



“Summary of article by Lance Taylor and Ute Pieper: Reconciling Economic Reform and Sustainable Human Development: Social Consequences of Neo-Liberalism” in Frontier Issues in Economic Thought, Volume 6: A Survey of Sustainable Development. Island Press: Washington DC, 2001. pp. 251-256

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## **“Summary of article by Lance Taylor and Ute Pieper: Reconciling Economic Reform and Sustainable Human Development: Social Consequences of Neo-Liberalism”**

The structural adjustment programs (SAPs) that have been prescribed by the International Monetary Fund (IMF) and the World Bank have sought to achieve higher output growth and rising real incomes in the developing world. However, the framers of these programs have given little attention to their social and environmental costs. This report is an in-depth review of the social effects of the SAP approach, with a briefer treatment of environmental repercussions<sup>1</sup>. Drawing from the report, this summary focuses on the effects of SAPs on poverty and inequality, gender relations, and education and human health.

### **The Washington Consensus**

The package of instruments used to administer SAPs in the 1980s and 1990s is guided by a set of principles known as the “Washington Consensus,” the principal focus of which has been market liberalization. The first stage of SAPs, the domain of the IMF, is the “stabilizing” period. This period is characterized by fiscal and monetary austerity; exchange rate adjustments; policy-induced relative price shifts; and the liberalization of foreign trade restrictions. This is followed by the “adjusting” period, the task of the World Bank. The World Bank urges nations to: continue trade liberalization; lower barriers to foreign capital flows; deregulate financial markets; deregulate labor markets; rationalize taxes; and privatize public enterprises. While many of these programs can be seen as successes by traditional economic measures, they have come at considerable social cost.

### **Poverty and Inequality**

Levels of poverty and inequality have changed during periods of SAPs. It is important to note that poverty and inequality are not the same, and a distinction is made between absolute and relative poverty. The concept of relative poverty is linked to distribution of income, for example by the use of a benchmark of 50% of median national income in developed countries. Some nations that do not experience absolute poverty may experience relative poverty due to large amounts of inequality.

Trends in both median national income and inequality can thus affect poverty trends. For example, relative poverty has not increased much in formerly socialist economies of Eastern

Europe which still maintain extensive social safety nets, but absolute poverty rose as real GDP declined from 1987 to 1993.

In general, there has been an overall decline in the rate of poverty incidence (percentage of households or individuals below a “given” poverty line) in the developing countries in the postwar period. This decline masks a number of significant interregional disparities. Latin America is the clearest example of an increase in poverty incidence during adjustment. The incidence of poverty in this region climbed from 13 percent in 1985 to 52 percent in 1990.

Poverty rates in Central and Eastern Europe rose dramatically during their transition, from 1 to 36 percent of the total population in the Baltics, and from 2 to 41 percent in the Slavics and Moldova. South and East Asia are the success stories from a poverty perspective; both regions achieved sustained output growth rates which are correlated with reduced poverty levels. Official figures show no upswing in poverty incidence during periods of SAPs in Africa, but these appear to be relative poverty measures which fail to reflect the full degree of absolute poverty.

Two (less-well established) global patterns can also be identified. First is the feminization of poverty in developing countries, due to explicit gender biases, a drop in agricultural production and environmental degradation in sub-Saharan Africa, and family disintegration due to male desertion and migration. The second is an increasing poverty incidence among the elderly, particularly elderly women, in the United States, due in part to rising health care costs.

While the overall incidence in poverty is falling in developing countries, inequality is on the rise in all regions except for East Asia. Income inequality is most severe in Latin America, where Gini coefficients are usually in the .5 to .6 range<sup>2</sup>. In Eastern Europe Gini coefficients rose dramatically during adjustment as well, rising from .23 to .35 in the Baltics, and from .24 to .32 for the Slavics. In Central Europe the rise was not as sharp, but a rise nonetheless, from .22 to .26. In East and South Asia the Gini coefficients are between .3 and .4. In the Middle East and Africa data on income distribution is scarce.

### **Impact on Gender Relations**

A number of empirical studies have examined the effects of SAPs on gender relations. Based on this work, a number of general patterns can be observed:

- Men and women feel the effects of these programs in practically every aspect of their lives: food price increases, declines in family incomes, and reductions in public expenditures on social and health services. These changes directly affect women’s role as principal homemakers.
- Many policies of SAPs alter the extent to which women enter the formal labor force. Examples of such policies are the general decline in employment opportunities and a withdrawal of credit and technical support to small farmers in a number of SAPs.
- The degree to which women’s productive roles are affected by SAPs is partly governed by existing social rules and gender roles, as well as by the process of class differentiation.

- Anecdotal evidence suggests that females adapt unpaid labor time to changes such as declines in household income and reductions in social sector services.
- Employment increases for women in export manufacturing sectors as a result of relative price shifts through trade liberalization. However, in most cases, this employment comes at a lower wage than that of male workers with similar skill levels.
- Depending on the public sector contraction of SAPs, women are subject to layoffs.

The evidence indicates that women are prepared to seize economic opportunities when they arise, but often such gains have arisen from previous public infrastructure investments such as services and transportation, rather than as a result of SAPs. This casts doubt on the World Bank's "investing in people" rhetoric, since macroeconomic policies are generally made without consideration for their impact on gender relations.

### **Education and Health**

A clear pattern of deterioration in social well-being has occurred during adjustment in many developing countries. While some of those losses could be lagged results of economic recessions that led to adjustment, many SAPs either had negative effects on social well-being or that they were ineffective in reversing negative effects caused by other factors.

In Sub-Saharan Africa, where data availability is a problem, nutrition levels in many countries worsened during the early phases of adjustment. No evidence was found on infant and child mortality and morbidity rates. Educational achievement was found to be declining. School enrollment expanded rapidly in the region previous to 1980, but the average enrollment ratio fell from 59 to 51 percent by 1992.

In Latin America, the education of young people is on the rise. The proportion of urban youths dropping out of schools with nine or fewer years of schooling declined between the early 1980s and 1990s. However, schooling in Latin America is generally inadequate for the bottom part of the income distribution and for rural youth. Between 70 and 96 percent from the bottom quartile will leave home with a level of education deemed insufficient for modern life. These educational patterns magnify the impact of SAPs in increasing inequality. Increasing inequality is also a key issue in the health sector in Latin America. Health expenditures are inequitable in quality and coverage, with non-poor segments of the population receiving most of the benefits of public expenditure and investment in health services.

Central and Eastern Europe have witnessed serious deterioration of their health and education indicators. A shift in dietary composition in the region has compounded a problem of a diet too rich in animal fats and starch, and too poor in vitamins, minerals, and other essential nutrients. This decline, together with worsening sanitary conditions, has led to increased outbreaks of such diseases as tuberculosis and rickets. There has been an increase in overall mortality in the region, and a growing number of indicators show that social cohesion and personal safety are under serious threat. Pre-primary, primary and secondary educational enrollment rates have fallen in most countries in the region (with the exception of Hungary).

As with gender relations, there has generally been a failure to consider the feedback effects between macroeconomic policy and social outcomes. In addition, feedback effects among different social indicators are significant, and have not been taken into account in policy formulation. A more integrated approach is needed to examine the roles of income, technology, and behavior in relation to social outcomes such as health and education.

## **Policy Recommendations**

Based on the full report, a set of recommendations emerge that can guide SAPs toward development paths that are sustainable:

- Develop policies to offset social shocks and promote social equity.
- Ease debt burdens and allow the state to play a more active role in capital formation.
- Recognize the importance of industrial strategies involving trade protection, financial market control, and corporatist deals with between the state, capital and labor<sup>3</sup>.
- Invent appropriate micro-macro links such as the coordination of macroeconomic, industrial, and educational policy.
- Provide educational and health services as well as targeted income redistribution to create the conditions for successful and equitable economic growth.
- Measures of social and gender equity, environmental quality, and similar indicators should be linked to output growth.
- Gradualism in adjustment and stabilization of capital and trade flows are needed.
- States must adopt a developmental role rather than following the neo-liberal guidelines of the World Bank and International Monetary Fund.

## **Notes**

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1. Environmental impacts of SAPs are dealt with in detail in Reed (this volume).
2. The Gini coefficient, or Gini ratio (the terms are used interchangeably) ranges from a minimum of 0 at perfect equality to a maximum of 1 at perfect inequality. A larger Gini coefficient indicates a society that is farther away from perfect equality, or in other words a more unequal society. Gini coefficients range from .23 for the most equal European countries to about .60 for Brazil, the most unequal major country. For an extensive discussion of measures and trends in inequality, see Ackerman et al. eds., The Political Economy of Inequality (Frontier Issues in Economic Thought, Volume 5; Washington, D.C: Island Press, 2000).
3. Historically, such non-liberal intervention has been associated with rapid growth in South Korea and other successful capitalist economies.