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Structural Adjustment, Global Integration and Social Democracy

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Contents

Preface

During the 1980s there was rapid growth of trade in goods and services, foreign investment, technology transfer, foreign exchange transactions and telecommunications. Transnational enterprises were a crucial vehicle for many of these processes. This thrust of global economic integration, along with other forms of globalization - scientific, technological and cultural - has been reinforced by structural adjustment policies, which themselves were a result of post-war dynamics of global integration and the post-1973 economic crisis. However, if the areas in which liberalization has taken place are many and varied, the countries benefiting from it are less so. Discrimination in patterns of liberalization has tended to shrink the global role of developing countries.

In the industrialized countries where they originated, adjustment policies are elements of both continuity and rupture with the economic and social policies pursued in the post-war period, while in the developing countries they constitute a sharp break with earlier state-directed policies. In Third World countries, the pace and pattern of liberalization show considerable variation reflecting socio-economic structures, the severity of the crisis, the intensity of foreign pressure and the interplay of contending social groups.

Globalization and liberalization have had wide-ranging political and social consequences that imply shifts in power both nationally and internationally. Internationally, during the 1980s, power shifted further out of the reach of developing countries toward foreign creditors and investors, international financial institutions and the industrialized countries. Globalization and liberalization have undermined the social alliance and national consensus on economic and social goals and policies established in the post-war period in both developing and industrialized countries. Incidence of poverty has increased in most countries, accentuating social conflicts world-wide.

The power of nation states has eroded, decreasing their willingness and ability to cope with the expanding social crisis. At the same time, the economic power wielded by the new dominant forces has not been matched by a corresponding shift in their political and social responsibilities for global welfare. These changes pose serious threats to political stability and sustainable growth.

This UNRISD Discussion Paper presents globalization and liberalization as interdependent and mutually reinforcing processes, and considers their origins, context and social consequences for industrialized and developing countries.

October 1992

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Director

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Introduction

Structural adjustment was one of the key themes of economic and social policy in the 1980s in countries around the world. It is likely to continue to be the focus of national and global concern in the 1990s. Much of the discussion on the subject has focused on adjustment experiences at country or regional levels. Likewise much of the literature has tended to compartmentalize the discussion into economic, social or political aspects of adjustment. This has resulted in an excessive emphasis being placed on national conditions and policies as determinants of the need for and success of adjustment measures and a consequent neglect of the role played by world economic forces. It has also impeded an analysis which takes into account the interaction between economic, social and political consequences of these measures.

This paper attempts to provide a global and integrated perspective on the adjustment process which is defined simply as increased reliance on market forces and reduced role of the state in economic management. The essence of the argument advanced here is that structural adjustment is a world-wide phenomenon with an interdependent and mutually reinforcing relationship with the globalization process. The latter refers to increasing integration of the world economies. The processes of adjustment and globalization have generated wide-ranging socio-political consequences. They have contributed through a variety of mechanisms to intensification of poverty and inequalities within and among countries, and indirectly to a range of other social problems. They have also led to important shifts in balance of power nationally and internationally. These shifts have contributed to an increasing gap between power and accountability and resources and responsibility. The result is a growing paralysis in the handling of social problems at the national and international levels. Social problems need to be addressed not only in the interest of national cohesion and solidarity but as a necessary investment for future growth. It is therefore a task of the highest importance to explore the new configuration of social forces and institutional arrangements to meet the social challenges of the 1990s.

The structure of the paper follows the argument set out above. The next section discusses the origin and underlying forces behind the thrust for structural adjustment in different parts of the world. Section III examines the diverse contexts and patterns of adjustment measures in different regions. The relationship between structural adjustment and global integration is analysed in section IV. This is followed by a discussion of some social consequences of the processes of adjustment and globalization. Section VI explores the implications of these processes for power relationships and social democracy.

Given the vast scope of the subject treated here, it has not been possible to provide detailed analytical and empirical support for the arguments advanced in the paper. Rather, the basic purpose of the paper is to set the theme of structural adjustment within the broad context of global economic integration and political and social democracy and to draw attention to some key relationships which have been either largely neglected or insufficiently recognized in the mainstream literature on the subject. In order to make the discussion manageable, it was decided to omit an analysis of the reform process in Eastern and Central Europe as well as in the communist countries in Asia. Their experience nevertheless is extremely pertinent to the issues treated here and raises many points of contrasts and similarities.

1. Structural Adjustment: Origins and Underlying Forces

The process of structural adjustment was first initiated in the industrialized countries and then “exported” to developing countries. It was the result in both groups of countries of a combination of conjunctural and secular forces. The former were represented by the economic crisis in the post-1973 period, first in the industrialized and then in the developing countries;

the latter by the upsurge of world economic integration in the post-war period. This section looks first at the forces which propelled a reorientation of economic policies in the advanced countries before turning to an analysis of the dynamics of structural adjustment in the less developed regions of Africa, Latin America, South Asia and South-East and East Asia.

1.1 Industrialized Countries

The years immediately after the first petrol shock in 1973 were characterized in most OECD countries by falling growth rates, rising unemployment, increasing inflation and declining investment and profit rates (see Table 1). This constituted a sharp reversal of the experience over the preceding two decades. For instance, annual output growth fell from 4.9 per cent over the period 196O-1973 to 2.7 per cent in 1974-1979. Inflation more than doubled from 4.1 to 9.7 per cent per annum over the two periods. Productivity growth declined from 3.8 to 1.6 per cent and investment expansion tumbled from 7.6 to 2.3 per cent per annum. The rate of unemployment rose from 3.1 to 5.1 per cent and the expansion in trade fell from 9.1 to 4.3 per cent.

Table 1

OECD Economy: Summary Indicators of Performance
Average Annual Percentage Change

	1960-1973	**1974-1979**	**1980-1982**	**1983-1986**	**1987-1989**
Output (a)	4.9	2.7	1.0	3.4	3.8
Investment (b)	7.6 (c)	2.3 (c)	0.3	5.0	8.7
Trade (d)	9.1	4.3	0.0	6.0	7.0
Productivity (e)	3.8	1.6	0.7	2.1	2.0
Prices (f)	4.1	9.7	9.3	4.5	3.7
Unemployment	3.3	5.1	6.9	8.1	6.9

(a) Real GNP; (b) Real gross private non-residential fixed investment; (c) Seven largest OECD countries (accounting for some 85 per cent of OECD GNP) only; (d) Average of merchandise imports and exports, in volume terms; (e) Real GNP per person employed; (f) Consumer price deflator;
Sources: J. Llewellyn and S.J. Potter (eds.) **Economic Policies for the 1990s**, Blackwell, Oxford, 1991. OECD, **Historical Statistics 1960-1989**, Paris, 1991.

This adverse performance generated wide-ranging enquiries into the state of the economy and analyses of previous policies. The result was a gradual emergence of a new consensus on the diagnosis of economic ills and a way out of stagflation.[1] The dominant view was that the economic problems of the 1970s were directly due to the past pursuit of policies of high aggregate demand, full employment, high rates of taxation, generous social welfare benefits and growing state intervention (OECD, 1987; Britton, 1991). It was argued that these policies had led to inflationary pressures through excessive wage demands, introduced rigidities in factor and product markets and thus blunted the incentives to save, work, invest and take risks. The first priority was to bring inflation under control. This was done with tight monetary policies and high interest rates. To restore economic growth in the medium term required more radical measures to promote market forces and curb the role of the state.

A somewhat different view on the crisis of the 1970s emphasizes changes in national and global political economy, such as the shift in the balance of power in favour of labour, the end of American hegemony and disorder in the international financial and trade systems (Marglin,

[1] An OECD publication, **Structural Adjustment and Economic Performance** (OECD, 1987), contains a good discussion of the rationale as well as the contents of the emerging consensus on economic policy.

1988; Glyn et al., 1988; Kolko, 1988). While arguing that declines in productivity improvements and in profit shares had set in before 1973, these authors nevertheless concur with the neo-classical argument concerning the role played by full employment policies and union militancy in putting pressure on profit rates.

A more complete analysis of the slowdown in growth in the 1970s would no doubt include a discussion of the exhaustion of some other special factors in the early post-war decades such as reconstruction of infrastructure, farms and factories; the catching up in Japan and Europe with advanced technology and management techniques in America; the liberalization of trade and payments; creation of free trade areas; and the spurt of technological progress in products and services with mass demand (Britton, 1991).

While the crisis provided the immediate justification for the shift in policies, the deeper causes behind the upsurge of market forces and the retreat of the state must be sought in the increasing global integration facilitated by developments in the post-war period. These included the elimination of government controls on allocation of resources in the domestic economy, the progressive removal of restrictions on external trade and payments, expansion of foreign investment, loans and aid and rapid technological progress. It was above all the expansion of transnational enterprises (TNEs), facilitated by market liberalization and technological progress, that made a powerful contribution to internationalization of the world economy. At the same time, all these factors created strong pressures for and powerful vested interests in the continuance and intensification of free market policies.

The opportunity provided by a favourable combination of conjunctural and secular factors was seized upon by conservative forces to press their own agenda of balanced budget, reduction in progressive taxation, social security and welfare, and a diminished role of the state in economic management. The promise of tax reductions widened the constituency for reform. A combination of monetary, neo-classical and supply side theorists furnished the intellectual support for the position that the material prosperity of the industrial countries and the rapid economic progress of the East Asian countries was the result of their reliance on market forces. In contrast, they held, the poorer economic performance of the communist countries and much of the Third World resulted primarily from extensive state intervention in the management of the economy.

1.2 Developing Countries

A combination of the conjunctural crisis and pressure from creditor countries and institutions was responsible for the shift in the policies of most developing countries towards structural adjustment. The contractionary policies pursued by the industrialized countries resulted in a sharp increase in world interest rates (thereby adding to the debt burden), massive deterioration in the commodity terms of trade and virtual cessation of private capital flows in the wake of the debt crisis and capital flight, thereby creating the conditions for a prolonged