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# Structural Adjustment, Global Integration and Social Democracy

Discussion Paper No. 37, October 1992
Dharam Ghai

## 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,

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[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 crisis in the majority of developing countries, especially in Latin America and Africa.

For instance, short-term real interest rates in the United States rose from an annual average of -0.7 per cent in 1972-1975 to 5.0 per cent in 1980-1982 (OECD, 1983). The index of the terms of trade of non-petroleum exporting developing countries fell from 110 in 1973-1975 (1980=100) to 94 in 1981-1983 and further to 84 in 1989-1990 (UNCTAD, 1990). The net flows of private capital declined from over US$ 70 billion in 1979-1981 to barely US$ 28 billion in 1985-1986, while capital flight from 13 highly indebted countries rose from US$ 47 billion at the end of 1978 to US$ 184 billion at the end of 1988 (OECD, 1991; Rojas-Suárez, 1991).

In sub-Saharan Africa excluding Nigeria, the net deterioration in the external financial situation from these three factors amounted to US$ 6.5 billion per annum over the period

1979-1981 to 1985-1987. These amounts, which take into account debt rescheduling but ignore capital flight, attained roughly one third of the total annual imports of goods and services of these countries in the early 1980s and about 45 per cent of average annual export earnings (United Nations, 1988). In Latin America, the net external resources turned around from an inflow of US$ 15.8 billion in 1978-1979 to an outflow of US$ 22.8 billion in 1987-1988, equivalent to 22.5 and 20.5 per cent of exports of goods and services in the two periods (Ghai and Hewitt de Alcántara, 1991).

While the emergence of the acute crisis in the late 1970s and early 1980s provided the immediate justification for the adoption of adjustment policies, some major weaknesses in development policies constituted structural barriers to efficiency and sustained rapid growth. These included excessive taxation of agriculture, indiscriminate protection of industry, overvalued exchange rates, extensive state intervention in resource allocation by administrative means, inefficiencies in state enterprises and widespread corruption and mismanagement (World Bank, 1981; Griffith-Jones and Sunkel, 1986). The overwhelming importance of the external environment is, however, indicated by the fact that these weaknesses in economic policy and management did not prevent most of these countries from achieving substantial rates of economic expansion in the preceding two to three decades.

The favourable growth experience of many Asian countries during the 1980s does not constitute a rebuttal of the above argument. Several of these countries continued to follow the type of policies described above. Their relatively favourable performance in an adverse international economic environment would appear to be due at least in some measure to special features of their economies and their relationship with the world economy. For instance, some of the large countries such as Bangladesh, China, India and Pakistan are much less dependent on world trade than most Latin American and African countries.[2] The weight of manufactures in the exports of Asian countries is much greater than in African and Latin American countries. Manufactured goods as a percentage of South and East Asian exports were already 44 per cent in 1970, compared to 4 per cent in West Asia, 7 per cent in Africa and 11 per cent in Latin America. By 1988, manufactured goods comprised 76 per cent of South and East Asian exports, compared with 16, 16 and 34 per cent in West Asia, Africa and Latin America, respectively (UNCTAD, 1990).

Three other factors must be mentioned. The debt burden in the early 1980s was considerably greater in Latin America and Africa than in Asia: in 1983, the debt service ratios in the three regions were 25, 37 and 18 respectively (OECD, 1991). Asian countries also benefited disproportionately from remittances from their migrants in the booming Middle Eastern oil-exporting countries in the 1970s and early 1980s. In 1975, 1.6 million migrants were employed in these countries, of which over 20 per cent came from South and South-East Asia. The number increased to 3 million by 1980, 25 per cent of which were from South and South-East Asia, the majority of the remaining coming from the neighbouring Arab countries (Burki, 1984; Talal, 1984). Workers' remittances accounted for more than 28 per cent of the exports of goods and non-factor services in Pakistan in 1975 and 80 per cent in 1982. For India the remittances increased from 5 per cent of exports in 1972 to 25 in 1982. The corresponding figures for Sri Lanka are 1.4 per cent in 1974 and 22 in 1982 and for Thailand 1 per cent in 1976 to over 10 per cent in 1983 (World Bank, 1990).

Proximity to the most dynamic industrialized economy in the world greatly boosted the economies of neighbouring countries in East and South-East Asia. Indonesia, Malaysia, the Philippines, South Korea and Thailand have exported significant shares of their exports to Japan since at least 1970: South Korea 28 per cent in 1970; Malaysia 24 per cent in 1985; and

[2] Singh has argued that China and India outperformed Brazil and Mexico after the second oil crisis, not because they had more open and export-oriented trading régimes and followed appropriate exchange rate policies, but because they were less integrated in the world economy (Singh, 1985).

Indonesia 49 per cent in 1980. However, some of these shares declined in subsequent years (UNCTAD, 1990). Japan has also greatly increased its investment in South-East Asia. For instance, between 1980 and 1987, the annual flow of Japanese foreign direct investment increased fivefold in Thailand, fourfold in Singapore and almost sixfold in Taiwan, Province of China (Lim and Fong, 1991).

It would be pointless to deny the importance of national policies in adapting to the changing world conditions. Countries in South-East Asia have put in place a number of policies to attract foreign investment. And East Asian and more recently the South-East Asian countries have given export promotion a high priority. But these policies have often involved active state intervention in a number of areas.

The preceding discussion brings out some contrasts in the origins of and underlying forces in the adoption of structural adjustment policies in different regions of the developing world. As in the industrialized countries, the crisis triggered off changes in economic policy in African and Latin American countries. The weaknesses in previous policies and economic management intensified the need for adjustment. But whereas in the industrialized countries, it was the dynamics of the globalization process which tipped the balance in favour of adjustment policies through the interplay of contending social groups, in African and Latin American countries, it was the pressure exerted by creditor countries, commercial banks, international financial agencies and TNEs which proved the decisive element. This was especially the case in Africa where there was practically no organized lobby for deregulation and liberalization. It was less true in some Latin American countries where free market policies had been associated with military and conservative régimes and were also espoused by some technocrats and large businesses in mining, agriculture, manufactured exports, finance and trade.

In Asia, experiences have been more diverse. While some of the countries in the region such as Taiwan, Province of China, and South Korea were among the first to adopt some elements of reform, especially those relating to trade, foreign exchange liberalization and promotion of manufactured exports, others such as India and Pakistan were converted to the cause only in the 1990s. Most of the South-East Asian countries began to introduce reform measures in the 1980s (Lim and Fong, 1991).

Similar diversity characterized the underlying forces behind the drive for liberalization. The economic crisis and foreign pressure played some part in India and Pakistan but there was also an increasingly powerful domestic lobby, constituted by big business and the bureaucratic and technological élite, which felt that liberalization of the domestic and foreign economy was essential for the modernization and rapid growth of the economy. The reforms in the South-East Asian countries were greatly influenced by the experience of the four tigers and had much less to do with economic crisis or pressure from creditors.

## 2. Structural Adjustment: Context and Patterns

While liberalization has become a truly global phenomenon, the contexts in which it has been carried out and the patterns it has assumed have tended to vary by regions and countries. As a broad generalization, it may be stated that, whereas liberalization represents in many respects a continuation of the trends in the post-war period in the industrialized countries, it constitutes a sharp reversal of the past policies in most developing countries. Furthermore, there are significant variations in the pace and patterns of the reform effort in different parts of the world. This section first reviews the broad features of liberalization in the industrialized countries before turning to the contrasts and similarities in the major regions of the developing world.

## *2.1 Industrialized Countries*

In the first two to three decades after the Second World War, the industrialized countries pursued policies which reduced the role of the state in some areas and expanded it in others. The liberalization thrust was exemplified by the dismantling of a plethora of controls on domestic economic activity and on international trade and payments. For instance, allocation of resources by administrative means, price controls and rationing were gradually phased out in the early post-war years. By the mid-1950s, the process of trade liberalization was well under way with quantitative restrictions largely removed. By the early 1960s, most non-tariff barriers had been removed or eased.[3] Members of the two trading blocs - the European Free Trade Area and the European Economic Community - achieved practically free trade in manufactures among member states. Currency convertibility was restored for payments and restrictions eased on capital mobility and foreign direct investment. Likewise, considerable progress was made in dismantling the domestic and international cartels that had proliferated in the inter-war period (OECD, 1987).

Some of the post-war policies went in the opposite direction and strengthened the role of the state in the economy. Several countries nationalized a wide range of enterprises in utilities, transport, communications, mining, steel and banking. Furthermore, the welfare state whose foundations were laid in the late 1930s was greatly expanded in the post-war period. Improved provisions were made for health, education and housing as well as for children's allowances, old age pensions and unemployment, and sickness and accident benefits. Public expenditure and tax revenues showed a sustained rise as a share of GDP. For the 11 largest OECD countries, public expenditure rose from 28.0 per cent in 1960 to 32.9 per cent in 1973 and further to 40.2 per cent in 1988. Tax revenues as a percentage of GDP rose from 28.1 in 1965 to 34.6 in 1979 and further to 39.0 in 1988 (Boltho, 1992).

The policies pursued in the 1980s represent elements both of continuity and reversal. Removal or reduction of state regulations in a wide range of economic sectors such as banking, foreign exchange, stock markets, transport, communications and utilities constitute elements of continuity with the earlier reforms. On the other hand, restraint or curtailment of public expenditure, cuts in social security and welfare programmes, reduction in progressive taxation, abandonment of full employment policies, curbs on trade unions, creation of more flexible labour markets and privatization of state enterprises constitute reversals of earlier policies.

The liberal reforms were not undertaken with the same zeal in all domains. In three respects at least, developments over the past decade and a half represent violations of the liberal creed of the age of reform. This period, which was characterized by sweeping deregulations, also saw an intensification of agricultural protection, growing restrictions on some categories of international trade and increasing barriers on immigration of unskilled persons. Agricultural protection increased in the 1970s and 1980s in most industrial countries. Average producer subsidy equivalent in OECD countries rose from 32 per cent in 1979-1981 to 50 per cent in 1986-1987 before declining to 45 per cent in 1988. The transfer to agriculture from consumers and tax payers rose from US$ 61 billion in 1979-1981 to US$ 270 billion in 1988 (World Bank, 1992).

In recent years, there has also been a reversal of the liberalization trend in trade in manufactures. Quantitative restrictions, voluntary agreements to limit exports, managed trade, subsidies and cases of dumping have multiplied. These barriers have not only affected labour-intensive products such as textiles and clothing, toys and leather goods but also automobiles, electronics and steel. The share of OECD manufactured imports from developing countries

[3] Tariffs on dutiable manufactured goods had come down from 18 to 13 per cent. The Kennedy Round reduced them to an average of 8-11 per cent and the Tokyo Round to 6 per cent or less (OECD, 1987).

subject to non-tariff barriers rose from 26.5 per cent in 1981 to 28.0 per cent in 1990. If protectionist barriers in the European Community, Japan and the United States were to be reduced by 50 per cent, exports from developing countries could increase by 15 per cent or US$ 50 billion in 1988 prices or US$ 54 billion in 1991 prices. This is equivalent to the aggregate net resource flows from official sources to developing countries in 1991 (World Bank, 1992).

The third area in which the liberal creed has been violated is emigration from developing countries. Restrictions on movements of unskilled labour are increasing. Between 1950 and 1973, net immigration into Western Europe reached nearly 10 million people. Several millions found new employment opportunities and higher living standards in the United States (OECD, 1987). With the sharp reversal of policies since 1973, new immigration has virtually disappeared. The numbers of foreign workers either stabilized or decreased in most European countries in the 1980s, with the exception of Switzerland and the United Kingdom (Appleyard, 1991). Net immigration has continued in Australia, Canada and the United States but is increasingly biased in favour of better-off persons with professional and technical skills and considerable financial resources. The loss of potential income to developing countries (direct and indirect) from immigration controls has been estimated at US$ 250 billion (UNDP, 1992).

Although these departures from the liberal trends of the 1980s have negatively affected the interests of a few industrialized countries, on the whole these measures have been most harmful to the developing countries. Even apart from these exceptions, there have been considerable differences among the industrial countries regarding the pace and pattern of liberalization. Members of the European Economic Community and the European Free Trade Area achieved greater liberalization in transactions with partner states than in transactions with outside countries. The Anglo-Saxon countries that provided the ideological and political leadership in the drive for liberalization have implemented reforms in a more thoroughgoing fashion than other industrialized countries.

It is worth noting the difference between the pattern of reform in Anglo-Saxon countries and some others such as Austria, Germany, Japan, the Netherlands, the Nordic group and Switzerland. This difference relates to whether the measures taken represent a continuation or reversal of earlier reforms. On the whole, while most industrialized countries have followed policies to deregulate finance, transport, communications and utilities, the Anglo-Saxon countries have pursued with equal vigour measures to reduce taxes and government expenditure on social security and welfare, create flexible labour markets and promote privatization. The others have proceeded much more cautiously in these areas (Cox, 1991). This divergence has a bearing on social cohesion and economic performance, a theme which is taken up later in section VI.

### *2.2 Developing Countries*

In contrast to the industrialized countries, the adoption of structural adjustment measures represents a sharp reversal of the previous policies of state-directed modernization and industrialization in most developing countries. Although there was variation in the extent and depth of state intervention, in many countries it was pervasive and affected such areas as protection and location of industry; marketing of agricultural products; allocation of credit and foreign exchange; regulation of imports and exports, foreign investment, technology, labour markets and collective bargaining. The role of the state extended further to the ownership and management of a wide range of industrial, agricultural, marketing and financial enterprises.

Reforms started earlier and have gone farther in Latin America than in other regions of the Third World. With Chile leading, the reform process has now spread to most countries in the region, the latest converts being Argentina and Brazil. In the first phase, the reforms have focused on stabilization of the economy through control of public expenditure and increase in tax revenues, liberalization of prices, foreign trade and payments and currency devaluation. Privatization of state enterprises has come later but now forms an important part of the reform package in a number of countries. The extent and depth of reforms in Latin America reflect the severity of the crisis, the intensity of foreign pressure, the existence of influential domestic lobbies in favour of liberalization and the interplay of ideological conflicts.

In sub-Saharan Africa, on the other hand, the reform process started later and has been less consistent and thoroughgoing. The emphasis has been on price liberalization, reduction or removal of subsidies, control of state expenditure, currency devaluation and a limited amount of trade liberalization. In general, the progress in removing quantitative restrictions on foreign trade and payments has been patchier and few countries have made significant headway with privatization. In the absence of strong pro-reform domestic lobbies, the pattern and pace of reform have reflected in varying degrees the timing and balance of foreign pressure and popular domestic opposition (Helleiner, 1992). The progress in implementing adjustment measures has been slower than in other regions, in part because the ruling political, bureaucratic and military élites have a greater vested interest in maintaining state controls and ownership as sources of political patronage and personal enrichment.

In South Asia, with the exception of Sri Lanka where liberalization policies were initiated earlier, limited effort was made to reduce state controls in domestic economic activity and foreign transactions in the 1980s. More recently, however, significant steps have been taken to decontrol investment and prices and liberalize foreign trade, payments and investment. It is only in Pakistan that a serious effort is under way to privatize state enterprises. In South-East and East Asian countries, there has been less detailed state regulation of the economy. In South-East Asia, the reform efforts in the 1980s were on trade and foreign exchange liberalization, provision of incentives to foreign investment and exports of manufactured goods. Under pressure from the industrial countries, the reform process in the East Asian countries has been directed at further liberalization of trade and foreign exchange, currency appreciation, opening up to foreign investment stock exchange markets, banks and other financial and service sectors.

## 3. Structural Adjustment and Global Integration

Structural adjustment and global integration are interdependent and mutually reinforcing. While the processes of globalization gave birth to structural adjustment as a response to world economic crisis, the adoption of reform measures have in turn widened and deepened the thrust towards global integration. Driven by technological progress and spearheaded by transnational enterprises, the globalization process has been fuelled in the 1980s by measures of internal deregulation and falling barriers on foreign investment and on flows of capital and technology. The accelerating pace of global integration in the economic domain is reflected in the rapid expansion of world trade in commodities and services, of foreign investment, technology transfers, foreign exchange transactions and telecommunications. In the social and cultural sphere it is reflected in sharp growth in travel and tourism; in the establishment and meetings of world associations of professional, business, labour and other interest groups; and in the rapid spread of Western consumption patterns, and of ideas, news, fashion and music through television, radio, press and films.

A few examples may serve to highlight the rapidity of change in international exchanges. In every decade in the post-war period, trade has grown noticeably faster than output. While the volume of trade grew by 8.5, 5.0 and 4.0 per cent per annum in the 1960s, 1970s and 1980s respectively, the corresponding figures for the expansion of world output were 6.0, 4.0 and 2.5 per cent (GATT, 1990). The share of exports of goods and services as a proportion of GDP for the Group of Seven rose from 10.1 per cent in 1960-1967 to 15.4 per cent in 1980-

1989 (OECD, 1991). Trade in services has expanded even more rapidly than in commodities: between 1970 and 1990, it grew by 12 per cent per annum (UNDP, 1992).

Foreign direct investment (FDI) has played a key role in shaping patterns of trade, the international division of labour and in transfer of technology. It grew rapidly in the 1950s and 1960s. After a slowdown in the 1970s, FDI spurted ahead vigorously in the 1980s. Between 1983 and 1989 the value of world FDI flows expanded at an annual average rate of 34 per cent, nearly four times the annual rate of growth of 9 per cent in the value of world merchandise exports (Blackhurst, 1991).

Technology transfers have become important components of international consultancy service transactions. Their value, as represented by royalty payments and outright sales of technology, research and development and advisory and consultancy services, has grown exponentially in the 1980s. The share of high technology in the exports of the OECD countries has increased from over 20 to nearly 26 per cent between 1962 and 1982 (Marcum, 1984). The corresponding shares for Japan and the United States have increased from 28 to 40 per cent and from 17 to 30 per cent respectively. The global share of technology-intensive exports jumped from 21.5 per cent in 1978 to 28.6 per cent by 1988 (World Bank, 1992).

Deregulation and technological progress have also transformed foreign exchange and financial markets. The 1980s have seen a virtual explosion in foreign exchange trading. In New York, for example, trading has grown at about 40 per cent annually since 1986. By 1989, US$ 650 billion a day were being traded in foreign exchange markets around the world (Blackhurst, 1991). There has also been a sharp increase in international transactions in bond and equity markets, especially with the possibility of non-stop trading now that all major markets are linked electronically. Foreign investment in equity markets grew 20-fold in the decade from 1979 to 1989. The result was a more than doubling, from 6.2 to 14.2 per cent, in the share of cross-border trade in equities in total world stock turnover. At year-end 1989, trading by non-residents in United States government securities reached US$ 3 trillion, or roughly US$ 12 billion per day. In Germany, bond transactions involving non-residents increased on average by 43 per cent a year from 1985 to 1989 and now account for over one third of the value of all transactions in German bond markets (Blackhurst, 1991).

Telecommunications and information processing technologies have played a critical role in the globalization process in recent years. Outgoing international telecommunications traffic expanded annually by 20 per cent in the 1980s. This growth has been greatly facilitated by rapid technological progress resulting in sharp declines in charges. For instance, the cost of leasing the American half of a private transatlantic voice channel fell from US$ 12,000-14,000 a month in 1983 to between US$ 4,000 and US$ 5,000 in 1990 (Pipe, 1990). The cost of information processing dropped by about 65 per cent between 1975 and 1985 (OECD, 1988). The average cost of a three-minute call between New York and London fell drastically from US$ 54.86 in 1950 to US$ 31.58 in 1970 and to a mere US$ 3.32 in 1990 (World Bank, 1992).

Likewise, technological progress in transportation has greatly facilitated the growth of trade and tourism. The average ocean freight and port charges per short ton of import and export cargo fell from US$ 34 in 1950 to US$ 27 in 1970 and US$ 24 in 1980 before rising to US$ 25 in 1990. The average air transport revenue per person/mile fell from US$ 0.30 in 1950 to 0.16 in 1970 and 0.10 in 1990 in constant dollars (World Bank, 1992).

The relative importance of different aspects of the internationalization of the economy has changed over time. For instance, in the 1950s and 1960s, the rapid expansion of international trade was the driving force behind globalization. In the 1970s, the lead role was played by flows of capital financed by the commercial banks. The 1980s were marked especially by an explosive growth in foreign direct investment and technology flows.

Transnational enterprises (TNEs) have been at the heart of global economic integration. They have spearheaded technological progress and foreign direct investment and played a central role in international transactions in goods and services, foreign exchange and stocks and bonds (Julius, 1990). The total number of parent corporations and foreign affiliates was estimated at 35,000 and 147,200 respectively in 1990. Global sales of foreign affiliates in host countries were estimated at US$ 4.4 trillion in 1989 compared to world exports of US$ 2.5 trillion, and have grown at an annual average rate of 15 per cent since the mid-1980s (United Nations, 1992). By the early 1980s, trade between the 350 largest TNEs contributed about 40 per cent of global trade (Oman, 1991). TNEs are the main vehicles for FDI, access to foreign markets and for transfer of technology and management skills.

The role of developing countries in global exchanges has tended to shrink in recent years. The notable exceptions to this trend are a few countries in East and South-East Asia. In trade, the developing country share has declined from 31 per cent in 1950 to 21 per cent in 1989 (UNCTAD, 1990). In 1968, they accounted for over 30 per cent of the stock of world foreign direct investment. This had fallen to just over 21 per cent by 1988 (Griffin and Khan, 1992), much of it concentrated in a handful of countries. Five countries - China, Indonesia, Malaysia, South Korea and Thailand - accounted for about a quarter of all foreign direct investment. There are likely to be even greater imbalances in the transactions in technology and finance.

From the evidence presented earlier, it is clear that the world is now moving strongly towards a single market for goods, services, technology, capital and skills. It is only with respect to unskilled workers and some categories of agricultural and manufactured products that national boundaries continue to constitute effective barriers to mobility and free trade.[4] The accelerating integration of the world economy and continuing technological progress are likely to have far-reaching effects on patterns and location of production and distribution of resources within and across countries. They can also be expected to exert influence on national and international distribution of power and hence on social structures and political processes. Some of the social and political consequences of adjustment and globalization processes are taken up in the following sections.

## 4. Social Consequences of Adjustment and Globalization

The implementation of structural adjustment policies and developments in the world economy over the past decade or so have had wide-ranging impacts on poverty, income and wealth distribution within and across countries. The policies have contributed indirectly to a range of other social problems as well. Discussions on adjustment often tend to focus exclusively on issues of efficiency in resource allocation. But markets are also a mechanism for determining returns to labour, land, capital and enterprise through their effect on prices of products and factors of production. A good deal of the analysis of markets continues to be influenced by the textbook model of perfect competition. In reality, a substantial proportion of transactions is carried out in situations characterized by monopolistic, oligopolistic or embryonic markets. Individuals, enterprises and associations often have recourse to a variety of means to influence product and factor prices in their favour.

Developments in the international economy and processes of adjustment and globalization have influenced patterns of income and wealth distribution through changes in the level of economic activity and in relative product and factor prices. It was noted earlier that the anti-

[4] The growth of regional trading blocs could slow or even reverse the process of global economic integration by raising commercial barriers against non-members. In recent decades, such blocs do not appear to have caused significant trade diversion.

inflationary policies pursued by the industrialized countries were primarily responsible for a marked slowdown in the growth of the world economy over the past decade and a half. This has affected the level and distribution of income world-wide both directly and indirectly through its impact on product and factor prices. At the same time, processes of adjustment and liberalization have profoundly affected relative prices. Policies such as removal of trade barriers, foreign exchange controls and state subsidies; and price fixing; promotion of interest rate and labour market flexibility; and deregulation and privatization illustrate this. In addition, changes in the level and pattern of state expenditure and revenues have had a powerful impact on income distribution.

These policies have resulted in an intensification of competition nationally and internationally. The increase in the international mobility of capital and enterprise in particular has put great pressure on businesses to cut costs to maintain or enhance their competitive position. This in turn has been reflected in attempts to cut labour costs through mechanization, reduced wages, greater flexibility in labour markets, curbs on trade union power and improved managerial efficiency.

Despite problems of data and interpretation, there appears to be sufficient evidence to warrant the generalization that these processes and policies have contributed to a significant redistribution of income and wealth from the poor to the rich both nationally and internationally. At the international level, the inequality in income distribution worsened between 1970 and 1989: the countries with the richest 20 per cent of world population increased their share of global GNP from 73.9 to 82.7 per cent. The countries with the poorest 20 per cent of world population saw their share fall from 2.3 to 1.4 per cent (see Table 2). The ratio between the average incomes of the two groups of countries rose from 32 to 1 to 59 to 1 over the period. The Gini coefficient, a measure of overall inequality, rose from 0.71 in 1970 to 0.87 in 1989 - a figure far in excess of anything seen in individual countries (UNDP, 1992).

**Table 2**

**Global Income Disparity, 1960-1989**

| | Poorest 20 per cent (%) | Richest 20 per cent (%) | Richest to poorest | Gini coefficient |
|---|---|---|---|---|
| 1960 | 2.3 | 70.2 | 30 to 1 | 0.69 |
| 1970 | 2.3 | 73.9 | 32 to 1 | 0.71 |
| 1980 | 1.7 | 76.3 | 45 to 1 | 0.79 |
| 1989 | 1.4 | 82.7 | 59 to 1 | 0.87 |

**Source:** UNDP, **Human Development Report 1992**, Oxford University Press, New York, 1992, Table 3.1.

The redistribution of income in favour of the rich countries has not prevented a worsening of income distribution there nor even an increase in the incidence of poverty in many cases. Between the late 1970s and the mid-1980s, income distribution worsened in the eight major industrial countries, including Japan, the Netherlands and Sweden (see Table 3).

| Table 3 | | | | |
|---|---|---|---|---|
| **Trends in Income Distribution in Selected OECD Countries** (in percentages, mid-1970s to mid-1980s) | | | | |
| | Quintile | Mid-1970s | Late 1970s | Mid-1980s |
| France | Highest | 43.6 | 42.4 | 43.0 |
| | Lowest | 5.3 | 6.1 | 5.9 |
| | Ratio | 8.2 | 7.0 | 7.3 |
| Germany (FRG) | Highest | 44.8 | 39.5 | 38.7 |
| | Lowest | 6.9 | 7.9 | 6.8 |
| | Ratio | 6.5 | 5.0 | 5.2 |
| Italy | Highest | 46.4 | 40.4 | 42.2 |
| | Lowest | 5.2 | 7.4 | 6.9 |
| | Ratio | 8.9 | 5.5 | 6.1 |
| Japan | Highest | 37.8 | 38.0 | 38.6 |
| | Lowest | 8.3 | 8.8 | 8.0 |
| | Ratio | 4.6 | 4.3 | 4.8 |
| Netherlands | Highest | 37.1 | 37.0 | 38.3 |
| | Lowest | 8.5 | 8.1 | 6.9 |
| | Ratio | 4.4 | 4.6 | 5.6 |
| Sweden | Highest | 31.4 | 30.2 | 30.9 |
| | Lowest | 10.7 | 11.2 | 11.1 |
| | Ratio | 2.9 | 2.7 | 2.8 |
| United Kingdom | Highest | 38.0 | 39.0 | 42.0 |
| | Lowest | 6.6 | 6.5 | 6.1 |
| | Ratio | 5.8 | 6.0 | 6.9 |
| United States | Highest | 42.8 | 39.9 | 41.9 |
| | Lowest | 4.5 | 5.3 | 4.7 |
| | Ratio | 9.5 | 7.5 | 8.9 |

**Source:** Andrea Boltho, **Growth, Income Distribution and Household Welfare in the Industrialized Countries since the First Oil Shock**, Innocenti Occasional Papers, UNICEF, Florence, 1992, Table 12.

More recent data capturing trends in the late 1980s show the continuation or even accentuation of these trends. Between 1984 and 1987, the proportion of income going to the top quintile of taxpayers in France rose from 44 per cent to 46 per cent (Davidson, 1989). The proportion of households living below the poverty line (defined as less than average income) in the United Kingdom rose from 9.4 per cent in 1974 to 11.9 per cent in 1983 and to 20 per cent in 1988, with their numbers jumping from 5 to 12 million between 1974 and 1988. The number of children living in poor households rose from about 1.6 million in 1979 to 3 million by 1988, or a quarter of all children in Britain (Millar, 1991). In the United States, the income share of the lowest quintile fell from 5.4 per cent in the early 1970s to 4.6 per cent in the late 1980s, while that of the highest quintile rose from 41.5 per cent to 44.5 per cent. Likewise, the poverty rate, after declining substantially between 1959 and the early 1970s, rose by 4 per cent in the 1980s (Cutler and Katz, 1991).

Although comprehensive and reliable data on poverty and income distribution are scarce or non-existent for most developing countries, the available evidence points to similar trends. In most of Latin America, the incidence of poverty increased and income distribution worsened in the 1980s. A recent survey of data on Latin America concluded that " studies of Latin American countries demonstrate increasing inequality in income distribution as measured by Gini coefficients in Argentina, Brazil, El Salvador, Mexico, Panama, Peru and Puerto Rico"

(Cardoso and Helwege, 1992). After surveying data from various sources, another writer stated that “ average per capita incomes fell, while income distribution worsened in the 1980s, for almost every country for which data are available” (Stewart, 1992). Data also show that, while the 1970s saw a reduction in the incidence of poverty in Latin America as a whole from 40 to 35 per cent, this was reversed in the 1980s when the incidence of poverty rose to 37 per cent by 1989 (Stewart, 1991).

Comparable data are not available for the African region but trends in per capita income, employment, real wages and government expenditure all point to increasing incidence of poverty in the late 1970s and 1980s (Cornia and Stewart, 1990; Ghai, 1989; Jamal and Weeks, 1988; JASPA, 1988; Stewart, 1992). In its report on poverty, the World Bank noted that “ with few exceptions, the evidence supports the conclusion that poverty in sub-Saharan Africa is severe and has been getting worse” (World Bank, 1990).

In several Asian countries the proportion of people living in poverty has declined. For instance, the incidence of poverty declined from 50 to 43 per cent in India (1977-1983), from 28 to 17 per cent in Indonesia (1984-1987), from 15 to 14 per cent in Malaysia (1984-1987) and from 21 to 20 per cent in Pakistan (1979-1984), though it rose in Thailand from 20 to 26 between 1981 and 1986 (World Bank, 1990). However, income distribution seems to have worsened in recent years in many countries, including the South-East and East Asian countries.

The above changes in the pattern of income distribution and incidence of poverty in different parts of the world have resulted from developments in the world economy and policies of stabilization and adjustment. In the industrialized countries, the marked slowdown in growth in the post-1973 period has been an important factor. In combination with changes in the international division of labour and rapid technological change, it has contributed to a substantial increase in unemployment (Standing, 1989). At the same time policies to promote greater labour flexibility, such as easing or removing regulations protecting worker security and remuneration and curbing union power, have interacted with increased international competition and technological change to enhance the importance of casual, part-time and informal sector employment (Kolko, 1988). These trends in income distribution have been reinforced by regressive changes in public expenditure and taxation which, in turn, were brought about by cuts in the level and coverage of welfare programmes and increased reliance on indirect taxes and social security contributions. Summarizing surveys of income distribution and household welfare in the industrialized countries since the first oil shock, Boltho (1992) states:

> “ ... despite continual increases in public expenditure, the combined effects of shifts in spending away from major social programmes and in tax policy toward a broadly regressive position meant that in the 1980s most OECD countries spurned or severely moderated the concept of the generous welfare state that had been current during the 1960s. This was most evident in the United Kingdom and the United States, but even Germany, the Netherlands and Sweden were affected. Elsewhere, the impact may not have been as intense, but no economy went against the tide.”

In developing countries, especially in Latin America and Africa, stagnation or decline in economic activity was a major factor contributing to increased impoverishment. Its effects on incomes and welfare were magnified, as discussed earlier, by resource transfers to industrialized countries through increased debt burden, deteriorating terms of trade, declining flows of private capital and accelerating capital flight. 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; 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 (Cornia and Stewart, 1990; Jamal and Weeks, 1988; Rodgers, 1989; Standing and Tokman, 1991).

These changes have had differential effects on social groups. The burden of adjustment in most developing and industrialized countries has fallen largely on the low and middle income strata of society. Urban workers have been hit especially hard, while certain categories of highly skilled persons have been more successful in preserving their incomes. There has been a shift of income in favour of capital, especially in services and manufacturing engaged in international transactions. In the industrialized countries, the groups most seriously affected include the unemployed, new entrants to the labour force, pensioners, state officials and professional employees. On the other hand, those engaged in foreign trade and owners of property (at least until the recent slump in prices), financial assets and of enterprises successful in exports have gained relative to other groups.

In African and Latin American countries, the fall in income is not confined to unskilled and semi-skilled persons but extends much further up the skill hierarchy. In particular, middle and senior level public officials have suffered sharp declines in living standards. In most countries, peasant incomes have held up better or have declined by less than those of urban workers. Among those deriving their income from capital, the groups affected relatively favourably include persons with access to foreign exchange and owners of foreign assets; those engaged in banking, finance, property transactions; commercial, agricultural and industrial enterprises in the export business and those dealing in scarce commodities, smuggling and drugs. The losers include those producing for the shrinking domestic markets previously protected from foreign competition, pensioners, holders of fixed interest bonds and other assets which failed to keep up with accelerating inflation.

The growth of poverty and glaring inequalities in consumption have severely strained the social fabrics of these countries. Many countries have experienced a marked increase in crime, violence, smuggling and trading in illicit goods. There is also growing reliance, as part of the survival strategy, on child labour, prostitution and intensification of female labour. An increasing number of people have taken to migration in their search for employment opportunities. Social tensions have increased and these frustrations often find expression in social explosions, ethnic conflicts and growth of fundamentalist and extremist movements.

The global distribution of income and wealth will be increasingly affected by flows of capital and technology primarily through transnational enterprises. These in turn will be determined largely by the cost effectiveness of different countries as centres of production. The social, political and physical environment will also assume increasing importance in the investment decisions of global enterprises. The preferred choice will be countries that succeed in creating a hospitable climate for capital, invest in physical infrastructure, upgrade human capabilities, encourage entrepreneurial talents and foster social harmony and political stability. The next section looks at how adjustment and globalization have affected power relationships and social cohesion and solidarity.

## 5. Adjustment, Globalization and Social Democracy

Processes of globalization and adjustment have been associated with important shifts of power at the national and international levels. Internationally, the balance of power has shifted further away from the developing countries to the benefit of foreign creditors and investors, international financial organizations and industrialized countries. Among the industrialized countries, there has been a concentration of power in the Group of Seven, principally Germany, Japan and the United States. Yet everywhere the power and the reach of the state have declined. Internally, there has been a significant shift of power in favour of capital, especially that linked with the international economy, and away from the organized working class and to some extent the middle class.

The decline in the power wielded by developing countries has been mediated by the slump in commodity prices and the growth in the burden of foreign debt. Their bargaining power has been further eroded by the collapse of the communist régimes in the Soviet Union and Eastern Europe. The weakened state of the Third World is reflected in an effective transfer of decision-making in vital areas of economic and social policy to an alliance of international financial organizations, corporate capital and industrialized countries. This weakness finds a concrete expression in an ever increasing list of conditionalities attached to economic policy, social priorities, military expenditures, political systems and human rights.

Among the industrialized countries, the economic pre-eminence of the United States has declined even though its military supremacy has attained new heights. The European Community, Japan and, to a lesser extent, the East and South-East Asian countries, have emerged as rival economic powers. The smaller and medium-sized industrialized countries have become more dependent upon larger countries, especially in the context of various trading arrangements and forms of economic union. Increasingly, there is a tendency for economic and political policy to be co-ordinated by the Group of Seven.

A number of processes have contributed to the erosion of the power of the nation state. All countries have been affected, but the loss of sovereignty varies with their size and military and economic strength. The growing integration of the world economy has steadily diminished the scope and effectiveness of public policies in areas such as taxation, public expenditure, money supply and interest rates, social protection and wage policies. National autonomy has eroded even more severely for countries in regional economic and political groupings.

This limitation on sovereignty in national policy is reinforced by the international mobility of capital, enterprises, and professional and managerial staff. A corollary of this is the trend towards convergence of social and economic policy in a number of key areas of public concern. Two recent examples illustrate these points. Sweden , the pioneer of a model of social democracy widely acclaimed world-wide for economic efficiency, social justice and political participation, was forced to abandon these policies by the pressures exerted by the flight of capital and increased international competition. The sweeping reduction of taxes on corporations and wealthy individuals initiated by the Thatcher and Reagan administrations was followed by tax changes in countries around the world.

In many countries, national sovereignty is also being challenged from below by growing separatist movements based on ties of ethnicity, language, religion and culture. The three extreme examples of this phenomenon are Ethiopia, the former Soviet Union and Yugoslavia, where the process has carried through to its logical conclusion in the disintegration of the country into a number of more or less independent entities.

The countries affected by economic crisis and therefore forced to seek assistance from international financial agencies, creditor countries and commercial banks, have experienced further weakening of the power of the state. A vital part of decision-making in the social and economic domain has been transferred to foreign creditors. The squeeze on state finances has compelled governments to reduce public services, investment in infrastructure, and employment and wage levels in the public sector. The growing privatization, marketization, informalization and internationalization of the economy mean that an increasing proportion of economic activity is slipping beyond the direct control of the state. The power of the state has been further weakened by the loss of qualified officials, decline in the morale of the civil service and increase in crime, violence and lawlessness.

The above changes have also been accompanied by important shifts in the balance of power among different social groups at the national level. As noted above, the foreign investors and creditors, sometimes working in partnership with certain segments of domestic capital, have increased their power and influence in national policy-making. Likewise, the influence of domestic business groups, especially those with links or access to foreign capital, technology and markets, has greatly increased. The working class and parts of the middle classes have seen a dwindling of their power to shape national policies.

These changes are also reflected in social institutions and social movements. Some established social organizations such as the trade unions and co-operatives have declined in power and influence in many countries. In developing countries especially, there has been a significant expansion of private development associations and grassroots rural and urban initiatives to assist the basic needs provisioning and empowerment of marginalized groups. There is also a mushrooming of new movements championing a diversity of causes such as ecology, feminism, ethnic recognition, religious fundamentalism and xenophobia (Ghai and Hewitt de Alcántara, 1991).

In sum, the processes associated with adjustment and globalization have undermined the social alliance and national consensus on economic and social goals and policies established in the post-war period in both the industrialized and developing countries (Ghai, 1991; Singh, 1991; Tironi and Lagos, 1991). A new coalition of social forces underpinning and legitimizing new economic régimes has not yet fully emerged and consolidated itself in most countries. The transitional period is characterized by fluidity and uncertainty. The adverse social consequences generated by the new economic régime have diluted the social and economic content of democracy in the industrialized countries. These consequences are no doubt partly responsible for the widespread malaise and disenchantment with the political processes in these countries, as reflected, for instance, in low electoral participation and distrust of political parties and politicians.

The past decade and a half were marked by the resurgence of democracy, first in Latin America and Asia, then in Eastern and Central Europe and now increasingly in Africa and the Middle East. The temporal coincidence of economic reform with liberal democracy has led many observers to postulate an organic relationship between the two phenomena. There is, however, little theoretical or empirical justification for such a relationship. Capitalism preceded political democracy by centuries in some cases, and by decades in others. In recent history, economic régimes based on market forces such as in East and South-East Asia were characterized until a few years ago by authoritarian political systems. On the other hand, until their relatively current economic reforms, several of the democratic régimes, such as in India and Sri Lanka, have long been considered examples of highly regulated economies.

The recent upsurge of democracy has resulted from varied and complex factors in different regions of the world. Both rapid and broad-based growth as in South Korea and Taiwan, Province of China, as well as acute and prolonged crisis as in Africa and Latin America, have been contributory factors. The internal struggles for democracy in many of these countries have been reinforced by external pressures and assisted by the end of the Cold War era. Nor can one underestimate the influence of dominant ideologies propagated world-wide through a powerful media or the attraction of the western model of liberal democracy and material prosperity.

In the short to medium term at least, there are some obvious conflicts between the processes associated with adjustment and globalization and the consolidation of new democracies (Gibbon, Bangura and Ofstad, 1992; Nelson et al., 1989). The adverse social consequences described above are occurring precisely at a time when the democratic process is generating demands for additional services and resources. As it becomes increasingly difficult to meet these demands, the democratic reform is robbed of its social and economic content. Furthermore, through the weakening of popular organizations, the erosion of the middle class and dilution of institutions of civil society, the economic crisis and adjustment measures may undermine the very foundations of a democratic society. With the discrediting of socialist and radical ideologies, the frustration of popular aspirations for improved living standards may be exploited by demagogic and reactionary forces to fan the flames of ethnic conflicts and religious and cultural fundamentalism.

Some of these developments pose a threat to social solidarity and capacity for durable growth. Social solidarity is built around a widely shared vision of national objectives, due recognition of the legitimate interests of different groups, a perception that both the fruits of growth and the burdens of austerity are distributed fairly, equality of opportunities in access to social and economic services, employment and productive resources and prospects for promotion and upward mobility. The importance of social cohesion and solidarity as a determinant of the rate and sustainability of economic growth is largely neglected in the development literature (Banuri, 1991). Yet it can be argued that the existence or creation of solidarity has made a substantial contribution to the social and economic progress achieved by countries as diverse as Austria, Germany, the Netherlands, the Nordic group and Switzerland in Europe, and Japan, Singapore, South Korea and Taiwan, Province of China, in Asia.

The advent of democratic régimes provides an opportunity to create social solidarity and a national consensus to face the challenges of crisis, adjustment and growth. Ironically, just at a time when they are called upon to play this creative role, states everywhere have watched not only the steady diminution of the resources they control but also their sovereignty in social and economic matters through internationalization of their economies and societies. Power in these spheres has shifted towards transnational enterprises, international financial agencies and a handful of industrialized countries. The concentration of economic power, however, has not been accompanied by a corresponding shift in their political and social responsibilities for global welfare or in their accountability to the peoples of the world.

This imbalance is one of the greatest challenges facing the world community in the 1990s and into the next century. It appears likely that over the long haul the processes of economic and social globalization are irreversible and accelerating and that nation states are condemned to a steady and progressive erosion of their sovereignty.[5] The incapacity of the states to cope with pressing problems extends also to other areas such as the environment, traffic in illegal drugs, spread of infectious diseases, organized crime and violence. The gravity of the social and economic problems confronting the world requires a redefinition of the role and responsibilities of the major forces shaping the international economy and society. It calls for a better balance between power and accountability and resources and responsibility.

This can only come about through a strengthening and coalition of social groups committed to a better balance between collective needs and individual incentives and between economic advance and social progress. There are many groups and organizations, including workers' unions, environment movements, women's associations, human rights activists, popular development agencies as well as concerned individuals in influential strata in both developing and industrialized countries who are aware of the potentially serious consequences of the continuation of the present social and economic trends and would thus be prepared to support efforts to achieve consensus and solidarity around broad-based programmes of human

[5] There is, however, always the possibility that national crisis and pressures exerted by the globalization process could provoke reactions resulting in rolling back the advances in economic integration for limited periods.

development. Such efforts would need to extend beyond national frontiers to regional and global levels.

It is a task of the highest importance to explore the political, social and economic configurations of new arrangements to articulate and implement an agenda of reform addressing the critical social problems of the world. Some of the needs can only be met through action at the international level. Some will require initiatives at the regional level. Many problems can be handled appropriately by states at the national level. There are also likely be more opportunities for social programmes conceived and implemented at sub-national and grassroots levels. There will need to be corresponding diversity in the institutions vested with the responsibility for different programmes ranging all the way from international organizations to extended families. Religious bodies, business corporations, charitable societies, neighbourhood associations, village committees and popular development agencies can all be appropriate vehicles for initiating social programmes. The resources for implementing these programmes will also need to be tapped in novel ways from many sources. Only a reform effort of these multiple dimensions can provide the basis for a renewal of social consensus and solidarity necessary for political stability and sustainable growth on a global scale.

## 6. Conclusion

This paper has attempted to provide an integrated and global perspective on adjustment and globalization. These two processes are seen as interdependent and mutually reinforcing. The dynamics of global integration in the post-war period interacted with the economic crisis in the post-1973 period to strengthen the forces and pressures for adjustment policies. The latter, reflected in liberalization, deregulation and privatization, in turn reinforced the thrust of global economic integration in the 1980s. Structural adjustment policies originated in the industrial countries and then spread to other regions of the world. In the former, they represent both elements of continuity and break with the economic and social policies pursued in the post-war period. In the developing countries, they constitute a sharp break with the earlier policies of state-directed modernization and growing reliance on administrative methods for resource allocation. The pace and pattern of liberalization show considerable country and regional variation in the Third World reflecting socio-economic structures, the severity of the crisis, the intensity of foreign pressure and the interplay of contending social groups.

The 1980s witnessed a marked acceleration of the globalization process which extended beyond economics to embrace science, technology, culture and lifestyles. In the economic domain, it was reflected in rapid growth of trade in goods and services, of foreign investment, technology transfers, foreign exchange transactions and telecommunications. With some notable exceptions, the role of the developing countries in the global exchanges has tended to shrink in recent years. This is due in part to discrimination in the pattern of liberalization. In an era of extensive deregulation, the protection accorded to agriculture was enhanced, non-tariff barriers multiplied on some manufactured goods of export interest to developing countries and controls on immigration of unskilled persons were tightened. Nevertheless, the world moved strongly in the direction of an integrated market for goods, capital, technology and skills. The process was fueled by technological progress and mediated by transnational enterprises that increasingly became the vehicle for trade and investment and access to technology, skills and markets.

The processes of adjustment and globalization have been associated with wide-ranging social and political changes. They contributed to intensification of inequalities nationally and internationally and an increase in the incidence of poverty in most countries. The slowdown in economic growth in the post-1973 period played a major role in this. However, changes in relative product and factor prices and in patterns of taxation and expenditure exacerbated poverty and inequalities. The groups which suffered most include the unemployed, new entrants to the labour force, urban workers and sections of the middle class. The chief beneficiaries include those deriving their income from capital, especially those engaged in financial, manufacturing and commercial enterprises in the export business. The intensification of poverty and inequalities has severely strained social fabrics and accentuated social conflicts world-wide.

These changes reflect important shifts in power at the national and international levels. Internationally the balance of power has shifted further away from developing countries in favour of foreign creditors and investors, international financial organizations and industrialized countries. Everywhere the power and the reach of the state have declined. Internally, there has been a shift of power in favour of capital, especially that linked with the international economy, and away from the organized working class and to some extent the middle class.

These developments have undermined the social alliance and national consensus on economic and social goals and policies established in the post-war period in both the industrialized and developing countries. Together with intensification of poverty, they have generated a wide array of social problems. They pose serious threats to political stability and sustainable growth. Social problems need to be addressed not only in the interest of national cohesion and solidarity but also as a necessary investment for future growth. Unfortunately, nation states are increasingly both unwilling and unable to cope with the social crisis. At the same time, the economic power wielded by the new dominant forces nationally and internationally has not been matched by a corresponding shift in their political and social responsibilities for global welfare or in their accountability to the peoples of the world. It is a task of the highest importance to explore the political, social and economic configurations of new arrangements to articulate and implement an agenda of reform addressing the major social problems of the era.

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