

FREE MARKETS & FOOD RIOTS

THE POLITICS OF GLOBAL ADJUSTMENT

John Walton & David Seddon



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Part I



Introduction

Global Adjustment

In this book we examine the relationship between widespread popular unrest in the cities of the developing world (including the “new” developing world of Central and Eastern Europe) and the process of economic and social transformation – associated with a renewed emphasis on liberalization and the promotion of “free markets” – that has taken place on a global scale over the last two decades.

We argue that, despite its roots in the distinctive historical development of the state within which it takes place, popular protest must also be seen as a more general social and political response to the systematic undermining of previous economic and social structures and of an earlier moral order, in the name of “adjustment,” to ensure renewed capitalist development on a world scale. The period of “global adjustment” extends, roughly, from the late 1960s to the present. This period, we would argue, has been characterized by crisis and reconstruction on a world scale.

1 GLOBAL CRISIS

Few disagree that the period under consideration is one of significant change and transformation; but interpretations of the precise significance, and of the economic and political causes and effects, of the changes taking place differ considerably.

4 Introduction

Most orthodox economists (including those in the World Bank, at least until very recently) have seen the changes of this period simply as aspects of a process of "transition," as the emergence of new developing (industrializing) countries (NICs) challenges the old international economic order and the global economy "adjusts" to these new circumstances (e.g. Beenstock 1989). The period of "transition," however, has been redefined periodically as things have failed to turn out as predicted. In 1979, the World Bank recognized that "the 1970s were a period of turmoil and transition for the world economy," but predicted that the 1980s would see renewed growth, with the developing countries averaging GDP growth of 5.6 percent between 1980 and 1990 (*World Development Report* 1979, cited in World Bank 1988: 13–14). In 1985, after the severe recession of 1979–83, and the development of "the debt crisis" in the early 1980s, the World Bank was prepared to argue that "we are now in a period of transition – an essential and intermediate phase before returning to sustained growth and normal relationships between debtors and creditors" (World Bank 1985). For this school of thought, the development of capitalism on a world scale is characterized by a general tendency towards economic development and social improvement, despite occasional "setbacks" and "shocks." This analysis is remarkably similar in crucial respects to that of the school of neo-classical Marxists (exemplified by Warren 1980; see also Harris 1986: 187–203) who also have seen, in the 1970s and 1980s, a world in transition, characterized by temporary inequalities and difficulties but tending generally towards economic and social development as capitalism progressively integrates every state and society within a single global system. These schools of thought have little to say regarding the wave of social unrest and popular protest that has characterized the last two decades of restructuring and adjustment, seeing them (when they are considered at all) either (in the orthodox neo-classical perspective) as reflections of "rigidities" and "constraints" to be overcome, or (in the neo-classical Marxist conception) as misguided "populist" reactions to a painful but generally progressive process of transformation and capitalist development.

For economists more influenced by the theories of Keynes, the evident changes of the period under consideration are in part at least associated with a deepening crisis in international economic and political relations associated with a lack of effective international management of an increasingly interdependent global economy and giving rise to conflict between and within states, growing inequality (both international and national) and mass poverty (cf. Pearson 1969; Brandt et al. 1980; Brandt and Manley 1985, UNICEF 1987). For

this school of thought, deep-seated conflicts of interest between states threaten the process of development but can nevertheless be reconciled, given the political will and a greater degree of coordinated intervention on the part of international institutions and the governments of the more powerful states in particular. This school of thought has seen social unrest and popular protest as an indication of, and reaction to, the pain (real costs) experienced by the most vulnerable sections of the population in the current world crisis.

For others, writing from a more radical perspective (and often referred to as "neo-Marxists") the crisis is a classical crisis of over-accumulation and is thus intrinsic to the international capitalist economy and its associated political regime. This gives rise to heightened conflict both at the international and at the national level as different interests struggle to resolve the crisis to their own benefit. Mediation in this struggle (class struggle within states, and international competition and conflict at the global level) is likely to be ineffective and based on wishful thinking. In this perspective, popular protest against the austerity measures that have accompanied "structural adjustment" throughout the developing world is an integral part of the struggle around the very process of capital accumulation and in defense of the interests of those suffering most from the process of restructuring and adjustment. Popular struggle is thus linked to class struggle.

While we share much of the analysis of this last body of thinking, we also see the recent growth of popular struggles and protest as a distinctive political development of the last two decades, involving an exceptionally wide range of social forces, both responding to, and itself shaping, the process of global adjustment that has accompanied a global crisis.

The roots of the current crisis lie back in the 1960s, when the industrial capitalist economies began to experience a profits squeeze reflecting a crisis of overaccumulation (Armstrong, Glyn, and Harrison 1984). Measures adopted by western governments to help resolve the crisis included austerity measures directed primarily at reducing real wages, particularly in the public sector. According to this analysis, it was the induced recession and austerity measures of the mid-1960s, designed to restructure and rationalize working processes, which established the conditions for the subsequent crisis (Armstrong, Glyn, and Harrison 1984: 276). The austerity measures introduced as part of the process of restructuring provoked unprecedented popular protest and a wave of strikes swept across Europe between 1968 and 1970, resulting in a rapid increase in money wages. Broadly similar developments took place in north America around the same time (cf. Armstrong, Glyn, and Harrison 1984: 271-90). The

6 *Introduction*

clampdown which followed was associated with a “mini-recession” in 1970–1 and succeeded by a “mini-boom” in 1972–3, which proved to be the final phase of the long postwar boom.

The mini-boom effectively marked the end of an era. The US dollar devaluation of 1971, the “oil crisis” of winter 1973–4 and an international “crash” in the summer of 1974 brought the golden years to an abrupt and painful halt. The remainder of the decade fell into two phases: a fragile recovery, followed by a renewed and more serious recession in the wake of the second major oil-price rise of 1979 what some referred to as “the second slump” (Mandel 1980). The two deep recessions (of the mid-1970s and of the early 1980s) experienced by the advanced capitalist countries were followed by a period of uneven recovery (1983–9), but it would appear clear now that another recession, starting around 1989, has begun to affect them once again. Despite periods of recovery, it is possible to see the entire period from the late 1960s to the present as one marked essentially by recession and crisis.

Frank, for example, has written of “a deep and widespread economic, social and political crisis in the world, which seems to be centred on a new crisis of overaccumulation of capital in the capitalist West, and on the consequent transformation of its relations with the socialist East and the underdeveloped South” (Frank 1981: ix). Others concur with this view of the last two decades as a period of significant transformation on a world scale, and emphasize that the crisis is associated with a long recession. Thus Fröbel remarks that “in the two decades following the Second World War, the capitalist world-economy experienced the greatest boom in its history. This boom came to an end toward the close of the 1960s. Since then the world-economy has been in a phase of decelerated growth, intensified structural change, and heightened political instability” (Fröbel 1982: 507). Even the World Bank, with its very different perspective, recognized towards the end of the 1980s that “in some developing countries the severity of this prolonged economic slump already surpasses that of the Great Depression in the industrial countries, and in many countries poverty is on the rise” (World Bank 1988b: 3).

But while some emphasize the similarities between this “contemporary crisis” and previous capitalist crises (in the 1930s and 1870s, for example), others draw attention to the novel features of this latest crisis:

the post-war period, at least up to 1973, saw the greatest boom in economic history. Since then there has been slower growth, marked

by two recessions which, some have argued, make this later period rather more like the condition of capitalism prior to 1939. However, in this more recent period, there are signs that a new stage in the development of the political economy has emerged, with conditions which differ considerably from those which prevailed in the 1930s. (*Gill and Law 1988: 127*)

The distinctive character of the last two decades is associated with the increasing integration of capitalism on a world scale, its "internationalization."

This has ensured that a crisis of capitalism is, increasingly, and unavoidably, a crisis on a world scale, even if that crisis is experienced unevenly and differently at different moments and in different places. For Gill and Law,

the global political economy has reached an unprecedented stage of development. The present is not like the past. Today, the security, trade, money, direct investment, communications, and cultural dimensions of global interdependence, are such that there is now an integrated global political economy, whereas in the past, there was a less complex international political economy (and before 1500 a series of regional political economies). (*Gill and Law 1988: 378*)

One of the major consequences of this deepening integration is a greater "synchronicity" or "simultaneity" of events in different parts of the world and in different countries. Evidence suggests that, from the late 1960s onwards, the advanced capitalist countries of the West in particular have become both more closely integrated and mutually interdependent. Consequently, they demonstrate, in recession and in recovery, an increasingly high degree of synchronicity in economic rhythms relative to earlier periods; only Japan stands somewhat apart. By the early 1980s the same was becoming more generally the case for the developing world as a whole, although the unevenness of capitalist development in the Third World and the continuing survival of state socialism in the Second World until the late 1980s ensured that global synchronicity was still not achieved at the beginning of the 1990s. Increasingly, however, the successive booms and recessions of the advanced capitalist West have been "passed on" to the rest of the world in a variety of ways and as a consequence a major process of restructuring on a world scale has taken place.

2 THE END OF THE SECOND WORLD

For some 40 years, analysts tended to accept the distinction between the advanced capitalist countries of the West (First World), the developing countries of the South (Third World) and the "state socialist" countries of the East (Second World) as systematic. With the dramatic transformation of the political economy of Eastern Europe during the 1980s, culminating in the "revolutions" of 1989–90, such a distinction has become more evidently problematic.

In this book, the countries of the Second World are treated not as part of a separate economic and political system, but as countries with their own distinctive heritage experiencing a process of rapid change, in which their progressive integration into the capitalist world and associated domestic economic and political transformation has generated many contradictions and conflicts that resemble those identified with crisis and "economic reform" in the developing Third World.

During the late 1960s and 1970s trade between the state socialist countries and the capitalist world increased significantly. Average annual growth rates of export trade with the West and the South which were 10.9 percent and 11.4 percent respectively in the period 1965 to 1970, increased to an average of 23.5 percent and 21.0 percent in the period 1970 to 1975. But rates of growth in imports accelerated even more dramatically, with imports from the West rising from an annual average of 12.2 percent in 1965–70 to 31.2 percent in the period 1970 to 1975 and imports from the South increasing from 7.5 percent to 26.0 percent. Even if inflation is taken into consideration these figures represent a startling increase in overall trade outside the Council of Mutual Economic Assistance (CMEA) and a significant growth in the balance-of-trade deficit.

The increasing balance-of-trade deficit was associated with a rising balance-of-payments deficit. It is estimated that by 1972 the accumulated combined balance-of-payments deficit of the Soviet Union and Eastern Europe with the West (excluding Japan) reached \$7.6 billion; by 1975 the deficit of Eastern Europe alone was calculated at \$9 billion – largely through trade with the United States, Japan, France and West Germany (Frank 1980: 188).

As the balance-of-payments deficit grew, so too did foreign borrowing and recourse to drawing on reserves. By 1976 it was estimated that the Soviet Union and Eastern Europe as a whole owed some \$45 billion; by the end of 1978 the figure had risen to \$58 billion, of which nearly half was owed to western banks. The dramatic

increase in foreign debt led to efforts by governments in the Soviet Union and Eastern Europe to introduce drastic measures to reduce the balance-of-payments and balance-of-trade deficit. Frank reported, on the basis of data relating to 1978 and 1979, that

debt service has been eating up a quarter or more of foreign earnings and credits in most of Eastern Europe and over one half in Poland, and it has become necessary to make sharp cuts in imports to keep this burden from growing further. Poland, whose debt is estimated at \$15 billion, has been obliged to reduce its investments and to announce increases in food prices again in order to answer its needs for increased imports of equipment and food. (*Frank 1980: 231*)

The economies of the Soviet Union and Eastern Europe were slowing down seriously during the late 1960s and 1970s. Attempts were made to counter this by foreign borrowing and the pursuit of expansionary strategies, while at the same time trying to reduce the level of state subsidies. These strategies not only served to deepen the economic crisis that was rapidly developing during the 1970s but also increased the level of dissidence and social unrest.

By the end of the 1970s, there were clear indications in many of the "older" state socialist countries of a significant rethinking of socialist theory and practice. In China, the four modernizations, in Vietnam, the economic reforms, in the USSR the beginnings of efforts to streamline and restructure the economy (*perestroika*), were all significant developments. These developments were driven essentially from above. In other, "younger" state socialist countries also – e.g. Vietnam, Mozambique, Ethiopia – the 1980s saw an increasing preparedness to consider economic reform (involving liberalization) as necessary. During the latter part of the 1980s, the attempt at controlled economic reform gave rise to increasing social discontent and political unrest, which culminated in "the revolution" of 1989 (see chapter 9).

The explanation for the increasing revisionism of "socialist" governments is controversial. For some, ever closer integration with the capitalist West and capitalist South obliged economic restructuring and political compromise (e.g. Frank 1980). For others, the limits of extensive primitive accumulation under early socialism having been reached, a drive for modernization and intensification led to rising imports, especially of advanced technology, from the West. But whether the impulses were initially from outside or inside, the economic reforms of the late 1970s and the 1980s created new tensions and precipitated political as well as economic crises. An essential

element in the economic crises was the burgeoning foreign debt and growing pressure for more radical reforms. Since 1989, and the collapse of state socialism in Europe and across the world, what was once referred to as the Second World is now increasingly integrated within the global capitalist political economy and subject to broadly similar forces for change. And, as in other parts of the developing world, the international agencies and developed capitalist states are actively promoting policies of economic reform – of stabilization and structural adjustment – to encourage liberalization and privatization, and the development of market forces.

3 THE END OF THE THIRD WORLD

Towards the end of the 1960s, as the developed capitalist economies began to move into crisis the developing countries as a whole appeared to experience a period of growth. International capital and commodity markets continued to boom and, as the World Bank noted in 1987,

some developing countries liberalized their trade regimes in the mid-1960s, became exporters of manufacturers, and gained directly from the expansion in world trade. Most of the others benefitted from rising demand for raw materials and foods. So, in one way or another, the developing countries that participated in the expansion of world trade experienced high output growth. (*World Bank 1987: 14*).

In the early 1970s, accumulation in the developing countries as a whole was close to the 5.7 percent rate achieved in the advanced capitalist countries; by the end of the 1970s it was running at about twice the 4 percent a year of the advanced capitalist countries. While real GDP growth in the advanced capitalist countries was 4.7 percent in the period 1965–73, it slumped to 2.8 percent between 1973 and 1980; in the same period the developing countries as a whole recorded GDP growth rates of 6.5 percent and 5.4 percent (Mosley, Harrigan, and Toye 1991: 5). The share of world capitalist investment in developing countries went from 16.5 percent in 1973 to 23.25 in 1979 (Armstrong, Glyn, and Harrison 1984: 353).

It was on the basis of such data that some argued against what they termed “The Illusion of Underdevelopment” (Warren 1980) and for the progressive development of the Third World during the 1960s and 1970s; and indeed, significant rates of growth were recorded mainly by a select group of newly industrializing countries

whose performance was taken by "the optimists" as indicative of a general process of development and by "the pessimists" as challenge to the supremacy of the developed world. The NICs and the OPEC countries together certainly experienced a very considerable growth; and discussions of a new international division of labour surfaced in the mid-1970s together with a call for a New International Economic Order (NIEO), at a time when the action of OPEC appeared to hold out the prospect for a real challenge from the developing countries to the prevailing dominance of the developed countries.

But for most developing countries, the 1970s were more difficult than the 1960s. It rapidly became clear during the second part of the 1970s that, not only were the developed countries becoming less prepared than ever to open themselves to a new international order as signs of recession began to increase, but the increase in oil prices achieved by the OPEC countries had generally adverse effects on the majority of non-oil-exporting developing countries. For many developing countries, particularly those strongly committed to a "nationalist" development strategy built around import substitution, foreign exchange was a major constraint; commodity prices held up in the wake of the first oil-price increase and many developing capitalist countries began to borrow heavily (OPEC surpluses channeled through western banks). This created the conditions for what was to emerge rapidly as "the debt crisis," to which the response of the international financial institutions was "stabilization" and "adjustment." For a time the high import demand of these countries provided much needed markets for western commodities. But by the end of the decade this was no longer the case. While the OPEC producers and NICs surged ahead during the latter part of the 1970s, most other developing countries began to experience growing indebtedness, declining terms of trade and increased balance-of-payments problems.

This resulted in increasing differentiation within "the Third World" and the beginning of "the end of the Third World" (Harris 1986): different regimes of capital accumulation and different state forms, following different policies and different trajectories. Generally, those countries experiencing strong economic growth were better able to provide the conditions under which "vulnerable" social groups could survive and defend their living standards; those whose economic crisis only deepened during the 1980s experienced the full severity of adjustment.

If, even in the 1970s and 1980s, the developing countries as a whole performed well, in terms of various economic-performance indicators, in comparison with the industrial capitalist West, there was considerable variation within "the Third World." East Asia and South

Table 1.1 Regional patterns of growth, 1965–2000

<i>Region</i>	<i>Growth of real per capita GDP (percent)</i>			
	<i>1965–73</i>	<i>1973–80</i>	<i>1980–89</i>	<i>1989–2000</i>
Sub-Saharan Africa	3.2	0.1	– 2.2	0.5
Latin America and Caribbean	3.7	2.6	– 0.6	2.3
Middle East and Mediterranean	5.5	2.1	0.8	2.1
Eastern Europe	4.8	5.3	0.8	1.5
South Asia	1.2	1.7	3.2	3.2
East Asia	5.1	4.7	6.7	5.1

Source: World Bank 1990: 11, 16

Asia showed the highest rates of real GDP growth, growth in exports and growth in domestic investment. The poorest performance was that of sub-Saharan Africa, with Latin America and the Caribbean, North Africa, and the Middle East little better. If growth of real per capita GDP is taken as an indicator of economic performance, it is easy to see the difference between the Asian region – particularly East Asia – and the others (see table 1.1).

But, increasingly through the period under consideration, it was the size and “burden” of its foreign debt that came to characterize the severity of the crisis for any developing economy. The deepening recession in the West and the effects of increasing oil prices on the economies of oil-importing countries in Africa, Asia, and Latin America began to have their impact, and loans for development turned increasingly into debts. In the 1970s, the global economic crisis was characterized particularly by a financial crisis, with growing international financial instability and international debt. Indeed, one key aspect of the global crisis with which this book will be particularly concerned is that of the so-called “debt crisis,” which developed rapidly during the second part of the 1970s and surfaced in an acute form at the beginning of the 1980s.

It was in large part in response to the growing balance-of-payments problems experienced by an increasing number of countries, that the International Monetary Fund began to intervene more systematically in the fiscal policy of developing countries in particular with loans conditional on various “stabilization” measures during the late 1970s. The perceived need to take these measures still further and to “adjust” macro-economic policy as a whole to meet the “new”

circumstances of a world in recession led to the introduction (by the IMF in collaboration with the World Bank) at the beginning of the 1980s of the various programmes of “stabilization” and “structural adjustment” that came increasingly to characterize the decade.

4 THE DEBT CRISIS AND STRUCTURAL ADJUSTMENT

Already by the mid-1960s the burden of debt carried by the developing countries was considerable and the debt-servicing requirements worrying. According to the Pearson Commission (Pearson 1969) by the mid-1960s debt service was eating up 87 percent of new lending to Latin America and 73 percent of new lending to Africa. *Business Latin America* reported in 1968 that the average debt-service ratio for Latin America was at least 14 percent in 1966, while the Inter American Development Bank estimated 20 percent. But though the governments of Latin American countries were criticized by bankers as “deadbeats” who “year after year have had to come back to Washington for bail-out loans and foreign ‘stretch-outs’” (Payer 1989: 10), the bankers were evidently prepared to consider lending money to these “deadbeats” with debt crises. In the period between 1955 and 1970, 7 developing countries – all regarded as countries with considerable economic development potential (Argentina, Brazil, Chile, Ghana, Indonesia, Peru, and Turkey) – were involved in 17 debt reschedulings. There were also some debt reschedulings for low-income countries, including India, but these were designed to provide additional finance when official lenders could not increase new lending. The private bankers did not fear rescheduling, as long as they could continue to collect market rates of interest; indeed, the first reschedulings of bank debt in the late 1970s and early 1980s made these loans even more profitable. Also, it is clear that, in the case of default, the banks confidently expected a government rescue.

Thus, even before 1973 and the first dramatic increase in oil prices, many developing countries had heavy debts and had experienced specific debt “crises.” But the commodity price boom of the 1970s and the reassurance that ultimately there would be no “bad debts” among the governments of developing countries encouraged western banks to increase their lending. Indeed the most eager lending was to oil-exporting countries with large populations and sizable markets (e.g. Venezuela, Nigeria, Indonesia, Mexico).

Between 1973 and the early 1980s the principal source of external finance had become the private commercial banks offering non-

concessional loans. But the international agencies appeared to speak for all when they argued (as did MacNamara in his 1977 Presidential Address) that the large growth in private commercial lending to developing countries did not make a debt crisis inevitable, and that it could be staved off by appropriate corrective actions. In 1977, the Bank was "even more confident today than . . . a year ago that the debt problem is indeed manageable" (cited in Mosley, Harrigan, and Toye 1991: 22). Indeed, throughout the 1970s the Bank had not been much concerned about adjustment and did not oppose large-scale commercial borrowing to maintain high economic-growth rates. In fact it saw high growth as the guarantee of the continuing credit-worthiness of developing countries and it had repeatedly soothed fears about the sustainability of the recycling operation. It was not until after the second "oil shock" in 1979–80 that the Bank publicly revived "questions about the international financial system's ability to recycle enough funds . . . to maintain import levels and economic growth rates" (World Bank 1980: 3).

However, as trade deficits and balance-of-payments problems increased during the 1970s, an increasing number of developing countries – including the so-called "miracle economies" (e.g. Brazil, South Korea) – were obliged to borrow in order to cover their oil-import bills and deficits. From 1970 to 1984, the total external indebtedness of developing countries rose from \$64 billion to \$686 billion, with the proportion of that debt owing to private banks rising from one-third to over one-half and the share of total new flows rising from 15 percent in 1970 to 36 percent in 1983 (World Bank 1985: 2). During the 1970s international bank capital expanded dramatically owing to the growth of petrodollar accounts and capital flight from advanced capitalist countries like the United States. Enormous accumulations of international bank capital encouraged an unprecedented rise in lending of private bank capital to Third World governments. At the same time, debt reschedulings became more common: an average of three developing countries a year rescheduled their debts during the 1970s (World Bank 1985: 4).

On every measure, the debt-servicing abilities of developing countries deteriorated, particularly after 1974, as their debt increased. Between 1974 and 1981 the developing countries as a whole ran twice as big a balance-of-payments deficit as the advanced capitalist world. Their debts represented the cumulative effect of these deficits. The borrowers were hit by rising interest rates and shrinking markets for their exports, as well as by deteriorating terms of trade. Increasingly, non-oil-developing countries were forced to run massive balance of payments deficits if they were to expand. The coincidence in the late

1970s and early 1980s of rising interest rates (resulting in part from the strict monetary policies of rightwing governments in the United Kingdom, the United States and the Federal Republic of Germany) and further oil-price rises helped create the deepest recession since the 1930s. Under the impact of the recession in the advanced capitalist countries and the increased oil prices, the terms of trade for most developing countries deteriorated rapidly, as did their balance-of-payments situation. As their financial and economic situation deteriorated, more and more developing countries were obliged to seek new loans or to reschedule their existing debts. The number of debt reschedulings rose to 23 in 1981–2, and to 65 in 1983–4. A global debt crisis was developing.

The debt crisis was a direct consequence of the decision by the developed countries to leave the intermediation of the large OPEC balance-of-payments surpluses, caused by the oil-price rises, to the private banking system. The recycling of these surpluses was believed, wrongly, to be a profitable (riskless) form of lending because the borrowers were mainly Third World governments who would never willingly default on sovereign debt. But the end of the 1970s saw not only a significant rise in real interest rates – as rightwing governments, convinced of the need to limit the money supply as the key to reducing inflation, came to power in the United Kingdom, the United States and the Federal Republic of Germany in quick succession – but also another even more dramatic increase in the price of oil. The deflationary effect of these developments precipitated a world slump in 1979–80. For countries which had borrowed heavily in the 1970s, the combination of a rising nominal interest rate and a falling rate of inflation created an alarming increase in the cost of borrowing. At the same time, the price of almost all developing-country exports began falling and the terms of trade, which had remained broadly favourable during the 1970s, began a sharp decline. Declining terms of trade combined with higher financial outflows for debt service constituted sources of acute pressure on balance of payments. The widening payments deficits either had to be financed, by more borrowing, or else their economies “adjusted” to bring demand for foreign exchange into better balance with the decreased supply.

The growing debt crisis surfaced visibly and unavoidably in 1982 when Mexico threatened default. Certainly borrowing continued, with the middle-income economies as a whole increasing their debt/GNP ratios from 36.1 in 1980 to 46.1 in 1989 (with the lower middle-income economies rising from 37.7 to 67.7) and low-income countries other than China and India increasing their indebtedness (in terms

of debt/GNP) from 27.0 in 1980 to 71.0 in 1989. But much of this borrowing was now conditional on adopting IMF and World Bank approved stabilization and structural adjustment programmes. The debt crisis, however, had a number of different dimensions. For the western bankers and the international financial system as a whole, it was the big debtors that appeared most threatening and for whom specific "rescue packages" were devised; but within the developing world, it was often those with smaller debts but a higher debt ratio that appeared in deepest difficulties.

For once the debt crisis surfaced in 1982, private lending dried up overnight for all developing countries that were already highly indebted; and by 1986, private lending had fallen back to a third of its 1980 level. The banks had expected the US and other governments, and the IMF, to bail them out; and indeed the IMF and the World Bank did devote billions of dollars to rescue packages, while the Bank for International Settlements and the United States provided some "bridge" financing; but it became rapidly apparent that the banks would effectively have to bail themselves out.

For many of the smaller debtors, particularly those in Africa where the bulk of the foreign debt was owed to governments and official agencies rather than to private commercial banks, the situation was exacerbated by significant reductions in official lending. Government aid was also experiencing cut-backs as western governments emphasized "restraint" and the flows of official aid overall showed no increase, despite a substantial rise in Japanese government aid expenditure. "In the 1980s, then, the global economic context placed a premium on finding ways of bringing down balance of payments deficits to the level that could be financed by stagnant aid flows and rapidly dwindling private lending" (Mosley, Harrigan, and Toye 1991: 9): global adjustment, in other words, focused particularly on the adjustment of the developing countries. It could be argued that the international debt crisis signaled a watershed in relations between the developed and developing countries: western banks now became less concerned with pouring capital into developing countries than with recovering their existing debts. The role of the International Monetary Fund during the 1980s largely reflected the concern of western governments and private banks to ensure debt repayment virtually at all costs. Developing-country governments were publicly criticized for failing to recognize the need for structural adjustment during the 1970s; the fact that the World Bank itself had only just arrived at this conclusion was not discussed. "Structural adjustment" came to be synonymous with economic reform during the 1980s and became the "only acceptable strategy for development," according to

the international financial institutions that were to dominate the economic policy of the developing world throughout this decade.

In April 1979 at an UNCTAD meeting in Manila, Robert MacNamara announced a new move on the part of the Bank to make long-term non-project assistance available to countries which were prepared to embrace economic policies which the Bank regarded as necessary for development (Mosley, Harrigan, and Toye 1991: 34). In 1980 the World Bank formally introduced structural adjustment, with loans for four countries (Kenya, Bolivia, the Philippines, and Turkey, which accounted for nearly half of the total value). In 1981–2, 10 new countries undertook debt reschedulings, more than in the whole of the 15 years between 1956 and 1970. But the reschedulings had strings attached. In return for loans, reductions in government deficits, limits to money supply growth, currency devaluations, etc., to improve trade prospects and reduce expenditure were demanded. Structural adjustment loans (SALs) were needed, the Bank argued, “to assist countries . . . prepared to undertake a programme of adjustment to meet an existing or to avoid an impending balance of payments crisis” (World Bank 1988a: 22).

There was some uncertainty within the Bank as to whether the crisis of 1979–80 marked “a permanent change in the world economy, not . . . some temporary phenomenon which will later automatically reverse itself” (MacNamara in his 1980 Presidential Address) or an essentially temporary phenomenon associated with a structural transition (as emphasized in several subsequent World Bank *World Development Reports*). It seems that MacNamara espoused the former; but arguably the latter view informed much of the Bank’s policy thinking of structural adjustment during the first half of the 1980s.

In the new political-economic climate of the early 1980s, the Bank, like many western governments, also shifted its general view of what constituted appropriate economic policies for recovery and growth. As has been remarked “during the Clausen Presidency (1981–86) the MacNamara interpretation of the world was largely swept aside” (Mosely, Harrigan, and Toye 1991: 23–4). If, during the 1970s, external finance had been used as a substitute for structural adjustment, now it was to be used to support structural adjustment. Looking back over “the past dozen years,” the World Bank in 1985 argued that

foreign finance can promote growth through higher investment and technology transfers. It can allow countries to adjust gradually to new circumstances in the world economy. But it can also be misused, so that countries end up with more debt but no corresponding increase in their ability to service it . . . Countries that ran into debt-servicing

difficulties ... were countries that had borrowed and failed to adjust or had not tackled the problems with sufficient urgency. (*World Bank 1985: 6*)

Adjustment was presented as the key to debt management.

Between 1980 and 1986, a total of 37 SALs were negotiated: activity built up slowly in the first three years of operation, reached its height in 1983 and fell away rapidly between 1984 and 1986. What was stressed initially was that the SAL was a response to a once-and-for-all, exceptional crisis in the balance of payments, albeit one that would require assistance over a longer period than that for which IMF Stand-By finance was available. Such assistance was to be confined to countries both willing and able to make progress on policy reform.

By 1983, however, SALs were increasingly defended as a means of persuading more governments to *change* their economic policies – these being given a greater prominence than external factors as causes of poor performance: “the past dozen years have underlined ... the crucial role of domestic policies in determining the performance of developing countries – particularly in the use they make of foreign finance” (*World Bank 1985: 6*). Reforms were increasingly sought in areas (e.g. institutional arrangements) which, even if successful, would have little immediate impact on the balance of payments. Instead of providing balance-of-payments assistance to countries willing to undertake structural adjustments, the Bank increasingly saw itself as using SAL funds to facilitate the countries’ decision to adopt a broad programme of economic reform (Berg and Batchelder 1984: 23–4). Conditionality was now imposed less to maximize the probability of repayment of the loan than to enable the borrower to remove what the lender sees as fundamental policy-induced obstacles to economic recovery and growth. Conditionality on the part of the Bank, as opposed to that applied by the IMF was applied across a wide range of policy areas: a high percentage of SALs included conditions relating to 19 typical policy measures, while the average SAL had conditions in 10 of these 19 areas. A particular SAL could have as many as 100 separate policy conditions (the second SAL for Thailand boasted over 100 conditions). Only by responding rapidly and rigorously implementing these policies of “adjustment,” it was suggested, could developing countries receiving SALs expect to make the necessary “transition” and achieve the conditions required for renewed growth and a resolution of their debt crisis.

Coordination between the IMF and the World Bank became a matter of increasing concern through the 1980s. In early 1989, two

important innovations were introduced designed to improve IMF–World Bank coordination: the Policy Framework Paper (PFP) and the New Concordat. The PFP is a document drafted by the IMF, and amended and agreed by the Bank and the borrowing government, which sets out a joint understanding of the economic situation of the borrowing country and the policies necessary for “successful stabilization and adjustment.” Furthermore, cross-conditionality between the Bank and the Fund, although formally it does not occur, in practice has now become reality. This arises because Bank adjustment lending normally requires an IMF stabilization loan to be in place; and if the conditions of both loans are then coordinated through a PFP – and if bilateral donors, and other multilateral donors like the European Development Fund, then follow suit by making their aid subject to the conditionality of the Fund and the Bank being observed (as has increasingly been the case during the 1980s) – then the borrower’s freedom of action becomes extremely limited. Furthermore, as some commentators have remarked, “since the Bank from 1986 has begun to speak publicly of the political aspect of structural adjustment lending, and has acknowledged its efforts to build up internal coalitions in borrowing countries in support of its policies, it is perfectly clear that the tightening of cross-conditionality has direct political implications for the countries concerned” (Mosley, Harrigan, and Toye 1991: 55), not only restricting the room for maneuver for governments but giving explicit support to those within the country whose interests coincide with those of the IMF and the Bank.

5 SOCIAL CRISIS AND POPULAR UNREST

Studies which showed a tendency for poverty in developing countries to worsen under adjustment were circulating within the UN “family” of organizations from 1983. However, it was not until the mid-1980s, when the social costs of the recession and of adjustment measures were becoming undeniable, that UN agencies like UNICEF and the International Labour Office (ILO) openly argued for “adjustment with a human face.” One indication of how far policies for aid and development had shifted towards a neo-liberal consensus during the early 1980s is provided by the fact that the UNICEF report was widely regarded as quite radical when it was published (UNICEF 1987) although in fact most of its proposals were borrowed from the World Bank’s *World Development Report, 1980* (World Bank 1980c) and it accepted most of the fundamental premises of those arguing for structural adjustment. The debate in international circles triggered

by the UNICEF report coincided with a change of leadership within the Bank (from Clausen to Conable) and a greater concern for interdonor consensus than had been evident previously. In particular, Conable seems to have been attracted by certain of the compensatory measures advanced in the UNICEF package. The Bank's first venture was its involvement in 1987–8, with UNICEF and others, in the design and funding of the Program to Mitigate the Social Costs of Adjustment (PAMSCAD) in Ghana, one of the first African countries to adopt and pursue an adjustment program under IMF and Bank auspices (started in 1983). PAMSCAD came to provide a model for one strand of a broader policy which the Bank launched later in 1987 (together with the United Nations Development Program (UNDP) and the African Development Bank) called "Social Dimensions of Adjustment" (SDA). The SDA program has been strongly criticized both by other agencies and by independent social analysts as inadequate and ineffective. In practice, by the end of the 1980s, despite considerable discussion of adjustment with a human face and a more explicit concern with poverty alleviation (see the World Bank's *World Development Report, 1990*, which is focused on "poverty"), relatively few examples of effective mitigation of the social costs of adjustment by combined government and agency action could be identified.

Whatever the stated concern of the Bank with compensatory programs and poverty alleviation towards the end of the 1980s and into the early 1990s, the general argument of the Bank has consistently been that early and rigorous implementation of structural adjustment effectively reduces the social costs of adjustment and ensures better economic recovery. This is, in effect, an argument for adjustment without a human face insofar as it implies greater benefits to a "short, sharp shock" in the long run than to a gradual and more cautious approach.

In fact, in many developing countries today the combination of the recession and specific adjustment and austerity measures has been devastating. Rapid social change has been a feature of the past half-century, to be sure, and the process of class formation and transformation, the rural exodus and the growth of urban areas, has generated enormous social changes. But social change in times of prosperity generates less effective tension than change under duress in conditions of economic stringency and austerity.

By the 1980s, as the world recession turned into a global slump, the process of restructuring which accompanied the crisis and aimed to restore the basis for capital accumulation in the industrial capitalist countries increasingly affected the rest of the world. In parts of the