most Southern countries, requires an explicit commitment by the political leadership. As mentioned, such a political commitment would take the form of the establishment of a sensitive support system and mechanisms for activities initiated by the poor. The political commitment would also have the indirect effect of reorienting the actions and values of the elite.

Lastly, as people's organizations are built up, they can gradually take over several local functions of the government. They may also help in mobilizing additional resources and thus lead to rapid growth.

The poverty eradication strategy outlined here needs to be continuously monitored and evaluated, both at the national and local levels. The monitoring process at the national level must involve "state of the art" measurement of poverty, including more relevant statistical data and information. At the local level, the methodology of participatory monitoring and evaluation has to be adopted. This kind of participatory monitoring permits self-corrective actions to be taken while the process is evolving and while the problems are small.

A set of mutually reinforcing values was first developed for this kind of participatory monitoring and evaluation by a group of South Asian scholars (De Silva *et al.*, 1988). This was further refined in a study on gender and equity (Wignaraja, 1990), and subsequently incorporated into the *Report of the Independent South Asian Commission on Poverty Alleviation* (ISAC-PA, 1992).

For this transitional strategy of "walking on two legs" to move towards poverty eradication and sustainable development in the South, the North also needs to adjust. The adjustment in the North would need to be focused on issues such as:

1. The use of global resources: No longer can 20 percent of the world's people (mostly in the North) use 80 percent of the world's resources, leaving only 20 percent of resources for the 80 percent living in the South.
2. Lifestyles in the North: These must be adapted to the world's ecological means and the North must not continue to live beyond its means.
3. Playing to the rules of the free market system and permitting access to Northern markets for Southern exports.
4. Assisting in stemming the continued reverse flow of financial resources from South to North and compensating the South adequately for this continued reverse flow.

Further study and a separate issues paper on adjustments in the North are anticipated in the future work on the subject.

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Part 3

Orthodox Adjustment Strategies Under Scrutiny

7

A Critique of Current Perceptions of Policy Linkages

Arshad Zaman

This chapter explores the opportunities which exist in reducing the negative effects of stabilization and adjustment policies on poverty and sustainable development, the interactions between these processes, and their consequences for sustainable development. It also seeks to define the directions which future work in this area could take. The awkward phrase "policy adjustments" refers to policy actions to which member governments of international financial institutions (IFIs) commit themselves, in return for loans (which are disbursed in pre-agreed tranches tied to a phased program of actions). Consequently, despite illusions fostered to the contrary, they exclude those policy adjustments which may be self-initiated (although, in practice, the coverage of lender conditionalities are so wide as to leave very little out). Analytically, in most cases, these actions can be seen as being aimed at either stabilization (the IMF's traditional line of work) or structural adjustment (the World Bank's newer line of activities, concurrently initiated also by the IMF in its "upper tranche" loans), even though a strict distinction can sometimes be difficult to make.

Adjustment Policies: Logic and History

Stabilization policies seek to reduce expenditures on consumption and investment (domestic absorption) and to switch expenditures from non-tradable goods and services to tradables. The primary aim of both types of interventions is to reduce demand (demand management), although expenditure switching policies also have supply-side effects. Structural adjustment programs, devised by the World Bank in the early 1980s, cover the gamut of development policies, in general, and have been rationalized as being supply-side strategies (especially during the Reagan-Thatcher era, although more balanced rationalizations are offered now).

In both cases, however, the *raison d'être* of the policy-package is to address an imbalance in external payments: stabilization, a temporary problem to be solved over a shorter time horizon, structural adjustment, a more deep-rooted problem to be solved over the medium-term. Inherently, therefore, adjustment policies are limited purpose interventions, designed to address a "structural" balance of payments deficit (i.e., one that required a change in the structure of production and resource allocation, and was not amenable merely to short-term financing).

The practice of policy-based lending, however, preceded any systematic review of experience or careful elaboration of theoretical considerations.[7] When the initial World Bank teams went out to make structural adjustment loans in the early 1980s, the only guidance they had was a realization that large external deficits had to be financed, but as well-prepared projects were not there, the only way to retain credibility in the capital markets where the Bank raised its money (and with governments where these markets were located) was to use the money to get a commitment "to do good things" in return for the money. Among practitioners, a distinction was made between an hierarchy of goals: completed actions (which, paradoxically, were discounted because they failed to meet the "most for your money" criterion), intended actions, and declarations of commitment to principles.

In a brief internal debate over the virtues of narrowly targeted balance of payments conditionalities versus extensive development policy reform commitments, the hawks prevailed (for the later views of a prominent member of the school, see Please, 1984). In part, a strong motivating factor was the need to differentiate the World Bank's product from the IMF's. An ensuing turf battle and a subsequent formal institutional understanding led to the present practice of drafting an agreed IMF/World Bank Policy Framework Paper (PFP). Another strong motivation was the desire of World Bank economists to engage in a wide-ranging "policy dialogue" with member governments which, it was thought, only money could buy.[8] As a result, the content of adjustment programs came

7 For theoretical works see Bacha and Edwards (1988), the pioneering paper by Khan, Montiel and Haq (1986), and of historical value, World Bank (1981).

8 In practice, the desperate need of governments for money was exceeded only by that of Bank staff for ready converts, with the result that such "dialogue" as has taken place has been confined to a "10 percent less, six months later" variety. Moreover, national staff of IFIs (who, in earlier times, were excluded from working on their own countries in some IFIs) have come to play an increasing role in decision-making, many often joining finance ministries and central banks of their home countries. The result is that most dialogue takes place between

to cover the waterfront of development policies. Interestingly, it was this tactical decision which later forced the Bank to defend its adjustment programs not exclusively for their efficacy in restoring external payments balance, but also in terms of their impact on poverty, environment, sustainable development and other desirable economic and social policy goals.[9]

Impact on Poverty and Sustainable Development

In Afro-Asian and Latin American countries, the one impact of policy-based lending which was resented most was the loss of sovereignty involved.[10] In operational terms, this had two negative consequences. First, a number of governments felt that they were forced to resort to comprehensive reforms where more selective interventions, targeted on the balance of payments, would have been more effective. Second, in exercising what has been called their "grandmotherly" function, the World Bank/IMF imposed a set of ideological nostrums on member countries which were at best harmless and at worst harmful.[11] Yet, the structure of power/knowledge and the discourses which both supported and arose from it, did not permit a discussion of this issue (until much later, when

current and former members of the IFIs. In this unequal dialogue, Lord Acton's dictum has also come into play.

9 The controversy over policy-based lending has spawned a large literature, financed by the awesome research and publicity budgets of the IFIs. In an era of cutbacks in funds for independent research, these works tend to be more exculpatory than explanatory. The canonical works are the three reviews by the World Bank (1988a, 1990b, 1992c); see also Nicholas (1988). Summers and Pritchett (1993), summarising the last official review, defend adjustment lending against four self-selected critiques: adjustment lending lacks a human face, misreads East Asian success, imposes too much austerity, and perpetuates misguided policies. Srinivasan (1988) elevates this debate into a discourse on propositional logic, although in reading (and perhaps misreading) between the lines, the hints of a substantive critique can be discerned. For independent views see also Avramovic (1989), Bacha and Edwards (1988), Banuri (1991), Sachs (1988), and Toporowski (1988).

10 As Professor Robert Oliver noted, "increasingly, beginning in the late 1950s, the staffs of the Fund and the Bank deeply concerned themselves with the internal economic affairs of their members, not infrequently in ways which induced headlines in the international press. These intrusions would have surprised the American delegation to Bretton Woods and would probably have infuriated the British, who regarded national economic sovereignty as an absolute, whatever might be agreed about a plan for a Fund and a Bank" (Quoted in Avramovic 1989).

11 Avramovic (1989).

this became permissible under the rubric of political economy; see Nelson 1989, 1990).

Impact on Poverty and Environment

The UNICEF critique of adjustment policies for its adverse impact on the poor (Cornia *et al.*, 1987), coming as it did from authors and institutions within the mainstream (even if not in the innermost circles), was widely acclaimed in adjusting countries. In appraising the subsequent debate, however, it is probably true that the sentiments which swelled in its favor were fueled far more by the latent, but growing sense of the injustice of policy-based lending as an international practice (or regime), than by the practical, theoretical or empirical insights imparted by the study.

In retrospect, a dispassionate review of the practice, theory, and evidence seems to suggest three conclusions.[12] First, the impact of adjustment policies on poverty is mediated through two filters: the growth path pursued and the prevailing political economy of domestic redistributive processes.[13] Second, the growth path pursued, an output of the global political system, is shaped in two important ways by it: (i) it transfers to the borrowing countries a disproportionately high burden of adjustment to disruptions in the world economy, as more powerful elements in the system refuse or fail to make, or stagger the pace of, their own adjustments (hinted at by Srinivasan, 1988: 38); (ii) aid-financed development strategies induce a pattern of trade, investment and growth which leads to increasing loss of agenda-setting power of governments and local groups. Finally, given the nature of the post-colonial state, and its recently acquired obligations to remit an unsustainably high level of debt service payments abroad, the burden of adjustment does fall disproportionately more on the poor.[14]

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12 There is, once again, an enormous IFIs-financed literature on the adjustment-poverty linkage. The World Bank view is provided by Corbo, Fischer and Webb (1992), Demery, Ferroni, and Grootaert (Forthcoming), and Grootaert (1993). In a current, comprehensive, World Bank financed survey of the issues surrounding poverty and policy, however, Lipton and Revallion (1993) concede that "Neither theory nor evidence are conclusive on the impacts of adjustment on the poor," but note, rather cryptically, that "The emerging consensus is that successful adjustment, while it can help reduce poverty, is harder than had once been thought."

13 As Lipton and Revallion (1993) put it: "Colonization helped to form the institutions, power-structures and intellectual climates for LDCs' post-colonial poverty policy."

14 "...if the weight assigned to the welfare of the poor is not particularly high in a given society, the poor are more likely to be hurt than other groups during periods of adjustment" (Srinivasan, 1988: 34).

Unlike the adjustment-poverty linkage, on which a large, warmly contested, and growing literature has come to exist, the impact of adjustment policies on the environment and sustainable development[15] is less well known.[16] For analytical purposes, however, a distinction can be made between the impact of policy adjustments on the environment at three levels: on the global commons, which in direct terms is probably small and of uncertain direction, given the large impact of industrial country lifestyles (consumption preferences, and growth and investment patterns) on climate change and global warming, although to the extent that adjustment sustains environment-unfriendly lifestyles by shifting the burden of adjustment to poorer countries, its impact may be small but adverse; on the national commons, on which the impact of domestic policies and growth paths can be quite substantial, giving rise to air and water pollution (and acid rain); and on the local commons, where natural resources and the environment suffer from degradation and destruction from a variety of sources.

Global and Domestic Politics

In this perspective, therefore, the impact of adjustment on both poverty and the environment should be viewed in the full context of the interaction between adjustment policies and the growth-poverty-environment triad, as mediated by domestic and global politics. In most economic discourse, the appeal to politics is a strategy of escape by mystification. This is unfortunate, especially if the perspective presented here is valid.[17] In fact, it is possible to gain a quite precise understanding of the forces at play, and the limitations they impose on conventional economic wisdom

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15 Sustainable development is a fuzzy concept (see Pezzey, 1992, Appendix 1, for definitions of sustainability in the literature). Among the more popular of several definitions which arise from the report of the Brundtland Commission (WCED, 1987) are: "meeting the needs of the present generation without compromising the needs of future generations" (cited in World Bank, 1992a, Box 2, 8), and "a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations" (cited in Asian Development Bank, 1990: 5; see also Box 1.3, 12).

16 See, however, Banuri and Holmberg (1992: 23-24), who speculate that for their sample "the net effect will be beneficial," but overall, citing London Environmental Economics Centre (1991), ambiguous. See also Hansen (1989, 1990) and World Bank (1990b).

17 For the political economy of adjustment debate of the 1980s, see Ascher (1984), Bienen and Gersovitz (1986), Ikenberry (1986), Lal (1987), Nelson (1984, 1989,

in the field. Although it would take us too far afield to discuss in any detail the origins of the post-colonial state, and its impact on current domestic redistributive processes, the outline of the argument may be sketched in the briefest of terms.[18]

During the Age of Empire, 1875-1914, "about one-quarter of the globe's land surface was distributed or redistributed as colonies among a half-dozen states" (Hobsbawm, 1987: 59). When other structures of dependencies are added, "By 1914...Europe held a grand total of roughly 85 percent of the earth as colonies, protectorates, dependencies, dominions, and commonwealths" (Harry Magdoff, quoted in Said, 1993: 8). The forces which gave rise to this imperial impulse — cultural, political-social, economic, technological — have been warmly debated (and, being central to a fuller understanding of the anxieties which give rise to the discourse of sustainable development, are taken up briefly below), but the consequences which are still with us are not in dispute.

As part of a systematic colonial policy, "an intermediary class" was created, to which power was handed over in a shift of the strategy of imperialism from colonialism (physical control of lands) to rule by local influentials with passions and interests identical to the imperial powers.[19] With the migrations which took place in the 1970s and the 1980s, there is also now a significant class of local intermediaries with right of permanent residence in imperial centers, whose existence provides a continuity to the spectrum of possibilities in the structure of imperial control.[20]

1990) and Waterbury (1985, 1988). For what can be called the governance perspective on sustainable development see Amadeo and Banuri (1991), Amalric and Banuri (1993), Banuri (1992), Banuri and Amalric (1992), Banuri and Holmberg (1992), Zaman and Zaman (1991). For a general survey of governance, see Brautigam (1991).

18 See, however, Zaman (1989a, 1989b).

19 In India, Lord Macaulay had advocated that "the first object must be to raise up an English-educated middle class 'who may be interpreters between us and the millions whom we govern — a class of persons Indian in colour and blood, but English in tastes, in opinions, in morals, and in intellect" (Stokes, 1959: 46).

20 As Susan Strange (1989: 170-1) puts it: "The American nonterritorial empire is different [from the Russian empire].... As in Rome, citizenship is not limited to a master race and the empire contains a mix of citizens with full legal and political rights, semicitizens and noncitizens like Rome's slave population. Many of the semicitizens walk the streets of Rio or of Bonn, of London or Madrid, shoulder to shoulder with the noncitizens; no one can necessarily tell them apart by colour or race or even dress. The semicitizens of the empire are many and widespread. They live for the most part in the great cities of the noncommunist world. They include many people employed by the large transnational corporations operating

As a result, post-colonial governments continue with the cultural agenda of colonialism (modernization and development). They also serve as economic agents of their principals. In this role, they ensure, through "liberal" economic policies, that their charges do not compete with their principals in global markets. They provide familiar and hospitable institutional arrangements to foreign investments. Above all, they ensure that the unsustainably large flows of interest payments on foreign debt are remitted abroad, while managing the levels of local discontent.

For these tasks, the local intermediaries extract considerable rent (notably, in terms of interest on domestic debt, aided by "financial liberalization" programs), a large portion of which is banked abroad ("capital flight"). Much of the dispute on adjustment policies, then, can be viewed as an attempt to balance three competing considerations, in order of importance: (i) the need to maintain debt service payments abroad, (ii) the need to provide rents, interest (on domestic debt), and adequate profits to local influentials, and (iii) the need to provide goods and services to the population at large, in an effort to maintain law and order.

It is this structure of global and domestic political relations, rather than inherent economic content of policies to reduce external payments deficits (adjustment policies), which aggravates the condition of the poor in periods of adjustment. In the same way, the roots of environmental degradation do not lie in the area of adjustment policies. They lie, at the global level, in the cultural assumptions of the great transformation which underpin modernity, and at national and local levels with the impact of the pattern of imperial relations (itself a product of modernity) as they affect global and domestic governance.

Adjustment and the Growth-Poverty-Environment Triad: An Alternative Perspective

This paper has argued that the primary impact of adjustment policies (as mediated by global politics) is on the nature and pattern of economic growth (the growth path, for short), and through it (as mediated by domestic social and political structures) on poverty and the local environment. (The global aspects of the environmental problem — climate change and global warming — arise in the final analysis from what might be called the culture of modernity (lifestyles is the word in use), which affects global

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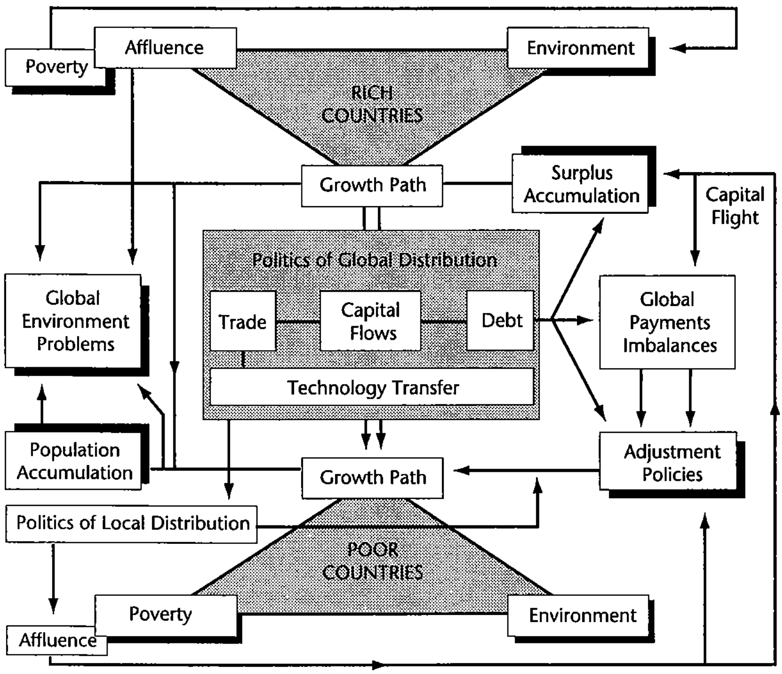
in the transnational production structure and serving, as they are all well aware, a global market...."

political processes; but global environmental problems are otherwise independent of the interaction between adjustment and the growth-poverty-environment triad as envisaged here.) Growth, poverty and the (local) environment affect, and are affected by, each other in a triangular relationship of reciprocal causality. An heuristic presentation of this perspective (in which the interactions shown are neither comprehensive nor unique) is presented in Figure 1.

Figure 1: Adjustment Policies and the Growth-Poverty-Environment Triad



Linkages: The Growth-Poverty-Environment Triad

The expression "growth path" is used for short to refer to the structure and its dynamics of production-reproduction, resource allocation, and internal income-asset distribution. This structure and dynamics affect, and are affected by, social and political structures, and by what could be called superstructural variables (faith, culture, ideologies) and infrastructural variables (natural resources and stocks of physical and human capital). This schema appears to be quite general, and would seem to be applicable to most nations and national groups. Any realistic appreciation of the world today, however, must make a distinction between three kinds of players in the system: (i) governments, (ii) multinationals (both corporations, and of increasing importance, a class of multinational persons), and (iii) private citizens and subjects (citizens in rich countries, with effective democratic structures, and subjects in poorer countries, where a large class of the population is effectively disenfranchised).

The growth path affects and is affected by both poverty and the environment (the growth-poverty-investment triad). In this the growth-poverty link has been the subject of study for much longer than the other two and is therefore more clearly understood (indeed, economics is little else). The link between poverty and environment also has been the subject of attention in the debate over sustainable development in recent years (to the relative neglect possibly of the link between affluence — or consumption, or lifestyles — and the environment). The growth-environment link, however, especially in the context of poorer countries, has not received as much attention (except in the contentious dispute over the link between population growth and the environment[21]), even though many of the ecological concerns of the late 1960s and early 1970s which gave rise to the current environment and sustainable development discourse were about this linkage in industrial countries.

The links between growth and poverty are well-known, even if not fully agreed upon; Lipton and Ravallion (1993) provide a state of the art, current survey of the issues. The pace of growth, in general, can be expected to be inversely correlated to poverty. The pattern of growth, however, by affecting the intervening variable of inequality (among others), can enhance or mitigate the strength of this relationship (or, at least logically, even reverse it). The effect of growth on inequality depends on "the initial distribution of physical and human assets, the way the growth process influences the return to those assets, and the effectiveness of governmental redistribution policies....However, even when growth has been associated with rising inequality, it appears that poverty has usually fallen" (Lipton and Ravallion, 1993: 48). The survey also reports that both growth and poverty alleviation would be higher if investments could be shifted to labor-intensive activities in the rural areas (especially staple food production). Yet, evidence of the impact of rural development (and of strategies like use of high-yielding varieties, tractorization, irrigation methods, and

21 Rahman, Robins and Roncerel (Forthcoming) provide a current survey of the issues. See also Banuri and Amalric (1992), and Ghimire (1993).

of price and non-price policies including location of public investment on infrastructure, and exchange and trade polices) on rural poverty is mixed. Many of the uncertainties and puzzles of the growth-poverty linkages, however, can be removed by admitting the politics of domestic redistributive processes into economic explanations.

In discussing the links of environment to poverty and growth, it would be useful to review, very briefly, the scientific background to the debate on global warming.[22] The earth's atmosphere contains certain ("greenhouse") gases which, like the walls of a greenhouse, keep the earth warm by acting like a transparent blanket in allowing the sun's energy to come in but not letting all of it escape. Without this "greenhouse effect" the earth's surface temperature would be around -18°C, instead of the present 15°C, which makes life possible. The main greenhouse gases are water vapor (contributing some two-thirds of the pre-industrial greenhouse effect) and carbon dioxide (contributing most of the rest).[23] In the last two hundred years, due to the accelerated recourse to fossil fuels in sustaining the spurt in consumption and production associated with modernity, the emission of greenhouse gases (especially carbon dioxide[24]) has risen dramatically, causing a global warming of the earth's climate which threatens the sustainability of development.

The change in atmospheric concentration of greenhouse gases is the difference between the size of its "sources" (total emissions) and its "sinks" (total absorbed or destroyed). The main sources of carbon dioxide emissions today are combustion of fossil fuel (75 percent of total emissions; with coal contributing more, per unit of energy produced, than oil[25]) and

22 This, and the next two paragraphs, are from van Ypersele (Forthcoming, 13-14), which may be seen for sources of figures cited here.

23 The others are methane (CH_4), chlorofluorocarbons (CFCs), and nitrous oxide (N_2O). Greenhouse gases are also divided into two groups: "radiatively active" (which change the climate by directly affecting the earth's energy balance), and "chemically active" (which produce radiatively active gases by chemical reaction with other elements of the atmosphere). The effect of different greenhouse gases on the climate depends also on their natural life, or "residence time" in the atmosphere. (van Ypersele, forthcoming: 13).

24 In parts per million in volume, atmospheric concentration of carbon dioxide has increased from 280 to 355 in the last two hundred years (for source, see van Ypersele, forthcoming: 13).

25 Burning coal also releases sulphur dioxide (increasing the risk of acid rain) and soot (causing respiratory diseases).

changes in land use (20 percent; primarily due to deforestation[26]); although cement production is also important (2 percent). The main sinks are the oceans (in which carbon dioxide gets dissolved) and the biosphere (which transforms carbon into organic matter), although their relative shares in the process are not well-known. It is estimated that "between 39 and 53 percent of anthropogenic emissions remain in the atmosphere, the balance being absorbed by oceans and the terrestrial biosphere."Since the residence time of carbon dioxide in the atmosphere is 125 years (actually, 50-200 years), present atmospheric pollution levels reflect historic emissions. It has been estimated that since 1765, industrial countries have contributed to 84 percent of carbon dioxide emissions due to fossil fuel burning and 78 percent due to deforestation. At present, however, and even more so in the future, the share of the so-called "Third World" in carbon dioxide emissions due to fossil fuel combustion may be some 85 percent, and due to deforestation over 30 percent.[27] This has led to an acrimonious debate in which much ingenuity has gone into devising indices to support what may well be described as either racist or as anti-imperial sentiments in an effort to apportion blame, presumably as a prelude to collective action.

Despite the fact that perceptions about the poverty-environment linkage have suffered in clarity in the discourse of complaint and blame which has followed the UNCED, the main links are not difficult to see.[28] Poverty affects the environment through the demand for food and fuel (leading to deforestation, sub-optimal land use, and over-exploitation of local commons) and the inability to invest in, or maintain, potable water supplies and waste disposal facilities. The urgency of meeting short-term survival needs overrides the need to regenerate resources or abstain from depleting exhaustible resources. At the same time, however, some survival behavior

26 Forests account for two-thirds of all photosynthesis, a natural process of absorption of carbon dioxide. Vegetation also absorbs carbon dioxide through photosynthesis while growing, while releasing carbon dioxide when burnt or left decaying.

27 These two figures have been inferred from graphs in van Ypserle (forthcoming: 18). They seem far too high, and need to be verified or corrected.

28 In 1972, at the Stockholm Environment Conference, Indian Prime Minister Indira Gandhi had attempted to place poverty ahead of environment on the global agenda by calling poverty the world's greatest pollutant. In 1987, the Brundtland report placed the two at par by drawing attention to "the downward spiral of poverty and environmental degradation" (WCED, 1987). Since UNCED, a concerted attempt is being made to suggest that poverty, not the lifestyles of the rich, is the main source of environmental degradation. (See Rahman, Robins and Roncerel (forthcoming) for a refutation of this point of view.)

of the poor (reduced per capita energy consumption, greater reliance on natural bio-degradable resources to meet material needs) may have a positive impact on the environment. The environment affects poverty mainly through its impact on health, productivity and resource scarcity. Polluted drinking water supplies and unsanitary living conditions affect the health of the poor, inhibiting their productivity and incomes. Land productivity also declines as marginal lands are brought into cultivation or pasture. With the depletion of commons resources, the poor are further marginalized. Finally, resource scarcities (fuel, water, etc.) lead to rising prices which aggravate poverty.The growth-environment link needs to be examined separately for the richer countries and for the poorer countries. In the richer countries, overconsumption is leading to severe environmental problems at both global and local levels, and to the persistence of poverty in urban ghettos, at the local level. The availability of greater resources, however, has allowed these countries to contain the local impact of environmental pollution. Nevertheless, growth in affluent countries has led to increased "carbon dioxide emissions, depletion of stratospheric ozone, photochemical smogs, acid rain, and hazardous waste" (World Bank, 1992: 2-3). The effect of these environmental problems on the growth path of industrial countries, however, is neither exclusive nor immediate. As a result, the absence of political institutions to safeguard the interests of humanity as a whole or of the future generations of the richer countries, inhibit remedial actions.

Ironically, partly due to the failure of development efforts, the impact of the growth path on the environment in the poorer countries has been contained, as levels of mass consumption and the pace of industrialization have been low. Inefficiencies in the absorption of imported technologies, however, have resulted in greater environmental pollution per unit of output in poorer countries as compared to richer ones. Also, due to resource shortages, weak political mechanisms, and the contested nature of local commons in post-colonial societies, a much greater share of the environmental problems which are created affect the local environment than the global one. As a result, "the most immediate environmental problems" facing the poorer countries are "unsafe water, inadequate sanitation, soil depletion, indoor smoke from cooking fires and outdoor smoke from burning" (World Bank, 1992: 2). The impact of the environment on the growth path in these countries has been small, although the pattern and potential of growth has been more affected. This is because the politics of growth path selection has been determined mainly by the availability of loans and the desire of local elites to imitate the industrial countries. Weak political institutions have inhibited the input of local feedbacks and weak governments have not been able to assert their rational choices over lender preferences for projects.

Adjustment and the Growth-Poverty-Investment Triad

In the light of this extended discussion of the growth-poverty-environment triad, what then is the impact of adjustment policies on poverty and the environment? In effect, an appreciation of these interlinkages, and the role of global and domestic political processes which bear upon them, supports the preliminary conclusions offered in the previous section. Two important summary points can be cited. First, adjustment policies, in and of themselves, are neither the cause of nor the cure for poverty; however, given local social and political structures and processes, the impact of belt-tightening measures falls disproportionately more on the poor. Secondly, when resources are squeezed, the local environment tends to suffer as public resources restrict investment in environmental protection, private resources preclude investment in higher-cost environment-friendly technologies, and the poor supplement their resources by recourse to the local commons — even though the reduction in growth and industrial activity may reduce the impact on the global commons.

Sustainable Development: Opportunities and Directions

In identifying the opportunities which exist and the directions which future work in this area could profitably explore, the following considerations seem relevant. First, it is important to be clear on what is to be meant by sustainable development. Second, it is important to appreciate the processes which govern actions in this area. Third, since consensus is likely to be essential for durable actions, it is important to recognize the need to set priorities: a premature pursuit of contentious goals is likely to inhibit action in other areas as well. Fourth, there is a need to recognize unimplementable strategies (non-strategies) with which global discourse is cluttered. Finally, there is a need to work out an approach to identifying strategies which work, in the context of a clear appreciation of tactical and logistical details of how they can be put into practice.

Concepts and Perspectives: Is Development Sustainable?

Conceptually, there is a need to understand much more precisely than is customarily done, the two words: development and sustainable.

Economic development seeks to replicate three significant developments which took place in European[29] societies. First, a spiritual and moral revolution (1517-1794), in which a faltering Christian faith in God, Heaven and revelation was reconstituted into a new faith in Humanity, Progress, and rational observation; and as a consequence commercial, political and social concerns (including concern for poverty) were wrested from the Church to become strictly secular matters.[30] Second, a political and ideological revolution on the pattern of France (1789-1914) during which the ideology of modernization (secularism, nationalism, popular sovereignty, radical-democratic politics, etc.) was both fashioned and imitated across the world on an hitherto unparalleled scale.[31] Third, an industrial revolution on the pattern of Britain (1780-1830), during which human and physical resources were mobilized and redeployed toward a pattern of rapid, sustained and limitless increase in the production of non-agricultural goods in the making of mass consumption societies.[32] There is much history in this three-point summary of the meaning of modernization and development. The intent, however, is not to dwell on historical details, but to draw attention to the sharply reductionist (output growth as development), de-historicized, view that modern economics (itself a product of these events) takes of the task at hand.

Is development sustainable? With some room for debate, it is likely that the European peoples (i.e. Europe, and areas of European settlement — in the Americas, Australia, Israel and South Africa) may well be able to adapt themselves to the environmental dangers which appear to loom ahead and maintain the course of development along the path of secular-rational, democratic, mass consumption societies (albeit at a slower pace). It is academic whether this adaptation to a slower pace constitutes an evolution of or a break with the idea of development. What is important is to realize that a separate solution (in which the Europeans de-link themselves from the world) may well be possible. In many ways, it is this

29 The adjective European is used in a cultural sense — to include all areas of European settlement — rather than a geographic sense, in an (admittedly not fully successful) effort to avoid the obvious limitations of competing expressions like Western, industrial, or peoples of European stock, or Europe and her descendants overseas, all of which have been employed by various writers.

30 The classic accounts are Weber (1904-5) and Tawney (1926). The revolution can be dated from 1517, when Martin Luther nailed his famous theses on religious belief on the church door at Wittenberg, to the Jacobins' dechristianization decrees of 1793-94. On poverty see Himmelfarb (1985).

31 The classic account of the French Revolution is Lefebvre (1962).

32 The classic account is Ashton (1948).

realization which is never far from the surface in much of the hopefulness of the debate over sustainable development. The roots of pessimism, however, lie in assessing the prospects of a related but distinctly separate enterprise: the replication of the European experience, by all other countries of the world. In other words, "Is development sustainable?" often also means "Is the imperial idea and practice sustainable?".[33] On this there are grave doubts, and much of the opposition to accepting the sustainable development message arises from deep-seated attachments to imperial projects to governments all over the world.

So much blood, figuratively speaking, has been spilt over the word imperialism that its use is virtually certain to cause misunderstanding. Yet, the ideas, processes, and practice which are embodied in this word would be hard to describe otherwise. Let us define the term precisely, therefore, as Edward Said does in his seminal study:

> "Imperialism" means the practice, the theory, and the attitudes of a dominating metropolitan centre ruling a distant territory; "colonialism," which is almost always a consequence of imperialism, is the implanting of settlements on distant territory. As Michael Doyle puts it: "Empire is a relationship, formal or informal, in which one state controls the effective political sovereignty of another political society. It can be achieved by force, by political collaboration, by economic, social, or cultural dependence. Imperialism is simply the process or policy of maintaining an empire." In our time, direct colonialism has largely ended; imperialism, as we shall see, lingers where it has always been (Said, 1993: 9).

Is development sustainable? For some of us, perhaps (with suitable changes). For the whole world, definitely not. This raises a problem: for the last fifty years development has provided an ideology not only for empire, but for national governments (and of late, so-called non-government organizations, NGOs) in Africa, Asia and Latin America. This question, of finding a new religion for the world, should be addressed separately from the genuine difficulties which surround the ideas and practices of sustainable development.

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33 Now that the contest with the Soviet empire is over, it is hoped that the taboo words — imperialism, colonialism, etc. — will not be considered rude, so that a better understanding of social realities can be developed.

Processes and Institutions: Building Consensus for Action

In rescuing the world from the false hopes which were raised by nineteenth century Europeans, and sustained during the twentieth century, the processes employed are likely to be just as important as the outcomes. This is an underworked area in which the working group can make an important contribution. This contribution can be made at three levels. First, there is a need for widening the conceptual frameworks within which solutions are sought, in order to expand the scope of possibilities. In particular, there is a need to create a greater space for cultural diversity in global solutions which are considered admissible, and to lessen the force with which culturally particular solutions are advocated. Second, there is a need to set priorities among the solutions to be advocated, deferring contentious solutions until greater trust has been built up, in order to facilitate the process of consensus building. Finally, there is a need to recognize unimplementable strategies (non-strategies), of the "bell the cat" variety.

The first proposal, if acceptable, would apply mainly to the processes which are part of, and which arise from, the United Nations Conference on Environment and Development (UNCED). In a perceptive analysis, Banuri (1992) has described UNCED in terms of divergent perspectives ("whereas most northerners see UNCED as the very welcome unfolding of collective action to save humanity, many southerners...fear in it the emergence of a new imperialism...") and processes which unfolded at different sites in Rio ("UNCED can be viewed as a collection of sites... the mass media site,...the festival [involving NGOs etc.],...a site for intergovernmental negotiations..., and a site for the articulation and evaluation of leadership or vision required for global cooperation"). "UNCED was a failure" largely because "the leadership exercise was a total failure," even though the NGOs and the negotiators succeeded in what they set out to do, and the media, "the most expensive adult education exercise in history," was "successful beyond expectations" (Banuri, 1992: 1, 13-14).

This failure of vision can be attributed to the narrow cultural perspective within which most "global" discourse takes place. In fact, what are presented as "global" concerns are usually the parochial concerns of one section of humanity. There is a need to find ways of getting away from this parochialism and allowing the global concerns of other cultures (concerns about meaning, for example) to compete with "modern" global concerns (mainly, concerns about use). It is only in this way that the misgivings and distrust which marks cross-cultural discourse in global forums can be overcome, without which there is little chance of consensus and action.

Given the paucity of effective institutions and processes for the conduct of a genuine cross-cultural dialogue, much less the building of a consensus for action, it is important that such dialogue as is taking place set priorities for actions advocated. Within the framework of European cultural idioms, the environment and development debate has been described as a debate over the management of the global commons. In this, there has been an unfortunate tendency to shift the burden, often by dubious methods, of blame to poorer countries by ascribing the environmental problem to population growth in these countries. By contrast, governments and NGOs (the antitheses of empire) fall victim to the same habits by blaming a "lifestyle" driven by the accumulation of surpluses in the richer countries for the global environmental problems. Both may well be true, but neither is conducive to building institutions or strengthening processes of dialogue. It is best, therefore, to defer contentious issues to a later stage of discussions.

There is, finally, a need to recognize non-strategies which pass for solutions. In formulating policy intervention strategies, two major approaches can be followed. Source-based strategies seek to address the perceived causes of the problem. Solution-based strategies seek to choose from the menu of remedies which have been proposed from time to time to alleviate the problem. In each case, a distinction can be made between strategic styles. One such distinction can be between a social-scientific style, in which strategic interventions derive from broad logical constructs (models) which are independent of time-space considerations, and an institutional-historical one, in which unique interventions are designed for each situation, viewed within its own specific time-space context.[34] A final distinction can be made between agency-free strategies, which define a logically possible outcome, without identifying who will act, and why or how, to achieve the outcome, and those in which agents of change (and the role of the strategist) is clearly identified. The first are designed mainly to dispel gloom; the second, to prevail (either coercively, as in most policy-based lending, or very rarely, by persuasion). (Most so-called "win-win" strategies are either agency-free strategies or coercive ones.)

Although there is an enormous international market in ingenious agency-free strategies, especially in international forums, from the perspective of

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34 The historian of social science will recognize this as the nomothetic-idiographic distinction.

actual participants in social processes (policy-makers or social activists), the only strategies worth designing are those which seek to prevail, and that too by persuasion (rather than by bribery or force). These strategies are always context specific: general principles, as Engels had said, are of little use in specific circumstances. (Where they are worthy of the name strategy, they are also secret from those who are likely to oppose them to protect their own interests.) They are also both source-based and problem-based at the same time, and rely not just on theory and evidence but also on persuasion by whatever means come to hand (the UNICEF's "Human Face" effort is a good example). In applying these principles, it is important not only to develop effective strategies but to allow counter-strategies to develop. Very few international working groups would pass this test of strategy formulation.

Opportunities and Directions

A wider perspective, strengthened processes, and a realistic understanding of strategy would aid in a more productive exploration of opportunities and future directions of work. To begin with this calls for a candid look at the constraints to global action. The report of the Brundtland commission starts with the profound observation that "The Earth is one, but the world is not" (WCED, 1987). It then studies the dangers to the earth, and goes on to suggest that the world should be united around the cause of saving the earth. This is a worthy enterprise, even though a study of why the world is not one may have raised doubts about its likely success. A more likely venture perhaps would have been to seek to promote greater unity of purpose in the world (more or less by whatever means necessary), with the subsidiary aim, among others, of saving the earth. If this is true, then schemes of salvation had best be based on a clearer appreciation of why the world is divided, and a more concerted search for common ground.

This chapter has suggested that the roots of much global conflict can be traced to the different ways in which different peoples (and the elites who constitute their governments) appraise the history of Europe from about the seventeenth century to the end of the "long nineteenth century" (1789-1914). With force of arms, inducement of foreign assistance, suasion of authority, and collusion of national elites, the Western world has sought to force upon a reluctant world the view that this eventful episode in Western history be recognized as the common heritage of mankind. As Rostow (1978: 657) put it:

> In the end, then, despite the inevitable parochialism of our attachment to national societies and cultures, the change most required is the gradual acceptance of the reality of a common experience, common dangers, and a common goal.[35] The process of modernization does bring important changes; but the uniqueness of the longer past is not washed away. But, in part of our beings, all of us are now children of the revolutionary insight of seventeenth century Europe.

This change has been hard to bring about. Unilaterally proclaimed "common" experiences, dangers, goals and the like (with token endorsement from "the usual list of suspects" rounded up from the Third World) have not generated the fervor which had been expected. Nor has the world shown much enthusiasm for adjusting its cultural pedigree to include the insights of seventeenth century Europe. There is a need, therefore, to step back from this contested ground and re-examine both the urgency of the Western desire to gain global approval for its historical cultural choices and current anxieties, and for Latin American and Afro-Asian peoples (and governments) to sort out their legitimate desire for cultural autonomy from deep-rooted reflexive behavior acquired out of the anti-imperial struggle. Only in this way can the outlines of that narrow common ground be identified within which a global consensus could possibly be built in aid of mutual interests and compatible passions.

In order to understand the inability of the West to let go of the concept of development, despite mounting evidence that it has outlived its usefulness, it is necessary to review the events attendant upon the birth of modernity among the European people. These events included a widespread traumatic loss of faith in the Roman Catholic Church (due to an appalling degree of corruption of the clergy), in the historicity of Jesus, the veracity of the Bible, and the efficacy of dogma. The existential anxiety and despair attendant upon the "Death of God" had a profound impact upon the spirit and mind of Western peoples. Out of the ashes of this disaster, over the course of some two centuries of efforts at restoration and reform, the moral verities of the old religion were finally reconstituted on a secular basis. This reconstituted Christianity was called modernity. The idea of progress (as in "Pilgrim's Progress") was first adapted to moral and material progress, and then to development (which, until World War II, referred exclusively to development of resources), and in our own times to

35 This has been a common theme: Brundtland's *Common Future* was preceded by Palme's *Common Security* and Brandt's *Common Crisis.*

economic growth. Having lost the City of God in Heaven, it is understandable what anxieties are aroused in Western man, if his project of building a Heavenly City on Earth are questioned.

No other people in the world suffered so radical, or so traumatic a break from their spiritual past. In Africa and Asia, therefore, the attachment to culture (or kultur, a concept invented by Western man to salvage from the old religion all that was noble, but missing in the new material civilization) was always accorded a primacy over the pursuit of development. A second source of diminished enthusiasm for development had to do with the difference in significance of the term in the histories of the two people: where to the West it provided purpose once again in a Godless world, Africa and Asia (and Latin America) came to know of it as the agenda of colonialism (the annexation of land) and imperialism (the idea that since man is perfectible, and some inherently more perfect than others, it is the duty of the more perfect to perfect the other).

With this perspective, it should be clear that to insist on uniting the world around development (sustainable, or not) would be a coercive venture. The first task, therefore, of any effort at exploring present opportunities and future directions should be to address the framework of global discourse, within the context of which issues of international political economy are processed and executed. This is a large subject deserving detailed examination. For it is doubtful whether the issues surrounding environment and development — especially in the context of adjustment policies — can be treated in isolation from the larger context of international political economy (and the problems of debt, capital flows, trade, technology transfer, and emigration restrictions). On the larger question of global governance, the implicit assumption here has been that a move toward a liberal-pluralistic model of state relations should be supported, rather than currently favored models of world government, or hegemonic leadership, or even of a global imperium.

Conclusions

Since the publication of its report, the critique offered by the World Commission on Environment and Development (WCED, 1987) has been rapidly assimilated in the existing orthodoxies and a new conventional wisdom has been evolved on sustainable development (Asian Development Bank, 1990; Goodland *et. al.*, 1991; IUCN, 1989, 1991; World Bank, 1992a, 1992b), poverty (Lewis *et. al.*, 1988; Lipton and Ravallion, 1993; World Bank, 1990a), and policy adjustments (Corbo, Fisher and Webb, 1992; Heller *et. al.*, 1988; Nicholas, 1988; World Bank, 1988, 1990). Although the interlinkages between adjustment and sustainable development have been less well explored (Hansen, 1989, 1990), there is a vast literature on the interlinkages between sustainable development and poverty (WCED, 1987; Banuri and Amalric, 1992; Holmberg, 1991), and between adjustment and poverty (the seminal work being Cornia *et. al.*, 1987; and in defense of orthodoxy, Demery and Addison, 1987; Development Committee, 1987; Srinivasan, 1988).

In summary, the new orthodoxy has dissipated the subversive potential of the Brundtland report by the same tactical methods which were employed to allay anxieties that orthodox growth did not take account of employment, basic needs, equity, etc. First, the criticism was accepted wholeheartedly as timely and just. Second, it was denied that there was any problem: given the "right policies" and enough of whatever it was that the agency funding the research was doing, growth with sustainable development was possible. Third, the elaboration of what the powerful elements in the international system must do was at best hinted at, while the new critique was re-articulated in support of the same policies which were being advocated prior to the critique. Finally, the emergence of a "global" consensus (around what some call "the Washington consensus") was quickly proclaimed to forestall any second thoughts on the subject.

A review of these arguments and counter-arguments (which are more exculpatory than explanatory) does shed some light on the psychopathology of the family of nations, but is of limited value in enhancing either the understanding of key issues or the scope for future action. This paper has reviewed the analytical and historical background surrounding adjustment policies, and has offered a critique of current perceptions of the linkages between adjustment, poverty and sustainable development. It has presented an alternative analytical framework, incorporating the politics of global and local distributive processes, within which the impact of adjustment policies on what has been called the growth-poverty-environment triad can be examined. On this basis, the paper makes a case for widening the conceptual basis and cultural perspectives which underlie present global discourse, for strengthening existing processes and creating new institutions for building a genuine consensus as an antecedent to concerted action, and identifies some existing opportunities and suggests some future directions for work in this area.

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8

Failed Promise: Evidence from African Adjustment Experiences

Guy C. Z. Mhone

Introduction

While the reference of sustainable development to the present utilization of resources in a manner that does not compromise the interests of future generations seems obvious enough, its implications are complex and profound, particularly in the African context. The purveyors of the ideology of the Bretton Wood institutions would have us believe that sustainable development can indeed be assured through the adoption and implementation of economic stabilization and structural adjustment measures which many of our countries in Africa are uncritically implementing. In a way, our countries are so beleaguered economically, politically and socially that any straw will be grasped at, if there is an assurance of an infusion of external funds. It is becoming increasingly obvious, nevertheless, that the attainment of sustainable development is a much more complex affair than the simple calculus of market efficiency might suggest; in Africa, current economic reforms are not facilitating its attainment.

With more than 80 percent of the population in Africa living in rural and peri-urban areas, it is clear that the attainment or promotion of sustainable development must entail enhancing the ability of the rural population to live productive lives that efficiently economize on the use of existing resources in a way that also assures human development. However, common stabilization and structural adjustment measures in Africa have focused on the formal sector in which only 15-20 percent of the labor force directly participates. Adjustment measures also grossly underestimate the complexity of the issues at stake in trimming down the role of the state. Current economic reform measures, even if necessary, may be compromising the ability of many African countries to attain sustainable development, especially if supplementary measures requiring market-friendly state interventions are not forthcoming.

The Limited Impact of Economic Reform Measures

Current economic reform measures in Africa are predicated on the presumed superiority of market forces in promoting allocative, technical and distributive efficiency. Although no one knows what would have happened to many African economies in the absence of the external shock of the mid-1970s, it has been concluded by the purveyors of present economic reform measures that the secular decline of many African economies experienced since then was a consequence of inward-looking, statist import-substitution policies. The pre-1970 development strategies have been interpreted as anti-market in their thrust. The exception of countries like Botswana, Kenya, Côte d'Ivoire and Malawi have customarily been cited to underscore the superiority of market forces in spite of the pervasive state involvement in the marketing, distribution and manufacturing sectors in these countries. Their most common feature perhaps was their pro-Western stance and lack of hostility to foreign investment since by no stroke of the imagination can these countries be claimed to have promoted generalized sustainable development in their economies over the past two decades.

The major economic reform measures undertaken have entailed the following: reductions in budget deficits, exchange rate devaluations and market liberalization, trade liberalization, price decontrols, interest rate rises, civil service reform entailing retrenchment, reform and/or privatization of public enterprises, and reductions in social expenditures. Many of these reforms have been adopted by an increasing number of African countries from 1980 onwards such that practically all the African countries except Botswana, Libya and South Africa have adopted them to one degree or another. The Botswana government has not only been ideologically pro-market and pro-foreign investment but has also been fortunate in that it has experienced high rates of economic growth as a consequence of the export of diamonds; Libya, currently a pariah of the West and hence in no formal dialogue with the Bretton Wood institutions, is fortunate in having a strategic resource, oil; and South Africa, until recently under formal international isolation, has begun a dialogue with the Bretton Wood institutions which have promised huge infusions of funds once a democratic government is in place.

Although difficult to uniquely identify the impact of economic reform measures on the performance of African countries in the aggregate, it can be safely assumed that for the majority, the reform policy environment has been the major determinant of recent trends. Interestingly, while the economic reform measures have been ostensibly promoted to enhance sustainable development in a manner that reduces the vulnerability of African economies to external shocks, their consequence has been the reverse. The vulnerability of African countries to external natural and economic factors has continued unabated. Table 1 (see appendix) shows recent trends in some macroeconomic indicators for African countries as a group. The impact of economic reform measures can be seen in the decline in the fiscal deficit, and the decline in money supply. The foregoing trends primarily reflect the tenacity with which the demand management conditionalities of the IMF have been implemented.

Table 1, however, also shows some perverse trends in that real GDP growth has been falling, inflation has been increasing, the terms of trade, while erratic, have been declining, the trade and current account balances have been negative and most importantly the average debt servicing (as a percentage of exports) has been increasing. While for two-fifths of the African countries the growth in real GDP was above the rate of population increase in 1992, for the majority the opposite was the case as shown in Table 2. The implications of the foregoing for the majority of the population in Africa can easily be underscored by pointing out that a country like Botswana has had phenomenal rates of GDP growth of over 7 percent per year for the past decade and a half, yet the majority of its population are still engaged in subsistence farming and quite vulnerable to drought and population pressures on arable land.

Table 3 shows trends in the contribution of domestic and external demand to GDP growth. The contractionary trend in African economies is clearly brought out by the diminishing contributions to GDP growth of private consumption and exports. It may also be noted that the contribution of investment has been lackluster. Table 4 shows the sectoral contributions to GDP growth. The significant contribution of agriculture, except for the drought years of 1990 and 1992, is generally interpreted to be a consequence of the economic reform measures, even if part of this may relate more to formal agricultural production and the reappearance of previously smuggled commodities on the liberalized markets. That the performance of the agricultural sector, while improving, has not been impressive, especially in relation to an annual population growth rate of over 2.8 percent can be seen from Table 5. It may be noted from this table that the rates for 1980 to 1990 are higher than those for 1970 to 1980 for both food and non-food crops. The increase in non-food production is what one would expect from the economic reform measures, but as can be seen, the 1980 to 1990 average rates of growth for both food and non-food output lag behind the average annual rate of population growth at over 2.8 percent.

Table 6 and 7 show the trends in food and non-food production in more detail. As can be seen the trends are not that impressive. The data in these tables are important for two reasons. First, food production is the most important activity for about 64 percent of the labor force that is involved in agriculture, a sector of the population that is growing unabated. It appears that over a four-year period (1988 to 1992), the welfare of this group of the population has not improved appreciably. It may be noted also that over this same period, prices of manufactured goods and retrenchments in the public and private sectors had been increasing, while expenditure on social services, economic infrastructure and extension services were being reduced. The second reason for the significance of the data in the foregoing tables is that the growth of key agricultural export commodities has been static in spite of the reform environment. Traditional approaches to comparative advantage contend that this is where Africa's specialization lies; economic reform measures are intended to initially resuscitate these activities and reinforce this specialization.

Not only has agricultural output been generally stagnant, but recent trends in commodity prices have also been disheartening, as have been the prices of metals and minerals. It is not surprising then that Africa's balance of payments has been deteriorating, thereby increasing the continent's indebtedness through balance of payments deficits, as shown in Table 8. The nature of the current account deficits by groups of countries is shown in Table 9. The stagflationary trend in Africa has thus been accompanied by an increase in indebtedness and debt-servicing obligations, as shown in Table 10.

It is clear from the foregoing that the economic picture in Africa is not a healthy one in spite of the economic reform measures that have now been implemented for five or more years by many African countries. Initially, advocates of the measures contended that short-run contractionary consequences of economic reform measures should be expected and that in due course the logic of the market would prevail, putting the economies on the road to allocative, technical and distributive efficiency and economic growth. However, as the formal sector has been shrinking, the rural sector deteriorating, unemployment increasing, and the informal sector laterally expanding (squeezed between the compressing formal and rural sectors), advocates of economic reform have cited other reasons for the resulting perverse trend since the so-called short-run has now been surpassed. Various reasons are now cited such as inadequate non-comprehensiveness in measures adopted, poor sequencing and timing, inadequate implementing and monitoring capacities, frequency of non-economic shocks such as drought and political conflict, and a lack of political commitment.

That there may be some fundamental faults with the overall strategy is only recently being accepted as a possibility, albeit reluctantly. The most unsettling critique of the economic reform measures being undertaken in Africa does not originate in the African debate, but rather, in the interpretation of the experience of the "East Asian miracle". However, the implications of this critique for the strategies to be pursued in Africa have unfortunately not been explored adequately. In effect, the World Bank in particular has finally succumbed to the sustained demonstration by critics (many of whom are not even directly interested in Africa such as Wade and Porter) that, contrary to the World Bank's insistence, the East Asian countries did not follow a strategy that could be labeled a *laissez faire* purely outward-oriented strategy. To the contrary, the aforementioned authors and others have demonstrated rather convincingly that these countries relied on a combination of inward- and outward-looking strategies promoted through state intervention of a facilitative and market-friendly nature, which included deliberate efforts to transform agriculture, exploit inherited comparative advantage, and promote backward and forward linkages through the conscious adaptation and development of technological capacities.

Thus the World Bank was compelled to put up a team to study the East Asian miracle resulting in their recent report in which they effectively revise their previous stance; however, they go to extreme lengths to attempt to show how and why African countries cannot emulate the east Asian *dirigiste* strategy. The debate over the East Asian miracle is important precisely because the most important aspects of development strategy that have been missing in Africa have related to the absence of a vision and a conscious, state-directed strategy to realize it.

It is perhaps futile to debate the desirability or nondesirability of stabilization and structural adjustment measures, since taken singly, many of the measures are indeed desirable and commendable. The problem really is that it may be a fundamental mistake to view the measures in their totality as constituting a sufficient strategy for sustainable development. It might be contended, rather, that many of the measures may indeed be necessary, but may not be sufficient to transform African economies toward a path of sustainable development. African countries have been implementing economic reform measures without any due concern to the structural disarticulations, rigidities and market failures that are so ubiquitous and transparent and that need conscious state intervention to be resolved. African countries have been implementing economic reform measures with government hands folded, if not shackled, in the belief that, somehow, specialization in primary commodity production and the inflow of foreign investment will transform agriculture, enhance the articulation of agriculture and industry, develop efficient import substitution, backward and forward linkages and technological capacity all through the magic wand of the market.

It is our contention that given the structural disarticulations and rigidities underpinning underdevelopment and poverty in Africa, especially as regards the deteriorating economic welfare and increasing economic marginalization of about 80 percent of the population in the urban and rural informal sectors, the stagflationary consequences of present economic reform measures are to be expected. The fundamental problem in Africa is that current economic reform measures are not adequate to resolve the legacy of enclave development and its tendency to reproduce underdevelopment by simultaneously disrupting and marginalizing the rural sector. This legacy has meant that African countries, given their openness, insertion and status in the international division of labor cannot automatically (through market forces) initiate a process that makes an articulated development possible. African countries, in their present status, do not have an internal imperative for articulated and coherent economic transformation. Not only do the current economic measures reinforce their present status and legacy, but they also help reproduce and reinforce this legacy as indicated by the relationship between Africa's current account deficit and its debt-servicing burden. The developed countries cannot lose in this global pattern of specialization, while African countries seem to be moving backwards.

The Disarticulated Structural Legacy

The structural economic legacy in Africa acts as a constraint on the effectiveness of *laissez faire* economic reform measures. Further, as will be shown below, the resulting structural distortions coupled with the impact of standard economic reform measures result in various microeconomic poverty traps that continue to undergird the vulnerability and worsening welfare of the majority. It is contended that the consequences of present economic trends include the deterioration of human capital of the majority and the degradation and inefficient exploitation of physical resources, particularly in the rural sector.

The nature of the macroeconomic problem is easily gleaned from the structure of production, employment and trade as illustrated by data on Southern African countries. Table 11 shows the structure of production in the countries of Southern Africa and Nigeria; Table 12 shows the per capita GDP, population and sectoral growth rates in GDP. From Table 11, it may be inferred that: South Africa and Zimbabwe (in that order) are the most industrialized countries in the sub-region; Malawi, Lesotho, Mozambique and Tanzania are the most dependent on agriculture; and Zambia, Botswana, Angola and Namibia are the most dependent on a single primary (mineral) resource commanding generally high prices on the international market, and by the same token, are the most distorted economies readily vulnerable to "Dutch disease". A look at Table 12 shows, first, that while a number of countries have experienced high economic growth in either agriculture or manufacturing, none of them has experienced high growth in both, an indication of the relative enclave nature of the two sectors, that is, the sectors are more or less detached and growth in one does not automatically stimulate growth in the other. Second, the two tables together show that all of the countries have experienced the "hypertrophy" or "obesity" of the service sector; while in articulated economies experiencing growth, the expansion of the service sector is a consequence of the increased efficiency and productivity of the material sectors, in countries of the sub-region it is symptomatic of the inability to actually transform and develop these sectors efficiently. The hypertrophy of the service sectors is symptomatic of the malady in these economies.

The nature of the problem of enclave development is further illustrated by at least four other considerations. First, it may be noted that a country such as Botswana has a per capita income roughly equivalent to that of South Africa, without the degree of diversification, backward and forward linkages and technological capacity of the latter; it has a per capita GDP that is higher than that of Zimbabwe, whose economy is, in fact, also relatively more diversified and articulated than that of Botswana. Second, in almost all of the countries, the majority of the population is in the agricultural sector, and yet it contributes the least to gross domestic product. Third, even the spectacular growth of Botswana over the past two decades has been unable to transform the economic status of the majority of its population from being predominantly subsistence-oriented. And fourth, the most relatively articulated and diversified countries have that status not so much because they were settler dominated (since Mozambique, Namibia and Zambia were similarly settled as well) but because throughout their history they demonstrated an uncanny hegemony of domestic capital that influenced the state to intervene on its behalf through both outward-oriented and inward-oriented development strategies.

In almost all of the African countries, the presumed engine of growth is the export sector. The economic reform measures are indeed expected to resuscitate and reinforce this sector initially. However, the exports have predominantly consisted of primary products and have been highly concentrated in three or less commodities, thus making the countries highly vulnerable to external shocks. Furthermore, the export sector has generally been a monopoly of large formal corporations, often foreign-owned and relatively divorced from the rest of the economy except in terms of their utilization of cheap indigenous labor. Thus in general, the growth of the export sector has minimal ramifications on other sectors and has less spillover effects to the majority of the populace that is not engaged in the sector. Indeed, the hard-currency revenues from the export sector generally appear as economic rents or bonanzas first to the government and its elites and then to the entrepreneurs and management of such industries, and ends up fueling non-productive imports and growth in services.

Essentially then, the key sectors of agriculture and industry are not directly related. They have been able to grow independently of each other, while both formal agriculture and formal industry have been able to grow independently of the subsistence sector. It may even be contended that the inability of the subsistence sector to transform itself is a consequence of the enclave independent growth of the formal sectors. It is thus not surprising that the growth of the formal sector has gone hand in hand with the decline in food production even under the economic reform regimes. It is also thus not surprising that the rate of urbanization has continued unabated in spite of the lackluster performances of the formal sector and well above the annual rate of population growth, as shown in Table 13.

In summary, then, it may be advanced that the enclave and disarticulated nature of African economies very much underpins the economic crisis in Africa. In its general manifestation, this crisis entails the marginalization and impoverishment of the majority who are increasingly compelled to eke out a living in the subsistence and informal sectors. More generally, this crisis is reflected in the increasing numbers of vulnerable segments, comprising the unemployed, subsistence households, children, low-wage earners, and informal sector participants in easy-entry activities. The calculus of the market, as dictated by economic reform measures does not alter the structures underpinning the crisis but merely reinforces its reproduction. The next section briefly outlines some of the microeconomic factors that reproduce the vulnerability of the majority.

Microeconomic Constraints to Sustainable Development

A cogent strategy for economic transformation toward sustainable development will have to entail the enhancement of the productive economic participation and the economic welfare of the majority of the population, which remains engaged primarily in the urban and rural informal sectors. This section focuses on the implications of economic reform measures for the households in these sectors to demonstrate that present policies are unlikely to lead to sustainable development, even if their anticipated salutary impact on the formal sector were conceded.

Irrespective of the theoretical expectations of the Bretton Woods-inspired economic reform measures, their actual impact in Africa to date has been contractionary in terms of real economic variables and inflationary in monetary terms. Thus, as shown earlier, the direct impact has been in the form of reduced formal sector output, reduced employment in both the public sector and the formal private sector, and the decreased delivery of social services and economic infrastructure. In turn, the foregoing consequences have had, as would be expected, repercussions on the economic viability of informal sector households through their impact on household consumption, household labor utilization and allocation, household use of natural resources, and household production and specialization in production. These secondary and indirect repercussions of the actual unintended impact of the economic reform measures have resulted in, and been reinforced by a series of what might be termed poverty traps, which even the ameliorative Social Dimensions of Adjustment programs are either too ill-equipped or too minuscule to address. Indeed, as will be seen below, rather than requiring ameliorative Band-Aid programs, the poverty traps require innovative development strategies that involve the majority of the populace in both the production of wealth and its distribution.

The informal sector or micro-enterprise sector in much of Africa is relatively quite underdeveloped and dependent upon the formal sector for its demand and for its inputs. With the formal sector contracting in terms of output, employment and both aggregate and per capita real incomes, and with the rural sector stagnant or deteriorating as a consequence of static or declining growth in export commodities and food crops, the informal sector has become the refuge of last resort. First, it has been expanding laterally as a consequence of unabated rural to urban migration, the increase in the number of unemployed as a result of formal sector retrenchment, the increase in participation of hitherto inactive members of urban households in search of supplementary incomes to compensate for declining formal earnings of the primary worker, and the natural increase in the labor force. In addition, the number of school drop-outs has been increasing as a consequence of public sector expenditure reductions and cost recovery measures.

Second, demand for informal sector products and services has fallen in the aggregate and shifted more toward basic necessities, production of which, in the informal sector, also tends toward lateral expansion due to ease of entry. Thus, there has been an increase in participants at the same time that demand has been falling. This squeeze has been further aggravated by the increase in the prices of inputs from the formal sector which has reduced profit margins in the informal sector. Participants have thus been compelled to work arduous hours per day, and days per week in an effort to make a living; in the process, women and children have been compelled to enter the informal sector as well. While previously participants in the rather complex and hard-to-enter informal sector activities would have made reasonable returns compared to those in lower level formal sector jobs, the squeeze is increasingly extending to them as well. In short, economic reform measures are imparting an involutionary development to the informal sector whereby the sector is becoming an increasingly saturated welfare safety-net for people sharing poverty. Participation in the informal sector is thus increasingly resulting in the degradation of human resources, apart from the environmental hazards that follow in its wake in urban areas.

Rural sector populations in Africa have suffered a plight undergirded by failed initial entitlements to access to productive assets, undervaluation of exchange entitlements, and policy inadequacies. In the haste to endorse and promote private entrepreneurship as befits the new ideology of economic reform, domestic elites and donor agencies such as the IMF and the World Bank have deliberately chosen to either ignore or downplay the rapid differentiation and concentration in access to land and livestock that is occurring in rural Africa. The percentage of the population that is becoming landless is increasing in much of Africa.

The differentiation and concentration of access to land is partly facilitated by the abuse and exploitation of traditional land tenure rights by the well-to-do and better endowed urban and rural elites; it is also propelled in part by the differential impact of economic reform measures on vulnerable households which, being unable to make ends meet on marginal lands, seek refuge in various semi-feudalistic arrangements with the better-endowed farmers. The consequent alienation of land from the majority is in effect a process of proleterianization that releases and devalues labor power without necessarily creating the absorptive capacity for it in the industrial sector in the form of primitive accumulation. This is one major aspect of the disarticulated nature of the externally driven enclave economies. Thus a generalized cheapening and impoverishment of labor power results that permeates rural informal and formal sectors without enhancing accumulation and investment in productive capacity.

The consequences of this process for sustainable development are profound but seem hidden. A quick listing of the resulting *poverty traps* at the microeconomic level, which are exacerbated by economic reform measures will underscore the point. The following poverty traps are contradictory outcomes of the economic reform measures, especially given their contractionary and inflationary impact to date in Africa:

Privatization of benefits and externalization of costs of resource use: The differentiation and concentration of access to land resulting in the alienation of large percentages of the rural population leads to the privatization and appropriation of the best natural resources and their benefits by a few political and economic elites; the poor majority, and particularly female-headed households, are often pushed onto marginal resources. Furthermore, the so-called rationalization of public expenditures is often interpreted to mean the targeting of economic services and infrastructure to the "efficient" few who in effect are the better endowed farmers. Meanwhile, the pressures for survival, given increasing costs of formal sector inputs, energy and food, compel the poorer households to further exploit marginal lands for substitute products.

Increase in household self-exploitation: The major social gains in health, education and access to sanitary conditions and water were actually made in the decades of the pre-economic reform period. Since then, not only have these services deteriorated in those rural areas having access to them, but the gains in human capital formation are being rapidly eroded by the increased self-exertion of beleaguered households in their bid to maintain their livelihoods. Thus household members are being compelled to work longer hours, to walk longer distances and to employ more female and child labor to maximize returns, resulting in a serious toll on human capital and human lives.

Increasing gender inequalities: As men migrate in search of better opportunities in urban areas or on distant farms, an increasing number of female-headed households are left in many of the rural areas. In these households, the female head is compelled to combine the roles of reproduction, production and communal management; in thus stretching resources to their limits, such households are among the most vulnerable in Africa. Not only do these circumstances rapidly depreciate the female human resource, but they also undermine the development and well-being of children, with detrimental long-term consequences for the nation.

Pressure to produce more children: The unequal access to land entitlements in Africa is paradoxically directly correlated with household size and availability of productive human power. The small proportion of better-endowed farmers also have bigger households and access to more labor power than the poorer households. As a consequence, poorer households lack adequate supply of land, livestock and labor power. This much needed labor power has two important potential functions for these households: it is essential in order to broaden the pool of producers; and it facilitates diversification of activities as a form of risk-aversion behavior. Additionally, poor households, especially female-headed households, rely on remittances to supplement their household consumption. As a consequence, the poorer households tend to place a premium on having more children. (Richer households may do so as well, even if for slightly different reasons.) All of the foregoing, coupled with the diminished capacity of the state to undertake population control programs and campaigns, merely reinforces the trend toward increased population growth.

Thus while formal sector statistics are being collected to monitor the presumed efficacy of economic reform measures, an undercurrent of impoverishment has been occurring in the rural and the urban informal sectors in Africa that belies any claims of success attributed to these measures. Indeed, the dogmatic insistence to apply the measures merely exacerbates the problem and undermines efforts toward sustainable development.

Conclusion

Economic reform measures as embodied in structural adjustment and stabilization policies advocated by the Bretton Wood institutions are not succeeding in promoting allocative, technical and distributive efficiency in Africa in a manner that would lead to sustainable development. It has been contended that the structural disarticulations, distortions, rigidities and market imperfections and failures that are the legacy of many African economies are so intractable that *laissez faire* market strategies and policies merely reproduce and reinforce them, even in the context of marginal growth. More importantly, it has been argued that this debilitating structural legacy has underpinned the marginalization and impoverishment of the majority of the population in the informal sectors caught in various mutually reinforcing poverty traps, resulting in the degradation of both human and physical capital.

In effect, it might be argued on the basis of this structural legacy of disarticulation together with the accompanying poverty traps that the initial environment in which *laissez faire* market forces are expected to function reflects allocative and distributive inefficiencies that can only be resolved by conscious state intervention. Such intervention may be the missing link in the current strategies being pursued. Indeed, lessons from the "East Asian miracle" may be emerging, calling for the need to formulate development strategies inspired by a vision to transform the inherited legacies of African countries. This might be achieved through state-led market-friendly interventions aimed at promoting a well articulated linkage of both outward- and inward-looking strategies and of both industrial and agricultural development. Such a strategy has to be formulated and pursued in a manner that assures the participation of the majority in both production and the sharing of its benefits, in a manner that ensures sustainable use of both human and physical resources.

Appendix Tables

Table 1

Africa: Macroeconomic Indicators

Indicators	1988	1989	1990	1991b/	1992c/
1. Real GDP Growth (%)	4.8	4.2	3.4	2.6	1.9
2. Inflation (%)	17.0	17.9	15.9	23.7	19.7
3. Fiscal Deficit (5) of GDP)	10.8	8.0	7.5	7.7	6.2
4. Growth of money supply (M2)d/	22.9	16.0	24.9	17.6	15.5
5. Export Growth, Volume (%)	3.6	-3.4	4.8	3.8	1.7
6. Import Growth, Volume (%)	2.6	-1.3	12.8	-5.2	1.1
7. Terms of Trade	-11.9	8.5	9.4	-8.6	-4.2
8. Trade Balance ($billion)	-11.3	-8.6	-1.1	-4.1	-12.4
9. Current Account ($billion)	-15.4	-11.3	-2.5	-4.6	-10.8
11. Current Account (%GDP)	-5.1	-3.7		-0.7	-3.8
12. Debt Servicing (% of Exports)	26.7	28.7	25.1	28.6	32.4

Sources: ADB Estimates for 1, 2, 4, 5, 6, and 7; and IMF for 3, 8, 9, 10 and 11.

a/ ADB Regional Member Countries only

b/ Provisional

c/ Preliminary Estimates

d/ Excluding Zaire for the year 1991

Note: Items 5 to 8 relate to merchandise trade.

Table 2
Frequency Distribution of Countries According to Real GDP Growth Rates, 1991-1992

Real GDP Growth rate	Number of Countries	
	1991	1992
Negative	13	16
0 - 1	3	5
1/1 - 2.5	12	11
Above 2.5	23	19

Source: ADB Estimates.

Table 3
Contribution of Domestic Demand and Trade Balance to GDP Growth (at 1985 constant market prices), 1988-1992 (Percentage points)

	1988	1989	1990	1991a	1992b
Domestic Demand	5.9	1.7	3.5	2.5	3.1
Private Consumption	3.5	0.0	2.2	2.0	1.8
Government Consumption	1.9	0.2	1.1	0.2	0.6
Gross Domestic Investment	0.5	1.5	0.2	0.3	0.7
Trade Balance	-1.1	2.5	-0.1	0.1	-1.2
Exports of Goods and Services	0.8	2.8	2.3	-0.4	-0.7
Imports of Goods and Services	1.9	0.3	2.4	-0.5	0.5
GDP at Constant Market Prices	4.8	4.2	3.4	2.6	1.9

Source: ADB Estimates.
a/ Provisional
b/ Preliminary Estimates.

Table 4

Sectoral Contribution to GDP Growth, 1988-92 (Percentage Points)

	1988	1989	1990	1991a/	1993b/
Agriculture	1.5	1.1	0.2	1.2	0.2
Industry	1.0	0.9	1.8	0.7	0.7
Mining	-0.4	0.4	0.4	0.5	...
Manufacturing	0.5	-0.1	0.5	0.3	0.3
Services	2.2	2.3	1.4	0.8	1.1
GDP at 1980 Factor Cost	4.7	4.3	3.5	2.7	2.0

Source: ADB Estimates.
Notes: a) Provisional
b) Preliminary Estimates

Table 5

Agricultural Production in Africa (Percentage Change, Annual Average)

	1970-80	1980-90	1991	1992
1. Total	1.4	2.4	3.7	-3.1
2. Food	1.6	2.5	3.6	-2.9
Cereal	1.8	2.3	11.6	-18.6
Livestock	2.6	2.3	0.1	0.5
3. Non-Food	-0.3	1.2	4.5	-4.3

Source: FAO, Statistics Division, Computer Files, December 1992.

Table 6
Major Food Production (in millions of tonnes)

Food Group	1988	1989	1990	1991	1992
Cereals	79.5	80.1	88.4	98.4	79.8
Coarse Grains	60.0	58.2	62.2	67.6	54.2
Wheat	9.8	10.6	13.7	17.4	13.1
Rice	9.8	11.3	12.5	13.3	12.4
Cassava	62.5	72.6	67.6	69.7	69.2
Yams	22.3	27.5	19.9	22.2	26.6
Sweet Potatoes	6.5	6.2	7.0	6.5	6.2
Sugar	.143	.139	.131	.144	.139
Kernels	.615	.676	.698	.724	.750
Palm Oil	1.5	1.7	1.7	1.8	1.8
Groundnuts			4.5	4,5	4.5

Source: FAO, Statistics Division, Computer Files, December 1992.

Table 7
Major Non-Food Production (in million tonnes)

Non-Food	1988	1989	1990	1991	1992
Coffee	1.2	1.3	1.3	1.2	1.1
Cocoa	1.5	1.4	1.4	1.3	1.3
Tea	.273	.291	.322	.335	.302
Cotton	1.3	1.3	1.3	1.4	1.2
Rubber	.294	.366	.256	.306	.361

Sources: FAO, Statistics Division, Computer Files, December 1992.

Table 8

Balance of Payments Summary and Current Account Financing for Africa, 1988-92 (US$ billion)

	1988	1989	1990	1991	1992
Exports (f.o.b)	52.97	60.79	75.73	72.15	70.32
Imports (f.o.b)	64.27	69.35	76.79	76.23	82.70
Trade Balance	-11.30	-8.5	-1.06	-4.08	-12.38
Net Services and Transfers Payments (Public and Private)	-4.12	-2.72	-1.42	-0.47	1.57
Balance on Current Account	-15.42	-11.28	-2.48	-4.55	-10.81
SDR allocations, valuations and adjustment	-0.88	-0.61	-9.80	-1.71	0.99
Overall BOP	-16.30	-11.89	-12.28	-6.26	-9.82

Source: ADB, Statistics Division, 1992.

Table 9
Current Account Deficit as a Percentage of GDP, 1991

Below 10%	10-20%	Above 20%
Algeria	Burundi	Chad
Angola	Central African Republic	Comoros
Benin	Côte d'Ivoire	Djibouti
Burkina Faso	Gambia	Equatorial Guinea
Cameroon	Madagascar	Guinea Bissau
Cape Verde	Mali	Lesotho
Congo	Mauritania	Mozambique
Egypt	Rwanda	São Tomé and Príncipe
Ethiopia	Sierra Leone	Tanzania
Gabon	Sudan	
Ghana	Uganda	
Guinea	Zambia	
Kenya		
Libya		
Malawi		
Mali		
Morocco		
Mauritius		
Niger		
Nigeria		
Senegal		
Seychelles		
Togo		
Swaziland		
Tunisia		
Zimbabwe		
Zaire		

Source: ADB, Statistics Division, CDEP, February 1992.

Table 10

External Debt Outstanding and Debt Service Payments for Africa a/, 1988-92 (in billions of US dollars except where otherwise indicated)

	1988	1989	1990	1991	1992b/
Total Outstanding Debt	223.34	233.95	241.86	246.79	255.21
Short-term	20.27	22.62	22.28	21.79	23.04
Long-Term	203.07	211.34	219.58	224.65	232.17
To Official Creditors	154.88	162.75	168.81	170.78	179.99
To Financial Institutions	37.06	39.85	41.26	38.89	35.50
To other Private Creditors	31.40	31.35	31.70	36.78	39.73
Ratio of Debt Service Payments to Exports of Goods and Services (%)					
Debt Service Ratio c/	26.74	28.74	25.10	28.55	32.38
Interest Payments Ratio d/	12.07	12.17	9.54	13.70	13.42
Amortization Ratio e/	14.67	16.57	15.56	14.85	18.97

Source: IMF Research Department, December 1992.

a/ Comprises only regional member countries of the ADB.

b/ Estimates.

c/ Amortization payments on long-term debt and interest payments.

d/ On total interest payments.

e/ On amortization payments (i.e., principal repayments) on long-term debt only.

Table 11:
Structure of Production (%)

	GDP (US$ millions)	Agriculture		Industry		Manufacturing		Services	
	1990	1965	1990	1965	1990	1965	1990	1965	1990
Malawi	1,660	50	33	13	20		14	37	46
Mozambique	1,320		65		15				21
Tanzania	2,060	46	59	14	12	8	10	40	29
Zambia	3,120	14	17	55	55	6	43	32	29
Lesotho	340	65	24	5	30	1	14	30	46
Zimbabwe	5,310	18	13	35	40	20	26	47	47
Swaziland									
Botswana	2,700	34	3	19	57	12	6	47	40
Angola	7,700		13		44		4		43
South Africa	90,720	10	5	41	44	24	26	48	51
Namibia			11		38		5		50
Nigeria	34,760	55	36	12	38	5	7	33	25

Source: World Bank (1992)

Table 12
Gross Domestic Product

	GDP Per Capita					Growth of Production (% Per Year)					
	1990 US$	Annual Growth Rate 1965-90	Pop. (mill)	Growth of GDP '65-80	Growth of GDP '80-90	Manufacturing '65-80	Manufacturing '80-90	Services '65-80	Services '80-90	Agriculture '65-80	Agriculture '80-90
Malawi	200	0.9	8.5	5.5	2.9	...	3.6	6.7	3.5	4.1	2.0
Mozambique	80	...	15.7	...	-0.7	...	-4.1	...	-3.2	...	1.3
Tanzania	110	-0.2	24.5	3.9	2.8	5.6	-0.4	10.8	1.3	1.6	4.1
Zambia	420	-1.9	8.1	2.0	0.8	5.3	3.5	1.8	0.2	2.2	3.7
Lesotho	530	4.9	1.8	6.8	3.1	...	13.5	...	5.6	...	-0.7
Zimbabwe	640	0.7	9.8	5.0	2.9	...	2.8	...	3.4	...	2.4
Swaziland	...	...	...	...	...	...	...	...	...	-	...
Botswana	2040	8.4	1.3	13.9	11.3	13.5	5.3	11.5	11.9	9.7	-4.0
Angola	...	...	10.0	...	...	...	-4.6	...	...	...	-0.5
South Africa	2530	1.3	35.9	3.7	1.3	5.6	-0.1	4.7	2.4	3.0	2.6
Nigeria	290	0.1	115.5	6.0	1.4	14.6	-1.0	5.9	2.7	1.7	3.3
Namibia	824	...	1.8	...	0.4	...	1.4	...	3.0	...	-1.0

Source: World Bank, *World Development Report, 1992* (Table 1 "Basic Indicators", p. 218-219 and Table 2 "Growth of Production", p. 220-221)

Table 13
Urbanization

	Urban Population % of Total			Urban Population Annual Growth Rate (%)	
	1960	1991	2000	1960-1991	1991-2000
Angola	10	28	36	5.9	5.4
Botswana	2	28	42	13.5	7.9
Lesotho	3	20	28	8.6	6.3
Madagascar	11	24	31	5.6	6.0
Malawi	4	12	16	6.5	6.5
Mozambique	4	27	41	5.4	4.8
Namibia	15	28	34	4.8	5.4
South Africa	47	60	66	3.2	3.2
Swaziland	4	33	45	10.5	6.7
Zambia	17	50	59	7.1	5.5
Zimbabwe	13	28	35	5.9	5.4
Developing Countries	22	37	45	4.0	4.0
Sub Saharan Africa	15	31	38	5.2	5.3
Industrial Countries					

Source: UNDP Report 1993

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9

Sustainable Development, Poverty Eradication and Debt: The Way Forward

Morris Miller

"The participants seemed to be unaware that they closely resembled the prisoners in Plato's legend of the cave, looking at shadows and believing that these were the real world."

—*The Economist*, referring to the leaders at a recent G-7 "summit meeting"—

"Much of what passes for future-think is an imagination of what the world would look like if it worked right. It is an imagination dominated by *now* which aims to imprint the *best of now* on the future. The trouble is that even *the best of now* is no longer satisfactory."

—William Bierenbaum—

No one who has participated in or read about the well-publicized Rio Conference or Earth Day 1992 with its involvement numbering in the tens of millions from over a hundred countries could doubt that there is a great deal of anxiety about the environment, poverty and debt and its accompaniment of intolerably high unemployment and civil strife. This anxiety is healthy but only if it is accompanied both by understanding and by commitment to take steps to ease that anxiety. Otherwise it leads to paralyzing despair.

Understanding calls for a hard-headed and soft-hearted look at reality, especially its dynamic; it involves searching that is prepared to dig deep for the root causes of the present state of affairs. Commitment calls for imagination and courage in devising ways to treat the troubling problems, first to ease pain and to avoid breakdown and then to go beyond that to attain the desired ambitious objectives defined in terms of growth, equity and qualitative features involving culture, political systems and environmental quality. Band-Aids and exhortations won't do if these causes are structural, that is, deep-seated and systemic. To make the necessary changes to the world we live in, there needs to be an appreciation of its complexities and contradictions so that we don't rest content with simplistic answers. To get out of a deep pit or, at least, stop the steep slide, the necessary measures must be commensurably bold. This may well call for a radical change of direction, of institutions and of power. This would undoubtedly ruffle the feathers of the powers-that-be who counsel patience and faith that some minor adjustments to the *status quo* should suffice. But to find the way out of the cave, it is essential that shadows are not confused for substance and wishful-thinking for hard reality.

What is that reality? There is a sound principle that says never do more than has to be done to achieve a given objective. This is the underlying logic of the policy advice of those concerned about the environment who advocate reliance on market solutions rather than regulations and more sweeping reforms. Their nostrums are familiar: "internalize the 'bad' externalities", "adopt 'full cost' pricing", "undergo structural adjustment" (an euphemism for fiscal belt-tightening and privatization) and such.

The problem with this advice is not its line of reasoning in the abstract but its incompleteness and insensitivity in reality, a fatal fault in as much as the proposed policies are not translatable into action or where they are — and to the extent that they are — the cure is worse than the disease when human suffering is factored into the equation. "Adjustment" is an innocent word covering a lot of sin. As a practical matter, there are three major flaws in the ointment.

First, the advice if followed does not go very far towards the resolution of the problem in all its complexity and magnitude, and therefore it is exceptionally difficult — if not impossible — to follow the advice on a significant scale since the implementation of such policies requires exceptional political, financial, cultural and other conditions if the intended results are to be realized. In a democracy, the requisite political conditions that theorists postulate hardly ever happen; in the case of a dictatorship where the politicians and their satraps can virtually ignore the social consequences of their actions, the political condition for imposing a structural adjustment policy and sustaining it may well exist.

The second fatal flaw of this line of policy advice is simply that the required exceptional conditions for the theory to work out in practice as intended in terms of growth (but without much regard for its equitableness) are rarely found in economies where the major players when making their investment and other decisions operate with a very short time horizon. Serious attempts to grapple with the current financial, environmental and social problems require that decisions be made on the basis of a longer perspective than the conventional payback period of five years or less that is the norm for the private sector decision-maker whether acting as an investor, a saver or a consumer.

Thirdly, when dealing with mega-issues of global scope such as apply to environment and poverty, there is a further limitation to the "market-based" approach that has already been touched on obliquely but bears emphasis, namely, that not enough weight is given to non-financial social/cultural objectives of structural adjustment programs (SAPs). Only on the basis of that broader goal can there be any hope that the day will arrive when the astounding achievements of our scientists and technicians are able to provide what they can deliver, namely, assuring everyone on this planet a chance for a "decent" life in terms of food, shelter, education, jobs and dignity. Just how much weight should be given to these intangible goals could be better assessed against the backdrop of the litany of woes that now besets our globe. If poverty eradication is an objective of the purveyors of SAPs — as it has been avowed repeatedly since 1974 when the World Bank's president at the time, Robert MacNamara gave his famous Nairobi speech and spoke of the "bottom 40 percent" of humanity that have been left behind to wallow in conditions of absolute poverty — then account must be taken of the fact that things have been moving in the wrong direction and course reversal is called for.

Many of the key global trends point to a situation that can be characterized as a global crisis or, if you will, a three-headed crisis of poverty, debt and the environment — defining "crisis" as the dictionary does: "a turning point, a condition that is unstable with an abrupt or decisive change impending". To list some of those trends can serve the purpose of highlighting the formidable nature of the challenge facing policy-makers. The following broad-brush sketch of prevailing trends can set the stage.

Immiserization: Each year over the past few years on average almost 20 million people have been dying from hunger and poverty-related causes. But that number is not very meaningful without some point of reference: this means that 40,000 persons are dying each day, or 1,700 per hour. And most of them are young children. Poverty has become endemic: if we take a rough indicator of "absolute poverty" incomes of less than $1 per day, over one billion people fall into this category (whereas a decade ago their number was estimated to be between 700 and 750 million), that is, about one out of every six persons on earth lives in a household too poor to obtain enough food to enable its members to do normal work. Lest you think that the numbers are inflated by the tragic events in Sudan, in Somalia, in Sarajevo and elsewhere, note that about 85-90 percent of this crippling condition is attributable to poverty, and only about 10-15 percent to what has been happening where ethnic conflict, droughts, earthquakes and such have occurred. In the last ten years, the average per capita income of the 40 percent at the bottom of the income scale has declined; as if they were not poor enough already, their incomes fell by one-tenth. At this rate, by the year 2030 twice this number of people will be existing (we cannot call it "living") in conditions of absolute poverty.

Polarization, or a widening of the gap between rich and poor: With few exceptions, the average per capita incomes of those in developing countries have been falling further and further behind so that today their average is 6 percent of the average per capita income in the group of countries that are classified as "developed" or "industrialized". To give you a sense of the dynamic, between 1960 and 1990 there was an eight-fold increase in the absolute difference in the income levels of the richest fifth and those of the poorest fifth. Lest we think this growing gap only applies to the comparison of the Northern industrialized countries with the Southern Third World countries, it should be noted that the industrialized societies each have their own "South" with about one-fifth of their citizens living in conditions of dire poverty.

The diminished capacity of developing countries to compete: The developing countries, with the exception of the newly-industrializing countries (NICs) and a few large continent-size ones, are dropping out of world markets, unable to compete. The so-called informal sectors have been growing and thereby weakening the formal sectors of their national economies. This trend has made it even harder for these countries to secure the finances necessary to address the social problems they face even as nutritional, housing and education standards decline. At the same time, there are insufficient funds to even maintain existing infrastructure and for research and the other things that are essential for improving productivity both on the farm and in the factory. Environmental considerations take a back seat under these circumstances.

Adverse implications of rapid population growth in the developing countries: The rate of population growth in the developing countries averages over 2 percent and, at the same time, is much higher than the rate in the richer industrialized countries where it averages half of 1 percent. It is extremely difficult to raise per capita incomes in the developing countries under these circumstances since a vicious cycle sets in. The pressure factor is intense: based on present population projections, food production has to triple over the next 50 years if nutritional adequacy is to be reached, if the "basic need" of food is to be provided to all. This means new lands being opened up and deforestation continuing both for cultivable land and for providing fuelwood which accounts for 90 percent of the energy used for cooking and heating for many millions outside the electrical grids — or even for those inside it who cannot afford to connect to the grid.

High energy requirements relative to income: Developing countries such as China are at a stage in their cycle of development when the ratio of energy required per unit of income is exceptionally high and, for a time, will likely go higher. If CO_2 emissions are to be stabilized, the amount of energy used per unit of income must be radically reduced. At present, about 95 percent of the world's energy is derived from fossil fuels, of which 25 percent of deposits are in the Third World, but over the next twenty years this percentage will rise to about 50 percent as countries such as China with rich deposits of "dirty" coal will do what needs to be done for the sake of growth. In the process, the action of these countries will more than make up for any conservation achievements of the industrialized countries, unless new environmentally-benign energy-using technologies that are economical are developed through research, then produced cheaply and sold or given away in numbers sufficiently large to make a significant difference to global carbon emission levels.

Prejudicial nature, volume and volatility of capital flows: The poorer developing countries, by virtue of their smaller foreign exchange reserves and lesser capacity to hedge, find it more difficult to contend with volatility of exchange rates than the richer ones. This volatility has been increasing and is systemic, having taken root over the last few decades beginning in the 1970s when the larger commercial bankers took part of their operations off-shore in order to escape the control of their central banks. The amount of foreign exchange now moving electronically between foreign exchange markets runs as high as $900 billion to $1,000 billion per day, an amount that is greater than the reserves held by the central banks of all of the developed countries put together. Furthermore, it is estimated that only 5 percent of this flow is for purposes of trade and only 10-15 percent for investment purposes. The speculative element is worrisome for its contribution to the volatility and the non-productive allocation of capital, but also for the lack of a controlling or braking mechanism in the event of a threatened panic and breakdown of the financial system. (In the dying days of the Bush Administration, the U.S. Treasury Secretary became worried enough to call for a commission to see what all this implied and, if the trends were to prove dangerous or disadvantageous, to see what could or should be done.)

The festering debt issue as a damper and as a threat: The debt issue has two facets, the foreign debts of the developing countries, and that of the U.S. and other industrialized countries. Both are still cause for worry.

Regarding the first, the fears engendered by the "global debt crisis" of 1982 have abated though the foreign indebtedness of the developing countries has doubled since 1982 so that today it totals about $1,400 billion. Debtor countries continue to be pushed to pay down their debts to the limit of what they can tolerate — and beyond. The debtor countries on average have only been able to provide their citizens with about 2,500 calories per day on average, a figure that should be compared to the minimum of 3,500 per day that a healthy body needs. As one result, an estimated 500,000 women die in childbirth each year due, in the final analysis, to the lack of proper nourishment, clean water, sanitation and adequate health facilities. Their economies have long been starved of the capital needed to fund infrastructure, education and health, as well as environmental programs. Unable to maintain or replenish their capital, including "human capital", they have effectively had to eat into their capital base, cannibalizing their economies and foreclosing their people's future. The irony of the SAPs is that they accentuate this process and ultimately pose the danger of widening the gap between the richer and poorer countries to a point that may be irreversible.

At the same time, the foreign indebtedness of the United States has been climbing to astronomic heights, a trend that has had profound implications for global stability, the rate of growth of incomes and available jobs, and — above all — the capacity of the U.S. to exercise a leadership role. The United States must be willing and able to exercise the requisite leadership for the "international public good" (IPG) if the global community is to eventually enjoy a more humane environmentally sensible type of development. Much remains to be said and done in addressing issues of leadership.

The implications of all this on poverty eradication, environmental quality and other vital issues are quite apparent. It is important to recognize them as a combination of factors and trends that constitute the context in which policy must be made with respect to reducing poverty and improving the environment. There is a relationship between them that comprises a system so that if enough of the key trends are moving downward over a long enough period of time, the indicators point to systemic failure. Under these circumstances, a coordinated global approach becomes necessary. This situation calls for leadership and a collective will to take whatever steps are necessary to succeed, however painful.

This once again points to the futility of the SAPs when applied to individual countries without at the same time proposing and helping to implement a program of structural adjustment for the global economic and financial system. This would mean, in effect, a radical shift in the institutions and policies of the industrialized countries, especially the Group of Three (G-3, including Germany, Japan and the United States). The richer countries need to transfer capital and know-how to the poorer ones or the gap will widen and globally-relevant environmental actions will weaken. As a symptom of the global malaise, it is difficult to imagine a country such as Canada with a debt approaching $700 billion and annual deficits in the order of $45 billion doing what needs to be done in this regard.

If policies must be grounded in reality, it is pertinent to examine some key features of the global reality as it is presently operating as a system, with consequences for equity and environment as previously discussed. The following discussion describes features of the global condition that need to be changed if the environmental and equity objectives are to be realized in whole or in part.

Firstly, the flow of capital that now goes from the poorer (mostly heavily indebted) countries to the richer ones would need to change direction and the positive flow would need to increase substantially. This raises the issue of the amount of capital that would have to be allocated to achieve the kind of global development program that is more equitable and environmentally benign.

In the case of the Third World countries, if we assume a developmental target of 2 percent growth in per capita income and if we also assume that 20 percent of their capital requirements will have to be met from foreign sources, it is estimated by some respectable modellers that $120 billion per year is the minimum annual capital transfer required to be given or loaned or invested. This is the amount after we reverse the direction of capital flows that now goes from these poorer countries to the richer ones — or rather to the banks in the richer countries. To this must be added the capital requirements of Eastern Europe and the former Soviet republics, an amount that is estimated to run annually in the order of

$80-100 billion. So far, the total is, therefore, in the range of about $200 billion or four times the amount of official development assistance or ODA.

How realistic is it then to expect that capital would be forthcoming to meet the Rio Conference's Agenda 21 list that amounts to a minimum of $75 billion annually? Some would raise the environmental targets to more ambitious levels making the likely shortfall even greater. For example, if the targeted reduction in greenhouse gas emissions should be 60 percent, then one reliable modeller tells us the necessary outlay would amount to as much as $300 billion, and even a more modest target of 40 percent calls for expenditures of about $100 billion. We don't need to use our calculators to know that these sums are the stuff that dreams are made of. Down here on earth, this is an impossible dream.

The level often suggested is based on that achieved in the post-war Marshall Plan, that is, 2-3 percent of the GNP of the United States. In current dollars, this flow would amount to over $700 billion. The target pledged at the outset of the so-called "development decade" of the 1960s was three-quarters of 1 percent of the GNP of the industrialized countries. It now runs at about one-third of 1 percent. Of course, if the money is to be well-spent to raise the productivity of the recipient countries, they would have to get their houses in order, reducing corruption, practicing greater economic and political democracy, improving the efficiency and effectiveness of government operations, and increasing the budgetary allocations to education, health and environmental concerns. This calls for a commitment to aid on the basis of morality as well as "good business in the long run".

Secondly, the real rate of interest which determines the cost of capital is now at an historically high and unsustainable level and needs to be reduced to a level no higher than 2 percent. The rate at which Canada and other countries in their early stages of development were able to borrow averaged about 1 percent. This low rate reflects the fact that developing countries need to invest in education and health and infrastructure that are sectors with returns measured over considerable periods of time (i.e., generational time) and in large part in non-financial terms. Thus when countries in the early stages of development borrow at rates above 2 percent on average, the repayment is generally reduced by defaults, delays and special crisis arrangements to no more than 1-2 percent. This is happening now in the denouement of the 1982 debt crisis as incapacity of debtors to pay forces the creditor banks to accept reality and settle for a fraction of the outstanding loans.

The key to achieving sustained lower real interest rates in the 1 percent range lies in the first instance with the G-3 nations that have the overwhelmingly largest economies. The United States has yet to become a net contributor to the global pool of capital. There will be a pause while the United States gets its act together, while Germany digests what it has swallowed in East Germany, and while Japan gets over the shock of its bubbles bursting.

Thirdly, trade barriers imposed by the industrialized countries against Third World exports that are high (and higher than those imposed on the exports of other industrialized countries) would need to be lowered, and the terms of trade that have been worsening for the Third World countries would need to be improved. This would go beyond what is promised and can be delivered in regional trade agreements such as NAFTA and in the GATT's Uruguay Round. One step in improving the global trading system might entail the revival of the proposal put forward at the Bretton Woods meeting in 1944 for an International Trade Organization (ITO). But, pending all that, one thing should be clear: it does no good to exhort countries under SAPs to find economic and financial salvation in pushing greater exports if no country will import commensurably. The sheer pressure exerted by this drive to export forces prices down (i.e., the "fallacy of composition") and they are already at the level of the Great Depression of the 1930s in real terms. Meanwhile, the trade barriers the richer industrialized countries have imposed on the developing countries are higher than they are against other industrialized countries. The rule of the jungle still operates. It is a chimera to imagine that a success in the current GATT negotiations will do enough to right this balance.

Fourthly, global-scale initiatives of a down-to-earth nature would need to be devised and implemented to promote environmentally benign energy, education and other essential elements of a sustainable equitable development program. With respect to energy, a start could be made by undertaking a feasibility study to examine the idea of establishing an international consortium analogous to the Consultative Group on International Agricultural Research (CGIAR). In the last forty years while population has doubled, food production has tripled, in large measure thanks to the work of CGIAR which led to the introduction of new varieties of wheat, rice, sorghum, yam and other crops. CGIAR also funds the International Food Policy Research Institute (IFPRI) in Washington. The consultative group has proven to be an effective way of utilizing whatever donor and foundation funds were available for agricultural research and related extension programs. Why not do something similar for energy and the environment? Perhaps it could be called the CGIE^{2}R, the square standing for "Energy" and "Environment" that are in such close symbiotic relationship.

With respect to education and training, new approaches are required as the educational gap between the developing countries and the industrialized countries grows wider with each advance into the electronic-information age. Instead of conventional technical assistance that involves moving persons with expertise across oceans, why not rely upon the movement of electrons where they can do an equally effective job? "Distance education" technology is sufficiently advanced to simulate a classroom (i.e., the interactive classroom). The potential is beyond imagining, especially when the need for technical assistance is so great and the need to get a bigger bang for the technical assistant buck is even greater.

To date, the goals for the global economy — in terms of poverty eradication, debt reduction and improved environments — that have been articulated by political leaders are hardly inspiring. They can be summed up in a phrase: "return to normalcy plus". The plus is the new factor of international protocols with respect to a host of environment goals and institutional arrangements that are to be implemented without all this necessarily calling for substantial changes in the prevailing global economic/financial system. It is, therefore, not clear what "normalcy" means as a goal since the present poverty, debt and environmental crisis were incubated within the present global system as it had been functioning from the early 1970s, that is, from the time when the Bretton Woods system collapsed.

With that collapse went the rules of the game for international economic relations that had prevailed for a quarter of a century after the end of World War II and had wrought impressive results in terms of global growth of trade and incomes and in terms of income convergence between the developing and the industrialized countries. Since then, the record is less impressive as the exaltation of de-regulation, privatization and greater reliance on market forces has made the global economy system more volatile and fragile and — in terms of equity and environment — more disastrous. It should be clear that "market forces" are, at best, far from adequate to achieve the goals of an environmentally desirable and much more equitable world. The involvement of government is needed, but in what form and scope? The attempts to answer this question put the focus on the institutions of global governance and a further question: Can the present system of international agencies be made more effective? If so, how?

There is need for leadership with vision and courage to forge new institutional arrangements that would re-structure our global system to slow down and reverse the immiserization, polarization and other deplorable trends. Cooperative leadership is needed to provide the "international public good" (IPG) of stable interest and exchange rates, low real interest rates and so forth. The Bretton Woods arrangement, underpinned by the ethos of the IPG, worked well for a quarter century after 1945. The next quarter century has been marked by an exceptional range and speed of exchange rate gyrations accompanied by an exponential growth in the volumes of capital transfers moving electronically between money centers beyond the control of any central bank or consortium of central banks. The main burden has been borne by the poorer countries that are falling behind in terms of income, educational levels and other productivity determinants to a point that may be irretrievable and will then be tragic beyond calculation. It will be tragic in human terms and environmentally. Accordingly, the objective of the new rules of the game of traded and capital movements would have to be not only development but also equity and ecological balance, with new forms of international governance to be devised and brought to life.

Interdependence is now so great that even the dullest person can understand the need for nations to cooperate whether on issues of economics, finance and the environment. Glorified conferences such as that at Rio are not much help when they become expensive, highly glamorous events, the main products of which are grand-sounding cliché-ridden pronouncements and manifestos. Coordinated approaches are not very likely to get high-profile publicity when the products are "nuts and bolts" initiatives such as a $CGIE^2R$ and distance education programs. But they can begin the process of change by forcing mechanisms of cooperation and by their results as highly pragmatic concrete programs. They need the support structure of the United Nations system with its specialized agencies, international financial institutions and the NGO community, but that system has to be rationalized to mold its structure and mode of operations to the current challenges, not those of half a century ago.

At the same time, it is essential to recognize the nature and depth of the crisis, its root systemic causes and the obstacles to change that take the forms of inertia, risk aversion and vested interests. They must be understood, the better to overcome them. Without that understanding, the way will not be found to a future that is equitable, safe and environmentally healthy. Nor will it be found on the path of the quasi-religious zealotry that sees the road to salvation as being paved with private bricks rather than as a mosaic.

10

Endogenizing Structural Adjustment for Sustainable Development

Rehman Sobhan

Introduction

In most third world countries (TWC), policy reform agendas associated with structural adjustment have been exogenously driven because of the monopoly over global resource flows held by the World Bank and the International Monetary Fund, together known as the Bretton Woods institutions (BWI). This extends to control over official development assistance (ODA) and commercial flows including restructuring of commercial debt incurred by the TWC. Both bilateral donors of ODA and banks holding commercial debt have surrendered leadership to the Bank and Fund, looking to them for their seal of approval based on adherence by the recipient countries to specified reform agendas as a precondition for commitments of new resource transfers or for rescheduling commercial debt in particular countries.

The Background to Bretton Woods Hegemony

The contemporary hegemony of the BWI over resource transfers to developing countries, and more recently the formerly socialist countries (FSC), originates in the exogenous shocks administered to all economies by the global economic system at the end of 1979 which coincided with regime changes in the United States and the United Kingdom. The new regimes led by Ronald Reagan and Margaret Thatcher exercised an evangelism committed to down-sizing government in the command and direction of their economies. This perspective, mediated by strategic compulsions for the G-7 countries to recapture the initiative from OPEC in influencing the momentum of global development, led to the Reagan administration initiating a severe domestic deflationary strategy at the beginning of the 1980s. This strategy was designed to weaken the influence of OPEC by both reducing the demand for energy and reducing the value of their dollar-denominated structural capital surpluses invested in the international capital market. The deflation in the USA, originating in the rise in domestic interest rates, initiated a global recession and raised the cost of third world debt accumulated in the era of cheap capital in the 1970s. This debt accumulated as country after country found its debt liabilities suddenly increased and their capacity to service this debt constrained by the global recession which reduced the demand and price of their exports. Commodity exporters were particularly victimized by this crisis. The contraction of commercial lending meant that many TWC, driven by debt service obligations, were converted into net exporters of capital. The only relief on offer came from ODA flows and/or rescheduling of commercial debt offered by the Bank and Fund.

This unique authority vested by both aid donors and the commercial banks granted extraordinary power to the BWI to dictate the policy agendas of their clients. The manifest weaknesses and crisis conditions attending severely resource-constrained TWC made them particularly vulnerable to BWI pressures. The rapidly declining fortunes of the formerly socialist countries, their loss of self-confidence and eventually their collapse created an ideological vacuum where straitened and demoralized TWCs remained particularly receptive to the stabilization programs of the IMF and the structural adjustment programs demanded of them by the World Bank as the price for financial intermediation.

Misdiagnosis of the Crisis

While the Bank and Fund had always sought to play a proselytizing role in influencing third world policies, political signals reaching the World Bank from the Reagan White House invested a certain messianic quality to the external push for reforms in developing countries. The Bank and Fund appropriated a monopoly of the truth on development policy where they assumed that both their diagnosis of the problems in the third world and their resultant reform prescriptions were beyond challenge. This imperial vision was fostered by the financial vulnerability of most third world countries and their limited professional capacities to challenge the intellectual presumptions of the BWI. Thus such economic reforms in most countries tended to be externally designed, with a minimal sense of national ownership over their conception and implementation.

This loss of control over the reform process in most developing countries was itself a fatal constraint upon the efficacy of the reforms. However the misdiagnosis of the problems, the misspecification of the solutions and the indiscriminate and insensitive way in which the reforms were pushed through by the BWI severely compromised the reform process. It was assumed that the problem in all third world countries originated in budgetary indiscipline and deep-seated structural maladjustment in the economy. It failed to see how far the problems of particular countries owed to short-term exogenous shocks originating in a global recession which essentially demanded short-term stabilization measures underwritten by compensatory finance. By assuming that every country needed to downsize its state sector, deregulate its prices and cut down on interventions supportive of vulnerable groups, it equated the problem of Brazil with El Salvador, Nigeria with Chad and India with Nepal.

The least developed countries which have lived with structural budget and external account deficits, financed largely by ODA inflows, were compelled to pursue goals of reducing their deficit-GDP ratios without prioritizing measures to raise domestic savings. Such deficit-reduction policies contributed to declines in both public and private investment, weak aid utilization and economic recession. It is not surprising that most such countries across the world have experienced both economic stagnation and structural atrophy through the last decade of reforms.

The Disempowerment of the State

Most of the least developed countries, characterized by an underdeveloped entrepreneurial class, had invested a special responsibility on the state to influence both the momentum of development and the process of structural transformation of their mono-crop economies and export capacities. The ideological disempowerment of the state which premised the BWI reform agenda, the faith in private enterprise which in many countries only existed at the household or small-scale level and the belief that all necessary signals would originate in the market contributed to the stagnation of the national economy rather than to the liberation of the energies of an as-yet embryonic private sector.

The BWI fostered the myth that the East Asian miracle, associated with the economic transformation first of South Korea, Taiwan, Singapore and Hong Kong which then extended itself in the 1980s to the Southeast Asian economies, was a triumph of the market and private enterprise. The catalytic and, in some areas, dominant role of the state in all these East

Asian miracles (excluding Hong Kong), the specific features of their history, socio-economic structures and the importance of the governance variable were played down so that quite misleading lessons of the dynamics of the East Asian miracle were conveyed to other developing countries. Little attention was given to the transforming role of the state in Brazil, Mexico, even India and Pakistan in the 1950s and 1960s and conclusions were only drawn from the crisis situation facing these economies at the beginning of the 1980s.

This conscious disarticulation of the state and exposure of allocative choices and levels of capacity utilization to the market left the weaker third world countries particularly vulnerable to destabilizing economic forces operating beyond their control. Market signals, derived largely from the behavior of the global economy were weak in their reach to developing countries, even distorted in many cases. Where the supply response to these signals was structurally weak, a process of immobilization came to characterize the economic fortunes of many countries. The weaker ones lost virtually all control over their economies and were buffeted by crises, both natural and external. Such vulnerable countries retained little confidence in their capacity to react to these crises by redirecting demand or restructuring supply through direct intervention by the state.

The Implications of an Exogenous Reform Agenda

The erosion in the capacity of many third world countries to direct their own policy agendas meant that in country after country, such reforms became the creatures of the BWI. Little attention was paid to the involvement or commitment of the third world governments to these reforms where their silent acquiescence was taken as a sincere commitment to the reform process. The opportunistic element in the embrace of this reform process by many regimes was only recognized during the implementation phase, rarely in the conception process.

In the early 1980s, where many third world countries commanded weak representative credentials, no attention was paid by the external architects to the popularity of these reforms. In many countries, reforms designed in consultation with the BWI were written up by externally sponsored expatriate consultants and the primary approving authority of the reforms was the donor's aid consortium. Parliaments in the developing countries were rarely consulted and if thus consulted, only subsequent to obtaining donor approval, so that the views of the electorate counted for little in the design of the reform process. As and when parliaments and regimes assumed a more representative character, serious contradictions surfaced between the executive and legislative arms of government. Reforms designed by the BWI and negotiated with the bureaucratic arm of the executive tended to command little support even in the cabinet and in the ruling party, let alone in the elected legislature. Civil society was never consulted in the reform process. Thus the entire reform agenda remained non-transparent, devoid of public support and exposed to attack in parliament, press and in the streets. This eroded the credibility of the government, the reforms themselves and either led to the dismantling of some reforms or their dilution. Where reforms were kept on track, particular regimes had to compromise their democratic character and, not infrequently, forcibly suppress dissent to the reforms.

The weakness in conception, externality of the design and failure to build a political consensus behind the reforms doomed most reforms if not to outright failure, then certainly to realizing only a limited part of their goals. The outcome of weak growth in investment and output in most third world countries is thus not due to failures of intent and implementation but originates in the flawed origins of the reform process. Only in very rare circumstances have the reforms promoted significant development and thus proved sustainable. Even here, success stories (e.g., Chile) are few and far between, where the sustainability of the reform agenda may have owed in no small measure to the authoritarian, even homicidal features of the political system which ruthlessly suppressed any possibility of challenge to the reform process.

The weak base of the reform process in most developing countries was further compromised by the failure of the reform agendas to take account of the exogenous impulses which in the first place drove most such economies into accepting reforms. Through most of the 1980s, net flows of external capital to third world countries remained negative, particularly for the highly indebted countries. They found themselves competing for global structural surpluses with the United States, whose twin deficits on external and budgetary accounts absorbing close to one trillion dollars during the last decade led it to become a black hole in the economic universe. The failure of the world's largest economy to structurally adjust itself, to eliminate its deficit, and open its markets to adjusted third world countries constituted a fatal flaw in the global reform process. The non-reciprocal nature of adjustment reforms which placed the entire burden of reform on the third world while leaving the developed countries free to appease their own political constituencies by compromising their own reform initiatives, thus added the element of injustice to the flawed nature of the reform design and process. Until the third world can again become a sizable net recipient of global resource flows and an element of symmetry derived from a global dialogue is introduced into the reform process, many developing countries appear doomed to economic stagnation.

How to Endogenize the Reform Process

The macroeconomics of an endogenized reform process demand measures which raise the rate of domestic savings and open up domestic markets by liberating the purchasing power of the poor majority of third world countries. The growth impulses of this process naturally depend on both the structural features and the population of these countries. The opportunities open to Bangladesh in endogenizing its growth process will not be open to countries such as Chad or Benin. However, it must be emphasized that for any developing country (especially for those with larger populations), policy agendas which can provide employment, enhance productivity and generate incomes for the poor majority of their populations remain central to the reform process.

The macro policies of reform demand a rethinking of the role of the state or in many cases its reinvention. The state must assume both the responsibility for reform by building a political constituency behind the reform process and drawing upon domestic professional capacities, which will naturally vary widely between countries. Third world countries with weak professional capabilities should be assisted to draw upon the services of professionals from other developing countries who have direct experience in the design and analysis of policy reforms sensitive to the needs of such countries.

Such an indigenously designed reform agenda must be made a precondition for external financing where donors, particularly the BWI, must not impose their own design by arguing that the recipient country is not taking charge of its own reform process. If a third world country cannot design a reform which it can own, it should not be given aid. The indigenously prepared document on the third world country's reform program should provide the basis for comment by the BWI and dialogue with the donor consortium. However, even this dialogue must not impose anything on the recipient whose acceptance of constructive comments from donors on its own agenda must be freely given.

However, prior to consulting with donors, the country must present its reform package to parliament and beyond that to civil society. An intensive process of public dialogue should draw out areas of criticism, elements of public support and opportunities for political compromise to maximize the consensus behind the reforms. This process of public dialogue must be serviced both in parliament and civil society by well-informed professionals who should be made party to the dialogue process. Such professionals should be invited to give testimony to parliamentary committees discussing the reform and should be inducted into specially designed institutions to promote policy dialogue within civil society. Such institutions should draw into the discourse the political parties, business community, NGOs, professional organizations and functional bodies such as trade unions and peasant organizations. Reforms designed through such a process of dialogue will carry both credibility and sustainability and will build up constituencies which actively identify with the reform process.

Building coalitions of support behind the reforms demands that reform designs must address the concerns of the deprived segment of the population. In democratic systems in most third world countries, this class is the majority and its support is crucial both to the reforms and beyond it to democratic institutions. To reach this class, political parties will have to restructure themselves not only to empower this class as voters but to also bring them into representative institutions particularly at the local level.

In directly reaching out to the poor, NGOs should be more effectively utilized. Political parties, including the government, should see NGOs not as adversaries but as part of the enabling institutions of civil society which both develop conscience and mobilize the poor. Just as NGOs can mediate relations between the poor and the state, so should they now mediate links between the poor as producers and consumers with the corporate sector through the market. The NGOs can use their extensive organization and access to the poor to redesign their institutions from welfare-oriented delivery agents of aid into organizers of the poor, thereby linking the informal with the formal market.

The skeleton of an endogenous and hence more sustainable reform process for third world countries might be articulated as follows:

- Where they exist, parliamentary committees serviced by a body of independent professionals should be utilized to discuss both the direction and specifics of reforms. Public hearings on particular reform proposals where evaluation reports to the committee are discussed with outside professionals should be institutionalized.
- Every developing country should support the emergence of civil institutions to promote policy dialogue between ruling and opposi-

tion parties, bureaucrats, business, NGOs, and functional groups and donors. These institutions should be used to also promote multinational dialogues between the third world and with particular developed countries so that views and experiences across countries can be assimilated and put to use in designing the reform process.

- The development agendas of third world countries should be made more endogenous and derived from gaps in knowledge and analysis originating in the dialogue process. This will enable research to originate in the felt needs of both policymakers and civil society and integrate researchers directly into the reform process.
- Reforms should be built upon a social contract originating in the consultative process. From the outset, this contract should spell out both costs and benefits as well as those segments of society who will pay the costs and reap the benefits of reform. It will also define responsibilities in the implementation phase and mechanisms of correction along the way.
- Just as the reform process must rest on a domestic social contract, it is worth thinking about a global contract on reforms of the variety suggested by J. Stoltenburg when he was Foreign Minister of Norway. This document must be negotiated in the aid consortium meeting where the concerned third world country spells out both the content and the planned outcome of its reforms. In turn, the contract must specify commitments of both ODA and commercial capital on loan and equity accounts, and specific measures for ensuring access to the domestic markets of the contracting developed countries for export of goods and services from the contracting third world countries.

Conclusion: A Time for Rethinking

Can such a major redefinition in the reform design and process be envisaged? It is suggested that the lingering crisis both in the developing world and the global economy may have made all parties to the reform process more sensitive to such ideas. Reforms have not worked in many third world countries as demonstrated by the economic stagnation, social crises and political chaos which is threatening not just nascent democratic institutions but on occasion even the viability of the nation state. No longer can the BWI reformers speak with the conviction which underwrote the evangelism of their reform agenda in the 1980s. They themselves have begun to rethink the process and take into account the significance of domestic governance and global events influencing the outcome of reforms. It is hoped that they have also begun to draw less self-serving conclusions from the experience of the East Asian states which can provide more meaningful messages to other developing countries. Architectonic shifts in the global scene, where the United States has emerged as an economy in decline, the formerly socialist countries face social disintegration rather than regeneration as a result of the reforms, nation states are in crisis, and a new locus of power is emerging in East Asia, suggest that the time is now ripe for a major rethinking of economic reforms based on endogenizing the reform process itself and establishing greater symmetry in its incidence at the global level.

11

Building Links Between the Legacy and the Vision

Comments by Ben Turok

Analysis of orthodox models of structural adjustment and their implications for social organization and human development proves to be an inexact science. Much of the discussion on the topic is colored by ideological tendencies and the whims of current political fashions. Just as there is a myriad of conceptual interpretations on the design and implementation of adjustment programs, so is there a rich range of evaluative critique drawn from actual country experience and the sectoral response (or lack thereof) within economies undertaking reform.

Having participated in discussions during the first day of the IISD conference on sustainable development, poverty eradication and macro/micro policy adjustment, Ben Turok was invited to provide a summary of the preceding presentations and discussions, toward a synthesis of thought which might provide further insight for the direction of discussions through the second day. This chapter seeks to capture the fundamental points he raised in making his comments. His thoughts led to a distillation of discussion around the concepts of "legacy", "vision" and "process" which proved to be useful in structuring the remainder of the conference discussion. This set of ideas also provides an operative framework for further considering the nature of policy formulation and the key variables influencing the transformation of economies and economic processes toward the realization of sustainable development.

Lessons from South Africa

Given the sharp societal polarization, rapid economic change and profound political transformation currently underway in South Africa, Turok sought to extrapolate relevant aspects of that context and apply them to the broader discussion at hand. As with the specific case of South Africa (which he called a case *in extremis*), he suggested that the international scenario more generally underscores the need for some kind of fundamental transition of the world system, the basis of which is inequitable and unsustainable. Sifting through the discussions of the present assembly for the conference, he identified key concepts which define the present situation and suggest a way forward in the pursuit of policies more supportive of the human potential and the quest for sustainable development.

The legacy is that which we currently experience, the harvest of the consequences of our decisions and actions. It is the sum total of past and present, representing the realization of policy decisions, programmatic initiatives, and social, economic and political processes. The legacy can be viewed from a local, regional, national or global perspective. Seen on a world scale, the legacy which we currently encounter is one characterized by a lack of equity and a failure to apply the principles of sustainable development. The negative trajectory on which we travel toward an ever more unsustainable legacy for future generations cannot be supported in the long run, making the need for profound social and economic transformation all the more urgent.

The vision represents that toward which we strive. Often, the exact nature of this new reality is unclear. Fundamental consensus can be found, however, on the desirable characteristics of this new social order. It would be an equitable society which satisfies the basic needs of humanity, ensuring survival, healthy human development, and the expression and free pursuit of the full range of human aspirations. It would be participatory in nature with people engaged at the center, active in the actions and decisions that affect their lives and shape the society in which they live.

The process represents the means by which we seek to transform our current experience of the legacy into the realization of the vision of a more just and equitable society. Within the present context of the conference, this caused a fundamental question to be raised: In pursuit of economic stabilization and restructuring, is the process defined by the models of the Bretton Woods institutions the sole option? Given the evidence, especially among adjusting economies in Africa, there is cause to question the adequacy of such models. In some cases, the medicine required for the economy's cure is often perceived to be too harsh; it often does not work well, and may require a second medicine to treat the effects of the first. Often perceived as imposed from outside, from "above" (in terms of international hierarchies), such a process is the antithesis of citizen participation and local engagement in decision-making, elements of empowerment which are considered fundamental to sustainable development. Perhaps there is the need for a complete re-thinking of the process, incorporating a fundamental transition in the definition of the transformation. This would imply a change of levels in order to achieve such transformation, and would require overcoming major obstacles embodied in the vested interests of the present order.

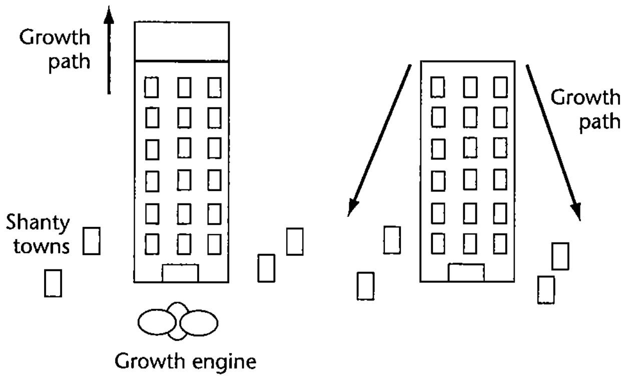
Turok noted that the Institute for African Alternatives is seeking to determine how we can promote such transition with transformation. Some will argue that such an approach amounts to little more than incremental change, working around the edges of the present legacy without fundamental change at the core. Turok disputes this. In relation to South Africa, this is not seen as incrementalism; apartheid clearly cannot be reformed incrementally. The present extreme polarization in South Africa is not sustainable. Inequality is profound and seen to be the basic issue; beyond the distribution of incomes, this measure of inequality extends to distribution of wealth and subsidy more generally throughout South African society and economic structures. The current system is one of parasitism and subsidy, following a developmental path opposite that of sustainable development.

The Skyscraper Economy

To illustrate his points, Turok presented the analogy of the skyscraper economy. According to this model, the South African economy as currently operating can be thought of as a skyscraper surrounded by shanty towns. The rich elites (i.e., the small minority of whites living in enclaves) live all their lives inside the skyscraper, benefiting from the production processes without ever having to confront the economic and political realities of life outside the skyscraper.

According to the orthodox models of growth-centered economic development currently applied in the country and supported by the international financial institutions, the engine for growth in the economy resides beneath the skyscraper (as shown in the left side of the figure). As it operates, it propels the skyscraper upward to ever greater heights in a unidirectional, vertical direction. The model assumes that, while growth will clearly benefit those already inside the skyscraper most immediately, continued economic expansion would eventually lead to a general improvement in the economy as a whole. Direct benefits are realized only by those living in the skyscraper, who can have all their needs met inside without ever needing to descend to the ground level outside. The inequitable nature of this economic superstructure in South Africa is exacerbated by the extreme concentration of wealth; in the country, four holding corporations control up to 85 percent of the economy. Those living on the ground outside the skyscraper receive neither direct nor indirect benefits in real terms as the skyscraper grows taller.

The Skyscraper Economy



Given the unsustainability of such a model for growth, Turok argues that the skyscraper economy will eventually topple over. As an alternative, he suggests that there needs to be a way to draw the momentum for growth from the units on the ground outside the skyscraper (i.e., from the shanty towns and rural areas of the country). The lateral expansion of benefits, rather than their vertical accumulation and concentration, will yield a broader and more sustainable base for future development (as shown in the right side of the figure). He faults the model of the World Bank and the IMF, according to which it is believed possible to kickstart the skyscraper economy; such a strategy will not lead to equity or to increased popular participation in the economic and political life of the country.

Rather, he cites the need for a general gearing up of the economy in all its array of activities and participants. Enterprises, capital and resources must flow out into the rural areas. Efforts must be made to promote not only the satisfaction of basic needs but also the aspirations of the people. There must be greater respect for personal and societal aspirations and for the construction of hopes for the future. Development is not founded on a system of hand-outs but rather is a process that is productive. It requires building political opinion and cultivating the exchange of information and ideas. Public opinion matters a great deal, as the World Bank has come to understand. There is a universal need to build public opinion and engage public discourse throughout the world on local, national and international levels.

There is also the need to redistribute resources and reallocate public funds; in South Africa, this means transferring existing, highly concentrated funds from the skyscraper to the townships. The skyscraper itself is a monstrosity, perpetuating a "lifestyle South Africa" which is economically, politically and environmentally unsustainable. Controlling the amount spent by elites on luxury consumption could in fact go a long way to redress the country's balance of payments problems. In this sense, the rich and the current lifestyle they enjoy are actually a threat to the economy's sustainability. There needs to be an increase in the creation of productive capacity, through which the poor can be incorporated actively as an important resource to economic and social development. Such a reallocation model is inherently more sustainable than the current skyscraper model, and needs to be based on a developmental state that is enabling rather than repressive. Mobilization is important in order to tap the energy of the people outside the skyscraper, which will in turn produce GDP growth.

The following extended quote from an essay by Turok seems to speak to some of the issues he covered in his comments at the conference. The momentous events underway in South Africa can perhaps serve to focus our concentration on the requirements of the transformation process, with the country serving as a laboratory for experimenting with redefinitions of growth and development processes which can yield benefits for us all in the pursuit of sustainable development.

> The classical view of development is that an economy must generate surpluses which can be invested productively. Often this meant restricting consumption to increase investment and the state was allocated this role, especially in centrally planned economies. More recently greater emphasis has been places on the pattern and rate of accumulation. The state is supposed to have an accumulation strategy which is characterised by the kinds of social and economic investments it makes or encourages. It is vital to know how these are financed and who decides.
>
> These matters have not been carefully defined in the typical neocolonial economy in Africa. Accumulation by the state and by the classes in and around the state has been misdirected and misallocated without serious reference to how the economy might develop. Instead, the state's preoccupation has been with resource extraction, social control and the personal empowerment of its managers, and this can be only be done by authoritarian rule. Nzongola Ntalaja argues that many African rulers have virtually privatised the state itself

in the sense that state resources, including state enterprises are used, not to promote the public good but to serve private interests. (Presidential Address ASA, Oct 1988).

The distortions brought about by these activities are serious. In the past decade in particular there has been massive capital flight, not only by foreign transnational corporations, but by the state and the elite. Additionally, vast resources have been wasted on useless prestige projects — modern hotels, party headquarters, ill-conceived industries and enterprises which bear no relation to the real needs of the economy. Furthermore, elite consumption of luxuries has been a continuing drain on resources. In none of these instances has accumulation fed back into the economy productively or benefitted the people as a whole.

The central problem of these economies is that the masses do not participate in expanding the economy in accordance with their immediate needs nor is there an incentive system, political or economic, which would drive in that direction.

On the other hand the argument that democracy is necessary for development has yet to be proven rigorously. Too often it is a mere cliché used rhetorically. The problem is that it is patently obvious that some of the most rapid strides in growth have been achieved in societies with the worst records of economic exploitation. South Africa, for instance, made enormous strides on the basis of a forced and cheap labour system which laid the basis for industrialization.

It is quite clear that the World Bank does not object to cheap labour; on the contrary it is one of the pillars of structural adjustment.

Nor has the contemporary African one-party system been favourable to a fair wage economy. Rather, labour has been co-opted and coerced in the spirit of capitalist accumulation, though the beneficiaries have not always been capitalist entrepreneurs but more often parasitic bureaucratic power groups at the top.

An undemocratic system can generate growth in the short term but it cannot produce development for the people as a whole since this requires people's acquiescence and positive participation, though this is not an easy case to establish. But it is surely enough for us to justify empowerment and democracy on the grounds of equity and humanity.[36]

36 Ben Turok, "What Does the World Bank Mean by 'Empowering Ordinary People'?", in *The African Response: Adjustment or Transformation*, proceedings of a workshop by the Institute for African Alternatives convened in Addis Ababa, Ethiopia, January 1991, pages 54-55.

Part 4

Defining Directions for the Future

12

An Overview of the Issues

Kari Polanyi Levitt

In the course of three intellectually stimulating days of animated discussion on structural adjustment, poverty and sustainable development, the conference participants brought to the table different perspectives arising from the diversity of their experiences. It is helpful to specify the problematic addressed as the relationship between: market-driven policies of micro-macro adjustment conforming to the "Washington Consensus"; poverty creation, poverty eradication and people-empowerment; and the pressures of resource-intensive economic activity on the capacity of the biosphere to renew its life-giving powers. While a clear consensus on the issues has yet to be defined, a variety of suggestions toward a research agenda for future action were generated.

The construction of "sustainable development", as crafted by Brundtland, has emerged as a politically convenient compromise between Northern support of structural adjustment and global measures to contain environmental degradation, and Southern concern with development and poverty eradication. It has been said that "sustainable development" is a flag of convenience under which many ships sail, and it is this catholic scope that goes a long way to explain its power and popularity in debates about development.

This is not to suggest that resource depletion and environmental degradation are exclusively Northern concerns. The differences lie in the priorities accorded to the environment, the inescapable reality of massive poverty in the South, and the economic, political and social pressures associated with IMF/World Bank adjustment programs in indebted developing countries. It has been said that the North "restructures" while the South "adjusts" to the restructured international economy.

Interestingly, where ecological intervention in the South has transcended trendy middle class fashion, or compliance with environmental conditionalities attached to official development assistance, endogenous social movements have pioneered actions for the protection of the livelihood of rural communities, where survival is dependent on the traditional (pre-industrial) balance between human livelihood and land, forest, water and sea. People-centered community actions and social movements to "reclaim the commons" have opened new perspectives on the relationship between development, poverty and environment. The pioneering initiative of the Chipko movement in India has cast "economic development" in a new light as an agent of impoverishment and disempowerment. Human settlements and nature are exploited by the logic of the market economy from which people are themselves excluded and displaced.

From this perspective, sustainability demands that markets and production processes be re-shaped in line with nature's logic of returns, not the logic of profits, capital accumulation, privatization of the commons, and returns on investment. Economic development can increase GNP while the destruction of societal and ecological support systems generate poverty, loss of livelihood, and material want, including hunger and starvation where it did not exist before. Contrary to the North, where concern for the protection of the way of life of indigenous peoples is marginal to mainstream society, in Asia, Africa and large regions of Latin America, where the great majority of the population is both rural and poor, new social movements of empowerment of the poor go hand in hand with the protection of the life-giving resources of nature.

Radical environmentalism, as presented by William Rees, stresses the physical limitations of the ecosphere to accommodate unlimited economic growth. According to Rees, the Brundtland Commission's requirement for sustainable development — "a five to ten fold expansion in world industrial output by the time world population stabilizes (at twice the present level) sometime in the next century" — is thermodynamically and ecologically unsustainable. It follows that developing countries will not be able to follow Northern industrial countries along their historical path to material well-being. In short, the world cannot safely expand its way to sustainability. Remaining stocks of natural capital as diverse as forests, fossil hydro-carbons, and the ozone layer are already fully committed in place providing un-priced life support services — principally for the industrial North. "Although never stated in quite these terms, the appropriation of most of the world's carrying capacity by the urban industrial North (and reluctance to give it up) and the insistence of the South of its right to a fair share (and the threat to seize it through sheer growth in numbers and inefficient technologies) was really the only issue at the Earth Summit in Rio in 1992" (Rees, 1992: 23).

The environmental critique of Rees challenges market-oriented development policies based on "efficiency criteria" as measured by short-term financial return. For the rich countries, it points to overconsumption and wasteful use of resources; for poor countries, it closes the option of achieving the levels of material consumption of the North. It stresses the depletion of invisible and price-less (un-priced) low-entropy resources (exergy) and their transfer from primary-exporting peripheries to the industrial metropoles (Dr. Raul Prebisch's "great industrial centers") by means of international trade. Entropy economics reveals that the phenomenon of "unequal trade" by exchange of low wage primary commodities for high wage manufactures (now extending to include the exchange of low wage manufactures for high wage manufactures) was — and continues to be — accompanied by a uni-directional transfer of resources to the industrialized North.

This ecological critique implies the desirability of a reversal of present trends toward global economic integration, in favor of enhanced regional economic diversity, regional independence and self-reliance, restrictions on the export of low entropy resources from such regions, and a general shift in values from materialism, competition and the individual to a less acquisitive, more co-operative and community responsive societies. It complements the people-centered critique of unregulated market-driven growth presented by David Korten, who added the tendency of globalized market competition to generate polarization extremes of poverty and wealth and unsustainable societal stress, to the environmental case against unlimited economic growth.

Although pre-industrial peoples have, for thousands of years, lived in harmony and balance within their natural habitat, respecting the mutual dependence of man on the animals, the plants and the water sources which nourish life, modern "green" consciousness of the limitation of the ecosphere to sustain unlimited economic growth is a recent phenomenon. As a "developmental" priority, it is a creation of the North: "What development means depends on how the rich nations feel. 'Environment' is no exception to this rule" (Sachs, 1992: 26).

Environment arrived on the international agenda in Stockholm in 1972, first proposed by Sweden worried about acid rain, marine pollution in the Baltic, high levels of pesticides and heavy metals in fish and birds. Environmental issues forced their way into Northern consciousness, assisted by the oil price shocks of the 1970s, fears of general resource depletion, and bad news concerning the extent and rapidity of environmental degradation, global warming, the ozone layer, etc. Because chemical pollutants traverse the globe by air, sea and groundwater, and the emission of hydrocarbons concentrated in the industrialized urban regions of the North require the regenerative capacity of forests on a global scale — as instanced by the role of Amazon forests — it follows that the protection of the environment would require the "management of the global commons". But who will manage, and in whose interest?

Given the realities of international power relations, developing countries have reason to fear that the international management of the global commons spells management by the industrial powers of the North, according to their priorities. Developing countries are familiar with these priorities because they are the same which underlie the structural adjustment programs of the IFIs, which are subordinating human and natural resources and sovereignty of developing countries to the dictates of financial markets, with priority on debt service. The apparent simplicity of the Brundtland definition of "sustainable development" conceals the problems inherent in the dominant modernization paradigm which views nature instrumentally as an economic resource to be developed as raw material for commodity production, subject only to the limitations of finite resources and the carrying capacity of the biosphere.

Development assistance in the sense of the international transfer of financial resources for the diversification of the economies of developing countries is no longer on the agenda of the North. Net flows of finance throughout the late 1980s moved from South to North; recent moderation of this trend is likely due in part to the repatriation of Southern capital rather than to significant new inflows of Northern capital. In the context of the changes which have transformed the "rules of the game" of the international economy since the abandonment of the Bretton Woods and the liberalization of international capital movements, poor people in poor countries are no longer very "interesting" to international capital — neither as cheap labor nor as markets (Levitt, 1990).

Poverty in the Third World remains a policy concern to the North principally in a negative sense, in so far as it presents a threat of unwanted population movements, the rise of uncontrollable political forces, including fundamentalist religious or ethnic movements, and the degradation of the biosphere by accelerated industrialization and/or the encroachment of settlement on fragile lands and forests. It is an open secret that Sub-Saharan Africa has been "written off" by Europe as a region of significant economic development. It is hardly surprising that there is a divergence of perspective on the United Nations Conference on Environment and Development (UNCED), as noted by Banuri, quoted by Arshad Zaman in his chapter above: "whereas most northerners see UNCED as the very welcome unfolding of collective action to save humanity, many southerners .....fear in it the emergence of a new imperialism." Following Edward Said, quoted by Zaman, imperialism "means the practice, the theory and the attitudes of a dominating metropolitan centre ruling over a distant territory."

At the Stockholm Conference on the Human Environment, Indian Prime Minister Mrs. Ghandi expressed the sentiments of the developing world when she attempted to place poverty ahead of the environment of the global agenda, by calling poverty "the world's greatest pollutant". The expression was perhaps unfortunate in so far as it has facilitated the acceptance of the proposition that it is poverty in the developing world — and the excessive number of poor people — not the life-style of the rich, that is the main source of environmental degradation.

Thus Brundtland: "poverty reduces people's capacity to use resources in a sustainable manner; it intensifies pressure on the environment...A necessary but not sufficient condition for the elimination of poverty is a rapid rise in per capita incomes in the Third World" (WCED, 1987). Sustainable development is transformed into structural adjustment by means of the following chain of reasoning: Poverty is responsible for environmental degradation. Economic growth is the way to eradicate poverty. Adjustment to the liberalized global market is a prerequisite for economic growth. Hence, the protection of the environment proceeds by way of the implementation of structural adjustment programs in developing countries. The circle has been squared. It is business as usual.

Under the rubric of "sustainable development", the protection of the environment has been folded into the mission of the managers of economic growth in the developing world — the same IFIs whose structural adjustment programs have increased economic insecurity and vulnerability, and disempowered individuals, communities and governments in scores of countries under their tutelage. As Guy Mhone has described above, "the purveyors of the ideology of the Bretton Woods institutions would have us believe that sustainable development can be assured through the adoption and implementation of economic stabilization and structural adjustment measures which many countries in Africa are uncritically implementing because they are so beleaguered economically, politically and socially that they will grasp at any straw if there is an infusion of external funds".

While the economic reform measures have been ostensibly promoted to enhance sustainable development in a manner that reduces the vulnerability of African economies to external shocks, their consequence has been the reverse. Real GDP growth has been falling, inflation increasing, the terms of trade, erratic and declining, trade and current account balances negative, and most importantly the average debt servicing as a percentage of exports has been increasing. Because more than 80 percent of the population lives in rural and peri-rural areas, it is clear that the attainment or promotion of sustainable development will have to entail enhancing the ability of the rural population to live productive lives that efficiently economize on the use of existing resources in a way that also ensures human development. Mhone suggests that current economic reform measures may be compromising the ability of many African countries to attain sustainable development because of their focus on the formal sector in which only 15 to 20 percent of the labor force directly participate, while the informal sector is increasingly becoming a saturated welfare-safety net of people sharing poverty. The percentage of the population that is becoming landless is increasing, while the alienation of land and the process of proletarianization releases and devalues labor without creating the absorptive capacity for it in the industrial sector by enhancing investment. African economies remain disarticulated, externally driven enclave economies.

In his summary of adjustment, poverty and sustainable development, John Loxley concludes that in general, the World Bank believes that structural adjustment has a relatively benign impact on both poverty and the environment. Adjustment is considered essential for growth, which is itself necessary (though not sufficient) for poverty eradication in the medium/long term, and is considered to have a generally positive impact on the environment by sending the "correct" market signals for efficient resource use. Loxley states that the impact of structural adjustment on rural poverty, rural inequality and environmental degradation by accelerated mono-cropping by rent-seeking mechanized farmers, commercial hardwood logging operation, uncontrolled fishing by domestic and foreign fleets, has not received adequate study. He joins other critics of the IFIs in concluding that the major underlying aim of adjustment loans and programs is the preservation and servicing of foreign debt obligations. "For the poor Sub-Saharan countries, debt servicing burdens require deep and continuing austerity, which have led to a decline in the rate of investment, both public and private, and current and future output loss. Without significant debt write off these burdens are not sustainable and there is a growing risk of adjustment programs falling apart simply from debt fatigue" (Loxley, above).

There is no doubt that the burden of adjustment has fallen disproportionately on the poor in the form of rising prices of basic necessities, increased taxes and utility rates, and reduction in subsidized public services. Social sector "solidarity" programs are increasingly being appended to macroeconomic adjustment programs to soften the impact on the poor of the removal of food subsidies, the rise in the cost of living due to heavy devaluations, and new taxes and utility charges. Social sector programs targeted (note the technocratic military language) to the poor are offered as supplementary medicine to offset the unpleasant side effects of the principal medicine administered in the form of the well-known prescriptions of Fund/Bank adjustment programs. The belated emphasis by the World Bank on "human resources development" reflects the recognition of the growing social deficit in terms of deteriorating public educational and heath services in "adjusting" countries.

Ultimately, the entire project of the external programming of economic and social priorities of fragile national economies by the Bretton Woods institutions is unsustainable because it strips societies — and their governments — of autonomy and responsibility for the welfare of its citizens, and empowers international creditor interests, whose interests have clearly and unambiguously dominated the policies of the Fund and the Bank since the debt crisis of the early 1980s. Politicians are trapped between the political costs of implementing unpopular programs and the political and fiscal costs of the suspension of external credit for failure to meet conditionalities or targets. A great deal of energy is expended in renegotiating loans to finance debt service on previously negotiated loans, while the political capital of the politicians devalues with every devaluation of the currency, raising prices, and raising pressure on the poor and powerless. The "master-client" relation inherent in these programs devalues the political process; ultimately, it devalues human life as frustration manifests itself in the rise of violence and crime. Contrary to conventional wisdom, from the point of view of a country at the subordinate end of this "master-client" relationship, this can best be described as "Short Term Gain For Long Term Pain" (Levitt, 1992).

Rehman Sobhan hit the nail on the head when he said that the Washington-designed reform programs have no ownership, no political support. His observation that the civil servants who negotiate for the country are their best critics has general validity. So does his comment that Cabinet ministers disown cabinet decisions under pressure from public opposition on the streets. An experienced Caribbean political economist observed that many practitioners of IMF/World Bank adjustment policies are not convinced, either intellectually, morally or otherwise, that there is virtue to what they are practicing. With reference to the sense of resignation concerning the power of the (IMF/World Bank) paradigm, Clive Thomas observed that "people servicing it may in their heart of hearts not believe that it is based on any intellectual integrity, yet feel constrained nevertheless to support it. I have encountered this situation many times in my country. I believe that very few of the major actors implementing adjustment programs believe in what they are doing" (Best *et al.*, 1993: 14-15). The power of the paradigm ultimately depends on the strength of the social forces which would give the alternative a real chance of challenging both the ruling ideas and the ruling interests.

There is no way to "endogenize" the Fund/Bank programs to make them more equitable, "people-friendly" and environmentally sustainable, as long as the macroeconomic specifications and the liberalization and privatization conditionalities of these programs strip governments of policy tools and fiscal resources with which to protect the poor and their environment. Sobhan is absolutely right in stating that countries must recapture control over development goals. Zaman makes a similar point when he observed that the acclaim accorded to the UNICEF ("Human Face") critique of Fund/Bank programs in adjusting countries "was fueled far more by the latent, but growing sense of injustice of policy-based lending as an international practice (or regime) than by the insights imparted by the study" concerning the impact of structural adjustment on the poor.

No country has made the transition to economic development by the imposition of externally designed programs; and no country has done so without the active participation of the state. This is the lesson of the success of the East Asia Tigers, whose experience was — until recently — grossly misrepresented by the World Bank and by mainstream academic literature as due to *laissez faire* externally oriented policies. The essence of sustainability is autonomy — not in the sense of self-sufficiency, but as the enhancement of the capability of citizens to control and manage the totality of their resources, human and natural, taking advantage of opportunities for trade inherent in the globalized world economy. To this end, national problems and policies need to be exposed to the widest public discussion, drawing all sectors of the society into participation in the informed process of policy formulation — as envisaged by the Bangladesh Centre For Policy Dialogue.

At the end of the day, we must face the question posed at the start: Is economic development sustainable? Arshad Zaman's answer is: "For some of us, perhaps, for the whole world, definitely not." The European peoples (i.e., Europe and areas of European settlement), he suggests, may be able to de-link themselves from the rest of the world and maintain a course along the path of mass consumption societies, albeit at a slower pace. The realization of this possibility accounts for the hopefulness of the debate over sustainable development. But can the European experience be replicated by all the other countries of the world? Zaman suggests that much of the opposition to accepting the sustainable development message arises from the unwillingness of governments all over the world to abandon "development" as an ideology which, for the last fifty years, has served the imperial (European modernization) project and national governments in Africa, Asia and Latin America.

In so far as post-war economic development has conformed to what Zaman calls the "imperial" model, it is by virtue of the creation, by the colonial power, of "an intermediary class" to which power was handed over in the shift from colonialism to post-colonial rule by local influentials with passions and interests identical to the imperial power." The classical reference here is to the imperial advice of Lord Macaulay who advocated the creation in India of an English-educated middle class "who may be interpreters between us and the millions whom we govern — a class of persons Indian in color and blood, but English in tastes, in opinions, in morals, and in intellect".

Four decades of post-war economic growth have widened this intermediate strata, to create the modern "middle class" estimated to number more than 100 million in India. Cambridge and London have yielded pride of place to Harvard and Washington. There is now, as Zaman observed, a significant sub-set of local intermediaries with rights of permanent residence in imperial centers, "whose existence provides a continuity to the spectrum of possibilities in imperial control". Some of the brightest of the transnationalized Third World technocrats staff the international financial institutions. India is not unique in this regard. The social structures described here are typical of the post colonial state.

Four decades of substantial economic growth have not eradicated poverty. The evidence suggests that there has been a significant deterioration in income distribution since the mid-1970s. The market-driven model of economic growth of the 1990s is fueled by the expenditure of those who have purchasing power, while working people are subjected to declining wages by virtue of international competition. There is a dynamic in this style of economic growth which accentuates inequality of income and assets — the more so in countries in which the privileged classes have means to escape the burden of taxation.

Ponna Wignaraja tells us there are 400 million people in South Asia below the poverty line on any measure of poverty, and their number is increasing. South Asia is in crisis and moving toward anarchy. Wignaraja reported on the work of the Independent South Asian Commission on Poverty Alleviation and the adoption by the governments of an Action Programme of "pro-poor" strategies of social mobilization, and the empowerment of the poor. The focus here is on decentralized agricultural development; household level food security through universal provision of basic nutritional needs; the right to work, and the right to primary education.

What is proposed is a new process of accumulation based at the micro level on the creative energies of the poor — a "vernacular" sector where poor people are empowered to take charge, to participate in decentralized labor intensive industrial development, to be part of the solution, not the problem. Poor people have high rates of savings — and high rates of repayment of loans, as proven by the success of the Grameen banks, and similar "vernacular" savings institutions in other parts of the world. At the macro level, this strategy envisages a South Asian regional food security system, embracing a mass market of one billion people, of which some 200 million are middle class people with middle class purchasing power, with control over external capital outflows. With a long planning horizon of 10 to 25 years, the approach points in the direction of a two-pronged strategy within the space of the South Asian regional economy, combining a creative use of local resources and local ("vernacular") knowledge systems in a direct attack on rural poverty by way of people-empowerment, with the gains made in industrialization and modernization over the past four decades (Wignaraja, 1993).

From the viewpoint of the "sustainable development" discourse, the social movements of the South challenge the proposition that poor people in poor countries are significant agents of environmental degradation; it challenges the proposition that the eradication of poverty is contingent on economic growth in the rich countries; ultimately it challenges the Eurocentric economistic and instrumental view of nature as a "factor of production" to be exploited for the production of marketable commodities and financial capital accumulation. It constitutes an important step toward the articulation of alternative development paradigms, which respect the diversity of the rich cultural heritage of the world.

In this connection, it is a pity that the conference was not able to benefit from the presence of the pioneering intellectual contribution of Vandana Shiva, whose critique of the western view of natural resources as means of production to be dominated and mastered by men — as opposed to a nurturing and more "feminine" view of nature in pre-industrial and non-western cultures — was drawn, in part, from the praxis of the direct action of the hill-side women who pioneered the Chipko movement (Shiva, 1989, 1992). Indeed, the writer finds it extraordinary that this conference proceeded without an invited presentation from a gender perspective. (In this connection, she considers her own gender to be purely coincidental.)

The writer concludes these comments by putting on the record her personal view of the issues here involved, quoting from the concluding passages of a paper she delivered three years ago in a public lecture at the Central Bank of Trinidad and Tobago (Levitt, 1990):

> Any meaningful notion of "sustainable development" must begin with the recognition that the diversity of cultures which nourish human creativity is as precious an inheritance as the diversity of plant and animal life. It is the repository of collective wisdom from whence springs the capacity of individuals and society to survive adversity and renew the commitment to future generations.
>
> Development cannot be imposed from without. It is a creative social process, and its central nervous system, the matrix which nourishes it, is located in the cultural sphere. Development is ultimately not a matter of money or physical capital, or foreign exchange, but of the capacity of a society to tap the root of popular creativity, to free up and empower people to exercise their intelligence and collective wisdom.
>
> It is a fact that ultimately each nation, each people, each society has to face and solve its own problems, and set its own agenda. Yes, the world economy is more interdependent, and small countries cannot afford to ignore the signals of international markets, but that does not mean that we should permit the forces of international capital to ravage societal relations and destroy support systems of "sharing and caring" without which we ultimately cannot survive.

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13

The Way Forward: An Alternative Agenda for Research and Action

Naresh Singh and Richard Strickland

The Need

A fundamental shift in thinking and policy design is required in the process of helping struggling economies confront economic crisis without compromising the pursuit of sustainable development. Previous experience suggests that many of the policy instruments implemented and decisions taken in the name of orthodox structural adjustment have effectively undermined the basic principles of sustainable development, contributing to stresses hampering progress in social development and threatening environmental integrity.

Given the severe constraints facing developing countries coping with economic crisis, it becomes critical to review fully the range of policy options available to such countries. It is necessary to carefully evaluate the legacy of current processes and to formulate the design of new processes which will effectively lead toward the realization of the vision of a society based on justice and equity, traveling the path of sustainable development.

To help frame assessment of the policy options and anticipated outcomes facing national governments, it is useful to first consider the range of objectives or interests being pursued at the national level and the ways in which these might be satisfied. Priority interests and reasons for engagement in the policy process will vary as a function of the income level of a given country. If we look at the group of low-income countries (or at countries experiencing deteriorating economic conditions) we might be able to identify objectives, relevant interest groups and key policy opponents as shown in the following Table 1. Similar tables could be developed to consider the policy objectives for middle and high income countries; however, within the present context of adjustment processes, the most immediate attention is to be given to low-income countries with deteriorating economic conditions since they are more likely to be undertaking adjustment of some kind. Such an analysis permits the recognition of potential proponents and opponents of different aspects of a policy package and allows the design of a compromise "first step" initiative which seeks the "buy-in" of diverse interest groups and sets the stage for the design of a package consistent with sustainable development.

Table 1.

Low Income Countries

Objective/Interest	Key Interest Groups	Opponents
Short-term economic growth at any cost	Governments, private sector, World Bank, IMF	NGOs, the poor
Poverty alleviation	World Bank, other UN, NGOs, poor communities	Not openly recognizable
Equitable development	Governments, World Bank, other UN, NGOs, the poor	Private sector, political groups
Sustainable development	World Bank, other UN, NGOs, poor communities	Those seeking conceptual clarity and operational precision

It is also relevant to consider what kinds of changes might be required at the global or international level in order to facilitate policy change at the national level in support of sustainable development. International factors might impinge on domestic policy choices through: the structure and activity of international markets and the related availability of external resources; international social and political linkages between domestic and international actors; and power relations determining the degree of national leverage on international issues (Haggard and Kaufman, 1992). Key actors driving such change at the international level would include transnational corporations, multilateral institutions, private financial institutions, and some members of the NGO community; national governments would also play a role, though some would clearly be more powerful than others in the nature of the discourse, and some would be effectively absent altogether. Obstacles to policy change at this level would derive from large vested interests among certain private sectors and transnational corporations, and from the imbalance of power which would allow some governments greater weight in decision making. Limits to international financial capital (whether arising from economic or political constraints) would also affect the process.

Such issues lead to the expansion of the concepts surrounding structural adjustment as an exercise in policy reform devoted to development and change. Most structural adjustment programs lead governments to pursue multiple policy objectives in order to raise market efficiency, stimulate saving and investment and promote industrialization. It may, however, be more useful to envision such processes as subsidiary objectives contributing to the fundamental capacity of governments to initiate and implement economic adaptation in response to change in their wider economic, cological and social environment (Killick, 1993). Additional government objectives might logically include the growth and redistribution of income. The capacity to be flexible and to adapt policy to changing circumstances is fundamental to sustainable development and represents the manifestation of empowerment of national governments in their own sustainable development.

Toward this end, several general recommendations are often proposed to alter the orthodox adjustment model. There is a basic need to broaden the concept of adjustment itself, to recognize the wider range of factors and influences to which the economy must adapt than is usually applied by the international financial institutions. These include climatic changes, technological innovations, fundamental and long-term shifts in demand, and the range of environmental, social, economic, political and cultural variables involved in the definition and implementation of sustainable development. Killick (1993) disputes the view of the international financial institutions holding structural adjustment as the "economics of transition" and as thus preliminary to the resumption of development and the management of shocks; rather, he suggests that we must strive to perceive structural adjustment as a long-term process inseparable from development and not merely a transitional phase. We must consider carefully the nature and purpose of "development" itself toward which adjustment-related changes are made. In this sense, it is critical to understand adjustment processes and the ways in which they might be better aligned and integrated with the fundamental principles of sustainable development.

The Context

Common themes are now emerging which define areas of concern over the orthodox approach to policy adjustment as currently practiced, and which begin to suggest ways in which research and reform proposals might contribute to a pattern of macro/micro policy adjustment which more successfully integrates principles supporting sustainable development and poverty reduction. The summary of some key themes below provides the context for the research agenda which follows.

Fundamentally, generalizations of country experiences are difficult; each situation must be confronted with an understanding of the inherent dangers and opportunities. To get through the crisis with a minimum of poverty and suffering, some suggest the need for raising the efficiency of expenditures on health, nutrition and primary education (e.g., by improving administration and the quality of personnel), and implementing policies to assist those in the informal sector to raise their productivity and to help them deal with the strains of adjustment.

Equitable sustainable development requires wise choice among the variety of adjustment tools available and the need for poverty-friendly technologies which are also environment-friendly. Efforts must be made to interrupt policies clearly working in the wrong direction. A fundamental challenge remains the identification and adoption of technologies and styles of production that are labor-intensive, environment- and society-friendly, and productive enough to compete with other options available in the economy. There must also be stronger regulation with respect to environmentally damaging activities and technologies. The short- and long-run welfare of communities is threatened by the concentrated control of resources in the hands of the few; in the spirit of empowerment, the dangers of such concentration can be defused through greater democratization and community control of the resource base.

More field research is required in order to understand the impact of adjustment measures and the ways in which remedial action might be undertaken when necessary. Greater clarity is needed regarding the structure and dynamics of poverty and inequality in rural and urban areas; while adjustment has encouraged the shift of resources to rural areas, it has underestimated the complexity of rural economies in or the implications of the increasing urbanization of poverty. Basic questions remain regarding the reaction of export producers to price incentives; cases are noted in which adjustment has led to more extensive farming practices, when the inputs for intensive farming have become prohibitively expensive following the removal of subsidies, devaluation of the currency, increased transport costs and changing agricultural institutions. "Getting the prices right" might be a necessary part of adjustment but is not in itself always sufficient for poverty alleviation or environmental sustainability; much more information is needed regarding non-price constraints and their relation to prices, including lack of rural credit at reasonable rates of interest, inadequate land tenure arrangements, large tax or trade margins, and lack of proper infrastructure (e.g., roads, irrigation, transport). Further attention is required to the impact of programs on the output of renewable resources and the extent to which reforms will encourage replenishment and sustained yields. There is also the need for further study of the impact of increased output of non-renewable resources (e.g., mining, oil wells) or the building of dams on land and water use. Additional information is needed concerning the impact of adjustment on the rate and nature of urbanization, about which little is known (e.g., question over whether a shift in purchasing power to rural areas is accompanied by reverse migration from urban areas). Questions remain concerning the long-term coherence and viability of adjustment-led strategies of development; the survival of adjustment programs is threatened by economic and political instability. Little information is available concerning the link between structural adjustment and population growth, yet the outcome of such a link is critical to sustainable development.

Recommendations for reducing negative impacts and strengthening synergism might include the following:

- Write down Third World indebtedness to reduce pressure on countries to increase export earnings (and thus reduce pressure on the natural environment) and to allow governments more leeway to address poverty.

- Domestically, re-designed programs should give more attention to balanced growth, increased access to land and greater productivity of land already under cultivation.

- Governments should develop the capacity to regulate, monitor and enforce environmental standards, checking the impacts upon local patterns of poverty and economic well-being and drawing upon substantial local input.

- A more explicit link is required between economic policy reform and population policy. Sustainable development presupposes not only checks to population growth, but also development which is more gender sensitive and more equitable.

- Sustainable development requires stability in government policy, which in turn requires popular support for government policy and a degree of local participation in national decision making.

This latter suggestion relates directly to issues of empowerment, which are essential to reversing processes of impoverishment and promoting sustainable development. The emphasis on local participation is increasingly identified as fundamental to the design and implementation of anti-poverty programs working in conjunction with an extended open-market structural adjustment approach. The poor as subjects rather than objects of the processes of sustainable development are key to the vision of a society "walking on two legs."

However, the North must also undertake adjustment, related to its present disproportionate consumption of global resources, ecologically unfriendly aspects of Northern lifestyles, the nature of its markets vis-à-vis Southern exports, and the pattern of financial flows from South to North. In this process, international policy-oriented research institutions such as IISD might fill a number of roles. They might help to clarify concepts and contradictions of the macro framework for development thinking and practice, refining the transitional strategy toward poverty eradication and sustainable development in the South while encouraging further research and education addressing adjustment problems the Northern economies must confront. They can reinforce the research and information systems of the South, building new capacities used in the transition to poverty eradication and sustainable development. They can organize high-level policy dialogues among governments, donors, academics and NGOs on the concepts and practices in support of sustainable development.

At the same time, it will be important to support experiential learning and exchange between action researchers and NGOs in the South and the North to relate micro-level experiences to the emerging macro framework integrating the open economy with pro-poor planning. This will help them exploit the "political space" created by the new Social Contract between the state and the poor and increase channels of access to resource entitlements. There is also the need to create the capacity for senior action researchers to reflect on their own experiences and interact with their peers across national frontiers, in order to refine the methodology of social mobilization and participatory development toward replicating successes in poverty reduction. Through their efforts, ways might then be found to support the poor in their contribution to growth, achievement of human development and experience of greater equity. Given the relevance of the issues to the mandate of the 1995 World Summit for Social Development, it would be fruitful for institutions engaged in this field (such as IISD) to also generate inputs based on their analysis and experience for inclusion in discussions during the Summit.

Some critics argue that under existing conditions, efforts to unite the world around the concept and practice of development must rely on coercion (as opposed to persuasion or consensus), overriding the real interests of the poor and the self-determination of local and national communities. For this reason, the framework of global discourse itself must be addressed, within the context of which issues of international political economy are processed and executed. It is difficult to treat issues of the environment and development (especially within the context of adjustment policies) in isolation from the larger context of international political economy and the problems of debt, capital flows, trade, technology transfer and emigration restrictions.

Some critics have also charged that a new conventional wisdom regarding sustainable development, poverty and policy adjustments has emerged since the issue of the WCED report in 1987. The "subversive" potential of the report for radical global reform has been dissipated by this new orthodoxy; only hints were made to the actions required of powerful elements in the international system, and a "global consensus" was proclaimed. By critiquing the analytical and historical background of adjustment policies and the perceived linkages between adjustment, poverty and sustainable development, such arguments seek to widen the conceptual basis and cultural perspectives which underlie present global discourse, strengthening existing processes and creating new institutions to build genuine consensus.

Experiences of policy reform in Sub-Saharan Africa have served to illustrate the failures of contemporary adjustment strategies and to suggest directions for appropriate changes more responsive to the African context. Especially important are the rural and informal sectors and the critical disarticulation between agriculture and industry in the region, often given inadequate attention by current models. Current pressures of orthodox structural adjustment have been identified to drive several "poverty traps" which exacerbate the condition of the poor: privatization of benefits and externalization of costs of resource use; greater household self-exploitation; increased gender inequalities; and heightened pressures to produce more children (with particularly negative consequences where land is scarce). Critics argue against standard laissez faire market-oriented strategies which have tended to reinforce an economy's rigidities and imperfections, acting to marginalize and impoverish the majority of the population in informal sectors and degrade both human and physical capital.

In response to this pattern, some argue for greater deliberate state intervention in processes of adjustment and economic expansion. Aspects of the East Asian development successes as observed by the World Bank (1993) and others are often cited in support of the formulation of adjustment strategies inspired by a similar vision of transformation to be applied in African countries. This might incorporate state-led market-friendly interventions designed to strengthen linkages of inward- and outward-oriented strategies boosting both industrial and agricultural development, and insuring the participation and sharing of benefits by the poor.

It has been said that in its incompleteness, orthodox "adjustment" is an "innocent word covering a lot of sin". Current models overlook or underestimate the complexity and magnitude of the problem, ignore the fact that the exceptional "ideal" conditions required for the success of the theoretical approaches rarely exist in economies characterized by short economic time horizons, and give inadequate weight to the non-financial cultural and social objectives of structural adjustment programs. A review of several prevailing trends which define the global crisis of poverty, debt and the environment helps to identify features of the global condition that need to be changed to promote the environmental and equity objectives at the heart of sustainable development. There must be a dramatic reversal in the flow of capital such that poor countries are no longer exporting the basis of their own development to richer countries. The real rate of interest, which determines the cost of capital, must be reduced to something below 2 percent, in order for developing countries to make necessary investments in education, health and infrastructure which yield returns only over extended periods of time. Trade barriers established by developed countries discriminating against exports from developing countries must be lowered, commensurate with the expected increase in export efforts accompanying structural adjustment. Fundamentally, a sustainable equitable development program must be defined around issues of energy, education, social organization and political processes which are environmentally benign.

While most acknowledge a legitimate role for government in such matters, there remains some confusion over the appropriate form and scope of its involvement. Toward definition of the desirable institutional constellations supporting sustainable development, we must recognize the need for leadership infused with vision and courage to forge new institutional arrangements with which to re-structure the global system in order to reverse immiserization, polarization and other trends toward social disintegration. Recognition must be given to the "international public good" for which leaders must work cooperatively to achieve stable exchange rates, low real rates of interest, borders more open to trade and models of development that ensure the integrity of the ecosystem.

The specific and dramatic experience of South Africa in its current efforts to address issues of orthodox structural adjustment, within the context of rapid socio-economic and political change, draws attention to the need for the reorientation of all economies to embrace the interests and development requirements of all citizens. Special attention to promoting the flow of enterprises, capital and resources out into the rural areas, considered critical for success in South Africa, is also highly relevant to most other developing countries.

Viewing sustainable development as a productive process engaging people in open processes defining political opinion and the exchange of information, it must strive beyond meeting basic needs toward the realization of personal and societal aspirations and the construction of a future founded on hope. There is a very real need for a redistribution of resources and the reallocation of public funds. Both at national and international levels, patterns of consumption are economically, politically and environmentally unsustainable; this also relates to the dramatic dichotomy of consumption patterns between North and South. There must be an increase in the creation of productive capacity, through human resource development and the empowerment of persons, institutions and nations, in order to incorporate the poor actively as important actors and resources in economic and social development.

The Alternative Agenda and New Approaches

To define an agenda for future action-oriented research which considers the linkages between sustainable development, poverty reduction and macro/micro policy adjustment, it is useful to consider a framework broken into superstructural, structural and infrastructural components. The ideas contained within this framework might best be thought of as avenues for research and are not necessarily stated as focused topics.

At the superstructural level, four primary categories might be defined:

1. *Alternative perspectives on the present crisis:* Questions here need to focus on the identification of a consensus (if one exists) and the agreed definition of the nature of the crisis. This would have to

consider various topics including: the intersection of economic and ecological issues in the ecosystem; pressures of population trends; alternatives to current orthodox strategies (including market-friendly, neo-Malthusian and other perspectives); nature and role of civil society; and dangers of the renewal of empire (including the perception some hold of sustainable development as such).

2. *Markets and sustainability:* Consideration must be given to the role and nature of ideology in processes of development. Relevant topics would include: neo-liberalism; the relationship and dynamic between states and markets; limitations of democratic capitalism; and the role of civil society.

3. *Re-thinking the methodology of action research:* There is the need to re-examine mechanisms for conducting research, distributing the findings and influencing the policy process. Consideration must be given to what constitutes "high impact" research (i.e., that which leads directly to action-oriented results). Closer attention is needed to the relationship between macro and micro policies. Specific research topics include: clarifying the basic concepts of action research; insuring an impact on policy discourse and the definition of agendas; understanding macro/micro relationships; and categorizing the elements leading to high impact.

4. *Systems of knowledge and sustainability:* Attention is required to the effects of global systems on traditional systems of knowledge, and to the resultant impacts on the ecosphere at large. There is great need to link knowledge systems specifically to the physical side of the ecosystem and the maintenance of biodiversity. Ways must be found to support indigenous knowledge systems, and to identify the effects of globalization and market expansion on traditional or existing local systems of knowledge.

At the structural level, three primary categories might be identified:

1. *International relations:* Research in this area needs to focus more clearly upon issues of power, politics, and economics including trade, investment, capital flows and migration. Specific research topics of particular note include:

    - Debt cancellation as related to capital flows, investment, trade and effects on the environment.
    - Structural adjustment loans as related to environmental impacts and sustainable development.

- Food self-reliance as related to land use, trade, investment, sovereignty and the environment.
- Ecology and empire as related to lifestyles and imperial designs on Southern lifestyles.

2. *Governance and collective decision making:* Research in this area must seek to identify relevant structures involved in decisions affecting the environment and the support of sustainable development more broadly. Efforts are needed to identify the forms of organization and global institutions required.
3. *Poverty alleviation:* Attention here is needed to understand more completely the processes and institutions which serve to empower the poor in local communities and, most critically, how to operationalize strategies for empowerment in support of sustainable development. There is also a strong need to understand the relationships between households as participants in economic activity, individuals as actors in development processes and agents of change, and impacts of policy instruments associated with reform upon livelihoods and ecosystems.

At the substructural level, general research attention is needed to identify the environmental scale of the crisis and to document and monitor the ecosystem in its entirety (including the ecology, resources and physical constraints). There is an urgent need to communicate the ecological side to the development side, to integrate information in a way to support responsible and informed planning and thereby foster sustainable development. Attention is also required for the definition and understanding of lifestyles in rich Northern countries as they contribute to the crisis and how such issues will influence the formulation and implementation of sound, responsible policy in support of sustainable development.

Reform of the Adjustment Policy Process

In this section, we offer the outlines for an alternative approach to the process of developing a structural adjustment package which could fundamentally alter the goal of the package, encouraging people and governments to become involved and develop a sense of ownership in the process and its results, while recognizing the realities and interests of the multilateral institutions. Faced with severe economic constraints as have been discussed in earlier chapters, it is relevant to identify options available to countries with deteriorating economic conditions. Within the current adjustment framework (i.e., the current process), one option for the country would be the acceptance of a package of stabilization and structural adjustment policies as prescribed by the World Bank and the IMF. In that case, and given the desire to correct current flaws, government negotiators and those working in support of the nation's bid to pursue sustainable development must seek to intervene to influence the existing policy model toward inclusion of measures addressing poverty reduction and sustainable development. These must effectively modify the current policy mix by agreement with the Bank and the Fund. One slightly cynical but effective variation of this scenario might include a government's initial acceptance of the prescription and subsequent failure to implement it, allowing an initial infusion of funds if even at greater cost on down the line.

As a second option, a country might seek to develop a completely new and unique approach to the economic crisis using a multi-stakeholder process. Fundamentally, this would be an endogenous process requiring a new strategy for negotiation with all the relevant parties or stakeholders on the basis of local interests, institutional capacities, resources and goals. By breaking away from the standard premises of World Bank and IMF packages as the accepted starting point, this strategy would encourage discussion of all the options free of initial presumptions, adopting a participatory and inclusive approach to decision making. Such a process is likely to better accommodate political pressures associated with adopting policy changes and generate some kind of truly endogenous adjustment process which may prove more effective as it is sustained by the investment of local interests and commitment to development. However, it may also prove to be cumbersome and slow in dealing with the crises associated with rapid economic transformation, and be greeted warily by the established financial community.

A third option might be a compromise strategy located somewhere between these two options, beginning with the generic elements of the current adjustment package but submitting them to a review process effectively tailoring them to the specific policy needs of a particular country. This would assume that the basis of the standard structural adjustment model is sound; the approach would however seek to include local realities and mitigate impacts on the environment, vulnerable groups, cultural and social structures. In essence, this would seek to endogenize the structural adjustment program in ways to integrate sustainable development principles.

One must wonder if countries are currently being overloaded with separate and unintegrated plans covering macroeconomic adjustment (related to the World Bank and IMF), environmental action plans (World Bank), strategies for sustainable development (IUCN) and action plans for social development. If such lack of policy integration exists, then it would be fruitful to identify areas of common ground and strive toward an integrated strategy incorporating current elements of national development plans, environmental impact assessments, macroeconomic adjustment strategies and plans for social development in new ways toward a co-implementation of policy supporting sustainable development.

One possible strategy to develop a framework for assessing the sustainable development outcome of a policy package could begin with the environmental impact assessment as a fundamental tool, used routinely to determine project impacts on the environment in parallel with economic impact assessments. If these assessments included social, cultural, political and equity impacts (the other pillars of sustainable development), they might then qualify largely as an assessment of the sustainable development potential of the project. The next step would seek to move from the assessment of projects to the assessment of policy. This would correct the problem by which unintegrated environmental impact assessments fail to link their separate findings and inaccurately reflect the comprehensive environmental consequences. If integrated assessments can be generated at the project level, then an effort to amalgamate them at the program level (as a series of projects) and then to the policy level (reflecting a series of programs) might lead to the realization of a strategy to assess policy in terms of sustainable development.

The shift to a scenario of program and policy assessment would require integrated assessments at both the macro and micro levels. This might ideally incorporate methodological tools such as input-output analysis and general equilibrium models. While these would serve to incorporate microeconomic and sectoral information in ways which could link production functions to environmental impact functions, constraints imposed by the quality and extent of data in developing countries make this approach difficult. One might seek to extend a national input-output model to include interactions and repercussions between the environment and economic activities (Hansen, 1990). Further refinements in existing methodology are urgently required as the full range of requirements for and implications of sustainable development is progressively revealed.

The strategy should include an integrative framework/feedback loop which allows the integration of sustainable development principles which are revealed as absent by the previous steps. These might include poverty impacts, equity issues (both intergenerational and intragenerational), and the environmental, economic, social, cultural and political issues underlying the principles of sustainable development, and reflect national and local realities, desires and goals. Such a strategy could result in a sustainable development adjustment program (SDAP). This would be a policy package designed to move a country and consequently the planet (i.e., its people, economy, society and ecology) to a path of sustainable development, serving to cure the root cause of economic ailments rather than merely treat the symptoms, as much of current policy practice does.

If such an agenda for research is pursued and a subsequently enlightened policy reform process is activated, then many of the problems that have been identified in the preceding discussion will be addressed and action to correct current flaws in orthodox approaches to structural adjustment can be defined. We cannot underestimate the importance of political will in processes of reform. However, the information that would result from this research framework would serve to increase the knowledge of complex economic, political and environmental systems. By bridging current gaps between our contemporary legacy and our vision for the future of society and the global ecosystem, this would also encourage the development of an inclusive, transparent and accountable policy process at local, national and international levels to support sustainable development. We cannot afford to strive for less.

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To be sustainable, development must improve economic efficiency, protect and restore ecological systems and enhance the well-being of people. This is today's agenda, not a far-off goal. It means that business as usual is no longer an option for government, private enterprises, communities or individuals.

IISD's mission is to promote sustainable development in decision making internationally and within Canada. We contribute new knowledge and concepts, analyze policies, identify and disseminate information about best practices, demonstrate how to measure progress, and build partnerships to amplify these messages.

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