A Global Perspective

Time to search for new alternatives to market-oriented reforms

By Rehman Sobhan
Guest Columnist

The forthcoming budget session promises to elicit a further reaffirmation by the Government of Bangladesh (GOB) to the agenda of market-oriented reforms designed for us by the World Bank and the IMF over the last decade. The reforms which are not new but have been embraced by successive Finance Ministers in the 1980's have hardly yielded a promising harvest of rapid and sustainable

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Whilst successive administrations have been blamed by the international sponsors of these reforms for their failure to effectively implement the reforms, we must awaken to the fact that Bangladesh is not alone in its failure. An increasingly large number of Third World countries are today in a state of economic crisis with these reforms.

This paper is thus designed to provide for policymakers and the public in Bangladesh a sobering global perspective on the outcome of these market reforms so that we can reappraise our unqualified commitment to such a reform agenda.

The World Bank-IMF Reform Agenda

Throughout the developing world the introduction of market-oriented reform agendas has been put in place in the 1980s under the guidance of the World Bank and the IMF, the Bretton Woods Institutions (BWI) — so named because of their founding at Bretton Woods, USA after World War II. Whilst the IMF's focus is essentially short term stabilisation of malfunctioning economies, the World Bank has focused on realising longer term Structural Adjustments (SA) in all developing and now quite a few erstwhile socialist economies.

SA is a code word for promoting the marketisation of economies through reliance on market signals to guide economic decisions and allocate resources. The privatisation of public enterprises and other institutionalised public activities seems to be the attendant handmaiden of the marketisation process.

The IMF has on its own account promoted market-oriented reforms under its short-term lending programmes. The recent programme of adjustments being realised in India is part of a set of policy conditionalities agreed between the government and the IMF. The IMF stabilisation programme focuses on correcting imbalances in the budget and external payments account and the overvaluation of the external value of the national currency.

The World Bank's structural adjustment package goes along with the IMF stabilisation programme but then goes on to seek systemic changes of a longer-term nature built around deregulation, import liberalisation, marketisation and privatisation of the national economy. As part of this agenda of systemic reform the World Bank seeks to improve the efficiency of the economy through such measures as

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moving resources from non-development to development purposes, export promotion, rationalisation of government finances and administration and greater mobilisation of domestic resources.

This latter focus of the World Bank/IMF reforms designed to improve economic performance remains above debate. Many of their conditionalities remain appropriate, irrespective of anyone's political beliefs. The areas where debate is joined relate to the first category of systemic reforms which are more explicitly political in their implications insofar as they influence the locus and balance of social and economic power within the polity.

The Compulsion for Reform

In practice, however, very little of debate on the SA reform package promoted by the Bank has taken place between the governments of Third World countries and the Bank. Most governments in the developing world fell victim to the global economic crisis at the beginning of the 1980's which followed on the combination of rising energy prices and the deflationary policies of the G-7 countries led by the United States after the ascendency of Ronald Reagan to the US presidency at the beginning of 1981.

The Reaganite policy, deliberately designed to depress global economic activity, impacted most severely on the developing countries by depressing commodity prices, reducing export growth for their commodity and manufacturing exports, raising interest rates which contributed to the build-up of the debt burden and decreasing resource transfers both on commercial and government account to the Third World.

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It should be kept in mind that what these developing countries were doing at the beginning of the 1980's was no different from what they were doing in the 1970's and before that in 1960's. They were trying to promote development and structural change through a combination of budget deficits and external financing with varying mixtures of public and private enterprises, planning, regulating and control of the economy with a view to realising specific policy goals and structural changes.

The outcome of the process of state management of the economy varied

If the diagnosis and prescriptions of the Bank and IMF for the ills of the developing world are correct, there would be a fair presumption that by the beginning of the 1990's most countries which have embraced these market-oriented reforms would have improved their performance and their economies would be doing significantly better compared to the 1960's and 1970's when all of them were victims of the severe structural distortions from which they were to be rescued by the World Bank-designed reforms.

greatly between countries depending on their historical circumstances, systems of governance and interface with the external economic environment. Some of the crisis countries of the 1980's such as Brazil, Mexico, Venezuela, Ivory Coast did spectacularly well in the 1960's and 1970's.

It is thus a fallacy to think that these countries lapsed into some horrendous mismanagement of their economies at the end of the 1970's. They were doing what they always did. What changed was the global economic environment and the ascendance to power in the US and other G-7 countries of ideologically-driven regimes determined to marketise and privatise the global system. This ideologically-driven agenda which was being put in place in the US, UK and some other developed countries was aggressively embraced by the World Bank and IMF who tend to follow each shift in political wind in the US quite closely and was applied in a quite universal and indiscriminate manner in seeking to reform the economies of the Third World.

The BWI argued that the problems of debt, imbalances, economic inefficiency, all derived not from the impact of the global recession of the early 1980's but due to long term structural distortions in these economies which had been debilitating them presumably over the last two decades and now needed fundamental structural reforms if these economies were to move on to a sustainable growth path.

The Outcome of Market-oriented Reforms

There has been an extensive literature and debate on the conceptual merits of the World Bank's diagnosis and solution of the economic crisis of the Third World. I will, therefore, not going into these issues here. For those who are interested in having a look into the debate I should mention that BIDS organised a major international conference in Dhaka in January 1990 where some of the protagonists of this debate including the World Bank, IMF, UNCTAD, UNICEF, WIDER along with world famous economists such as Lance Taylor of MIT, Steve Marglin of Harvard and some top policymakers of South Asia including the incumbent Finance Minister of Bangladesh argued these issues at a high-level of sophistication. An excellent publication of BIDS/University Press records this discussion.

What concerns me in this paper is to briefly report on what has happened to the developing economies in the 1980's in the wake of the reforms. Some 76 countries, mostly from the Third World, but including some former socialist economies, have through the 1980's been exposed to World Bank-designed Structural Adjustment reforms. The World Bank's Structural Adjustment programmes have between 1980-91 extended 258 loans, valued at $41 billion to these countries, made conditional on their carrying out market-oriented reforms. There are thus very few countries in the Third World and post-socialist region which have not in varying degrees experimented with greater privatisation, import liberalisation and cutting down of public expenditure as part of the loan conditionalities negotiated with the World Bank.

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REHMAN SOBHAN: Advocate of alternatives

To test out the impact of these market reforms at a global level I consulted the 1992 World Development Report (WDR) recently released by the World Bank which is something of a universal source of reference on the trends in global economy. I decided to look at four measures of macro-economic performance: economic growth — measured by changes in the Gross Domestic Product (GDP); growth in fixed investment which measures the improvement in the productive capacity of the economy; growth in exports; and finally inflationary trends, which both the Bank and IMF define as one of the key variables affecting well-being of countries and peoples.

Ideally I would have liked to include trends in global poverty but global data which compare trends over three decades are not included in the WDR. The periods which I compare, and which are reported in the WDR are for 1965-80, which constitute the pre-reform period and 1981-90 the decade when the World Bank initiated its Structural Adjustment lending and when most economies had experienced such reforms. It would have been difficult to make such a comparison earlier, because such reforms take time to have an impact. But 10 years is a long time for such reforms to work out and for us to test whether they have noticeably improved the conditions of the Third World economies.

Economic Growth: This is an imperfect but quite widely used measure for overall economic performance. The 1992 WDR gives data on 78 low and middle income economies comparable as between 1965-80 and 1980-90. Of these 78 countries, only 12 reported improved GDP growth in the 1980's compared to 1965-80. These include five Asian economies: Nepal, India, Pakistan, China and Thailand (Sri Lanka's rate was unchanged at 4%); five African countries: Chad, Benin, Ghana, Senegal and Mauritius; and only two Caribbean/Latin American countries: Jamaica and Chile.

We observe that as many as 66 countries faced a decline in their growth rates in the 1980's compared to an earlier period. Not all of these were exposed to reforms but most were. This suggests that if market reforms were designed to raise the Third World to a new upward growth path they were largely unsuccessful and in fact the Third World has been in a state of protracted recession for the last decade.

Whether this deterioration in growth performance is causally related to World Bank reforms or other factors exogenous to the reforms have contributed to this recession merits fuller analysis. What is, however, significant is that while in the bad old days of the 1960's and 70's when government controls and market distortions were supposed to be crippling economic performance most of the Third World was doing rather better than in the 1980s.

Growth in Fixed Investment: Of the 76 countries for which we have comparable data, only 12 countries registered higher growth rates of fixed investment in the 1980's compared to 1965-80. These were again: India, China, Pakistan and Thailand from Asia; Madagascar, Mali, Burkina Faso, Ghana, Central African Republic and Mauritius from Africa; and Jamaica and Chile from Caribbean/Latin America.

It is not worthy that the Asian, Caribbean/Latin American countries along with Ghana and Mauritius were also those few countries which registered an improvement in GDP growth. Sixty-four countries reported a down trend in growth. Of these, 43 countries reported an absolute decline in investment in the 1980's. This reflects a long term reduction in their production base which could affect their future growth in the 1990's and beyond.

Export Growth: Of the 71 countries for which we have information, only 18 registered an increase in their rate of export growth significantly. Countries which performed well in GDP and investment growth such as India, China, Pakistan, Thailand, Ghana, Jamaica also registered growth in GDP and fixed investment in the 1980s. As many as 53 countries registered a decline in their export growth. Of these, 21 countries registered absolute decline in their exports. If we consider that these market reforms were designed to stimulate the export capacity of the Third World the

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facts suggest the reforms have come nowhere near making most Third World countries better exporters.

Inflation: We do not have at hand the WDR coverage on inflation trends. We, therefore, draw upon another World Bank report on Adjustment Lending which reviews the experience of 57 countries who were exposed to various degrees of Structural Adjustment reforms. Of a sample of 25 countries facing intensive adjustment reforms, the rate of inflation in 1986-90 was higher compared to 1971-80 in only 12 countries. However, 13 of these countries by the end of the 1980's did manage to bring their inflation rate below the rates prevailing in the 1970's.

Of these 25 countries, however, the low income countries faced a significant deterioration in their inflationary situation compared to countries who had been exposed to no reforms. In contrast the middle income reforming countries were noticeably more successful in managing inflation than the non-reforming countries in the 1980s. This suggests that monetary management is not just a question of the right policies but also depends on structures and institutions in a particular country.

The inflationary indicator for the impact of the reforms shows that the reforms have been more successful in moderating inflation than in stimulating growth of investment and exports. However, even here it has not been that effective if we keep in mind that the 1970's were an era of inflation in global market prices and high economic activity compared to the 1980's which had to live with low commodity prices, including oil and economic recession. Thus inflationary trends in the 1980's should have been much more categorically downward than appear to have been the case.

It is obviously desirable to examine the impact of market reforms in much greater depth than I have attempted here. The World Bank's won Third Report on Adjustment Lending just out in March 1992 does this. Their results do not indicate that a new age of high growth, low inflation, rising investments and booming exports has dawned for the Third World. Indeed the prolonged low levels of performance in these indicators, particularly for low income countries such as Bangladesh remains a matter of mounting concern not just within the Third World but even in the inner sanctums of the World Bank.

What our own experience in the 1980's, put in the wider context of a global crisis with market-oriented reforms, does suggest is the need for a major domestic debate on our development policy agenda for the 1990s. This debate should be located within and around our elected parliament in the context of the forthcoming budget, to diagnose the source of our lingering economic malaise with a view to evolving empirical solutions which are specific to our circumstances rather than to seek refuge in externally imposed ideological panaceas.

Lessons for Bangladesh

Bangladesh's policymakers, past and current, are in a somewhat euphoric mood about the virtues of market-oriented reforms. Our own experience in the 1980's with these reforms witnessed low growth rates, declining investment and savings with only some optimism in the growth of garment exports. But the 1980's remained a decade of stagnation for us and it remains to be seen how far this owed to our reforms or to other factors. For those who believe that the government's mismanagement of the economy is largely the cause of Bangladesh's stagnation our paper suggests that we are sailing in a much larger boat where weak economic performance has been the shared experience of the most Third World countries in the 1980's.

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It is now 1992, which makes it around 11 years for the testing of the market-oriented model. We are at last realising that the Third World is not made up of South Korea, Taiwan and the Asian NICs but of over 100 countries most of whom have been languishing in the economic doldrums in the 1980s. The poor performance of most of the Third World in the recent decade suggests that it is the market model which now merits critical analysis as a prelude to a search for alternative development agendas which can stimulate growth and structural change in the developing economies.

For Bangladesh's policymakers to uncritically reaffirm their commitment to what must be seen as a development model which has performed poorly, if not actually having failed not just in Bangladesh but throughout much of the Third World over the last decade, reflects an act of faith rather than a pragmatic approach to governance and thus promises to perpetuate the economic stagnation we experienced in the autocratic 1980's into the democratic 1990's. This is not to suggest that we rush backwards into a regime of mindless controls and mismanagement since the pre-reform period was hardly a golden age of economic development for Bangladesh.

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The territory of this debate is unchartered and may require innovative thinking on conceptual as much as policy issues. We should, therefore, all have the humility to recognise our individual inadequacies in finding ready solutions and to seek guidance from a broad-ranging public dialogues which can generate ideas as well as democratic support for the policy outcomes of this debate.

Given the far-reaching significance of a search for a sustainable development agenda for Bangladesh, our domestic debate would itself need to be situated within a wider global debate on the BWI Structural Adjustment paradigm. Bangladesh is itself part of a wider global economic crisis which embraces much of the Third World and also the post-socialist economies of Europe who are today facing economic decline and severe falls in their standards of living arising out of the extreme variety of Structural Adjustment reforms imposed upon them.

It is thus imperative for the Third World to work out how far its circumstances owe to the limitations of the BWI-derived diagnosis of their problems and their reform agenda or originate elsewhere. It is no answer for the protagonists of these reforms to blame this on failure in implementation by most Third World governments. In fact the World Bank's recent report on Adjustment Lending reports that 78 per cent of the conditions attached to their various loan agreements were fully implemented and 88 per cent were at least substantially implemented. This does not suggest malfeasance of intent and deed by Third World governments. It rather poses the basic question that if these reforms were so faithfully implemented over the decade of the 1980's in a large number of countries why have we not had a clear improvement in economic performance in these countries.

It would be a dangerous act of folly to go on ignoring these melancholy results of such reforms. The debate must thus dwell both globally and at home on the logic, costs and outcomes of these reforms. If the weakness is diagnosed to lie within the BWI model, more creative growth-oriented solutions must be found if the Third World is not to move at the end of the 20th century to a state of development stagnation which could threaten the stability of the emerging 'new' world order.

BRIEFS

Perot preaches small business

LOS ANGELES, June 6 : Ross Perot has said in an interview that the United States must revive its economy by promoting small business and manufacturing, rather than allowing jobs to drift overseas, reports AP.

USA embargoes trade with Y'slavia

WASHINGTON, June 6: The United States on Friday imposed a trade embargo on Yugoslavia in a tightening of sanctions against the republic, reports Reuter.

House stalls $12b IMF fund

WASHINGTON, June 6: A 12 billion dollar US contribution to the International Monetary Fund is in limbo while Congress holds back from approving legislation to aid republics of the former Soviet Union, reports Reuter.

The future of the parent bill is uncertain because of strong sentiment in the House that the government should move on domestic spending programmes before it tackles foreign aid.

The Bush administration had wanted Congress to act on the legislation before this month's visit to Washington of Russian President Boris Yeltsin.

But it has been clear for weeks that Congress would not meet this timetable and a House aide said, "frankly now it's a question of whether we get to it at all."

House Speaker Thomas Foley told reporters this week that he was in favour of the new Republics aid package. "But I think until we have some action on some of the domestic initiatives and needs of the country, it will be difficult to move on the aid to Russia and the former Soviet territory.

There is bipartisan support for the aid in the House Foreign Affairs Committee but it has not yet produced a bill.

The Senate Foreign Relations Committee has approved an aid bill containing the IMF replenishment "but Senate Democratic Leader George Mitchell told reporters no decision had been made on scheduling floor action.

However he said he had no "interlocking calendar" linking the bill to movement on domestic aid.

A House aide suggested that the IMF component could be split from the aid bill. But US contributions to the IMF are no more popular in Congress than foreign aid generally — especially in a year when the Los Angels riots have spotlighted pressing needs in America's cities.

And an aide to Senate Foreign Relations Committee Chairman Califborne Pell, said he was flatly opposed to splitting the IMF sector from the bill for separate action.

Trade gap with Japan may be a poll issue in USA

WASHINGTON, June 6: Vice President Dan Quayle has reminded a top Japanese political leader that a growing trade deficit with Japan could become an election issue in the United States, reports AP.

Bush said the United States would be glad to raise the issue at his June summit with Russian President Boris Yeltsin, said Japanese Press officer Yayoi Matsuda.

Japan's trade deficit has been a growing concern in the United States.

Several House Democrats are sponsoring legislation.

Taiwan's trade surplus soars by 36pc to $ 5b

TAIPEI, June 6: Taiwan's trade surplus hit 4.91 billion US dollar in the first five months of 1992, a 35.7 per cent surge over the same period last year, the Finance Ministry said here, reports AFP.

Foreign trade in the January-May period rose 12.5 per cent over a year ago to 61.73 billion dollar, the ministry said. Exports in the same period advanced 13.9 per cent to 33.32 billion dollar while imports rose 10.8 per cent to 28.41 billion dollar.

In May alone, exports totalled 6.99 billion dollar, a 2.9 per cent surge over the same month of last year, it said.

The booming exports, against 6.08 billion dollar of imports, drove the country's May trade surplus down 45.9 per cent to 910 million dollar, it said.

Economic officials attributed the expanded overseas demand to widened indirect exports to China via Hong Kong.

An economic recovery in the United States, the island's largest export market, was also responsible for the boost, the officials said.

Industrial products accounted for 95.3 per cent of Taiwan's total exports in May period while agricultural and industrial raw materials took a 70.6 per cent of imports, it said.

Joblessness is on rise in key industrial countries

UNDATED, June 6: While U S unemployment was reported at 7.5 per cent on Friday — the highest in eight years — jobless rates in key industrialised nations also are rising and many are higher than in the United States, reports AP.

Canada, which also reported its figures on Friday, said unemployment jumped to 11.2 per cent in May, also the highest level in almost eight years. It reported a rise of two percentage points since April.

Britain reported an unemployment rate of 9.5 per cent, Ireland 21 per cent.