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Neoclassical Reform in Practice

After some three decades of structural adjustment, we now have ample data by which to judge neoclassical theory in action. Proponents of structural adjustment can point to test cases that illustrate the virtues of reforms that roll back the state and free up the market. Not surprisingly, they often draw their examples of successful reform from the same list of countries they held up as examples of unsuccessful or at least questionable state-led development, such as Mexico, India, and Ghana.

Overall, however, the results of structural adjustment have varied widely. From among the welter of cases one can draw the following general rule: structural adjustment programs have done the most good in Latin America, and the least good in Africa. Breaking structural adjustment into its various components and studying their results closely can help to explain this discrepancy. Upon such examination the theoretical weaknesses or oversights of the neoclassical approach come to light. In addition to the moral concerns raised by structural adjustment, namely that SAPs have worsened the plight of the poor and deepened injustices in third-world societies, there appear to be serious economic and political drawbacks to neoclassical reform. It appears that neoclassical theorists, in focusing on the virtues of rolling back the state, overlooked some of the problems this process would beget.

The Dividends of Structural Adjustment

At first glance, the evidence that structural adjustment has done its job seems compelling. Mexico approached structural adjustment reluctantly, but a deepening economic crisis in the mid-1980s led the country to move fully into currency devaluation, tight fiscal and monetary policies, and trade liberalization. For the first couple of years, conditions worsened and gross domestic product fell, but not everyone was losing out. In the first year of liberalization, nonoil exports rebounded 41 percent. The economy began to turn around in 1988, and by 1991 inflation was down, investment and foreign-capital inflows were up, and growth was healthy.[1] The 1994 free-trade agreement with the United States and Canada then provided a further fillip to growth. In 1995, however, the booming stock market collapsed. This highlighted the risks of a recovery based largely on foreign investment. When foreign investors began to doubt the Mexican government's ability to sustain the political and economic situation, especially in light of rising political violence and instability, they retreated en masse, pulling the carpet out from under the peso and threatening the economy with collapse. The government responded with a strict austerity program, but survived the crisis only because foreign creditors, notably the United States, offered the government billions of dollars in credit to shore up the peso and restore investor confidence.

One Latin American country whose SAP depended less on foreign backing was Chile, which is today considered the world's best advertisement for structural adjustment. Local investors dominated the stock market more than in Mexico, so Chile was relatively safe from a Mexican-style collapse. As in Mexico, the first years of the neoclassical experiment in Chile, begun in 1973, yielded misery and few signs of growth, but by the early 1980s matters had started to improve. Subsequently, Chile's growth rate became one of the world's highest. New jobs have materialized to replace those lost, and exports have increased. Nor have the gains been concentrated in the primary sector: new products make up much of the increase in exports. Agriculture is becoming more advanced as new technologies are adopted. To top it all off, Chile has managed to improve its social indicators.[2]

India was, comparatively, a late adjuster. After the assassination of Prime Minister Indira Gandhi in 1984, her son Rajiv Gandhi came to power and began appointing technocrats who shared a vision to remodel the economy. However, the reform process tended to stop and go for a few years, after which the Congress Party spent a few years out of office. It was only after the Congress Party returned to power in 1991, when the government faced a balance-of-payments crisis, that things really changed. P. V. Narasimha Rao succeeded Gandhi, and his finance minister, Manmohan Singh, instituted India's version of shock therapy.

The country's notorious protective barriers began to tumble: the maximum import duty was cut from 250 percent to 50 percent, and growth, which was almost stagnant in 1991–1992, was up to 5 percent a couple years later.[3] By the late 1990s, parties right across the political spectrum had united behind the new economic agenda. Significantly, the agricultural economy, in which most of the country's population lives and operates, has been largely untouched by liberalization, which has targeted the industrial sector.

Ghana was one of Africa's early adjusters, and also one of those that remained most faithful to the International Monetary Fund–World Bank recipe, thus earning itself generous aid and credit. By the late 1970s its economy was in dire straits. On the last day of 1981, Jerry Rawlings led a coup that brought a group of radical military officers to power, but the economy resisted his government's initial efforts to turn it around. The Rawlings government soon changed course and raised producer prices, phased out subsidies on agricultural inputs, increased tariffs on public utilities and services, devalued the currency, and cut government spending. Price controls were abandoned, import licensing was eliminated in 1989, privatization was begun, and the public sector was cut back. Results came right away: growth resumed and continued at more than 5 percent for the rest of the decade, investment and savings rose, and export volumes increased, with cocoa exports expanding by 15 percent from 1983 to 1988, and volumes for other commodities doing even better.[4]

Like Ghana, Turkey was a fairly early adjuster. While Tunisia and Egypt began trying ingredients in the neoclassical recipe as early as the late 1960s, serious reform largely would not begin in the Middle East for another generation, after the 1991 Gulf War.[5] However, in Turkey, a balance-of-payments crisis prompted the adoption of a structural adjustment program in the 1980s. The Middle East's most famous state-led development strategy was then transformed by devaluation, the liberalization of trade and payments regulations, the abolition of price controls, the elimination of subsidies for state economic enterprises, tax reform, and other policies that shifted economic activity toward exports and the private sector. Initial results were encouraging. The economy rebounded, inflation dropped, exports and especially manufactured exports rose, and the country's foreign-exchange constraint disappeared.[6]

These apparent successes aside, structural adjustment is not without its failures. Within a few years, Turkish economic growth fell back and the export boom was offset by even faster-rising imports. While to its boosters Ghana may be an African success story, to its detractors the data conceal more than they reveal. It has long been said that Ghana succeeded because it had to. As Africa's test case for structural adjustment, it could not be seen to fail, so foreign backers pumped aid and credit into the Ghanaian economy in order to sustain its recovery. In the absence of this official foreign investment, it is unlikely its economy would have fared so well, because domestic investment remained rather flat[7] (much the same has been said of the "successful" structural adjusters of the Middle East).[8] Given that first-world governments have been slashing their aid budgets for years, it is unlikely that they will fill the gap in other African countries as they did in Ghana. Ghana may find the odd imitator, such as Uganda, which after 1987 also received strong foreign backing for its equally successful retrenchment program, but these countries remain the exception rather than the rule in Africa.

Africanists have been among the harshest critics of structural adjustment, and they can draw on a wealth of evidence to argue that it has done more harm than good in Africa. The aggregate evidence shows that during the 1980s, the decade when structural adjustment began across much of the continent, growth slowed and agricultural output failed to keep pace with population growth, leading in turn to increased food imports; manufacturing did not increase its share of total output, investment dropped, consumption plummeted, per capita incomes declined, and unemployment rose.[9] In fairness, neoclassical theory did anticipate that a decline would often precede a rebound, as economies weeded out their inefficiencies. Nevertheless, by the end of the century, a strong economic recovery had yet to materialize in Africa. The continent moved to the forefront of the concerns of politicians, academics, and rock stars alike, who saw it as the part of the world that had become most marginalized in the global political economy. The most sanguine assessment now appears to be that if structural adjustment did not cause Africa's current economic woes, nor did it cure them.[10]

However, proponents of structural adjustment contend that things might have become even worse had African governments not imposed structural adjustment. This is possible, but a glance at Nigeria, Africa's most populous country, reveals that SAPs, though positive in some respects, did not yield all their anticipated gains, and produced some unexpected and undesired consequences. Although cocoa production rose under structural adjustment, cocoa processing by local plants did not. This was because many of the inputs used by those plants, such as spare parts and technical expertise, were imported from abroad and thus had their prices boosted by currency devaluation. Any increase in Nigeria's gross domestic production resulted from expansion in the primary sector. Growth in manufacturing has, if anything, been held back: whereas in the early years a layer of new export manufacturers appeared to be developing,[11] this dynamism soon ran out of steam.[12] While industries enjoying comparative advantage did prosper, as anticipated by neoclassical theory, the gains were offset by retrenchment and an accelerated fall in capacity utilization.[13] Meanwhile, many large firms have closed down, while small firms, despite improved access to credit, have fared poorly. They have suffered from rising input costs, the contracting domestic market, and the lack of linkages to large firms that might otherwise have shifted from imported inputs to local sources to reduce their input bills.[14] These findings have remained consistent over time, with even the most recent research continuing to reveal a largely unchanged picture of industrial decline.[15]

That Nigeria has increased its primary production, but not the value added to that production in the local economy, is a finding echoed elsewhere in Africa.[16] There may be more farm output, but not more industrial processing of that output, the products being exported raw. Moreover, there is reason to expect the situation to get worse. Cuts in government spending are hindering human-capital formation and development of the skilled-labor pool, managerial talent, and engineering capacity. This obviously jeopardizes future industrial development.

This bodes ill for the future, because it puts countries back into the syndrome they tried to break out of long ago when structuralists first identified the problem of declining terms of trade. Development theorists may debate hotly whether the terms of trade for third-world countries are inclined to decline over the long term,[17] but it seems clear that successful development usually arises when economies not only increase their exports but also alter the composition of those exports—that is to say, when they develop and build export industries. Demand for third-world primary commodities, especially those from Africa, is generally rather inelastic: as their prices go down, or as first-world incomes go up, demand for the goods does not increase very much, or increases only to a point. Therefore, increased output soon floods the world market. In this way, Ghana's increased cocoa exports were more than offset by falling world prices.[18] Future revenue will need to be generated by new industries, and not just in the primary sector, but these industries are apparently not emerging in Africa today. Furthermore, whereas in Africa the gains of structural adjustment have been concentrated in the primary sector, it is not clear that those gains will last: investment has lagged, and in some cases increased production costs have led input consumption to decline.[19]

The question, then, is why did broadly similar policies yield apparently successful results in Latin America, yet do so little good in Africa? We can begin to tackle this question by dissecting structural adjustment and looking at its results.

Fiscal Austerity

Fiscal austerity programs, which were designed to restore macroeconomic stability to economies sorely lacking it, generally succeeded in meeting this goal. As a rule, inflation and interest rates came down and local demand was cut.

However, neoclassical theorists may have been mistaken in assuming that such macroeconomic stability would necessarily lead to resumed growth; little evidence has emerged to justify the assumption.[20] Instead, economies often remain sluggish despite the propitious conditions. Even the World Bank came to admit that SAPs could stabilize plummeting economies without necessarily putting them back on the road to growth.[21]

Neoclassical theorists may have placed too much faith in the potential of a free market. Inflation and high interest rates are not the only conditions that inhibit investment; lowering them appears to be necessary to increasing economic activity, but not sufficient. Increasingly it appears that government spending often complements private spending, with private investors waiting for the government to make the first move. For instance, a private company might not build its planned factory until the government has built a road and provided electricity and plumbing to the site. Lance Taylor has shown that, whereas neoclassical theorists contended that government spending crowded private investors out of the market, at least some government spending seems to "crowd in" private investment.[22] The trick is to maintain or increase that type of spending while reducing inflationary spending. In contrast, sweeping government cutbacks can do more harm than good to long-term development prospects, especially if they eat into infrastructure development. In many African countries, highways have potholes large enough to swallow small cars; telephones do not always work, and even when they do, reaching the intended receiver is a hit-or-miss pastime; and electricity can fail without warning. Running a business, let alone getting the goods to market or obtaining supplies, is frustrating and costly. Local investors eschew manufacturing, and foreigners avoid the country altogether. The neoclassical faith that "openness" would suffice to attract foreign investment now appears mistaken, as foreign capital tends to pursue those opportunities that, more often than not, are created by government policies.[23] Clearly more rather than less government spending is required, even if cuts can be made in other branches of government. The trick, it is increasingly agreed, is to make spending "better" rather than searching for some optimal level of public-sector spending.

Demand compression, which in addition to lowering inflation was supposed to free goods for export, at times has had unintended consequences. In Niger, demand compression not only caused a recession, but also did not produce an appreciable increase in exports.[24] Bangladesh had similar problems.[25] The reason is that the goods produced by local firms could not find markets abroad. This is often the case in third-world countries, where goods made for local consumers are crude, simple, of low quality, or geared to local tastes and fashions. In some third-world countries, for instance, hand soap leaves a film in the water, lacks perfume, and is sold in big, unpackaged blocks. This makes it affordable to local consumers, but unattractive to consumers in richer countries who are less price-sensitive and have more sophisticated tastes. As for those firms that were exporting, in Bangladesh they produced exclusively for the export market, so reductions in local demand did not free more goods for them to sell abroad.

Privatization

Privatization has arguably been the least effective of the elements of structural adjustment. Unlike fiscal austerity, which can be useful when imposed in a discriminating manner (cuts in some budgets, increases in others), privatization seems to recommend itself only in relatively specific circumstances.

The Weak Case for Privatization

The belief that privately owned firms will by definition operate more efficiently and productively owes more to ideology than to economic logic. There is no question that by the late 1970s many public-sector firms all over the world had become poor performers; but the causes of poor performance were largely circumstantial, and not a direct result of public ownership.

In any event, it is questionable that public firms should be judged by the same criteria as private firms. Efficiency (the ability to produce maximum output with minimum input) and financial performance (budget-related items like profitability) provide the standard measures of firm performance. In general, these are fair standards, and many third-world public firms, with their bloated staffs, high budgets, unused production capacity, heavy debts, and consistent losses on their operations, have all too often stacked up poorly.

However, these measures often fail to capture some of the particular tasks taken on by public firms. To begin with, the state must often tackle market failures or deficiencies. Monopoly, when there is only one seller, and monopsony, when there is only one buyer, are common in the third world. For example, many peasant farmers deal with traders who are either monopsonists or organized into oligopsonies. These traders often offer producers low prices and provide credit at extortionate rates, raking in excess profits that may then be sent abroad or used for luxury consumption rather than investment. This raises concerns not only of justice, but also of economic efficiency, because the profits might be more productively invested by the farmers themselves. In such cases, the government can intervene by creating a public firm. Even if the firm does not meet ordinary standards of quality, it may improve the economy by fostering competition.[26]

State firms may also confer beneficial externalities on the economy. Such externalities emerge when the costs of a product or service are concentrated in one firm while its benefits are spread throughout the economy. Private firms will avoid such undertakings, investing in something only if there is reasonable assurance of eventually recovering their costs. A common example of such an externality is human-capital formation, which is largely neglected by private markets in the third world. Often, the best way to develop a pool of engineering talent is to create an engineering firm; technological capability can be improved by creating a firm that specializes in research and development. Especially in less-developed economies, the costs of such firms will often exceed their revenues. However, if in the meantime a pool of engineering or scientific talent is built up, which can then be exploited by the private sector, the net gain to the economy may well outweigh the investment. This occurred in Brazil, where poorly performing public firms helped create technological capability,[27] and in Taiwan, where they helped foster industrial development and diversification by building up new industrial sectors.[28]

A private firm will ignore a subsector that is important to national development if the returns are too low and the risks too high, or if the firm is simply too conservative to venture into new territory.[29] In Côte d'Ivoire, for instance, the Banque Ivoirienne de Développement Industriel's unrecovered loans eventually drove it into bankruptcy, but not before it had funded the creation and expansion of many successful local private ventures. These ventures would probably not have developed otherwise, because the foreign-dominated private banking sector avoided Ivoirien entrepreneurs in favor of safe investments in large multinational corporations.[30] In this case, the losses incurred by one firm, the bank, were made up several times over by the gains of the firms to which it loaned money.

However, even if we ignore that there can be legitimate economic reasons for a government to maintain inefficient, loss-making firms, there is actually little evidence to suggest that public firms are intrinsically given to poor performance. It is not self-evident that private firms will be more efficient than public ones,[31] nor that private investment will be more productive than public investment,[32] and there are many cases of third-world public firms providing exemplary models of efficiency and productivity.[33] What seems to govern the quality of a firm's performance is less who owns it than who runs it, the conditions under which it is run, and the structure of the industry in which the firm is located. In most cases in which public firms perform poorly, their performance can be improved without privatization.

It may be that the managers of a public firm are incompetent political appointees. Privatization can help clean out such an administration, but so can changes in the way appointments are made. It may be that a public firm's mandate is so extensive, or that its hands are so tied by such things as price controls, that it cannot hope to recover its costs. African marketing boards have often been handicapped this way.[34] Deregulating such firms and allowing them to operate as private agents can improve their performance. Laxity on the part of a firm's administration may arise from a practice such as "soft budgeting." This occurs when the state covers the losses of a firm out of public revenue, thereby eliminating the careful spending habits imposed by fear of bankruptcy. Severing the firm's links to the state and fixing its budget can help impose such discipline. If the inefficient public firm in question is a monopoly, it can enjoy the laziness afforded any monopoly, public or private. In such a case, privatization merely shifts the monopoly from one agent to another that is even less accountable to the public. A more promising solution is sectoral reform, such as creating a rival company in order to inject competition into the industry. In all the above cases, public-sector reform seems at least as likely as privatization to improve the performance of the firm in question. Where reform has been used instead of privatization, the results have been positive.[35] But the bulk of evidence now seems quite clear that although privatization can yield productivity gains in competitive markets—those least needing reform—there is much less evidence (not to mention ambiguous theory) to support privatization's benefits in monopoly markets;[36] if it is to be effective, privatization needs to take place within a framework of competition and effective state regulation.[37]

The Case Against Privatization

In general, reducing the public sector to expand the private sector appears to exercise little impact on development.[38] Not only does privatization result in less improved firm performance and less accelerated economic development than hoped, but it also seldom raises much money for the governments selling the public firms,[39] which are sometimes sold cut-rate for political reasons, perhaps to favor friends of the government. The latter might encourage rent seekers and at the same time worsen income distribution within the economy.[40] Meanwhile, money-losing firms must be sold at a loss; profitable firms may earn the government a good price, but less than they might have earned over the long term in dividends.[41]

However, the argument against privatization does not rest solely on the claim that it seldom does much good. In some cases it may even hinder development. It may consume resources that could be used more productively for other purposes: the money that investors use to buy shares in privatized firms might do the economy more good if it were used to create new firms.[42] Especially in the case of large-scale privatization programs, attracting investors into the purchase of public firms may crowd out investment in private firms at a time when capital is in short supply. It is instructive that the former Soviet bloc's most dynamic private sector, in Poland, emerged not from privatization but from the creation of new firms.[43]

In principle, therefore, privatization seems to offer little to third-world countries. Public-sector reform, coupled with policies to encourage new private investment, seems the best policy. However, there are times when political conditions may preclude the implementation of such policies, and privatization emerges as the best option. This point has been made in reference to the former Soviet bloc, in particular to Russia. According to some scholars, governments there did not have the option of releasing firms into a market economy, because they first had to create such an economy from scratch. Meanwhile, the immense bureaucracy of the state-industrial sector could not always be trusted to cooperate in any effort to reform the public sector and thus undermine its own power base. Faced with such conditions, several governments judged crash privatization programs to be the best means to leap rapidly from state socialism to a market economy.[44] In a similar vein, African elites who have used public corporations to distribute gains and thereby build up political support networks may be unwilling, or unable if they have extensive political commitments, to reform their public sectors.[45] There may also be situations in which public firms need fresh influxes of capital in order to complete their reforms, but are unable to obtain this capital without selling some or all of their shares. Even in these situations, however, it is best to reorganize public firms, turning them from state- to market-oriented enterprises before selling them off. Relying on the private sector to do this may be a mistake.[46]

Trade Liberalization

Trade liberalization, which is meant to improve resource allocation and firms' efficiency while increasing exports, has produced more mixed results than has privatization. Earlier neoclassical work argued for a strong link between trade liberalization and growth, but the more recent empirical research finds that, in general, the connection is ambiguous at best.[47] Comparing aggregate data to case studies, the best conclusion seems to be that trade liberalization can do some good to an economy, but only if carried out in a discriminating manner that takes account of both local and international demand and supply conditions.

For starters, the world economy is dominated by the highly protected and subsidized economies of the first world. First-world governments can go to great lengths to shelter their own industries, and will impose quotas on third-world exports if they undercut those of their own producers. Mahbub ul Haq has estimated that the revenue the third world loses to first-world protectionism may be ten times greater than what it gains from first-world aid.[48] Presently the IMF, the World Bank, and first-world donor agencies can compel third-world governments to liberalize their foreign trade when they apply for assistance. This opens the third world to trade but has little impact on the trade policies of first-world countries.

When import liberalization forms part of a coordinated worldwide strategy, as in the World Trade Organization, the world economy is likely to grow in response. Poor economies may not fare so well, however, because they have not yet developed industries that can take advantage of the improved access to foreign markets, and the arrival of cheap imported goods may discourage local entrepreneurs from moving into industry. Moreover, when individual countries liberalize trade on their own, as SAPs prescribe, the benefits of trade liberalization become even more suspect. At best, it is unclear that liberalization of this sort improves economic performance;[49] even its proponents find a weak correlation between liberalization and increases in exports.[50]

Nevertheless, it seems that as a country develops, exports can further fuel its development, and trade liberalization can facilitate this process. Successful episodes of trade liberalization in Brazil, Chile, Argentina, and Uruguay, resulting in improved exports and productivity, seem to confirm this.[51] Equally, growth in India's manufacturing sector and in its exports has outstripped the already healthy economic growth rate achieved under trade liberalization; similarly, Turkey's exports, especially its manufactured exports, have surged under liberalization.[52] However, liberalization may not generate similar benefits everywhere. Whereas it exercises a positive impact on the efficiency with which firms operate, this effect apparently becomes negative when liberalization is begun at an early stage of a country's economic growth.[53] Evidence also suggests that trade liberalization will be most effective if it is implemented after a country has built up its industrial export sector.[54]

From this one may infer that trade liberalization is most effective in relatively industrialized economies. Moreover, liberalization will not itself bring about such industrialization: contrary to the neoclassical position that opening up to trade and exporting will accelerate development, it appears that increased exports do not so much cause development as result from it.[55] Increased output and the development of new goods and services seem not to be affected as much by trade policy as by other policies. It is telling, then, to contrast the successful instances of trade liberalization mentioned above with the experiences of African countries, where trade liberalization has been unsuccessful, and even harmful. Although the World Bank defends trade liberalization as applied to Africa against its many critics, arguing that evidence of deindustrialization is not yet conclusive, the Bank nevertheless admits that Africa's export performance has been disappointing.[56] What distinguishes the African experiences with trade liberalization from those of the Asian and Latin American cases mentioned earlier is that in the latter, liberalization followed a lengthy period of sheltered state-led industrialization; in the former, this period did not last very long and industry remained relatively immature. It is telling that studies of the impact on growth of "openness"—low barriers to, and high volumes of, trade and foreign investment—find that when investment is disaggregated from trade, trade's positive impacts become much less significant.[57] This apparently reinforces the view that trade liberalization will yield the best results in countries with the capital base sufficient to take advantage of it.

This sheds new light on the role of the state in economic development, partially redeeming import substitution's protection and subsidizing of industry. The policy of sheltered industrialization, as advocated by the import substitution model, may not have sufficed to develop third-world economies, but it did build firms and industries that could later take advantage of the shift to liberal trade policies. The principle of nurturing industries that will later export is often referred to as the infant-industry model (IIM), which differs from import substitution in its attempt to build up an industrial base, not to supply the local market but to move into the export market.

IIM and the neoclassical model differ in their conceptions of comparative advantage. Neoclassical theorists see trade liberalization as the best way for an economy to realize its comparative advantages, but they tend to concern themselves only with static comparative advantage, that is, the comparative advantages existing in the economy at present. In contrast, IIM aims to develop new skills and capacities, and thus focuses on what is called dynamic comparative advantage—comparative advantage that does not presently exist but could be developed by the state.

IIM will be discussed further in the next chapter. Yet even if one rejects IIM and argues that governments should only concern themselves with realizing static comparative advantage, it still may not follow that trade liberalization will on its own accomplish this. For example, Lesotho, a small mountain kingdom surrounded by South Africa, enjoys a comparative advantage in the production of wool and mohair. However, Lesotho's rugged landscape has a much less developed infrastructure than does South Africa's. Moreover, the streets of Lesotho's capital, Maseru, are lined with stores belonging to South African retail chains. South African producers therefore enjoy better access to markets and distribution outlets, which lowers their costs of production. For Lesotho to realize its comparative advantage in the production of wool and mohair would probably require that the government invest in infrastructure and facilitate distribution.[58]

Critics of trade liberalization do not usually advise against pursuing it at all, but rather against pursuing it too soon. Before producers in poor countries can take advantage of trade liberalization, the government must first improve the operation of markets, develop infrastructure and human capital, and possibly foster new firms or industries. Otherwise, trade liberalization will have little positive impact, as illustrated by the Nepalese case.[59] Worse yet, there is a risk that in such circumstances trade liberalization may do what it has done in much of Africa: drive budding firms out of business.[60] Even after these developments have been effected, the government should retreat from the economy slowly and cautiously, ensuring that investment does not drop and infrastructure does not deteriorate.[61] India's liberalization of its television industry offers a successful example of this kind of phased or selective withdrawal. The government liberalized trade, but at the same time assisted small producers in order to keep the industry from getting oligopolized by a few large producers.[62]

Domestic Market Liberalization

If the benefits of import liberalization in the correct circumstances are clear, domestic market liberalization, or getting the prices right, has been a different matter. The new political economy argued that third-world output of primary products was sluggish because farmers were paid too little for their products, the state having skimmed off so much for urban and industrial development. According to this logic, reducing state involvement in the economy, liberalizing trade, and devaluing the currency would cause producer prices to rise and output to increase. Today, few theorists dispute the basic principle put forth by the new political economy that peasants respond positively to price incentives, all other things being equal. The problem is that all other things rarely are equal in much of the third world, and certainly not in Africa, where the new political economy was considered most relevant.

Policies of domestic market liberalization have been adopted all over the third world, so that there is a substantial pool of evidence by which to evaluate the experiment in getting the prices right. By and large, the results have not been encouraging: the desired results either did not materialize or produced unforeseen and damaging consequences.

It is now clear that farmers will not respond to price increases unless they have access to a good transportation infrastructure: better prices for their products mean little to farmers if they cannot get those products to market. In addition, farmers need inputs that might not be available on a free market. Among these are affordable credit, cheap land and labor, and subsidized seed and fertilizer. Poor farmers frequently lack the capital to make the initial investment in export crops, and will continue to rely on subsistence production unless the government assists them in the transition. Once the transition is made, government-sponsored research and development—whereby extension workers in field stations promote the adoption of new technologies and train farmers in their use—are needed to further development. Farmers also need incentives to expand their output or shift from subsistence to cash-crop farming: increasing one's income does little good if there is nothing to spend that extra income on, and readily available consumer goods are among the important incentives to production.[63]

Too great a withdrawal by the state can reduce the availability of all these inputs and incentives and worsen already inadequate infrastructures. While government retreats in some areas, such as marketing and price setting, it may need to advance in others, such as infrastructure development, credit provision, and extension. For instance, in several African countries market liberalization brought new traders into the economy, which heralded greater competition and thus higher prices for farmers. However, because capital was hard to obtain, few traders could make the leap from petty to large-scale trade, and the risk was that a few traders would oligopolize or even monopolize the market: a few families, rather than the state, would skim off revenue.[64] Much as India did with its television-manufacturing industry, African governments may need to intervene to assist the development of their markets and help traders to acquire capital, if they want domestic market liberalization to work.

On balance it appears that responses to price factors are greater in more-developed than in less-developed countries,[65] and Africa's experiences seem to confirm this. In general, export-crop production did not respond as favorably to price increases as had been hoped, and most of the increase in agricultural output resulted from food production, which is less expensive for farmers. Structural adjustment was not necessarily bad, but it needed more state intervention to become effective. As things stand, production costs remain too high for many farmers; intermediaries, free from competition or effective regulation, are absorbing price increases.[66] All in all, it is in the least-developed economies that the state will have to intervene most effectively if domestic market liberalization is to have any positive impact.

Currency Devaluation

The new political economy advocated currency devaluation as one means to raise producer prices. At first glance the benefits of devaluation to agricultural output appear unquestionable. In Ghana, for example, the 1980s devaluations prompted remarkable increases in exports. However, closer examination reveals the gains to be less than they at first appear, and devaluation can in the meantime create problems.

To begin with, by raising the prices of imported inputs, devaluation can hurt urban industry. This may not be all bad. Those industries that rely heavily on imported inputs and produce for the local market will suffer, but one can argue that they place a drain on the economy and offer it few spinoff benefits, because their connections to it are so minimal, given that they buy few of their inputs locally. On the other hand, those firms that finish local inputs for export will become more competitive; they may expand their output, increase demand for local inputs, and thereby benefit the economy as a whole.

Nevertheless, each firm will factor the increased cost of its imported inputs into the prices of its finished goods. If, for example, a firm that makes plastic goods has to pay more for imported petroleum, it will recover its increased costs by raising the prices on the plastic goods it sells. This causes a shift in society's revenue. Urban consumers and food-producing farmers will pay higher prices but get little compensation in the form of higher incomes; their condition will worsen. Meanwhile, profit earners and export-crop farmers will be better off. The former are obviously rich to begin with, and the latter tend to be so as well, since farmers usually need to be relatively prosperous before they can become involved in export cropping. This matters because profit earners and prosperous farmers often have a lower propensity to consume than do the other groups. This shift of income may reduce overall consumption and cause the economy to contract.[67]

This is still not so bad, if we assume that, instead of consuming more, these higher earners will invest more, presaging future development, and that in the meantime export revenue will make up for the contracting domestic economy. This, after all, is what devaluation is meant to do: shift resources to more efficient producers who will increase export revenue.

In sub-Saharan Africa, this is where the sequence appears to stop. Devaluation appears to have done little to stimulate exports from the region; the markets for its goods lie primarily in the first world, where demand is relatively inelastic. Devaluation increases output, and increased output lowers world prices, but these lower prices do not translate into increased demand the way they might for other goods.[68] Meanwhile, devaluation and removal of subsidies on inputs causes inflation, owing to the jump in import costs. This effect is accentuated when farmers use a good deal of imported inputs, such as fertilizer.[69] Inflation may then erode the gains in producer prices. In 1994, for example, Côte d'Ivoire's currency was devalued and coffee and cocoa prices rose 50 percent, but the price of insecticides rose 60 percent. Similarly, studies in Kenya, Tanzania, and Zimbabwe found that rising input prices offset producer-price increases, dampening hopes that market liberalization would bring substantial increases in output.[70]

It also appears that the new political economy overestimated the degree of currency overvaluation prevailing under old regimes,[71] given the existence of parallel and black markets. Many travelers to third-world countries have experienced the hectoring of black-market currency traders offering better exchange rates than those set by the government. In other words, the official exchange rate prior to devaluation may not have been the rate prevailing in all of the economy. The same goes for output figures. Of the increases in output attributed to devaluation, some, perhaps most, result not from new production, but from the reentry into formal circulation of goods previously smuggled.[72] During the 1970s, for example, many Ghanaian cocoa farmers smuggled their crops across the border into Côte d'Ivoire, because the Ivoirien marketing board offered higher purchase prices than did the Ghanaian board. Once devaluation took effect in Ghana in the 1980s, not only did all these farmers begin selling to the Ghanaian board again, but many Ivoirien farmers joined the cross-border flow as well. Given our growing knowledge of informal and parallel markets,[73] it seems the new political economy overstated the detrimental impact of government policies on agriculture.[74] Such policies might not have decreased output so much as increased secrecy. In sum, the apparently positive changes produced by currency devaluation and state withdrawal may be exaggerated.

Should one conclude from all this that devaluation does no good? Perhaps not. In India, although devaluation hurt domestic industrial producers, for whom the cost of imported inputs rose, it led to a spurt in industrial exports.[75] As with other elements of the neoclassical strategy, it appears that devaluation can yield positive gains, but perhaps only in economies with strong industrial bases, and then only if the government intervenes to mitigate the effects of inflation or decreased consumption,[76] as well as to help producers take advantage of price changes. Still, all things considered, it appears that the benefits of devaluation are, in most cases, modest at best.[77] Given, too, that one of devaluation's key effects is to undercut the prices on the goods sold by competitors in other third-world countries, there is a case to be made that its chief beneficiaries are consumers in the first world. Seen this way, devaluation begins to emerge as one of the less effective weapons in the neoclassical arsenal.

The Abolition of Marketing Boards

The abolition of marketing boards sometimes helps to liberalize domestic markets, and sometimes does not. African marketing boards were often monopsonies under no pressure to bid up the prices they offered farmers. In Ghana and Nigeria, marketing boards underpriced the goods they were buying, which led farmers either to stop growing cash crops or to smuggle those they produced. In theory, abolishing such monopsonies would allow a competitive market to emerge, increasing the prices paid to farmers and in turn encouraging them to increase their output.

To be fair, not all African marketing boards performed so badly. For example, Côte d'Ivoire's cocoa and coffee marketing board offered its farmers sufficiently attractive prices to prompt increasing output year after year, even while it was skimming off revenue used by the government to build up the industrial sector. But such success stories were the exception rather than the rule in Africa. Nigeria's experience with abolition, which gave way to a competitive market that raised prices and pleased farmers, seems to affirm the virtue of state withdrawal from marketing.[78]

However, other countries lack Nigeria's history of competitive private trade. State withdrawal does not always give way to a free and competitive market: small and immature in comparison with those of the first world, third-world markets are more likely to be distorted and imperfect.[79] A traditional or family network, operating as a monopsony, may dominate trade; this problem is common in Africa.[80] Even in one of the more-developed African countries, Côte d'Ivoire, a small number of distributors dominates the large market for printed cloth *(pagnes),* and their conservative behavior vis-à-vis suppliers serves as a sort of "private protectionism" against market entry by outsiders.[81] Equally, in rural India the crumbling bureaucracy does not enforce the laws governing agricultural contracts, so entrepreneurial families fall back on trust and reputation when entering contracts. Given that these can take generations to form, and rely on personal acquaintances working together, only those potential entrepreneurs within established family or caste networks can enter the market as traders.[82] At the same time, farmers can be especially weak. If they live in outlying regions, far from markets, they may have to sell to intermediaries who can charge high transport fees. The poor can be especially vulnerable on grain markets: unable to wait for a better price, they must sell during harvesttime when prices are low, and buy later in the season when prices are high.[83] In such cases, price increases might not reach the producers but are instead absorbed by small, privileged groups, who might even deposit their gains abroad.[84] When there is such pronounced market imperfection, "reregulation" offers more promise than deregulation.[85] In all such cases, what is needed is not less government but more effective government. Whereas proper regulation is essential, even small interventions, such as providing a bicycle to an outlying village so that someone can go to a market center and negotiate with traders in a competitive environment, can make big differences.

It is difficult to say how widespread these sorts of market imperfections are in the third world, because little research exists on the subject.[86] What does exist suggests mixed results,[87] and the safe rule would probably be to err on the side of caution and assume that all markets, at least in the less-developed countries, are guilty until proven innocent. Yet aside from their role in reducing market distortion, marketing boards can perform other important functions. One is the marketing of goods eschewed by private traders: in Africa, private traders often find subsectors such as cotton and bulk-food crops unappealing, so it falls to the state to market them.[88] A second function is market integration. Markets in poor areas are often highly segmented, again a common problem in Africa: price changes in one region will not work their way into others, so price incentives might not always reach the people they are intended to benefit. By establishing uniform national standards, marketing boards can help to integrate national markets.[89]

One of the most important functions of all is price stabilization. A completely free market in primary goods will reflect the vagaries of world commodity markets, with their sometimes violent price swings. Peasant producers are often more concerned with risk than with price, and will avoid growing crops whose price fluctuations are great, because they may not be able to take the risk of a bad year from fear of indigence or even starvation. By narrowing price fluctuations into a predictable range, marketing boards can encourage farmers to begin growing export crops that will earn the country foreign exchange.[90] For example, in India a marketing board stabilizes coffee prices, whereas cardamom is sold on a free market. Attracted by price stability, farmers have consistently augmented their investments in coffee production, thereby expanding output; in contrast, the cardamom market has remained sluggish.[91]

Admittedly, marketing boards are not always the best means to stabilize commodity prices.[92] Even when they are, they need not be the monolithic structures they have sometimes been in Africa. In Indonesia, the rice board purchases or releases less than a tenth of marketed output in any given year, and this modest intervention suffices to mop up excesses or keep the market stocked, effectively stabilizing prices.[93] The Indonesian approach may not work in many African countries,[94] but the Ugandan government employed a similar strategy in retaining the coffee marketing board after 1986 while allowing other marketing firms to compete with it. Producer prices rose and services to farmers improved, output picked up as a result, and today the state marketing board controls only 30 percent of the market.[95] However, as Kenya's experience shows, in the absence of selective state interventions to facilitate market entry, new firms might have a hard time entering into competition with a marketing board, even after liberalization,[96] in which case monopsony power will persist.

In short, marketing boards can still play an effective role in third-world economies, albeit on a smaller scale than was often the case in the past. And to encourage the growth of competitive markets, a measure of state intervention may be needed.

Retrenchment and Deregulation

Neoclassical theory holds that retrenchment and deregulation should improve the economy's operation. Reduced spending should minimize the crowding-out effect on private investment, and financial deregulation should increase the availability of credit. Deregulated labor markets should also function more effectively. In addition, paring back the state should reduce opportunities for corruption, resulting in the economy's resources being used more effectively than in such unproductive activities as rent seeking.

Crowding Out Versus Crowding In

Lance Taylor has cast doubt on the crowding-out hypothesis by arguing that not all government spending crowds out private investment. Some crowds it in. Moreover, when public investment does crowd out private investment, it does not always do so in a one-to-one ratio.[97] Because of the new demands it creates in the private sector, public investment can in many cases provide an economy with net gains—a boost in economic activity greater than an unregulated market might have achieved.

Although the term "crowding in" belongs to Taylor, the idea that government investment can spur private investment goes back to John Maynard Keynes, and recent studies have lent weight to his hypothesis.[98] In particular, research in several third-world countries has revealed public investment to be a key, and sometimes *the* key, determinant of growth in agriculture; retrenchment has had negative effects.[99] However, this is not an argument for across-the-board spending increases: Taylor himself acknowledges that not all government spending spurs private investment.[100] Nevertheless, it is mistaken to assume that reducing the state will always expand the market. Moreover, when governments choose to invest, it is best if they raise money through taxation rather than borrowing, and thereby soften the impact on interest rates.[101]

Another cautionary note is in order. Third-world governments have often cut their investment budgets by reducing their education spending, which often consumes a large share of a government's budget. However, it appears that future growth in world trade may favor goods with a higher human-capital content than in the past—in other words, sophisticated products rather than unprocessed primary goods.[102] Cutting education spending may save money today, but slow a country's development and thus cost it dearly.[103]

Financial Deregulation

Financial deregulation can raise rather than lower credit costs if banks choose to lend money to firms rather than invest in them. Requiring banks to invest directly in firms, and possibly also in long-term bonds rather than stocks, as Germany does, will cause capital to be used more efficiently.[104] When financial institutions make direct and long-term investments in firms, they encourage long-term development rather than short-term ventures geared to high dividends. Deregulation must also take account of the international environment. In the 1980s, deregulation in Latin American financial markets resulted in a massive flight of capital abroad, until domestic interest rates rose above those of first-world countries. But because the latter rates were at historic highs, the consequent leap in the cost of credit depressed investment.[105] Additionally, deregulation will yield few gains if the institutional framework to mobilize domestic savings is either absent or immature. In most African countries the private sector remains too immature to generate sufficient investment locally,[106] so the state must fill the breach. Finally, "crash" deregulation, as tried by Chile in the 1970s, can produce an overheated credit market, leading to a crisis and at worst a crash.[107] As we shall see in the next chapter, financial liberalization of this variety has been held at least partly responsible for the 1997–1998 Asian crisis, which caused so much pain in third-world countries. As with other aspects of structural adjustment, the lessons of all these cases are that effective reregulation is preferable to blanket deregulation, and that whatever deregulation takes place must be accompanied by state interventions to develop local credit institutions and maintain competition.[108]

There is an added drawback to financial deregulation. Like so many other structural adjustment measures, it appears to worsen income and wealth distribution. It is common knowledge that in any country, rich borrowers with well-established credit ratings get "prime" rates, whereas ordinary borrowers, particularly first-time borrowers with no credit history, must pay a premium on the interest rates at which they borrow. But where the differential in a first-world country might be a few percentage points, in the third world it can be huge. In Zimbabwe, for instance, thanks to credit deregulation, established businesses were able to borrow on foreign markets: first-world creditors were happy to lend to well-capitalized third-world investors because they could earn higher returns there than they did lending to investors at home. Consequently, such established borrowers were able to obtain interest rates as low as 5 percent, whereas small entrepreneurs borrowing locally paid interest on the order of 50 percent.[109] The purpose of state banks, even poorly performing ones like the Ivoirien development bank, has often been to provide credit to such small and medium-sized entrepreneurs, who can be very efficient but suffer from their lack of access to credit.

Labor Market Deregulation

Labor market deregulation is expected to depress wage rates by reducing controls on them. Lower wage costs should in turn attract new investment and increase employment. However, if wages drop too low, local demand can follow, reducing demand for firms' output and erasing some of the gains lower wages are meant to bring investors.[110] The answer seems to be to find an optimum level at which firms preserve their advantages on both the local and the international market. This may require some form of wage regulation, but this need not be harmful. One literature survey on the subject concluded that minimum-wage rates in the developing world have caused little in the way of labor-price distortions.[111] Indeed, there appear to be cases in which minimum-wage rates actually reduce distortions.[112]

Tackling Corruption

Although it seems logical that reducing the state should in turn reduce opportunities for rent seeking and corruption, this seems to be a case of "it depends." Barbara Harriss-White did research in India that provoked a second look at the new political economy's theory of rent seeking.[113] It may be, as the new political economy presumes, that rent seeking is economic and top-down: governments create regulations, like quotas, that offer opportunities for rent, and entrepreneurs pursue them. In that event, rolling back the state will eliminate such opportunities. Entrepreneurs will give up their rent seeking and devote their resources to other, preferably more productive, activities.

However, it may be that instead of originating within the state, some types of rent seeking may emerge from society. Rather than being top-down and economic, rent seeking may be bottom-up and political. It may arise at times from a competition for power in which people bid for resources controlled by the state. In such cases, rolling back the state will not reduce rent seeking but will drive up the prices of the resources or positions of power being sought, because their greater scarcity will stiffen competition for them. This may change the balance of power within the state and strengthen the position of the wealthy and well connected. Along these lines, Jean-François Bayart maintains that corruption in Africa is indeed bottom-up: even if a politician wants to be honest, the pressure from his or her supporters is so great that political survival, and in some cases physical survival, depends on using his or her position in the state to dole out favors.[114] Reducing the size of the state might not eliminate the competition for its resources, but rather make it keener and possibly violent.

The findings are too tentative to offer any basis for conclusions, but they do raise intriguing questions that deserve study. It may come to light that rent seeking is related more to a certain type of politics than to a malfunctioning economy. If so, this would certainly prompt a rethinking of the new political economists' theory of rent seeking and directly unproductive activities.

Why the Failures? Theoretical Perspectives on Structural Adjustment

At the heart of the failings of structural adjustment lie some weaknesses in neoclassical theory. Some of the foundations on which the theory is built are questionable, particularly its microeconomic principles.[115] For example, neoclassical theory is rooted in the assumption that humans are rational, self-interested, profit-optimizing creatures. Yet there is growing evidence that individuals in third-world countries may be more likely to "satisfice" than maximize. This means they satisfy some minimum requirement, thereafter turning their time and resources to other pursuits. If this is so, basing policies on the assumptions of profit maximization may backfire. For example, freeing up the market in order to maximize returns might not attract new entrants, because a free market might present not only high returns, but also high risks. Potential entrants who fear that their basic goals might not be reached may then stay away. In this case, government intervention to minimize risk, as in the example of the marketing board given earlier, may be more desirable than a completely free market.

Humans as Rational Actors

The assumptions that humans are rational and self-interested remain controversial as well.[116] There is good cause to doubt that people are consistently rational, and people may well behave in a self-interested manner less frequently than neoclassical theory assumes. The new political economy attributed the urban-biased industrialization strategies of third-world countries to the interests of governing elites, but the development policies adopted by postcolonial states were often influenced as much by ideology as by self-interest.[117] A fallback position that Robert Bates has used is to acknowledge such influences while trying to incorporate them into a rational-choice perspective.[118] An example is to suggest that an individual with altruistic desires is still making rational calculations in the way he or she seeks to satisfy those desires. This recalls the views of philosophers such as Ayn Rand who insist that individuals who enjoy sacrificing themselves for others are no less selfish for it: after all, they only do what brings them pleasure. This, however, is dubious logic. For example, research on the motives of those who sheltered Jews during the Holocaust has revealed that they did not employ any kind of moral calculus in making their decision, but were motivated by principles that stood above calculation and compelled them to act with little second thought.[119] Although there may not be an economy of affection, there certainly appears to be a society of one, whose rules will at times clash with those of the economy. Basing policies on the assumption that humans behave in a rational and self-interested manner may yield undesirable consequences. For example, in recent years some first-world governments have instituted performance targets, with financial and other rewards used to improve the performance of their civil servants. However, older civil servants complain that this weakens the sense of service that used to be strong in the state bureaucracy, because employees are rewarded not for looking out for the taxpayer but for themselves.

Many sociologists and anthropologists contend that humans do not behave as individuals, but as members of collectivities. For example, a person's cultural background is often said to influence the way he or she behaves.[120] Such academics resist grand theories and argue that each community will develop its own rules of operation: what works in the West will not necessarily work elsewhere. In particular, they often consider rational utility maximizing to be a learned behavior inculcated in Western societies, whereas third-world peoples are more likely to operate in an "economy of affection"[121] in which other goals—family and community obligations among them—take precedence and can even conflict with those of individual advancement.

Furthermore, add such theorists, just as we cannot expect other peoples to behave the way we do, we cannot apply the same principles to judge their behavior. For example, an influential school of thought has grown up around French writer Jean-François Bayart, who maintains that corruption in Africa is not such a bad thing, but merely forms part of the practice of politics in Africa.[122] As disorganized, harmful, and immoral as corruption seems to the Western observer, Bayart suggests it is just the African way of settling questions over who gets what, which is the crux of politics. Moreover, he adds, it actually works pretty well in drawing most people into the political system. Structural reform to eliminate state inefficiency and improve the operation of the market will therefore probably be futile, because the behavior it is trying to eliminate is not dysfunctional and the goals of reform may not be feasible.

However, the views that humans are products of their cultures, and that cultures differ so widely that it is not possible to generalize about human behavior, do not go uncriticized. The suggestion that neoclassical theory engages in a sort of intellectual imperialism that pays little attention to the peculiarities of third-world cultures must be balanced against the fact that many third-world academics reject such an assessment. Indeed, many third-world economists are themselves neoclassical theorists. And Bayart's position has been condemned for endorsing a sort of fatalism, or even an admiration for severe abuses of power.[123] Nevertheless, these cultural perspectives do raise questions that development theory must always keep in mind.

Differences Between the First and Third Worlds

Neoclassical theory also tends to assume that there is a fundamental similarity between first- and third-world economies, and this may be a mistake. In the third world there are arguably more serious market imperfections,[124] and there is more dualism. Highly modern urban industrial sectors coexist with backward rural areas, where the same economic rules do not apply. There is also more market fragmentation, as mentioned previously in the discussion of market integration.[125] The combined effects of dualism and fragmentation can be seen in the operation of third-world urban labor markets. Ordinarily, high wages attract job seekers. As the supply of job seekers increases, the market reaches equilibrium, wages drop, and job seekers must look elsewhere. However, in many third-world countries, where the level of education is low, few people have the training necessary to perform difficult manufacturing jobs. Thus, increasing the supply of labor does not affect wages, and one finds the peculiar third-world phenomenon of what has been called cities of peasants: large numbers of people leaving the countryside and flooding into cities, looking for jobs that do not exist, while a small number of skilled workers continue to earn relatively high wages.[126] Such problems often demand government action to integrate markets, build up human capital, and encourage the development of labor-absorbing production technologies.

Third-world countries also must deal with the problems peculiar to technological latecomers.[127] Most production technologies originated in the first world, where consumers demand highly differentiated, highly promoted, and highly packaged goods. Supermarkets stock dozens of brands of toothpaste, all fundamentally the same but with cosmetic and packaging differences. However, third-world consumers need cheap, relatively undifferentiated goods: one toothpaste, abundant and inexpensive, will do. New types of technology may be needed to produce such goods, but this may necessitate market protection during an evolutionary period.

Perhaps most important, in the third world, capitalist firms are not the only, or even the principal, economic agents. Whereas firms respond to price incentives, other agents behave differently. For example, third-world households respond to price incentives, but they filter these incentives through traditional or structural arrangements. To cite one case, in parts of sub-Saharan Africa women cultivate food but men decide how the farm's revenue will be spent. In such circumstances, increasing producer prices might not cause women farmers to increase their output, because they will not see the fruits of their labors, and could better devote their energies to other tasks.[128] Not surprisingly, feminists have written some of the most vigorous criticisms of neoclassical theory, arguing among other things that neoclassical assumptions about individual behavior overlook the laws and customs that often restrict third-world women's control of money, property, and their own employment.[129]

Non Sequiturs in Neoclassical Theory

In addition to flawed assumptions, there are problems in the way neoclassical theorists put together their critique of statism. Some neoclassical theorists have been given to building straw men that they then set out to burn down, in the process not doing justice to the statist schools with which they took issue. For instance, Deepak Lal used the Indian case of planning to pillory development economics, but almost everyone agrees that the Indian case was one of bad planning, and few development economists stand by it.[130] Thus, to infer from instances of bad planning that planning is intrinsically bad is a non sequitur. John Toye puts it aptly that evidence of bad planning in some countries does not constitute "a general case against the use of economic controls, any more than a leaky pipe constitutes a general case against water engineering."[131]

Other non sequiturs in neoclassical theory result from deducing practical prescriptions from idealized models, which is always a risk in economics. For example, whereas perfect competition increases efficiency and productivity, it does not follow that in the real world, which is never perfect, more competition is better than less.[132] Even some neoclassical writers admit that the faith in competition lacks empirical justification.[133] Rather, it appears that the government must manage competition if it is to be made effective.[134] Therefore in the third world, switching to a market-oriented development strategy may require not a reduction in the state but an alteration of it.[135] In contrast to the neoclassical assumption that the economy is characterized by a public-private competition for resources, with any increase in one sector's activities necessitating a decrease in the other's, it now appears that under some circumstances the two increase or decrease together. State and market are often symbiotic rather than conflictual.

Flaws in the New Political Economy

Finally, the new political economy, which seemed to offer a persuasive explanation for the failures of state-led development strategies in Africa and Asia, is now seen to be riven with flaws. In arguing against state exploitation of agriculture to build up urban industry, it overlooked those cases in which such a rural-urban transfer actually managed to build up industry without retarding agriculture, as in South Korea or—at least until civil war broke out—Côte d'Ivoire. The new political economy overstated the cohesion and power of urban interest groups in their defense of protectionist development strategies. Sometimes it also misjudged the actual interests of those groups, expecting urban industrialists to favor inward-looking development strategies and rural elites to favor reform, whereas in fact sometimes the opposite relationship prevailed. The rural-urban dichotomy also captured little of the reality of African society, where much of the population lives in two economies simultaneously, with young men in cities sending money back to their farming families in the country.[136]

Presented with such critiques, even initial proponents of the new political economy came to see that interest groups exercised less influence on policy than they supposed, and they accepted the role of such things as ideology.[137] Nationalism, in particular, can be used to prod people to forgo the material benefits of development for a time in order to allow a nation to build up its wealth.

Yet interest groups do have influence. At times they have frustrated reform policies that went against their perceived interests.[138] As Chapter 7 shows, there have also been times when interest groups have played key roles in underpinning shifts to reform. However, the common thread through all these cases appears not to be the geographic group identity—urban versus rural—put forth by the new political economy, but a class identity. Some rural groups, such as commercial farmers who produce export crops, might favor reform; others, such as small food producers, might not. Some urban groups, such as public-sector corporations and uncompetitive firms that produce for the home market and rely on imported inputs, might oppose reform; others, such as export manufacturers who purchase mainly local inputs, might not. And even when they share common interests, such groups must be organized in such a way that they recognize their common interests and act on them in a coherent manner. What emerges from this view of political economy is not an urban-rural dichotomy but a more complex melange of classes and class factions, the alliances they form, the positions of influence they obtain within the state, and the hierarchy of power within the bureaucracy. As we will see in Chapter 7, studying such class politics may help us go further in understanding the way governments behave and the effectiveness with which they do so.

The Moral Critique of Structural Adjustment

On New Year's Day 1994 the world woke to the news that a small, hitherto unknown band of peasant rebels had begun an uprising in Mexico. Here, in the midst of one of the supposed success stories of structural adjustment, was a throwback to a revolutionary age many had presumed dead. For the Zapatista National Liberation Army, named after Mexico's great revolutionary hero Emiliano Zapata, the suffering of Mexico's peasantry had apparently become unbearable.

Though unique, the Zapatistas found parallels elsewhere. Almost every country that has pursued structural adjustment has seen its own share of strikes and riots in response to deteriorating living standards and rising unemployment.[139] In a few cases, unrest became so serious that governments had to retreat from their adjustment programs. This points us in the direction of one of the most contentious issues related to structural adjustment. Whatever its overall results in any given place, structural adjustment has profoundly, even traumatically, altered the economies of the third world. Although there is some debate about this,[140] most observers believe that poverty in the third world grew worse in the early years of structural adjustment. Education cutbacks drove many students out of school; market liberalization raised food prices, worsening malnutrition;[141] rapid growth rates coexisted with high indigence rates.[142] In these and other ways, conditions for the world's poor seemed to worsen in the dying years of the twentieth century.

Yet all the while, many grow rich. It is not that structural adjustment reinforces existing divisions by helping the rich and hurting the poor. Rather, SAPs reshape society: some poor rise, such as peasant farmers selling export crops, while some rich fall, such as rent seekers.[143] On balance, however, the results of most studies seem to point to a worsening in the distribution of wealth.[144] As the twentieth century came to a close and the twenty-first began, the global aggregate evidence suggested that incomes as a rule were beginning to rise across the planet (although huge regional variations obviously existed). Nevertheless, the gains were not evenly distributed, and some were clearly benefiting more than others—an effect that seems particularly acute in poorer compared to richer countries.[145]

In its early days, neoclassical theory was able to live with this. As Friedrich von Hayek always argued, income inequality leads to innovation and investment, whereas income redistribution hinders these activities. Thus, heightened inequality is the price that must be paid for development. One may add that Hayek, and other neoclassical liberals such as Robert Nozick, do not even see income inequality itself as a bad thing; they hold that leftist critics rely on an unjustified assumption that material inequality is unjust.

Assuming material inequality to be morally neutral, leftist theorists would still condemn it for its economic drawbacks. Whether income inequality raises investment and hence growth in rich countries, it appears to have the opposite effect in poor ones.[146] Furthermore, it not only reduces the size of the local market, but may equally hinder human-capital formation because poor families cannot afford to give their children full educations. Leftist theorists tend to believe that there is no trade-off between growth and welfarism, often citing Sri Lanka as a country that achieved growth with redistribution.[147] However, their arguments seldom convince skeptics, who maintain that, over the long term, investment yields more growth than does welfare expenditure, and thereby brings greater benefits to future generations. Yet the growing inequality of wealth and income all over the world provokes the question: For whom is development being engineered? If development is measured by such indicators as increases in gross domestic product, the gains of structural adjustment may be beyond dispute, at least in some cases. Yet most development theorists have long agreed that economic growth must translate into gains for the population at large in order to be considered development.

Defenders of structural adjustment argue that not all the economic ills of the last two decades can be blamed on structural adjustment. They refer to the problem of the counterfactual, namely the possibility that things would be even worse had structural adjustment not been implemented.[148] As to the unequal distribution of wealth caused by structural adjustment, its defenders maintain that, over the long term, the gains in economic productivity these policies produce, assuming they materialize, will trickle down to the population. In answer to the question "Development for whom?" neoclassical thinkers such as Hayek have always answered, "For future generations."

This answer poses a couple of problems. One is the apparent paradox in development theory that assumes that individuals are motivated by self-interest, but that relies on their forgoing that interest for the sake of future generations. As for the trickle-down hypothesis, this may not be valid in the third world. Given, for example, dualism and the operation of labor markets, in many cases gains do not work their way down. A more likely scenario is that which unfolded in recent years in South Korea. Once the country attained a relatively high level of development, the population began to demand that the gains of development be redistributed by the government. This was a political rather than a market-driven distribution process. In any case, it takes a generation or more for the gains of development to percolate down to the mass of the population.

Nations or other groups may well choose to make such sacrifices for future generations. The South Korean government, for one, used nationalist ideology to appeal for self-denial on the part of its people. But such a recourse to public opinion has seldom preceded structural adjustment. Whereas in the first world it was elections that prompted the shift to neoclassical economic policies,[149] in the third world such policies were often imposed from above, often under donor pressure and in the face of popular anger. In India and in some Latin American countries, governments must at least win continued electoral support to stay their course, but others, especially in Africa, have not mobilized public support for the changes taking place.

As we will see in Chapter 6, it is not only morally and politically just for such policies as structural adjustment to arise from the demands of the people they affect, but it also makes sound economic sense. When a consensus in favor of reform is established, a program is more likely to yield positive results.

There are, finally, sociological and political dimensions to the moral critique of structural adjustment. Some political scientists have watched the retreat of the state with anxiety. In much of Africa, traditional structures have reappeared to fill the breach and perform such tasks as policing. Some Africanists regard this trend favorably, seeing in it a return to the traditional African village-centered way of doing things.[150] But in more urban settings, especially where such traditional community structures are long dead, state retreat has produced less benign effects. Rising inequality appears to be threatening the consolidation of democracy in the third world. And in some Latin American and Caribbean countries it seems to have fed the rise of drug gangs and increased lawlessness. In many countries, growing marginalization and the increasingly unequal distribution of wealth appear to have fueled ethnic conflict and the rise of Islamic militancy, especially if certain groups perceive others to benefit at their expense.[151] Not only do such results threaten the quality of life for many people, but the rising instability is arguably starting to jeopardize future development as well.

Indeed, this aspect of structural adjustment appears to have done the most to sensitize neoclassical theory and its practitioners to the need to be attentive to the social impacts of structural adjustment. Since political instability can be bad for the economy, economists are growing more mindful of the need to develop policies that benefit everyone, most particularly the poor. Most of the studies on the causes of inequality tend to attribute it to a skills gap, which raises the value of skilled labor (of which the third world has a relative scarcity) and diminishes the value of unskilled labor (in which the third world is comparatively abundant).[152] Increasingly, both economists and the World Bank alike are calling for policies that direct more of the gains of structural adjustment to the poor;[153] to the extent that the skills gap will need to be plugged, this will require an expanded role for the state in education. The glib optimism of the past—that the free market, left to itself, would deliver the gains of structural adjustment to all citizens—has given way to a more realistic assessment of the ways in which the state must intervene to enhance the operation of the market for the purposes of both economic efficiency and political stability.

Conclusion

Several conclusions can be drawn about neoclassical reform. The first is that the state must be brought back into development, even if only to make structural adjustment more effective. Second, the less developed a country is, the greater appears to be its need for state intervention. Rather than set the state against the market, as the development debate has traditionally done, the two need to be made to complement one another. It seems that statist policies, properly implemented, can help a country in the early stages of its development, after which a gradual opening to the market, enhanced by selective state interventions, should follow. In a rough analogy, the state should perhaps behave like a parent, who nurtures a child best not by stifling it, but by preparing it to go off into the world on its own.

Third, one of the lessons of neoclassical theory is that state interventions must enhance rather than repress the market. They must work with the market, improve its operation, and help it to reach its potential, rather than undermine it as some earlier statist policies tended to do. Fourth, material incentives such as high producer prices are important, though perhaps not as important as supposed by neoclassical theory, which considered them the key stimulus to economic development. Other factors, such as a national consensus in favor of development, and organization within those groups underpinning the state's change in policy direction, are likely to play a key role in successful development. All in all, we can say that the neoclassical critique provided a useful rejoinder to the statist theories it targeted, but that the neoclassical revolution has itself now entered its reformist phase.

Some evidence suggests that there is no reason to assume that less government leads to faster growth. In fact, if there is any relationship between the two, it may even be that in the aggregate, more government leads to more growth.[154] This is hardly a new claim—structuralists, among others, have been making it for years. Although they may have been inclined to think of themselves as Cassandras during the heyday of the neoclassical assault in the 1980s, those who advocate a strong state role have since come back in from the cold. At the same time, the neoclassical critique has had a lasting impact on development theory. State-led development of the old variety, with a low regard for markets, enjoys few advocates today. Instead, what has emerged is an ever broader consensus that calls for governments to do what they do well, and markets to do what they do well: neither more nor less government, but better government. In some cases, that may entail less government, whereas in others—especially the least-developed countries—it may well entail more. But the standard for measuring what constitutes the optimal level of state intervention in the economy has arguably shifted from an ideological one based on prima facie attitudes toward the public and private sectors to a pragmatic one based on the actual developmental requirements of a particular context. In some respects, the development debate has thus become less polarized and more technocratic. But as we shall see in the next chapter, this does not mean that ideology has left the development debate. Rather, it has taken on new forms, as a new form of radicalism emerges to replace the declining leftism of the state-led age.

Notes

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2. On Chile's experiences with structural adjustment, see A. R. M. Ritter, "Development Strategy and Structural Adjustment in Chile, 1973–1990," *Canadian Journal of Latin American and Caribbean Studies* 15,30 (1990): 159–195; Polo Diaz and Tanya Korovkin, "Neo-Liberalism in Agriculture: Capitalist Modernization in the Chilean Countryside During the Pinochet Years," *Canadian Journal of Latin American and Caribbean Studies* 15,30 (1990): 197–219.

3. *Newsweek,* 13 February 1995.

4. Douglas Rimmer, *Staying Poor: Ghana's Political Economy, 1950–1990* (Oxford: Pergamon, 1992), chap. 8.

5. Roger Owen and Şevket Pamuk, *A History of the Middle East Economies in the Twentieth Century* (London: Tauris, 1998); Joel Beinin, "The Working Class and Peasantry in the Middle East: From Economic Nationalism to Neoliberalism," *Middle East Report* 29,1 (Spring 1999): 18–22.

6. Owen and Pamuk, *History of Middle East Economies,* chap. 5; Birol A. Yeşilada and Mahir Fisunoğlu, "Assessing the January 24, 1980, Economic Stabilization Program in Turkey," in *The Politics of Economic Reform in the Middle East,* edited by Henry J. Barkey (New York: St. Martin's, 1992).

7. Newman K. Kusi, "Ghana: Can the Adjustment Reforms Be Sustained?" *Africa Development* 16,3–4 (1991): 181–206. Slow growth in the domestic-savings pool has also been a problem in Malawi. See Ben Kaluwa, ed., *The Structural Adjustment Programme in Malawi: A Case of Successful Adjustment?* Southern Africa Political Economy Series, Monograph no. 3 (Harare: Southern Africa Research and Documentation Centre, 1992).

8. Karen Pfeifer, "How Tunisia, Morocco, Jordan, and Even Egypt Became IMF 'Success Stories' in the 1990s," *Middle East Report* 29,1 (Spring 1999): 23–27.

9. Armand Gilbert Noula, "Ajustement structurel et développement en Afrique: L'expérience des années 1980," *Africa Development* 20,1 (1995): 5–36.

10. David E. Sahn et al., *Structural Adjustment Reconsidered* (Cambridge: Cambridge University Press, 1997); Farhad Noorkabash and Alberto Paloni, "Structural Adjustment Programs and Industry in Sub-Saharan Africa: Restructuring or De-industrialization?" *Journal of Developing Areas* 33 (Summer 1999): 549–580.

11. See Katharine P. Moseley, "Seizing the Chance: Economic Crisis and Industrial Restructuring in Nigeria," in *Beyond Structural Adjustment in Africa: The Political Economy of Sustainable and Democratic Development,* edited by Julius E. Nyang'oro and Timothy M. Shaw (New York: Praeger, 1992).

12. Tom Forrest, personal communication, 22 June 1995.

13. Anthony Enisan Akinlo, "The Impact of Adjustment Programs on Manufacturing Industries in Nigeria, 1986–1991: A Sample Study," *African Development Review* 8,1 (June 1996): 61–96.

14. For details on the impact of structural adjustment in Nigeria, see T. Ademola Oyejide, "Adjustment with Growth: Nigerian Experience with Structural Adjustment Policy Reform," *Journal of International Development* 3 (1991): 485–498; T. Ademola Oyejide, "Structural Adjustment and Its Implications for Financing Small Enterprises in Nigeria," *Small Enterprise Development* 2,4 (1991): 31–39; Bola Akanji, *Cocoa Marketing Under Nigeria's Structural Adjustment Programme,* Monograph no. 1 (Ibadan: Nigerian Institute of Social and Economic Research, 1992); Yusuf Bangura, "Structural Adjustment and De-industrialisation in Nigeria: 1986–1988," *Africa Development* 16,2 (1991): 5–32; Jonathan Dawson, "Responses to Adjustment: The Marginalization of Small Enterprises in Nigeria," *Small Enterprise Development* 5,2 (1994): 18–24.

15. See, for example, Ifeanyi Onyeonoru, "Globalisation and Industrial Performance in Nigeria," *Africa Development* 28,3–4 (2003): 36–66.

16. See, for example, Kusi, "Ghana." Also, in Tanzania, agriculture has

grown but capacity utilization in the industrial sector remains low. See Ibrahim Shao, *Structural Adjustment in a Socialist Country: The Case of Tanzania*, Southern African Political Economy Series, Monograph no. 4 (Harare: Southern Africa Research and Documentation Centre, 1992). In Mali too, the increase in growth that resulted from structural reform was due mainly to an increase in traditional exports, and this in turn resulted from increased production rather than heightened productivity. See Yves Bourdet, "Economic Reforms and the Malian Economy," *Africa Development* 27,1–2 (2002): 25–61.

17. For recent contributions to this debate, see Pasquale L. Scandizzo and Dimitris Diakosavvas, "Trends in the Terms of Trade of Primary Commodities, 1900–1982: The Controversy and Its Origins," *Economic Development and Cultural Change* 39 (1991): 231–264; John T. Cuddington, "Long-Run Trends in 26 Primary Commodity Prices: A Disaggregated Look at the Prebisch-Singer Hypothesis," *Journal of Development Economics* 39 (1992): 207–227; Michael Bleaney and David Greenaway, "Long-Run Trends in the Relative Price of Primary Commodities and in the Terms of Trade of Developing Countries," *Oxford Economic Papers* 45 (1993): 349–363; Prabirjit Sarkar, *Terms of Trade of the South vis-à-vis the North: Are They Declining?* Discussion Paper no. 304 (Brighton, England: Institute of Development Studies, 1992); Dragoslav Avramovic, *Developing Countries in the International Economic System: Their Problems and Prospects in the Markets for Finance, Commodities, Manufactures, and Services*, Occasional Paper no. 3 (New York: Human Development Report Office, 1992); Timothy M. Shaw, *Reformism and Revisionism in Africa's Political Economy in the 1990s* (New York: St. Martin's, 1993), chap. 5. See also Syed Nawab Haider Naqvi, "Development Economics: The Winds of Change," *Pakistan Development Review* 31 (1992): 341–363.

18. Donald Rothchild, ed., *Ghana: The Political Economy of Recovery* (Boulder: Lynne Rienner, 1991), p. 10.

19. This appears to have been the case in both Kenya and Ghana. See Peter Gibbon, "A Failed Agenda? African Agriculture Under Structural Adjustment with Special Reference to Kenya and Ghana," *Journal of Peasant Studies* 20 (1992): 66–71; Peter Gibbon, Kjell J. Havnevik, and Kenneth Hermele, *A Blighted Harvest: The World Bank and African Agriculture in the 1980s* (London: Currey, 1993), pp. 29, 39.

20. See Khosrow Doroodian, "Macroeconomic Performance and Adjustment Under Policies Commonly Supported by the International Monetary Fund," *Economic Development and Cultural Change* 41 (1993): 849–864. See also Jacob A. Frenkel and Mohsin S. Khan, "Adjustment Policies of the International Monetary Fund and Long-Run Economic Development," *Bangladesh Development Studies* 20,2–3 (1992): 1–22.

21. See the World Bank's 1994 report *Adjustment in Africa* (New York: Oxford University Press).

22. Lance Taylor, "The Rocky Road to Reform: Trade, Industrial, Financial, and Agricultural Strategies," *World Development* 21 (1993).

23. John Rapley, "Convergence: Myths and Realities," *Progress in Development Studies* 1,4 (2001): 295–308.

24. Patrick Guillaumont and Sylviane Guillaumont, *Ajustement structurel, ajustment informel: Le cas du Niger* (Paris: L'Harmattan, 2000); Kiavi Liman

Tinguiri, "Crise économique et ajustement structurel (1982–1988)," *Politique Africaine* 38 (1990): 76–86.

25. Sultan Hafeez Rahman, "Structural Adjustment and Macroeconomic Performance in Bangladesh in the 1980s," *Bangladesh Development Studies* 20,2–3 (1992): 89–125.

26. Indonesia's rice marketing board provides a successful example of this. See Frank Ellis, "Private Trade and Public Role in Staple Food Marketing: The Case of Rice in Indonesia," *Food Policy* 18 (1993): 428–438.

27. Philippe Faucher, "Public Investment and the Creation of Manufacturing Capacity in the Power Equipment Industry in Brazil," *Journal of Developing Areas* 25 (1991): 231–260.

28. George T. Crane, "State-Owned Enterprises and the Oil Shocks in Taiwan: The Political Dynamics of Economic Adjustment," *Studies in Comparative International Development* 24,4 (1989–1990): 3–23.

29. Morrelo de Paiva Abreu, in *Journal of Economic History* 52 (1992): 496–497, suggests that many public firms in Latin America were established not because of a programmatic commitment to statism, but rather because private investors lacked interest.

30. John Rapley, *Ivoirien Capitalism: African Entrepreneurs in Côte d'Ivoire* (Boulder: Lynne Rienner, 1993), pp. 135–136.

31. Taylor, "The Rocky Road to Reform," p. 586; Pranab Bardhan, "Economics of Market Socialism and the Issue of Public Enterprise Reform in Developing Countries," *Pakistan Development Review* 30 (1992): 566; Tony Killick, *A Reaction Too Far: Economic Theory and the Role of the State in Developing Countries* (London: Overseas Development Institute, 1989), p. 26; John Toye, *Dilemmas of Development* (Oxford: Basil Blackwell, 1987), p. 58; Al Bavon, "Does Ownership Matter? Comparing the Performance of Public and Private Enterprise in Ghana," *Journal of Developing Areas* 33 (1998): 53–72, and esp. the literature review, pp. 54–58.

32. Rati Ram, "Productivity of Public and Private Investment in Developing Countries: A Broad International Perspective," *World Development* 24,8 (1996): 1373–1378.

33. For a few examples, see Crane, "State-Owned Enterprises and the Oil Shocks in Taiwan"; Syed Nawab Haider Naqvi and A. R. Kemal, "The Privatization of the Public Industrial Enterprise in Pakistan," *Pakistan Development Review* 30 (1991): 105–144. See also the conclusion to *State-Owned Enterprises in Africa,* edited by Barbara Grosh and Rwekaza S. Mukandala (Boulder: Lynne Rienner, 1994), which highlights successful public firms and the conditions underlying their performance. On the other hand, Roger Tangri argues that, on balance, public firms have performed poorly in Africa by "virtually any measure of economic performance." See Roger Tangri, "The Politics of Africa's Public and Private Enterprise," *Journal of Commonwealth and Comparative Politics* 33,2 (1995): 169–184.

34. Nevertheless, there have been cases of marketing boards that were simply badly run, or were used largely for personal accumulation, as in Nigeria, Ghana, and Zambia.

35. For examples, see Kaluwa, *The Structural Adjustment Programme in Malawi;* Jane Harrigan, review in *Journal of African Economies* 1 (1992):

151–162; Alan Whitworth, "Public Enterprise Reform in Papua New Guinea," *World Development* 20 (1992): 69–81; George Irvin, "Vietnam: Assessing the Achievements of *Doi Moi*," *Journal of Development Studies* 31 (1995): 725–750.

36. Mary Shirley and Patrick Walsh, *Public Versus Private Ownership: The Current State of the Debate,* Policy Research Working Paper no. 2420 (Washington, DC: World Bank, August 2000).

37. David Parker and Colin Kirkpatrick, "Privatisation in Developing Countries: A Review of the Evidence and Policy Lessons," *Journal of Development Studies* 41,4 (2005): 513–541.

38. Richard A. Yoder, Philip L. Borkholder, and Brian D. Friesen, "Privatization and Development: The Empirical Evidence," *Journal of Developing Areas* 25 (1991): 425–434.

39. For details, see Paul Cook, "Privatization and Public Enterprise Performance in Developing Countries," *Development Policy Review* 10 (1992): 403–408; Naqvi and Kemal, "The Privatization of the Public Industrial Enterprise"; Ravi Ramamurti, "Privatization as a Remedy for State-Owned Enterprises," in *Latin America's Turnaround: Privatization, Foreign Investment, and Growth,* edited by Paul H. Boeker (San Francisco: Institute for Contemporary Studies, 1993); Armando Castelar de Pinheiro and Ben Ross Schneider, "The Fiscal Impact of Privatisation in Latin America," *Journal of Development Studies* 31 (1995): 751–776.

40. See, for example, Paul Cook and Colin Kirkpatrick, *The Distributional Impact of Privatization in Developing Countries: Who Gets What and Why?* New Series Discussion Paper no. 51 (Bradford: Development and Project Planning Centre, University of Bradford, 1994).

41. In Sri Lanka, privatization apparently yielded the government net gains, partly because the firms in question became more efficient and so contributed tax revenues rather than drawing state subsidies. See Howard White and Saman Kelegama, *The Fiscal Implications of Privatisation in Developing Countries: The Sri Lankan Experience,* Working Paper no. 179 (The Hague: Institute of Social Studies, 1994). However, had it been possible to make the firms more efficient while keeping them in state hands, they would have contributed profits directly to the state's accounts.

42. Peter Murrell, "Privatization Complicates the Fresh Start," *Orbis* 36 (1992): 323–332; Barry Ickes and Randi Ryterman, "Credit for Small Firms, Not Dinosaurs," *Orbis* 36 (1992): 333–348.

43. United Nations Department for Economic and Social Information and Policy Analysis, *The World Economy at the End of 1993: Short-Term Prospects and Emerging Policy Issues* (December 1993), p. 7.

44. Barbara W. Lee and John Nellis, "Enterprise Reform and Privatization in Socialist Economies," *Public Enterprise* 11 (1991): 101–117. On the resistance of the Russian bureaucracy to reform, see Juliet Johnson, "Should Russia Adopt the Chinese Model of Reform?" *Communist and Post-Communist Studies* 27 (1994): 59–75; Leonid Gordon, "Russia at the Crossroads," *Government and Opposition* 30,1 (1995): 3–26.

45. Tangri, "The Politics of Africa's Public and Private Enterprise."

46. For examples, see Jacques Alibert, "Le temps de l'ajustement: Chères

ambiguités," *Afrique Contemporaine* 164 (1992): 109–119; David S. Young, "Going to Market: Economic Organization and Transformation in a Hungarian Firm," *World Development* 21 (1993): 883–899; Sultan Hafeez Rahman, "Structural Adjustment and Macroeconomic Performance"; Miriam Gervais, "Les enjeux politiques des ajustements structurels au Niger, 1983–1990," *Canadian Journal of African Studies* 26 (1992): 226–249; Gérard Roland, "On the Speed and Sequencing of Privatisation and Restructuring," *Economic Journal* 104 (1994): 1158–1168.

47. Rhys Jenkins, "Trade Liberalization and Export Performance in Bolivia," *Development and Change* 27 (1996): 693–716; Ann Harrison and Gordon Hanson, "Who Gains from Trade Reform? Some Remaining Puzzles," *Journal of Development Economics* 59 (1999): 125–154; Kishor Sharma et al., "Liberalization and Productivity Growth: The Case of Manufacturing Industry in Nepal," *Oxford Development Studies* 28,2 (2000): 205–221; Francisco Rodriguez and Dani Rodrik, *Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence,* Working Paper no. 7081 (Cambridge, MA: National Bureau of Economic Research, 1999); David Greenaway et al., "Trade Liberalization and Growth in Developing Countries: Some New Evidence," *World Development* 25,11 (1997): 1885–1892; Jeffrey A. Frankel and David Romer, "Does Trade Cause Growth?" *American Economic Review* 89,3 (1999): 379–399; Halit Yanikkaya, "Trade Openness and Economic Growth: A Cross-Country Empirical Investigation," *Journal of Development Economics* 72 (2003): 57–89.

48. Mahbub ul Haq, *Human Development in a Changing World,* Occasional Paper no. 1 (New York: Human Development Report Office, 1992).

49. R. Adhikari, C. Kirkpatrick, and J. Weiss, *Industrial and Trade Policy Reform in Developing Countries* (Manchester: Manchester University Press, 1992).

50. David Greenaway and David Sapsford, *Exports, Growth, and Liberalisation: An Evaluation,* Credit Research Paper no. 93/1 (Nottingham: University of Nottingham Centre for Research in Economic Development and International Trade, 1993). See also Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990).

51. Sebastian Edwards, "Trade Liberalization Reforms in Latin America: Recent Experiences, Policy Issues, and Future Prospects," in *Latin America's Economic Future,* edited by Graham Bird and Ann Helwege (London: Academic Press, 1994). Edwards finds the results more ambiguous in Mexico and Brazil, hence John Weiss cautions against overstating the extent of these benefits. See John Weiss, "Trade Policy Reform and Performance in Manufacturing: Mexico 1975–88," *Journal of Development Studies* 29 (1992): 1–23; Donald A. Hay, "The Post-1990 Brazilian Trade Liberalization and the Performance of Large Manufacturing Firms: Productivity, Market Share, and Profits," *Economic Journal* 111 (2001): 620–641.

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December 1995; Wire Ltd., *Economic and Business Analysis* (Internet newsletters). The downside, however, is that in both countries, imports exceeded exports. See also Nigel L. Driffield and Uma S. Kambhampati, "Trade Liberalization and the Efficiency of Firms in Indian Manufacturing," *Review of Development Economics* 7,3 (2003): 419–430, which found that in five out of six subsectors of manufacturing, there was an increase in overall efficiency, and that this was attributable to liberalization in four of the sectors.

53. Hiroki Kawai, "International Comparative Analysis of Economic Growth: Trade Liberalization and Productivity," *Developing Economies* 32 (1994): 373–397. See also Hans Singer, who argues that outward orientation works better in middle-income countries than in low-income countries: H. W. Singer and Sumit Roy, *Economic Progress and Prospects in the Third World* (Aldershot: Elgar, 1993), p. 21. See also Giorgio Barba Navaretti, Ricardo Faini, and Bernard Gauthier, "The Impact of Trade Liberalization on Enterprises in Small Backward Economies," *Review of Development Economics* 8,4 (2004): 452–465.

54. Manuel R. Agosin and Ricardo Ffrench-Davis, "Trade Liberalization and Growth: Recent Experiences in Latin America," *Journal of Interamerican Studies* 37,3 (1995): 42. See also Nita Rudra, "Are Workers in the Developing World Winners or Losers in the Current Era of Globalization?" *Studies in Comparative International Development* 40,3 (2005): 29–64. Using a time-series cross-sectional panel dataset for fifty-nine developing countries from 1972 to 1997, Rudra finds that the greatest benefits of trade liberalization go to richer countries on account of their relative abundance in skilled labor.

55. Behzad Yaghmaian, "An Empirical Investigation of Exports, Development, and Growth in Developing Countries: Challenging the Neoclassical Theory of Export-Led Growth," *World Development* 22 (1994): 1977–1995.

56. World Bank, *Adjustment in Africa,* p. 150. Critics contend that this report, the World Bank's defense of structural adjustment in Africa, is not sufficiently persuasive. See, for example, Paul Mosley, Turan Subasat, and John Weeks, "Assessing *Adjustment in Africa,*" *World Development* 23 (1995): 1459–1473; Peter Lewis, "The Politics of Economics," *Africa Report* (May–June 1994): 47–49.

57. Ana Cuadros, Vicente Orts, and Maite Alguacil, "Openness and Growth: Re-examining Foreign Direct Investment, Trade, and Output Linkages in Latin America," *Journal of Development Studies* 40,4 (2004): 167–192.

58. See G. G. Storey, ed., *Agricultural Marketing in Lesotho* (Ottawa: International Development Research Centre, 1992).

59. Sharma et al., "Liberalization and Productivity Growth."

60. Frances Stewart, "Are Adjustment Policies in Africa Consistent with Long-Run Development Needs?" *Development Policy Review* 9 (1991): 413–436; Sanjaya Lall, *Building Industrial Competitiveness in Developing Countries* (Paris: OECD Development Centre, 1990), p. 66.

61. See Miguel D. Ramirez, "Stabilization and Trade Reform in Mexico, 1983–1989," *Journal of Developing Areas* 27 (1993): 173–190, on the case of Mexico.

62. Subhrajit Guhathakurta, "Electronics Policy and the Television

Manufacturing Industry: Lessons from India's Liberalization Efforts," *Economic Development and Cultural Change* 42 (1994): 845–868.

63. On these points, see Jonathan Barker, *Rural Communities Under Stress* (Cambridge: Cambridge University Press, 1989), p. 203; Taylor, "The Rocky Road to Reform," pp. 588–589; Rahman, "Structural Adjustment and Macroeconomic Performance," p. 122; Helmke Sartorius von Bach, Johan van Zyl, and Nick Vink, "An Empirical Analysis of the Role of Prices and Access to Markets on Beef Numbers in Namibia: A Regional Approach," *Quarterly Journal of International Agriculture* 30 (1991): 224–235; Maarten Janssen and Dirk Perthel, "Seasonal and Regional Differences in Agricultural Supply Response in Bénin," *European Review of Agricultural Economics* 17 (1990): 407–420; David E. Sahn and Jehan Arulpragasam, "The Stagnation of Smallholder Agriculture in Malawi: A Decade of Structural Adjustment," *Food Policy* 16 (1991): 219–234; Richard C. Crook, "State Capacity and Economic Development: The Case of Côte d'Ivoire," *IDS Bulletin* 19,4 (1988): 19; P. J. Gunawardana and E. A. Oczkowski, "Government Policies and Agricultural Supply Response: Paddy in Sri Lanka," *Journal of Agricultural Economics* 43 (1992): 231–242; Gun Erikkson, *Peasant Response to Price Incentives in Tanzania,* Research Report no. 91 (Uppsala: Scandinavian Institute of African Studies, 1993); Howard White and Saman Kelegama, *External Shocks, Adjustment Policies, and the Current Account: The Case of Sri Lanka, 1971–1991,* Working Paper no. 138 (The Hague: Institute of Social Studies, 1992); Dimitris Diakosavvas and Colin Kirkpatrick, "Exchange-Rate Policy and Agricultural Exports Performance in Sub-Saharan Africa," *Development Policy Review* 8 (1990): 29–42; Juan Antonio Morales, "Structural Adjustment and Peasant Agriculture in Bolivia," *Food Policy* 16 (1991): 58–66; Riccardo Faini, "Infrastructure, Relative Prices, and Agricultural Investment," in *Open Economies: Structural Adjustment and Agriculture,* edited by Ian Goldin and L. Alan Winters (Cambridge: Cambridge University Press, 1992); Bola Akanji, *The Changes in the Structure of Export-Crop and Food-Crop Production Under the Structural Adjustment Programme: The Case of Cocoa and Yams,* Monograph no. 11 (Ibadan: Nigerian Institute of Social and Economic Research, 1992); E. Leigh Bivings, "The Seasonal and Spatial Dimensions of Sorghum Market Liberalization in Mexico," *American Journal of Agricultural Economics* 79 (May 1997): 383–393; Nlandu Mamingi, "The Impact of Prices and Macroeconomic Policies on Agricultural Supply: A Synthesis of Available Results," *Agricultural Economics* 16 (1997): 17–34; Awudu Abdulai and Wallace Huffman, "Structural Adjustment and Economic Efficiency of Rice Farmers in Northern Ghana," *Economic Development and Cultural Change* 48,3 (April 2000): 503–520; Christopher B. Barrett, "The Effects of Real Exchange Rate Depreciation on Stochastic Producer Prices in Low-Income Agriculture," *Agricultural Economics* 20 (1999): 215–230.

64. Stephen Jones, *Agricultural Marketing in Africa: Privatisation and Policy Reform* (Oxford: Food Studies Group, International Development Centre, Queen Elizabeth House, 1994); Vanessa Scarborough, *Domestic Food Marketing Liberalisation in Malawi,* Occasional Paper no. 13 (Ashford: Wye College, Agrarian Development Unit, 1990).

65. Faini, "Infrastructure, Relative Prices, and Agricultural Investment."

66. Gibbon, Havnevik, and Hermele, *A Blighted Harvest;* C. S. L. Chachage, "Forms of Accumulation, Agriculture, and Structural Adjustment in Tanzania," in *Social Change and Economic Reform in Africa,* edited by Peter Gibbon (Uppsala: Scandinavian Institute of African Studies, 1993); V. Seshamani, "The Impact of Market Liberalization on Food Security in Zambia," *Food Policy* 23,6 (1998): 539–551.

67. Kigane Mengisteab, "Export-Import Responses to Devaluation in Sub-Saharan Africa," *Africa Development* 16,3–4 (1991): 27–43. See also Paul Krugman and Lance Taylor, "Contractionary Effects of Devaluation," *Journal of International Economics* 8 (1978): 445–456.

68. Mengisteab, "Export-Import Responses to Devaluation"; Kigane Mengisteab and Bernard I. Logan, "Africa's Debt Crisis: Are Structural Adjustment Programs Relevant?" *Africa Development* 16,1 (1991): 106.

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70. Shahla Shapouri, Margaret Missiaen, and Stacey Rosen, *Food Strategies and Market Liberalization in Africa: Case Studies of Kenya, Tanzania, and Zimbabwe* (Washington, DC: US Department of Agriculture, 1992); Shao, *Structural Adjustment in a Socialist Country;* Chachage, "Forms of Accumulation."

71. Mengisteab, "Export-Import Responses to Devaluation."

72. Patrick Guillaumont, "Politique d'ajustement et développement agricole," *Économie Rurale* 216 (1993): 20–29; Chachage, "Forms of Accumulation"; Gibbon, Havnevik, and Hermele, *A Blighted Harvest.*

73. See, for example, Janet MacGaffey, *The Real Economy of Zaire* (London: Currey, 1991); Alex de Waal, "The Shadow Economy," *Africa Report* (March–April 1993): 24–28.

74. Sara Berry, "Understanding Agricultural Policy in Africa: The Contributions of Robert Bates," *World Development* 21 (1993): 1055–1062.

75. United Nations Department for Economic and Social Information and Policy Analysis, *The World Economy at the End of 1993: Short-Term Prospects and Emerging Policy Issues* (December 1993), p. 10.

76. For his conclusion on the Jamaican experience, see Rupert G. Rhodd, "The Effect of Real Exchange Rate Changes on Output: Jamaica's Devaluation Experience," *Journal of International Development* 5,3 (1993): 291–303.

77. Steven B. Kamin and Marc Klau, *Some Multi-Country Evidence on Effects of Real Exchange Rate on Output,* Working Paper no. 48 (Basle: Bank for International Settlements, 1997); Steven B. Kamin and John H. Rogers, "Output and the Real Exchange Rate in Developing Countries: An Application to Mexico," *Journal of Development Economics* 61 (2000): 85–109; Barrett, "Effects of Real Exchange Rate Depreciation."

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