ADJUSTMENT DEBATE LEAVES WORLD BANK BEHIND

Five years ago in Copenhagen, the UN Social Summit focused the world's attention on the growing global poverty, unemployment, inequality and social disintegration of the 1980s and 1990s. Last year, in preparing for its five–year assessment of the Summit, the United Nations invited the World Bank and the International Monetary Fund (IMF), as two of the primary managers of the global economy during this period, to report to the Commission for Social Development on the integration of social development goals into the economic structural adjustment programmes they have imposed on close to 100 countries since 1980.
Since Copenhagen, much has changed. Asia was hit by a financial and economic crisis that left a social disaster in its wake. Adjustment policies have created new crises in Russia and much of South America. The «Battle in Seattle» and subsequent skirmishes in Davos and Bangkok have demonstrated that peoples' patience with the neoliberal management of the global economy is wearing thin. With official acknowledgement of the problem growing, World Bank President James Wolfensohn took to the podium in Latin America and Asia early in 2000 to echo the message resonating in the streets: that tens of millions of people are no better off than they were a generation ago and that economic globalisation had left them further marginalised and alienated. His departing Chief Economist, Joseph Stiglitz, was more precise in laying part of the blame at the feet of those continuing to push orthodox adjustment policies.

Anyone holding out hope, however, that the World Bank and the IMF are ready to address the economic policies of adjustment that lie behind the deteriorating living standards and conditions of the vast majority will be badly disappointed. Nowhere is this disconnect between cause and effect more evident than in the embarrassingly flimsy and tardy response by the Bank in February 2000 to the United Nations' request. The IMF has not even bothered to reply. For all Wolfensohn's pronouncements, this matter is not a priority issue at his institution. With no one on staff particularly eager to address the question and with management not pressing the matter, the Bank filed, on the last days of the Commission's session, a shoddy, half–page, five–point summary statement that successfully skirted the issue. It failed entirely to attend to the economic issues at the core of increased global poverty, unemployment and social disintegration, touching instead only on social policy and programmes.

Furthermore, the submission makes assertions, as the basis for its brief conclusions and recommendations, that have no basis in fact. It provides no substantiation, for example, for its claim that, on balance, adjustment has had long–term benefits and that those nations that have «successfully» implemented adjustment programmes are more likely to have reduced poverty. This assertion allows the Bank to argue that, except for the need to protect certain social expenditures that might otherwise be cut in stabilisation and adjustment programmes, adjustment policies are consistent with, and should be at the core of, any poverty–reduction effort. In fact, the role that the Bank and the IMF have prescribed for themselves of overseeing such efforts is designed to ensure that adjustment policies remain firmly in place regardless of the direction in which countries want to take their respective wars on poverty.

A DIFFERENT REALITY IN SAPRI

The Bank's claims contrast sharply with the findings of various field–based investigations over the past decade, including the interim output from the Structural Adjustment Participatory Review Initiative (SAPRI), in which the Bank itself is engaged with civil society and governments in eight countries on four continents. In fact, the Bank did not draw in any way on these findings in filing its report with the Commission on Social Development.

SAPRI was launched in 1997 with European government support as a major programme of consultation with civil society worldwide on the past record and future direction of economic policy. SAPRIN is the global citizens' network engaged in the initiative with the Bank. For SAPRIN, the goals were to legitimise a role for citizens in economic decision–making and to help citizens mobilise to play that role effectively. The objectives agreed upon with the Bank were to enhance World Bank learning about structural adjustment programmes from the bottom up, identify practical and necessary changes in economic policies that would improve the lives of ordinary people, and demonstrate in the process that the participation of local, broad–based civil society can improve the economic policy–making process.

Since he assumed the Bank presidency in 1995, Wolfensohn has been calling for broad–based national dialogues on all things developmental. SAPRI was established as his mechanism for effecting this dialogue on the central issue of economic policy. The global civil–society network, following up its challenge to Wolfensohn to investigate Bank–supported adjustment policies in the field, mobilised and organised across a broad range of economic sectors in eight countries. Between 100 and 750 organisations have effectively involved themselves in the process in each nation. Local, regional and sectoral workshops were held in preparation for national public fora and participatory research exercises. Key issues of privatisation, trade and price liberalisation, financial– and labour–market reform, public–expenditure policies, and other adjustment measures were selected for review as priority issues problematic for civil society. Their impact on different population groups and sectors was discussed at the fora, as citizens shared experiences and analyses.

THE ECONOMIC ROOTS OF POVERTY

At the SAPRI fora in Zimbabwe last September and in Ecuador eight months earlier, as well as at the national civil–society forum held in July in the Philippines (where the Bank could not secure government participation), those experiences and analyses of peoples' organisations were strikingly similar to those presented at the previous country conferences. According to participants in ***Zimbabwe***, for example, the liberalisation of trade and finance has caused the market in that country to be flooded with cheap imports, while local businesses have been unable to find significant external markets for their products. Consequently, small and medium–sized industries have been forced to reduce production, close down or switch from manufacturing to importing, leading to a large drop in manufacturing output. With companies forced to lay off workers, employment dropped sharply between 1991 and 1998 and wages have deteriorated.

Liberalisation polices have also undermined the agricultural sector, which provides a livelihood for 70% of the nation's population. This has lead to food shortages and growing inequality. Trade barriers, price controls, subsidies and production quotas were removed as part of a programme the government anticipated would transform the country's small–scale, subsistence agriculture into widespread commercial farming. Civil–society participants maintained, however, that the majority of rural Zimbabweans have not benefited from this programme. Smaller–scale farmers have been hurt by the lack of access to land, credit and other inputs and by the loss of timely information previously provided by marketing boards. Overall food production during the 1990s has not kept up with population growth, so the country has been forced to import food, adding to the national debt.

Both the manufacturing and agricultural sectors have been negatively affected by the liberalisation of financial markets. The removal of interest–rate restrictions on banks has led to rates rising five–fold to nearly 50% since the Economic Structural Adjustment Programme was launched almost a decade ago. Even large–scale businesses cannot afford these rates and have been forced to finance their activities through retained earnings. Smaller businesses and those in the informal sector, lacking that option, have been especially hard hit. Meanwhile, investment has increased in speculative money markets rather than in productive, employment–generating endeavours.

Similarly, forum participants in the ***Philippines*** reported that the trade–liberalisation programme in that country has led to increased income inequality and decreased food security, with domestic food producers negatively affected by the lowering of trade barriers. Insufficient state support for infrastructure services, such as irrigation, post–harvest facilities and farm–to–market roads, has meant that small farmers are unable to improve productivity levels or get their products to market at prices that cover their costs. Competition from cheaper imports has driven down local production of rice and other staple crops, according to participants, and many of these farmers have been further marginalised.

Ecuador has also lost productive capacity and the ability to feed its population since it began implementing adjustment programmes in the 1980s. SAPRI forum participants pointed in particular to the rapid process of de–industrialisation that has followed the adoption of trade– liberalisation policies and the country's export–oriented strategy. These have boosted the profits of large exporters (who have benefited from currency devaluation) rather than the levels of production for export.

Meanwhile, according to forum participants, the flood of imports due to trade liberalisation has devastated domestic food production and sent rural under–employment skyrocketing to nearly 70%. At the end of 1998, under–employment nation–wide was well above 50%, while open unemployment had more than tripled since 1980. Interest rates of nearly 70% had further undermined production and employment while attracting and rewarding speculators. The economic and financial crises of the past year have further aggravated these deteriorating economic conditions.

LABOUR POLICIES INTENSIFY THE PROBLEM

Labour–reform policies also have deepened and broadened poverty in these and many other countries. In the ***Philippines***, new labour–flexibilisation rules and the drive to increase competitiveness have led industries to cut costs through various job arrangements, particularly the hiring of people as temporary workers. Few textile and garment factories, for example, employ regular workers. Contract workers receive less than the normal minimum wage and receive no benefits or job security. These and other results of labour–flexibilisation schemes have helped destroy unions and reduced the bargaining power of workers generally.

Labour conditions have also deteriorated in ***Zimbabwe*** under adjustment. SAPRI forum participants explained that the average rate of employment growth since the adjustment programme began is half the growth rate of the labour force. With the reduction or elimination of subsidies, private–sector employers have been forced to reduce costs in order to remain competitive. Deregulation has allowed them to make increased use of temporary, part–time contract workers. These changes have led to increased unemployment, decreased real wages and a lack of job security. Those workers who do find full–time jobs are no longer guaranteed a living wage, and the effects of this reduced income have been exacerbated by rising prices. The collapse of wages has meant that many workers live far below the poverty line. This has created a recessionary spiral, with falling purchasing power resulting in depressed demand, which, in turn, has lead to further increases in unemployment and poverty.

Meanwhile, in ***Ecuador***, real wages fell precipitously during the adjustment decades of the 1980s and 1990s. Wage policy, according to forum participants, has contributed to the insufficiency of salary increases to compensate for inflationary effects on the cost of basic goods and the continuing rate increases for public services. The policy of labour–market flexibility has weakened respect for workers' rights, leaving them unprotected and often leading to abuse by employers. The impact of legislation backed by the IMF and US Treasury in early 2000 to accelerate labour–market reforms and privatisation as part of the dollarisation plan will likely worsen this situation dramatically. With poverty having grown to encompass nearly two–thirds of the population in Ecuador under structural adjustment, these additional reforms have sparked widespread popular protests.

UNWILLINGNESS TO RESPOND

From one SAPRI national forum to the next, civil–society participants urged the Bank to move off its insistence on a variety of economic adjustment measures that have had devastating effects on employment, wages and income–generating domestic production. Yet these issues have not been included by the Bank in even a cursory way in its most recent anti–poverty prescriptions. Even in countries such as Ecuador and Zimbabwe, where economic and political crises have led the Bank to strengthen relations with the local civil–society teams, the Bank has yet to demonstrate any intention to pursue substantive changes in, or alternatives to, current economic policy, as advocated by prominent civil–society organisations.

That no serious attention has been paid by the Bank to what was presented at the national fora should be instructive to other civil–society actors engaging the Bank in policy dialogue. Despite the fact that these broad–based SAPRI consultations with the Bank were extensively organised over a long period of time and the information, analysis and experience brought forth were exactly the «legitimate» views of the alienated to which Wolfensohn has referred, no significant feedback has yet been received by SAPRIN and no mechanism has yet been established in the Bank to process and utilise SAPRI information from the field in a meaningful way.

Part of the reason for this lack of responsiveness on the part of the Bank, as well as for the failure of the Bank to honour various other commitments negotiated with SAPRIN, is that the institution, despite its stated interest in consultation and partnership, has not been accustomed to working in equal relationships in which it is not dictating the terms of engagement. It is more comfortable with its typical civil–society consultation process in which it has been able to select NGO convenors and moderators, hand–pick the participants, define the agenda, and control the flow of information. It has usually been quite interested in circulating its interpretation of the results of such consultations.

In the SAPRI field exercises, SAPRIN successfully sought to level the playing field from the start, so that citizens' groups came to the table as equals with the Bank and government. The Bank was not permitted to interfere with the local mobilisation and organising by civil–society organisations. These groups, after a process of broad outreach and inclusion, chose their own leaders and created their own structures. They also took the initiative in selecting the priority adjustment issues for discussion and review. By managing the finances, they asserted primary control over the structure of the national fora. Unable to select their local counterparts or shape the agenda, and hence the output from the process, the Bank appears to have chosen to play down the SAPRI national fora, while, interestingly, taking note of the extraordinary organising that has been effected in some countries. That leaves SAPRIN with the important but daunting task of holding the Bank accountable to its commitments.

UNDERSTANDING AJUSTMENT–POVERTY CONNECTION

One way of effecting this accountability, beyond ensuring that the entire process is transparent, is to continue with a professional approach through the completion of SAPRI, anticipating that the results will speak for themselves at both the national and global levels. While the final opening national fora were being held last year, SAPRI entered its field–research phase in the other countries involved in the Initiative. In most instances, there have been significant delays in this phase because of difficulties in working out terms of reference and other agreements among the three local partners–SAPRIN, the Bank and government–that form the national technical teams or because of a need to improve capacity and increase clarity with regard to finalising and implementing the local research design. To address these matters, SAPRIN has organised a number of workshops at the national, regional and global levels.

The research is most advanced in ***Bangladesh, El Salvador and Hungary***. Final drafts, which will include feedback from the field, are expected by mid–year, and second national fora will follow shortly afterwards. These participatory, gender–sensitive, political–economy–focused investigations will deepen the analysis presented at the first fora, concentrating in the main on the effects of market–

liberalisation policies, as well as on privatisation programmes.

In ***Bangladesh***, the studies underway include a focus on: 1) the implications of agricultural–policy reforms on the labour market, wages and food security; 2) the impact of trade– and industrial–policy reforms on industrial capacity and employment; and 3) the impact of financial–sector reforms on productive sectors, particularly small producers in rural areas. The economic root causes of unemployment and poverty are also at the centre of the ***El Salvador*** research, now almost complete, which has focused on: 1) the privatisation of electricity distribution and its impact on the poor and low–income sectors of society; 2) labour–market flexibilisation and its impact on workers; and 3) the liberalisation of the financial system and its impact on access to credit by small–scale enterprises. In ***Hungary***, where the second national forum is now tentatively scheduled for the end of June, two of the issues being investigated are: 1) the impact of liberalisation policies in the areas of trade, prices and wages on small and medium–sized enterprises, the agricultural sector and consumers, particularly disadvantaged groups; and 2) the impact of the privatisation process on production, employment and the concentration of wealth.

None of these issues are even on the Bank's radar screen insofar as its report to the UN and its «poverty reduction» plans are concerned. They are, for the people of the South, however, at the centre of the economic and social deterioration of their respective countries.

AN EXPANDED SAPRIN AGENDA

Accordingly, SAPRIN has added new dimensions to its work over the past two years. In order to ensure effective civil–society participation and performance in the SAPRI exercises and, at the same time, take on new functions designed to promote an expanding civil–society agenda, SAPRIN has doubled national civil–society budgets. It is also supporting independent SAPRI–like initiatives in the emerging–market economies of Mexico and the Philippines. In all ten countries, it has responded to new priorities emerging at the country level, namely the launching of field–based programmes of economic literacy and the development of economic alternatives parallel to, but also integrated with, the research now underway. Citizens' work on alternative economic–policy proposals is also the centrepiece of less ambitious processes in Argentina, Brazil and Canada and on a regional basis in Central America.

These activities are being financed by an expanded SAPRIN global budget,[1] which also gives the network greater flexibility, particularly as it relates to country participation. Significant subsidies by local civil–society groups, as well as by Northern organisations engaged in SAPRIN, have also made this expansion of effort possible.

To advance the alternative vision emerging from the country exercises, SAPRIN is joining forces with other social movements grounded in the South that share a common agenda for change. Like SAPRIN, networks such as Social Watch and Jubilee South, as well as important segments of the international trade–union movement, view adjustment programmes as they do unpalatable trade and investment programmes advanced by the World Trade Organisation and other unrepresentative bodies. In this broader movement to hold undemocratic institutions accountable to the people whose lives they so directly and negatively affect, SAPRIN seeks alliances with other peoples' movements, governments and official institutions committed to a new generation of more equitable economic policies rooted in the experiences, knowledge and priorities of the people of the South.

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