



LUND UNIVERSITY

School of Economics and Management

Master programme in Economic History

UNDERSTANDING THE INEFFICACY OF
STRUCTURAL ADJUSTMENT PROGRAMS IN
LATIN AMERICA

Andrew McCutchan

mas09amc@student.lu.se

Abstract: This paper examines in the context of their history and their impetus the implementation of structural adjustment programs in Peru, Argentina and Bolivia. The failure of the SAPs to meet their desired result is determined to be an extension of insufficient social welfare institutions, which were not initially considered to be important for a smooth transition towards market oriented reforms and sustained economic growth. Furthermore, the policy instruments utilized under the SAPs reduced the ability of the states to provide adequate social insurance and safety nets as government budgets were cut drastically and the role of the state receded from the market.

Key words: Structural Adjustment Programs, neoliberalism, Latin America, International Monetary Fund, World Bank

EKHR11

Master thesis (15 credits ECTS)

June 2010

Supervisor: Mats Olsson

Examiner: Neelambar Hatti & Jonas Ljungberg

TABLE OF CONTENTS

1. INTRODUCTION.....	2
1.1 AIM & JUSTIFICATION.....	2
1.2 SCOPE & LIMITATIONS.....	4
2. DEFINITIONS.....	4
2.1 BACKGROUND.....	5
3. THEORETICAL FRAMEWORK.....	9
4. PREVIOUS RESEARCH.....	15
4.1 MICHAEL WALTON.....	16
4.2 KURT WEYLAND.....	16
4.3 DAVID DOLLAR & JACOB SVENSSON.....	17
4.4 MIGUEL RAMIREZ.....	18
4.5 DANI RODRIK.....	19
5. METHODOLOGY.....	21
6. CASE STUDIES.....	23
6.1.1 BOLIVIA: CASE STUDY ONE.....	24
6.1.2 BOLIVIA: CASE STUDY TWO.....	28
6.2.1 PERU: CASE STUDY ONE.....	29
6.2.2 PERU: CASE STUDY TWO.....	31
6.3.1 ARGENTINA: CASE STUDY ONE.....	33
6.3.2 ARGENTINA: CASE STUDY TWO.....	36
6.4 IMF AND WORLD BANK PUBLICATIONS.....	37
7. DISCUSSION.....	41
8. CONCLUSION AND FUTURE RESEARCH.....	43
9. BIBLIOGRAPHY.....	45

1. INTRODUCTION

The objective of this paper is twofold. Firstly, an examination of the structural adjustment programs (SAPs) implemented through the World Bank (WB) and International Monetary Fund (IMF) will be undertaken in three Latin American countries: Peru, Bolivia and Argentina. More specifically, the examination will focus on why it is that these countries failed to enjoy the sustained economic growth the SAP programs were designed and intended to produce, and furthermore why it has been argued the SAP programs have been more injurious than helpful. This examination will be predicated on a theoretical framework developed to give context to the SAPs rationale, development and implementation, as well as the insufficiencies and critiques that have evolved out of neoliberalism's failure. The second dimension of analysis will build on the first by examining recent documents published by the World Bank and IMF to determine if there have been any changes in their rhetoric, approach and conditions to loan conditionality that have developed out of the failures of SAPs in Latin America during the 1980s through the 1990s.

1.1 AIM & JUSTIFICATION

The interest that led to the creation of this paper stemmed from a fascination with the remarkable incompatibility that sometimes exists between 'common sense' solutions and the problems they aim to address. The Washington Consensus and the primary agents of its central ideals and prescriptions – that is to say the World Bank and IMF – imposed their solutions to the problems of hyperinflation, high-fiscal deficits, and poverty in Latin America in the form of loan conditions known as SAPs (structural adjustment programs), yet resolution to these problems has remained elusive. The policy prescriptions were alluring and seductively simple: remove state subsidies, abolish import substitution industrialization policies, open the borders to international trade and foreign direct investment and all will be well. As will be shown in the context of Peru, Argentina, and Bolivia, the problems the SAPs were designed to address were not fixable at just the policy level. The shifts in domestic policies within Peru, Bolivia and Argentina were quick, and in hindsight, impetuous. The problems afflicting these countries were not insoluble, it was just they could not be fixed as quickly and simply as the international organizations assumed since they had a deep complexity of roots that the SAP loan conditions did not address. Simply put, solutions to problems are not always intuitive; moreover the roots of problems afflicting markets are not always solved at the market level. Most importantly, the greatest shortcoming of

SAPs that will be presented is the staunch idealism firmly entrenched in these policy prescriptions tragically discounted the drastic and injurious effects these policy shifts would have on the majority of the populations of these countries, consequently diminishing peoples standards of living and fundamentally undermining their ability to contribute to the very economy being reformed.

It must be clearly stated that the intent of this paper is not to criticize the goals of the SAPs. Large fiscal deficits, hyperinflation and large, inefficient state subsidies that were endemic to Latin America – Peru, Bolivia, and Argentina specifically – do stultify sustained economic growth and prosperity and were certainly issues that needed to be addressed. It is more the fashion by which the solutions were imposed, the speed with which they were, and also the lack of comprehensive foresight into their potential effects on the general population that will be the criticism that is developed within this paper. The contention that will evolve from the analysis of Bolivian, Peruvian and Argentinean case studies of their experiences with structural adjustment is that the reason why SAPs failed to achieve their desired results was that policy shifts had to be far more gradual in timing and far more circumspect with regards to social well being.

The rapid pace by which these policy implementations occurred was fed by an enthusiasm for ‘Reaganism’ and ‘Thatcherism’ in the 1980s, which argued that the states over-involvement in the market place impeded growth. It was assumed that what worked for the developed world would also work in the developing world, and this scaling back of the state in Latin America was demanded in the form of loan conditions offered by the IMF and World Bank. What will follow in this paper is the development of a theory that posits that the state does indeed have a roll to play outside of its own retraction from the market in transitioning economies, and that policies to scale back the state from areas in the economy where it was inefficient need to be complimented with policy prescriptions that bolster the roll of the state in areas that would soften the blow from the shocks of economic transition for the general population.

Further justification for this paper is to develop an understanding of policy failures in order to produce better policy decisions in the future. Of course a lot has already been written on this subject, but anytime decisions and policies affect the lives of millions, both positively and negatively, it should demand heavy and extensive scrutiny. The merits of analyzing Peru, Bolivia, and Argentina’s respective experiences with SAPs is to see if any common denominators can be found in determining why it is structural adjustment failed there and then compare these findings to recent publications from the World Bank and IMF to see if any lessons have been learned, or

any reform undertaken on their part, from the failure of the initial policy prescriptions put forward by them in the 1980s and 1990s.

1.2 SCOPE & LIMITATIONS

The scope of this paper is both simultaneously wide and narrow. Although the topic of structural adjustments programs is deep in history and broad in geography, the focus of this paper is on three Latin American countries: Peru, Argentina, and Bolivia and their respective experiences with structural adjustment and the outcomes of these policy implementations there. These countries have been selected to help pinpoint specific reasons as to why SAPs failed to achieve their desired results in these particular countries and help develop a broader criticism of neoliberal economic reforms and help illuminate the insufficiencies of this economic theory. The limits of this particular paper are that of geography as only Latin American case studies have been utilized. Many countries around the globe underwent SAPs stemming from loan conditions through the World Bank and IMF in attempts to assure balance of payments and to lower deficits, however, the experiences of SAPs in Asia and Africa fall outside of the scope of this paper. A discussion as to why Peru, Bolivia and Argentina will be further elaborated on in the methods section of this paper.

2. DEFINITIONS

This section will explain the terms and abbreviations found in this paper. Furthermore, a longer explanation of specifically what neoliberalism is and why it has become a term that is interchangeable in policy discussion with the term ‘Washington Consensus’ and structural adjustment programs will be developed in the background section.

SAP: Structural Adjustments Programs

IFI: International Financial Institutions

IMF: International Monetary Fund
WB: World Bank
ISI: Impost Substitution Industrialization

2.1 BACKGROUND

In order to develop a complete and linear structure to the analysis of the failure of SAPs in Bolivia, Argentina and Peru, an explanation and summary of neoliberal policies will be presented in this section. Firstly, it is important to stress the nebulous inter-relationship between the terms Washington Consensus and neoliberalism. The two have been used interchangeably and do relate to one another but require explanation. Neoliberalism is a theory of economics that is derived from neoclassical economics, which favour private enterprise and a reduced role of the state in the market. Neoliberalism can be understood by a number of policy instruments that came to be known as the Washington Consensus, a term which was coined by its creator John Williamson in 1989. The term Washington Consensus has become somewhat of a lightning rod for debate over recent years relating to the questions surrounding the efficacy of its policy components. Moreover, there is a debate whether a ‘consensus’ in the literal sense ever existed regarding its merits.¹ Nevertheless, John Williamson believed a reasonable degree of consensus did exist, and an understanding of both what the Washington Consensus means as well as how that relates to what neoliberal policies can be found in his work “*What Washington Means by Policy Reform.*”²

Williamson’s paper identifies and elaborates upon the 10 areas of policy that are the focus of the Washington Consensus. These include the reigning in of fiscal deficits by making fiscal discipline a central component of IMF and World Bank loan conditionality programs. Also, Williamson addresses the need for reducing public expenditures in the forms of subsidies and larger than necessary public sectors. The tenets of neoliberalism and the Washington Consensus also posit that interest rates should be market-determined and that exchange rates are to be dictated by market forces as well. Moreover, trade policy should be outward oriented and policies

¹ "Washington Consensus." *Harvard Kennedy School - Center for International Development*. Web. 02 May 2010. <<http://www.cid.harvard.edu/cidtrade/issues/washington.html>>

² Williamson, John, *What Washington Means by Policy Reform*, Institute for International Economics, (April, 1990) pg. 1

should be conducive to import liberalization. Williamson does concede, however, that infant industries “may merit substantial but strictly temporary protection.”³ Interestingly, Williamson also acknowledges that a highly protected economy should not dismantle all ISI style protection overnight, and does lean towards a more varied and endogenous approach by which liberalization should occur.⁴ Also on the agenda is the belief in privatization. It is argued that this may help relieve pressure on the government budget and that private industry is managed more efficiently than state enterprises. Privatization is also stated by Williamson to enhance competition, as is deregulation. Reducing the web of regulations, especially in Latin America, Williamson argues, mitigates and reduces the potential for corruption. And finally, a bolstering of property rights is required to instill confidence for investment where in Latin America there is a perception that they are highly insecure.⁵

The blueprint of neoliberal ideas laid out by the architect of the Washington Consensus, John Williamson, needs to be understood not just in theory, but examined also in practice and their impacts. In this section a history of the SAP implementation in Latin America will be developed with a discussion explaining the reasons for structural adjustment in the first place. Structural Adjustment Programs, that were in essence the implementation of neoliberal ideas, were a standardized package of policies designed to resolve issues relating to balance of payments in developing countries and help further integrate these economies into the world market. It may be asked what then impelled countries towards SAPs? It has been argued by Giles Mohan, that events in the 1970s, especially the oil crisis of 1973, resulted in many countries plunging into a deep recession, which in turn initiated the debt crisis and the subsequent need for multilateral borrowing.⁶

Countries in Latin America certainly fell victim to this. The region too, as argued by Mohan, has a history that tended towards the adoption of ISI policies as an attempt to divorce itself from reliance on imported manufactured goods. Since independence in the early 19th century, Latin America has been afflicted by fifty-year economic cycles, which led to major economic restructuring, but never the kind of ‘creative destruction’ envisaged by Joseph

³ Ibid., pg. 7

⁴ Ibid., pg. 8

⁵ Ibid., pg. 10

⁶ Mohan, Giles et al., *Structural Adjustment: Theory, Practice and Impacts*, Part 1 Histories and Theories of Adjustment, (2000) pg. 2

Schumpeter.⁷ For example, in the 1820s, the economic strategy throughout most of Latin America was for the production and export of raw materials. However, a crisis in the 1870s pushed some countries towards low-key manufacturing. In the 1930s, during the depression, commodity prices slumped as world demand dropped off, and a strong impetus towards ISI resulted. This was also due to the United States of America transcending Great Britain as the ascendant economic power, and as a result there was less demand in the United States for raw material imports compared to Britain.

Due to the decline in demand for Latin American imports, economic policies in the region tended to promote more inwardly directed development. The policy instruments used to achieve this included government manipulation of exchange rates, import tariffs and quotas, as well as subsidized credit for substitutive investments and large direct and indirect subsidies, which all lead to heavy intervention by the state into the markets of the respective Latin American countries.⁸ The logical conclusion of this was a heavy undermining of the international competitiveness of domestic firms as well burdensome costs exacted on the state to support these policies. The accumulating problems associated with sustained ISI policies in the region is well described by Mohan:

The import-substituting firms also operated as de facto oligopolies and fixed prices at inflated levels because there was no effective competition...ISI policies also deepened the dependence on developed world economies since they relied upon imported capital goods such as machinery. Over valued exchange rates exacerbated the problem since these firms could not find external markets for their over-priced, poor quality goods yet were facing mounting import bills due to the reliance on foreign capital goods.⁹

Indebtedness, naturally, became a major problem. In fact, Latin America became the most indebted region in the Third World.¹⁰

It was recognized that the problems of indebtedness were symptoms derived from the national policy making bodies in these Latin American economies and were indicative of structural weaknesses. The international financial institutions, namely the World Bank and IMF, initiated a reorientation of economic policies as a remedy to the problems faced; thus structural adjustment began. Bob Milward concisely defines this adjustment as essentially:

⁷ Ibid., pg. 8

⁸ Ibid., pg 8

⁹ Ibid., pg 9

¹⁰Ibid., pg. 11.

The process by which the IMF and World Bank [based] their lending to underdeveloped economies on certain conditions, pre-determined by these institutions. The pre-conditions concern the drafting and implementation of economic policies that are acceptable to the institutions themselves...More specifically, it refers to the process whereby the economies of the Third World are being re-shaped to be more market oriented.¹¹

As mentioned, the rationale for the SAP policies did in part stem from the oil shocks of the 1970s. Internationally, oil prices quadrupled in 1973 and further tripled in 1979/1980. The second oil shock manifested how weak Latin American economies were as demand for their raw materials decreased when industrial nations reduced their imports. Furthermore, these problems were compounded with the rise of interest rates in the developed world from 1.3% to an average of 5.9% between 1973-1980. The increases in interest rates were a reaction to the inflationary pressures that emerged from the sharp rise in oil prices during the shocks. Most saliently, these measures depressed demand and increased unemployment, which undermined export growth from Latin America. This led to a crisis in much of the developing world as balance-of-payments became more-and-more precarious and interest on loans exploded.¹² Irma Adelman argues as well that fear of failure, and indeed the failure of some (Mexico, Brazil) to meet debt service obligations led to commercial banks in industrial countries to become unwilling to lend money to developing countries, leaving Washington-based IFIs as the only source of capital. Therefore, these institutions, being the only option, were able to push through their agenda of loan conditionality more easily.¹³

Loans were designed to rectify the problems with conditions in place to achieve market reform. It was believed that the most efficient way to alleviate poverty would be to develop free market mechanisms and allow for the trickle-down to take effect.¹⁴ The essential concept behind the SAP loans is described by Milward as being one of equilibrium, “and free markets and free trade are employed as the best methods of achieving an equilibrium both internally and externally.”¹⁵ Countries, in order to receive these loans, had to prepare a three-year adjustment program set out in a ‘policy framework paper’ with approved loans to be over a ten-year period at

¹¹ Milward, Bob, *Structural Adjustment: Theory, Practice and Impacts*, Part 2, What is Structural Adjustment? (2000) pg. 25

¹² Ibid., pg. 25-26

¹³ Adelman, Irma, *Fallacies in Development Theory*, Frontiers of Development Economics: The Future in Perspective, (2001) pg. 114

¹⁴ Ibid., pg. 27

¹⁵ Ibid., pg. 28

a special interest rate of 0.5%. The major areas of reform required by the conditions of these loans were as follows:

- 1) To allow markets to work by allowing the free market to determine prices.
- 2) To reduce the state control on prices, so that prices may be set by scarcity values.
- 3) To divest and privatize resources and enterprises controlled by the state.
- 4) Reduce state budgets as much as possible.
- 5) Reform state institutions in order to re-orientate the role of the bureaucracy towards the facilitation of the private sector.

As will be shown in the following section, the prescriptions of the SAPs to reform and re-orientate state institutions in Latin America were far too narrow and insufficient to support a successful transformation of the Peruvian, Bolivian and Argentinean economies.

3. THEORETICAL FRAMEWORK

It is the aim of this section to establish a theoretical lens and framework through which an understanding of why SAPs failure in Bolivia, Peru and Argentina can be understood. Primarily, this section will deconstruct many assumptions inherent in neoliberal economic theory and present a more multi-dimensional approach to economic reform that has been developed by many scholars in the field, such as Irma Adelman, Francis Fukuyama, Amartya Sen, Dani Rodrik, and Miguel Ramirez.

Douglas North has argued that “the structure of institutions shapes the direction of economic change towards growth.”¹⁶ Following North’s contention, this theoretical approach is grounded in the assumption that institutions are inextricably interwoven with economies and their strengths and weaknesses have a deterministic effect on the success, stability and growth of an economy. This assertion is predicated on the work of Dani Rodrik and his work *‘Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development’*. In this work, Rodrik systematically estimates a series of regressions in which incomes of countries are related to measures of geography, integration and institutions. By doing this, Rodrik was able

¹⁶ North, Douglas C., *Institutions, The Journal of Economic Perspectives* (Vol. 5 No. 1) 1991, pg. 97

to identify the independent contribution of the three isolated sets of determinants – geography, integration and institutions – in the cross-national variation in income levels.¹⁷ From this, Rodrik finds “that the quality of institutions trumps everything else. Once institutions are controlled for, integration has no direct effect on incomes, while geography has at best weak direct effects.”¹⁸

Furthermore, this section is designed to contend that neoliberalism is a theory inherently flawed because as a whole it is a theory that discounts the effects it has on socio-cultural and political institutions, which act upon the economy as much as economic institutions act upon societal ones. None are in isolation from each other, and the weave of institutions is far more complex than neoliberal economic theory account for. Essentially, economic policy measures, if exacted imprudently, have the potential to create disequilibrium in society, which in turn has the ability to create further inequality in the economy. Irma Adelman’s *Fallacies in Development and Their Implications for Policy*’ provides an excellent discussion on this fact as it relates to SAPs in Latin America.

A great fallacy that Adelman addresses about the enthusiasm for the SAPs was the belief that underdevelopment had one single cause, and that it could be fixed as simply as the problems were discovered: change this and this and economic growth is inevitable. Her argument carries that this misguided approach is an over-simplification and she classifies this as an X-theory approach – X being the one simple solution.¹⁹ This is, of course, understandably alluring. The solutions found in the SAP policy instruments were seductively simple and held such promise for the future. This approach, according to Adelman, has “guided theoretical and empirical research in economic development during the past half-century.”²⁰ The reason for this was due to the great success of the Marshall Plan. The financed reconstruction of Europe post World War II was so successful at delivering a quick economic recovery that enthusiasm for the plan was carried over with the idea that similar injections of cash would help now-independent former-colonies achieve rapid economic development. Lant Prichett and Michael Woolcock identify this as a characteristic of a “best practice” mentality, where a practice that works in one part of the world

¹⁷ Rodrik, Dani et al., *Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development* Centre for International Development at Harvard University; Working Paper No.97, 2002, pg.6

¹⁸ Ibid., pg.6

¹⁹ Adelman, pg. 105

²⁰ Ibid., pg. 105

is immediately set up as a model for other parts of the world to follow.²¹ The problem was, however, the broader macroeconomic implications of foreign assistance was almost totally ignored along with the social and economic institutional requirements necessary for successful implementation by the World Bank and IMF because there was an almost blind faith that sufficient infrastructure would emerge spontaneously from large cash infusions.²²

One of the theoretical deficiencies of the neoclassical and neoliberal economic framework that is highlighted by Adelman is that it ignores the fact that Marshallian neoclassical economics was never supposed to be a growth theory – only a theory of static resource allocation.²³ Moreover, the theory ignored the postulates of neoclassical economics, which are needed to ensure the efficiency of neoclassical market equilibrium, are not applicable to developing countries. The institutional basis for a neoclassical economy were missing in much of the developing world, Latin America included, and could not be created overnight. Ultimately, what is being argued here is that there was not sufficient investment and development in institutions, nor was there proper institutional readiness required for economic growth. This institutional readiness, as will be shown by Sen, Fukuyama and Rodrik comes in a form that was not immediately known to the World Bank and IMF.

Amartya Sen in his seminal work ‘*Development as Freedom*’ argues that the ultimate goal of development is to enhance people’s freedom and capability. Furthermore, freedom is not just the end goal of development but also the primary means of development. Enhancing peoples mobility, entitlements, and choices are all conducive towards sustained economic growth, and thus when developing a theoretical framework by which to analyze the efficacy of the SAPs it is useful to view them in this light: did SAPs enhance peoples freedoms and capabilities in Latin America? If not, why? Sen argues that various institutions support human freedoms, but that individual entitlements cannot be procured through only one institution. Rather, people’s entitlements are derived from a more complex symbiosis of institutions, and that structural adjustment should be viewed more as to how they contribute to the development of institutions that support the “substantive freedoms of individuals.”²⁴

²¹ Pritchett, Lant & Woolcock, Michael, *Solutions When Solutions Are the Problem: Arraying the Disarray in Development*, World Development (Vol.32, No.2) 2004, pg. 195.

²² Ibid., pg. 106

²³ Ibid., pg. 114

²⁴ Sen, Amartya, *Development as Freedom*, (1999) pg. xiii.

The ultimate goal of the SAPs was to remove impediments to economic growth, and thus remove the major restrictions to freedom that Sen defines as poverty and poor economic opportunities. Yet the institutions that Sen identifies as being critical to the reduction of poverty were not fully addressed. The areas of institutional focus Sen points to are as follows:

- 1) Political Freedoms
- 2) Economic facilities
- 3) Social Opportunities
- 4) Transparency guarantees
- 5) Protective security

And Sen argues that all of these do not exist in isolation from each other as “each of these distinct types of rights and opportunities helps advance the general capability of a person. They may also serve to compliment each other.”²⁵ Recalling Adelman’s arguments for a more multidimensional view on developing economies and institutional readiness, one can draw apt parallels with her contention and Sen’s as he writes: “financial conservatism – important as it is – fits into this diverse and broad picture, and cannot stand on it own – in solitary isolation – as the commitment of the government or of the central bank. The need for scrutiny and comparative assessment of alternative fields of public expenditure is altogether crucial.”²⁶

Like Adelman, Sen discusses viewing poverty as a shortage of income as an approach both well established and one that is, of course, not wrong, just insufficient. Income certainly influences what we can and cannot do and is therefore consistent with Sen’s argument of substantive freedom. In terms of SAPs, however, income has to be looked at in terms of people actual living and what they can achieve. Drastic shocks in Latin America as a result of SAPs made it near impossible for people to live. For example, Argentina in 1976 made a 5-year agreement with the IMF that involved comprehensive policy conditionality. Full on liberalization occurred of external trade and capital markets, the devaluation of the nominal exchange rate, the elimination of domestic subsidies, the privatization of public enterprises, the rising of public sector prices and domestic interest rates. Initially there was success. Real output grew by 12% between 1977 and 1981 and inflation fell from 443.2% to below 150%. Success was short-lived, however, when a recession occurred in 1981-82 as external debt rose from U.S.\$6 billion in 1976

²⁵ Ibid., pg 22.

²⁶ Ibid., pg. 141-142.

to 14.4 billion in 1981, which was accompanied with large scale capital flight. The end result was a decline in real wages of 32.5% and an increase in inflation by 600%.²⁷

When real wages decline by 32.5% it pretty obviously contravenes with ones enhancements of abilities and freedoms, especially if there is a diminishment of government and social institutions to help insulate people from the plight that would ensue. As such, the SAP framework needs to be examined with an appreciation for the roles of government and other political and social institutions. A framework such as this, Sen argues:

Involves rejecting a compartmentalized view of the process of developments (for example, going just for ‘liberalization’ or some single, overarching process.) The search for a single all-purpose remedy (such as ‘open the markets’ or ‘get the prices right’ has had much hold on professional thinking in the past, not least the World Bank itself. Instead an integrated and multifaceted approach is needed, with the object of making simultaneous progress on different fronts, including different institutions, which reinforce each other.²⁸

The problem, as Francis Fukuyama argues, for many countries in Latin America was that in the process of reducing the scope of the state during the SAP implementation they either decreased state strength too much or generated demands for new types of state capabilities that were either weak or non-existent. As he puts it: “The austerity required by stabilization and structural adjustment policies became...an excuse for cutting state capacity across the board.”²⁹ The dangers associated with this, as we will see from Dani Rodrik, are that when there are drastic and indiscriminate cuts in state capabilities along with strong austerity measures, the need for social safety nets are quite acute. This is why Fukuyama identifies one of the major problems with the reduction of state intervention is that it has to be done with the simultaneous strengthening of it in others – namely social institutions that can help buffer the effects of austerity programs from the general population.³⁰

Dani Rodrik in his work ‘*Has Globalization Gone Too Far?*’ discusses the inter-relationship between the opening of borders to free trade and the requirement for bolstered social and political institutions to mitigate the effects of globalization on the working class. Rodrik argues that all countries, both developed and developing, out of fear of not being ‘competitive

²⁷ Milward, Bob, *Structural Adjustment: Theory, Practice and Impacts*, Part 3, Adjustment in Practice, (2000) pg. 48

²⁸ Sen, pg. 127.

²⁹ Fukuyama, Francis, *State Building*, (2005) pg. 15

³⁰ Ibid., pg. 5

enough' push their policies towards greater openness to the global market.³¹ As we have seen, one of the main tenets of the SAPs was to open borders to free trade and dissolve inward-looking ISI policies. According to Rodrik, there is a more harmonious relationship between the enhancement of free trade and globalization with the developed world over the developing world because the developed world already has in place the requisite social institutions to support the working class. In the developing world, as borders were opened, and state budgets were reduced under the structural adjustment programs, globalization actually became less compatible with domestic social and political stability and contributed to domestic social disintegration.³²

The sources of tension and incompatibility, according to Rodrik, come from the reduced barriers to trade and investment since they accentuate the asymmetry between groups that can cross international borders (either directly or indirectly through outsourcing) and those that cannot – in other words, the rich and the poor. What this means is that globalization and the opening of borders in Latin America has fundamentally transformed the employment relationship due to greater increases in substitutability. Workers incur greater instability in earnings and hours in response to shocks to labour demand and labour productivity, and their bargaining power erodes from enhanced substitutability, so they receive lower wages and benefits. Rodrik concisely describes the detrimental interrelationship between structural adjustment and the opening of borders to free trade when he states:

Globalization has made it exceedingly difficult for governments to provide social insurance...international economic integration is place against the background of receding governments and diminished social obligations...If this tension is not managed intelligently and creatively, the danger is that the domestic consensus in favour of open markets will ultimately erode to the point where a generalized resurgence of protectionism becomes a serious possibility.³³

Rodrik uses a cross-section of 105 countries to demonstrate there is a close association between exposure to trade and the scale of government spending. The greater exposure to external risk has resulted in demands for a more active government in the provision of social insurance.³⁴ Rodrik maintains that those societies that expose themselves to greater amounts of external risk demand a larger government role in providing shelter from “the vicissitudes of global markets. In the context of the advanced industrial economies specifically, this translates

³¹ Rodrik, Dani, *Has Globalization Gone Too Far*, Institute for International Economics, (1997) pg. 2

³² *Ibid.*, pg. 2

³³ *Ibid.*, pg. 6.

³⁴ *Ibid.*, pg. 58

into more generous social programs.”³⁵ As we shall see, this was not the case when SAPs were implemented in Argentina, Peru and Bolivia. Hence, the SAPs and the adamant demands that Latin American economies enter the global market present this dilemma: it results in increased demands on the state to provide social insurance while reducing the ability of the state to perform that role effectively. Consequently, as globalization proceeds, the social consensus required to maintain domestic markets open to international trade is endangered. With domestic political support for trade eroding, a return to old-style protectionism becomes a serious possibility.³⁶

The theoretical lens developed here has been one that indicates some serious insufficiencies with neoliberal economics and the policy prescriptions of the SAPs, which they put forward. The need for social insurance does not decline but rather increases as global integration increases is a fact initially discounted by the World Bank and IMF, and the contention that institutions which support social insurance as a necessary pre-condition for development and growth are shared by Adelman, Sen, Fukuyama and Rodrik. In the next section previous research on the topic of SAPs will be addressed where it will also be shown that the theoretical insufficiencies of neoliberal economics are found in its narrow and over-simplified view of markets and their relationship with social and political institutions.

4. PREVIOUS RESEARCH

As mentioned previously, the research and discussions regarding structural adjustment programs in Latin America and elsewhere is extensive. Many approaches have been taken analyzing SAPs effects on civil society, gender, political stability, environment, social geography as well as rural and urban divergence. Since the analysis of SAPs in this paper will be focused on case studies examining the effects of SAPs in Bolivia, Peru and Argentina and why they failed to achieve the desired results much background had to be acquired on the state of research in the field of SAPs in general. Obviously, given the volume and linguistic barriers not all research could be assessed. However, what follows is a summary of key research articles utilized to develop the broader scope of this paper.

³⁵ Ibid., pg. 53

³⁶ Ibid., pg. 53.

4.1 MICHAEL WALTON

Michael Walton's *Neoliberalism in Latin America: Good, Bad or Incomplete?* is a cross country analysis of Latin America's experience with SAPs in which he determines the effects of the SAP policies were crucially dependent on political and social institutions. He writes, "One has to link market and government policies to the institutional context in which they occur, considering both political and socio-cultural dimensions."³⁷ He argues that the success of SAPs depended on institutions in place because "institutional factors determine how interventions work or do not work."³⁸ Furthermore, the initial belief that stability would flow from greater fiscal and monetary prudence was ill founded.³⁹

4.2 KURT WEYLAND

Kurt Weyland examines the relationship SAPs have had with political institutions within Latin America in his paper: *Neoliberalism and Democracy in Latin America: A Mixed Record*. Weyland contends that the regional history of Latin America is one given to social inequality and boisterous calls for social redistribution and state interventionism, which are obviously huge deviations from neoliberalism. He states, "Governments in fragile unconsolidated democracies feared that neoliberal reforms, which impose high short-term costs on important, powerful sectors and large segments of the population, would trigger social turmoil and political conflict and thus endanger the survival of democracy."⁴⁰ Interestingly, however, Weyland's contention is that these reforms have simultaneously helped secure democracy, while also weakening its quality, and that drastic market reforms have attributed to these divergent outcomes. Democracy in Weyland's estimation has been preserved since the liberalizing of trade because it has strengthened international interest in preserving democracy in Latin America now that the borders are open to Foreign Direct Investment.

³⁷ Walton, Michael, *Neoliberalism in Latin America: Good, Bad or Incomplete?* Latin American Research Review (Vol.39 No.3) 2004, pg. 166.

³⁸ Ibid., pg. 175

³⁹ Ibid., pg. 167

⁴⁰ Weyland, Kurt, *Neoliberalism and Democracy in Latin America: A Mixed Record* Latin American Politics and Society, (Vol.46 No. 1) 2004, pg. 136.

Weyland draws this conclusion by comparing Alberto Fujimori's acquiescence to American pressures during his *autogolpe* in 1992 in contrast to Jimmy Carter's pressure in 1977 on Guatemala's dictators to respect human rights, which they flouted even in response to embargos to their foreign trade. The main point being that neoliberalism increases exposure to international pressure for democracy. Guatemala did not respond to pressures from abroad because they had less to lose than Peru did in the 1990s when their economy was more global.⁴¹ Weyland makes one point that is now heavily contested that market reforms have quelled populism, socialism and communism in the region.⁴² This is a point that is dated and now incongruous with more recent political evolutions in both Bolivia and Venezuela.

4.3 DAVID DOLLAR & JACOB SVENSSON

In '*What Explains the Success or Failure of Structural Adjustment Programmes?*' David Dollar and Jacob Svensson examine 220 reform programs enacted globally by the World Bank and IMF. They develop two hypotheses: firstly, that success or failure depends largely on political-economy factors within the country of reform. The second hypothesis is that factors under the control of the donor community influence the success of adjustment programs. Dollar and Svensson utilize data from the World Bank Operation Evaluation Department from which they find "considerable support for the first hypothesis that domestic political-economy factors influence strongly the success or failure of reform programs supported by adjustment loans."⁴³ Their argument suggests that there has to be a fertile ground in terms of institutional capacity and readiness in place that will support the adjustments and make their implementation more viable. Their results, therefore, have clear implications for why SAPs failed in Bolivia, Peru and Argentina, and furthermore are consistent with Rodrik's assertion for strong social insurance.

⁴¹ Ibid., pg. 139.

⁴² Ibid., pg. 141

⁴³ Dollar, David & Svensson, Jacob, *What Explains the Success or Failure of Structural Adjustment Programmes?* The Economic Journal, (Vol. 110 No. 466) 2000, pg. 895

4.4 MIGUEL RAMIREZ

In ‘*Stabilization and Adjustment in Latin America: A Neo-Structuralist Perspective*’, Miguel Ramirez focuses on the working poor of the region and what he classifies as the “unprecedented reductions in the level of economic activity and the standard of living of the great majority of the people of the region” as a result of structural adjustment.⁴⁴ Through selected countries he examines the evolution of real salaries, employment levels, as well as health and education indicators. In Latin America he asserts that there was limited economic progress, and high social and political costs associated with adjustment. As a region, between 1982-1990 there was an unprecedented 10.7% drop in real GDP per capita.⁴⁵ However, GDP per capita is not the only measure used by Ramirez to demonstrate the burden placed on the working poor by austerity measures. He argues that in Latin America between 1980-1990 there was also a drop in real minimum wage of 27.2%.

The decline in purchasing power drastically affected and altered the lifestyles and basket of goods that the majority of people could purchase. These problems were exacerbated by other tenets of the SAPs, which involved massive cuts of government spending on health and education. Ramirez cites Argentina as an example where the proportion of total public expenditures on health and education decreased from 17.2% to 11.3% between 1982-1989. The results of this were disastrous as he describes “the drastic decline in real minimum wages, employment opportunities, and government expenditures for health and basic services has resulted in an increase in extreme poverty in the region, from 112 million people (35% of the population in 1980) to 183 million people in 1989 (44% of the population).”⁴⁶

Ramirez contends that failure of this kind stemmed from the IMF treating inflation only as a result of money growth fueled by rapid increases in government expenditures, and that little attention was paid to the social and political origins of inflation.⁴⁷ Moreover, the ‘shock’ treatments designed to address inflation had the propensity to make it worse. Despite offering an initial respite from inflation, the policy measures of the SAPs actually laid the foundation for a re-ignition of inflation from the supply or cost side. This is so because economic stagnation and

⁴⁴ Ramirez, Michael D., *Stabilization and Adjustment in Latin America* Journal of Economic Issues, (Vol.27 No.4) 1993, pg. 1015

⁴⁵ Ibid., pg. 1016

⁴⁶ Ibid., pg 1020

⁴⁷ Ibid., pg. 1025

inflationary pressures were produced by massive reductions in government spending on infrastructure, such as highways, bridges, dams, education and energy supplies, which all in turn increased the cost of doing business and undermined the private sector's profitability.⁴⁸ Furthermore, when currency is devalued it raises the prices of imports that may be required by domestic producers. This can raise their costs of doing business prohibitively. They must charge higher prices to cover the rapidly rising domestic currency costs of their imports. Ramirez argues, "These supply-side shocks would be further intensified in the presence of reverse net transfers, massive capital flights, and demand by workers for higher nominal wages to offset the higher price level."⁴⁹

To resolve these development roadblocks Ramirez advocates a better approach to adjustment, which like Fukuyama, supports a graduated and sequential approach. Also, Ramirez argues that in order to control massive rises in the cost of living and doing business, there should be controlled prices for fuel, transport and foodstuffs, which can be increased gradually in order to avoid inflationary surges. Like Rodrik, Ramirez also asserts that there must be simultaneous strengthening of social safety nets and insurance to offset the affects of adjustment on the working poor. This involves government spending not being scaled back, but rather directed at public infrastructure, health and education.

4.5 DANI RODRIK

Dani Rodrik addresses the institutional relationship with sustained economic growth. In *Institutions for High-Quality Growth: What Are They and How to Acquire Them* Rodrik writes: "By the 1990s, the shortcomings of the focus on price reform was increasingly evident. The encounter between neoclassical economics and developing societies served to reveal the institutional underpinnings of market economies."⁵⁰ The shortcomings he identifies were a lack of adequate political and social institutions to mitigate the risk and manage the social conflicts that arose out of the implementation of SAPs. He goes on to say that social arrangements of this kind are usually taken for granted by economists, "but are conspicuous by their absence in poor

⁴⁸ Ibid., pg. 1029

⁴⁹ Ibid., pg. 1030

⁵⁰ Rodrik, Dani, *Institutions for High-Quality Growth: What Are They and How to Acquire Them*, National Bureau of Economic Research: Working Paper No. 7540, 2000, pg. 2

countries.”⁵¹ His broader point is that markets need to be supported by non-market institutions in order for them to perform well, and in Latin America little attention was paid to institutions that support social insurance and safety nets. The question he sets out to address is not to look at whether institutions matter or not, but rather which ones matter most and how to acquire them.

Rodrik discusses the many layers of market-supporting institutions, such as property rights, regulatory institutions, institutions for macroeconomic stabilization – such as, counter-cyclical government policies – as well as institutions for conflict management. It is, however, institutions relating to social insurance that receive the most attention. Rodrik’s argument contends that modern market economies now present much more individual risk to both income and employment. Modern growth transitions away from a static to a more dynamic economy in which workers are subject to greater fluctuations on the income scale. Ultimately, this disrupts and uproots people from traditional, community based social support systems, such as the church, and the risks from which to be insured against become much less manageable through customary mechanisms.⁵² In the West, publicly provided social insurance arose during the 20th century. In the United States, it was primarily due to the Great Depression that paved the way for social security, unemployment compensation, public works, public ownership, deposit insurance and legislation favoring unions. Social security has since become a hallmark of an advanced market economy. Countries that support social insurance and safety nets of this kind have come to be known as ‘welfare states’, and despite “a political backlash against the welfare state since the 1980s, neither the U.S. nor Europe has significantly scaled back these programs.”⁵³ It is because of these social welfare institutions that the risks associated with a more open economy are mitigated.

Echoing others on the topic, such as Miguel Ramirez, Rodrik states that in Latin America there was an adoption of a market oriented model, but social insurance was neglected and the upshot has been economic insecurity and a backlash against reforms. In bridging this tension and creating policy prescriptions for sustained economic growth in the region, Rodrik emphatically argues that there is not one right way or single solution to the problems of development. Indeed, beliefs of this kind – as in, only market reforms – have been responsible for many of the problems facing Latin America today. Rodrik stresses that problems to do with social institutions are not

⁵¹ Ibid., pg. 2

⁵² Ibid., pg. 10

⁵³ Ibid., pg. 10

insoluble; that blueprints, however, should be malleable and adaptive to localized needs and experimentation, rather than immutable.⁵⁴

This section has served as a summation and description of some of the previous research done in the field of structural adjustment policies and institutional economics. The respective works of Walton, Dollar and Svensson, Ramirez, Weyland and Rodrik have also revealed a discernable and consistent critique of neoliberal economic reform in the Latin American arena and have emphatically stressed the importance institutional readiness, including social welfare institutions, to compliment the drastic market reforms required by the SAPs. In the following section the methods for the analysis of case studies examining SAP implementation in Bolivia, Peru and Argentina will be discussed.

5. METHODOLOGY

There are certain risks that present themselves in this paper that will need to be avoided. First of all, it requires mention that there are lots of problems as to how to measure the effects of the consequences of the SAPs. For example, Alfred B. Zach-Williams asks the question in the *'Societal Consequences of Structural Adjustment'*: "How does one disaggregate the social consequences of SAPs from those which are the products of a general crisis of the post-colonial mode of accumulation?"⁵⁵ Ultimately, the contention of Zach-Williams is the best way to analyze the consequences of SAPs is through case studies where it is possible to examine the effects on many different dimensions, such as gender, and class.⁵⁶ It is assumed in this paper that there are inherent flaws in the SAP programs and that the reason why these programs failed to achieve their desired result was a function of their design, and not, for example, an exogenous factor such as corruption, or natural disaster. Although much of the previous reading places a lot of evidence on the primacy of social and political institutions and their lack of strength resulting in the failure of SAPs, ultimately the research method in this paper will be inductive and will not approach the question with any firm hypothesis as to why SAPs failed, just that there is an inherent flaw within

⁵⁴ Ibid., pg. 14

⁵⁵ Zach-Williams, Alfred B., *Structural Adjustment: Theory, Practice and Impacts*, Part 4, Social Consequences of Structural Adjustment, (2000) pg. 59

⁵⁶ Ibid., pg. 60

the SAP prescriptions and try to determine what that is by leaning on previous theoretical analysis from other scholars. The goal is to avoid unfounded generalization, but by way of cross-country analysis of various case studies of Peru, Argentina and Bolivia, determine if there are any common denominators that help explain why it is SAPs failed in all of three of these Latin American countries. This paper assumes that institutions are endogenous and reflect the cultural nuances of their respective countries. It would, therefore, be absurd to assume that the institutions in Peru, Argentina and Bolivia are the same. However, the lack of certain institutions (social insurance and safety nets), or their simultaneous weakening in response to SAP prescriptions in all of these countries, may be similar or the same, creating a common institutional deficiency that can be discerned. Furthermore, this paper has a second dimension where it examines a sample of recent publication from both the World Bank and IMF comparing them against highlighted insufficiencies of the SAPs to determine if there have been any evolutions in policy ideas and prescriptions from previous policy failures. It can then be assumed that this implicitly validates the institutional deficiencies that have been identified through case study analysis and determine if the IFIs acknowledge the same flaws in their previous SAP models.

Robert Yin's technical definition of case studies has helped to define the scope of this paper. Firstly, the analysis will match his definition of a case study being an empirical inquiry, as it will "investigate a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident."⁵⁷ Furthermore, the analysis will deal with distinct situations where there will be "many more variables of interest than data points...which relies on multiple sources of evidence [and] benefit from the prior development of theoretical propositions to guide data collection and analysis."⁵⁸ Moreover, this paper adopts a multiple-case study approach because it is more compelling and robust than a single case study. If the analysis were contained to a single case study than it would be abjectly wrong and impossible to draw any substantive conclusion as to why SAPs have failed in Latin America because it would be an assertion based on only one sample, which opens itself up to many other variables that may explain the same phenomenon. With multiple cases from a cross-country analysis there could be a replication with similar failures in different settings. This allows for the development of comparisons and provides a more comprehensive understanding of the problems. As such, this paper will be utilizing replication logic, which Yin argues applies if "upon uncovering a significant finding from a single experiment, the immediate research goal would be to replicate

⁵⁷ Yin, Robert K., *Case Study Research: Design and Methods*, (2003) pg. 13

⁵⁸ *Ibid.*, pg. 14

this finding by conducting a second, third and even more experiments.”⁵⁹ This level of analysis applies to this paper as it does not necessarily require exact replication but can be done with altered experimental conditions, for example the different countries of Peru, Bolivia and Argentina.

Therefore, the methodology of this paper will be an inductive investigation of the phenomenon of the inefficacy of structural adjustment programs in Latin America within its real-life context and using multiple sources of evidence. The sources of evidence, however, require explanation. The reason for choosing Argentina, Bolivia and Peru is that combined they offer a sufficiently broad sample of Latin American countries comprising many of the variances making up the region. In terms of geography, Argentina is southern and is on the Atlantic Ocean. Bolivia is central and landlocked, and Peru, with its varied geography, is on the Pacific Ocean. Furthermore, Bolivia, Argentina and Peru have substantial difference in population size and wealth as measured by GDP per capita (PPP). Argentina has a population of nearly 41 million and a GDP per capita (PPP) of \$13,800.⁶⁰ Peru is smaller both in terms of population and wealth with 29.5 million people and a GDP per capita (PPP) of \$8,600.⁶¹ Bolivia, one of the poorest and least developed countries in South America, has a population of 10 million people and a GDP per capita (PPP) significantly lower than both Argentina and Peru at \$4,600.⁶² It is because of these differences in the countries respective geography, population and present wealth they provide excellent cases for analyzing their respective experiences with structural adjustment.

6. CASE STUDIES

In this section two case studies from Bolivia, Argentina and Peru will be presented and the findings explained as they relate to each countries experience with SAPs. In the final part of

⁵⁹ Ibid., pg. 47

⁶⁰ "CIA - The World Factbook." *Welcome to the CIA Web Site — Central Intelligence Agency*. Web. 10 May 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/ar.html>>.

⁶¹ "CIA - The World Factbook." *Welcome to the CIA Web Site — Central Intelligence Agency*. Web. 10 May 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/pe.html>>.

⁶² "CIA - The World Factbook." *Welcome to the CIA Web Site — Central Intelligence Agency*. Web. 10 May 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/bl.html>>.

this section, two recent publications from the World Bank and IMF will be examined in relation to changes in their rationale regarding structural adjustment.

6.1.1 BOLIVIA: CASE STUDY ONE

Rhys Jenkins' *'Structural Adjustment and Bolivian Industry'* is a case study that examines how the Bolivian economy, specifically the industrial sector, responded to SAP implementation. Jenkins pays particular attention to the impact of the 'New Economic Policy' (NEP) and its impact on manufacturing. This is predicated on the belief that a dynamic industrial sector is a crucial aspect of the process of rapid economic growth. Jenkins delineates the history of the Bolivian economy explaining that prior to SAP implementation the state had control over the key export sectors of the economy, and surpluses from that were not channeled into any productive investment.⁶³ Foreign borrowing grew and the oil crises exacerbated inflationary pressures. Jenkins explains that between 1980-1985 "GDP fell by more than 10% and GDP per capita by almost a fifth... Inflation accelerated to hyperinflationary levels unprecedented in any country during peacetime. The public sector deficit spiraled until it accounted for a quarter of Bolivia's GDP in 1984, and the balance of payment was consistently in the red."⁶⁴

In response to the deteriorating economic situation that Bolivia faced during the 1980s, a New Economic Policy was designed by Harvard economist Jeffrey Sachs and then finance minister Gonzalo Sanchez de Lozada in order to remedy the problems. It is important to note that initially the NEP was neither designed nor directly imposed by the IMF or the World Bank, but the measures would later be supported by the IFIs.⁶⁵ It was hoped that the NEP would bring hyperinflation under control by adopting extremely contractionary fiscal and monetary policy. Its tenets included:

- 1) Cutting government employment by 10%
- 2) Freezing wages in the public sector.
- 3) Halting public investment for one year.

⁶³ Jenkins, Rhys, *Structural Adjustment and Bolivian Industry*, The European Journal of Development Research, (Vol.9 No.2) 1997, pg.109

⁶⁴ Ibid., pg. 109

⁶⁵ Ibid., pg. 111

- 4) Increasing government revenues by raising petrol prices to international levels and increasing tariffs on public utilities.
- 5) Unifying the foreign exchange rate by introducing a single floating exchange rate.

The effect of the last measure resulted in an immediate devaluation of the Bolivian currency by 93%.⁶⁶

Despite the public consensus for change that was spawned from the traumas of hyperinflation, the reactions to the implementation of the NEP were far from harmonious. Organized labour in Bolivia was strongly opposed to the new measures because they had led to wide scale unemployment and a sharp decline in real wages. The Confederacion Obrera Boliviana (COB) immediately called a general strike resulting in the government responding by arresting the leaders of the COB. Jenkins explains that the end result of a series of strikes initiated by the COB led to the Bolivian government declaring a state of siege, increasing their ability to suppress opposition to the NEP policies. Jenkins points out that “the position of the miners, who formed the backbone of the COB, was decisively weakened by the collapse of the international tin price in October of 1985. This was followed by the mothballing of many of the state mines and the dismissal of 23 000 out of a total of 28 000 miners.”⁶⁷

The labour markets in Bolivia were in dire straits, but from the World Bank’s perspective the changes occurring in Bolivia were viewed as relatively innocuous. Employment protection for workers was reduced making it easier for employers to fire workers, and wage indexation was eliminated so that wage levels were to be determined through bargaining at the firm level. Summarized by the World Bank: “These changes in labour regulations provided a structure of incentives conducive to harder work, greatly reduced the incidence of strikes and labour disruptions, and allowed firms to increase productivity through more flexibility in their use of labour.”⁶⁸ It is, of course, hard not to think that the World Bank may have been suffering from some form of economic myopia if they believed that the motivation for large scale general strikes in Bolivia came from a reluctance to work hard. The discussion by Jenkins of the reductions in wage levels and the higher levels of substitutability quite clearly bring Rodrik’s arguments to the fore: neoliberal policies made employment stability far more precarious and opened up the

⁶⁶ Ibid., pg. 111

⁶⁷ Ibid., pg. 111

⁶⁸ Ibid., pg. 113

working population to greater employment risk to which they had little social insurance to insulate them from.

It is important to note that the NEP was quite successful in bringing hyperinflation under control. By 1987 inflation was down to less than 20% and further recued to 10% in the 1990s. However, GDP per capita in real terms in 1993 was less than what it had been in the late 1970s. The cause for this concern, according to Jenkins, was due to little investment. He states: “Whereas high growth economies allocate more than 25% of GDP to gross fixed investment, in Bolivia – despite the recovery from low levels of the mid 1980s – investment still only [accounted] for around 15% of GDP and private investment accounts for only 6% of GDP.”⁶⁹ In other words, there is a paradox. Although Bolivia has been a model case of fiscal austerity and market liberalization, its growth performance since the introduction of the NEP has been poor. The explanation posited by Jenkins is that this has come from low levels of investment in human capital and infrastructure.

Jenkins’ analysis focuses predominantly on the manufacturing sector in Bolivia. His contention is that despite manufacturing being more of a peripheral area of growth and employment in Bolivia, agriculture and primary industries will not be sufficient to sustain economic growth. Therefore, manufacturing must grow, but it has not. He states: “Sustained economic growth in Bolivia and increased levels of employment can only be achieved with a dynamic manufacturing sector.”⁷⁰ Essentially, increased levels of mineral exports may increase income in the short term, but this will not be able to provide adequate employment opportunities for the bulk of the population because of its relatively capital intensive nature and agriculture will not absorb enough either. The high levels of protection manufacturing received in Bolivia prior to the NEP insulated the sector from the forced efficiencies that are derived from competition. Nominal rates of protection for the manufacturing sector fell from 50% in 1985 to 14% in 1988. A major consequence of this was a large increase in imports and foreign competition. Not surprisingly, as Jenkins states, “the branches of manufacturing which [were] most badly hit [were] those which received the highest levels of protection before 1985.”⁷¹ Of course, this is not to say that changes of this nature were not required. Bolivia was in poor economic shape prior to the NEP and high levels of protection were completely unsustainable. It is, however, the rapidity

⁶⁹ Ibid., pg. 114

⁷⁰ Ibid., pg. 115

⁷¹ Ibid., pg. 119

of transition towards market reforms that was so drastic it became injurious to large numbers of peoples well-being.

Deregulation of the financial sector is another example of this as it led to interest rates reaching almost 30% in 1987.⁷² Moreover, this led to a severe capital market imperfection. The larger manufacturing companies in Bolivia were closely linked to the financial entities and managed to receive more favorable conditions for access to capital, whereas smaller entities did not enjoy this privilege, increasing the difficulties associated with obtaining bank credit. Naturally, this resulted in diminished investment in the manufacturing sector. The high real interest rates exacerbated the troubles associated with the changes in labour laws. Between 1980 and 1985, prior to the NEP, employment in the manufacturing sector did fall by 30 000 employees due to the recession. However, in the year following the adoption of the NEP “there was a further fall of 30 000...[And] since there was a slight increase in manufacturing production during that same year, this clearly suggests that employers took advantage of the new freedom to fire workers.”⁷³

Bolivia’s experience with structural adjustment is laid out by Jenkins explaining that with the drastic opening to foreign competition and the liberalization of financial markets - reforms mandated under the NEP and supported by the World Bank and IMF - have resulted in a very difficult economic and social situation. It has resulted in little investment, technological change and labour market reforms have shifted the balance of power towards the employers resulting in reduced employment security and deteriorating working conditions for industrial workers. Changes of this kind are not all bad, but require complimentary changes in institutions that the NEP did not account for. This has resulted in a glaring necessity for their to be investment in peoples well being. Surely the changes in market conditions were necessary, but not sufficient without increased insulation from the poverty that came with them. Rodrik’s analysis of the change in labour conditions is manifested in the Bolivian case and therefore has to be applied. Jenkins’ findings support this argument as he states that improved international competitiveness has come at the cost of less favorable labour conditions rather than better technology or

⁷² Ibid., pg. 119

⁷³ Ibi.d, pg. 119.

organization of production. “The inherent limits of such measures suggest that the NEP has not laid a foundation for dynamic industrial growth in Bolivia.”⁷⁴

6.1.2 BOLIVIA: CASE STUDY TWO

Benjamin Kohl in his article “*Challenges to Neoliberal Hegemony in Bolivia*’ views the tumultuous political events of 2003 in the context of 20 years of experiment with neoliberal policies. In Kohl’s analysis, one of the primary inabilities of structural adjustment to procure sustained positive growth was the inability to conceptualize the pains they exacted on common people. In Bolivia, dissatisfaction with SAPs has taken the form of protest and “the demands of these new social movements often crystallize around the negative impact of neoliberal policies, such as increases in costs of basic services and commodities, the job losses and the price hikes that accompany privatization, as well as reductions in social spending and the new taxes demanded by IFIs.”⁷⁵

In response to the debt crisis, the petrodollar boom and the rise in interest rates in the U.S. dollar dominated loans, and GDP declined every year between 1981-1986. In response, President Victor Paz Estenssoro initiated the NEP and issued presidential decree 21060 that closed that mines, floated the currency, privatized state-owned enterprises and ended protectionist ISI policies. The economy was stabilized but it did not address all the fundamental economic problems. Unemployment and imports flooded the market. Manufacturing jobs “were lost for good”⁷⁶ and the informal economy expanded to include almost 70% of the urban working population. The World Bank initiated the Social Emergency Fund in an attempt to mitigate the devastating social impacts of the NEP, with \$239.5 million to be spent over four years on hundreds of small projects to build economic and social infrastructure to stabilize poverty. The SEF, however, failed to produce any long-term job growth, while the informal and coca economies exploded dwarfing the influence of the SEF. The attraction of the informal economy had become too great as it became guarantor of survival for many peasant families. Kohl writes:

⁷⁴ Ibid., pg. 125

⁷⁵ Kohl, Benjamin, *Challenges to Neoliberal Hegemony in Bolivia*, Antipode, (Vol.38 No.2) 2006, pg. 307

⁷⁶ Ibid., pg 311

“Regional economies in Cochabamba and Santa Cruz had coca incomes of U.S.\$1000-2000 a year and guaranteed survival to 50 000 peasant families directly displaced by the NEP.”⁷⁷

The need for jobs was manifest and President Goni introduced the Law of Capitalization, which sold 50% of the state industries that had provided 60% of all government revenue to multinational corporations. The prediction was that capitalization would bring international investors with new capital, technology and management systems, which would drive economic growth to an optimistic 11% and create hundreds of thousands of jobs.⁷⁸ Despite the optimistic neoliberal rhetoric, the outcome was not so ideal. FDI was seen in oil and gas exploration but little carried over to the broader economy. The informal sector continued its prodigious growth as workers in recently privatized industries lost their jobs. This was perilous for the government, and things got worse still as they invoked a significant increase in the energy consumption tax, which enhanced social antipathy towards the state and did little to replace the loss of 60% of their previous revenue from state-owned enterprises. From this Kohl derives his main assertion that there was a profound disconnect between how neoliberalism operates on a government (theoretical) level and how it affects peoples daily lives. The institution of government is subject to the will of the people and it will eventually alter government if the effect of certain policies changes the lives of people for the worse. In the case of Bolivia, the realities of daily life have trumped neoliberal hegemony, and the rise of populism exhibited in the presidency of Evo Morales demonstrates this quite clearly.

6.2.1 PERU: CASE STUDY ONE

Maureen Hays-Mitchell views Peru’s structural adjustment in relation to gender and the difficulties that arose as a result of their implementation in her article *‘Resisting Austerity: A Gendered Perspective on Neoliberal Restructuring in Peru’*. Hays-Mitchell begins by explaining that Peru is considered by some to be a structural adjustment success. The political violence that characterized the country in the 1980s has waned and in 1994 it had the worlds most rapidly growing economy, yet despite this “more than half its national population was living – and

⁷⁷ Ibid., pg 312

⁷⁸ Ibid., pg 314

continues to live – in a state of poverty.⁷⁹ Of course, neoliberal reforms affect many layers of society, however, Hays-Mitchell contends that no segment of Peruvian society was more severely affected than low-income women.

Hays-Mitchell outlines the three phases of adjustment that took place in Peru. Beginning with Victor Terry, then Alan Garcia Perez and finally under Alberto Fujimori. However, it was under Fujimori that the most drastic effects occurred, and the time period Hays-Mitchell examines most closely. She explains that Alberto Fujimori was elected under promises not to implement World Bank and IMF style SAPs but did precisely that two weeks after his inauguration. Hays-Mitchell writes: “On August 8th, 1990, the Peruvian populace awakened to what has become known as ‘Fujishock’. Overnight, the price of critical goods and services soared. Gasoline prices rose by 3000%; water and telephone by 1300%; electricity by 5300%...Food subsidies were withdrawn, and the price of bread increased by more than 4000%.”⁸⁰ The impact this had on the poor and working class is not hard to envision. It got worse too. Real wages declined by 50%, underemployment reached 80% and by 1994 59% of the national population was living in poverty.⁸¹ Thus, the economic growth in 1994 can only be seen as development as compared to how hard things had fallen. It was only a little respite from the devastation that had occurred under ‘Fujishock’.

Those affected the most by these economic conditions were women and dependent children. The enormous rise in prices for basic goods made it tremendously difficult for mothers to fulfill their maternal obligations to their children, especially as incidence of disease rose as slums began to grow and as purchasing power deteriorated as adjustment policies reduced wages and subsidies were scaled back. The economic collapse initiated a dramatic migration from rural highlands into urban centres. Many of these women only spoke Quechua and had minimal Spanish, which also diminished employment opportunities. Shanty-towns doubled in size. The slums surrounding Lima grew from 7 million people in the 1980s to 12 million in the 1990s.⁸²

Recalling Rodrik’s criticism of SAPs lacking adequate social security provisions to help buffer the poor from the most extreme shocks of policy adjustments, it is important to keep in

⁷⁹ Hays-Mitchell, Maureen, *Resisting Austerity: A Gendered Perspective on Neoliberal Restructuring in Peru*, Gender and Development (Vol.10 No.3) 2002, pg. 71

⁸⁰ Ibid., pg.72-73

⁸¹ Ibid., pg. 74

⁸² Ibid., pg. 74

mind just how much this resonates with a gendered understanding of SAP policy implementation in Peru. Consider this when Hays-Mitchell writes:

In essence, neoliberal restructuring is premised on women's unpaid labour as well as existing unequal division of roles, responsibilities, and rights between men and women within undeveloped societies. Not only does neoliberal restructuring perpetuate and exacerbate such conditions, it also presumes that the time and effort women expend in unwaged work with the home, community and workplace are unproblematically available and inexhaustible. The implications are complex and far reaching.⁸³

Hence, minimizing the value of this unpaid labour and not accounting for it leads to greater poverty because it constrains the economic opportunities available to poor urban women while simultaneously augmenting and making far more difficult the tasks necessary for them to keep dependents alive. Under neoliberal reform, support for necessary social services disappeared at a time when economic circumstances were more difficult than ever.

6.2.2 PERU: CASE STUDY TWO

Moises Arce's case study '*The Societal Consequences of Market Reform in Peru*' has a wider focus than Maureen Hays-Mitchell as he examines the imposition of neoliberal reforms and their impacts resulting in the disintegration of representative institutions and other societal groups within Peru.⁸⁴ Arce's focus helps explain the co-evolution of political transition and market reform in Peru, as he explains that the political climate and social turmoil within Peru during the 1980s laid a foundation conducive to drastic reforms. His contention is that due to the social turmoil that existed in Peru from the Communist insurgency, the Shining-Path, Peruvians were more susceptible to accepting a political outsider – Alberto Fujimori – who promised solutions to the problems plaguing Peru. Fujimori, Arce writes, "initially proposed a gradual program of economic adjustment but, once elected, turned to a classic program of neoliberal orthodoxy in accordance with the so-called Washington Consensus."⁸⁵

⁸³ Ibid., pg. 74

⁸⁴ Arce, Moises, *The Societal Consequences of Market Reform in Peru*, Latin American Politics and Society, (Vol.48 No.1) 2006, pg. 28

⁸⁵ Ibid., pg. 28

Fujimori consolidated his power, and enhanced his ability to push forward reforms in 1992 with a self-administered coup. The *autogolpe* enabled Fujimori to utilize his presidential decree to implement market reforms, but this form of neoliberal restructuring has had profound implications for the political consequences of structural adjustment. Arce's arguments echo the same problems and dilemmas that were pointed to by Hays-Mitchell when he writes that the market-oriented "propositions [tended] to overlook the complexity of market policies and the variable impact of different reforms on interactions between state and civil society."⁸⁶ The theoretical framework Arce uses is from Theodore Lowi, who argues that public policies may be categorized as three different types: regulatory, distributive, and redistributive.⁸⁷ Each of these forms has a unique result that determines the relationship between civil society and government. For example, Arce explains that:

- 1) Regulatory policies result in conflict between those who will be indulged and those will be deprived based on government choices invariably creates a politics based around interest groups.
- 2) Distributive policies are associated with allocating public resources to specific societal groups and are most likely to result in clientelistic politics.
- 3) Redistributive policies seek to distribute wealth from one group to another and are likely to produce class based political activity.

The point of this framework is to show that when SAPs were introduced in Peru they were done also with a high degree of centralization under Fujimori's *autogolpe*. There was a detrimental inefficiency inherent in this because reliance on neoliberal policies constrained policy choices and greater reliance on the market and new economic arrangements disregarded the necessity of redistributive policies that are advocated by Rodrik and Ramirez. What this means is that lateral maneuverability of policies is greatly diminished with the adoption of SAPs, and as a result policies become less responsive and adaptive to peoples needs; whereas, the policies implemented by Fujimori were in unwavering pursuit of a theoretically based set of ideals from the IMF and World Bank. As Arce puts it: "Broadly speaking, market restructuring has

⁸⁶ Ibid., pg. 28

⁸⁷ Ibid., pg. 32

constrained the capacity of societal actors to modify policy reforms as well as the capacity of state actors to accommodate societal demands.”⁸⁸

A key point to maintain, however, in the discussion regarding SAPs in Peru is to stress that their lack of success was also to do with the political layout in Peru, which was made in no way conducive towards a system of responsive government or one particularly suited to poverty alleviation. It can be argued that the political centralization that occurred under Fujimori was out of an enthusiasm for the most efficient implementation of SAPs, but the end result of this intense centralization was not good. For example, Fujimori “had almost exclusive control over poverty efforts and health administrations...These policies were thus centrally administered.”⁸⁹This is in direct contravention with well-entrenched views that local knowledge and implementation is paramount to adequately to provide and support a functional health and social insurance network.⁹⁰

6.3.1 ARGENTINA: CASE STUDY ONE

Jean Grugel and Maria Pia Riggiozzi in ‘*The Return of the State in Argentina*’ discuss the history of Argentina’s experiences with structural adjustment. Their contention is that the retraction of the state and diminished social welfare institutions has led to greater popular sentiment for more dynamic role of the state in terms of economic growth and social stability.⁹¹ Grugel and Riggiozzi are quick to make unequivocal statements about SAPs in Argentina when explaining the severe economic crisis of December 2001 by describing the crisis as confirmation that neoliberalism had comprehensively failed to deliver stable and equitable growth.⁹²

They begin with an explanation of the statist development model that began under Peron (1946-1955) as an “imposed strategy of development that combined a populist model of welfare spending with the state-sponsored industrialization, bringing to an end the prevailing period of

⁸⁸ Ibid., pg. 33

⁸⁹ Ibid., 34

⁹⁰ Rodrik (2000), pg. 14

⁹¹ Grugel, Jean & Riggiozzi, Maria Pia *The Return of the State in Argentina*, International Affairs, (Vol.81 No.1) 2007, pg. 88.

⁹² Ibid., pg. 87

liberal export-led growth.”⁹³ Through this explanation their aim is to paint a picture of the political milieu in Argentina as one where unionized workers, the urban poor and the lower middle class had an established inclusionary relationship with the government, and were strong political actors. As such, the continuance of preferential exchange rates and industry subsidies were seen as necessary for economic growth. Ultimately, the statist development strategy was unable to be sustained and Peron himself was overthrown in 1955, but the cultural roots of Peronism were such that the immediate return to a liberal economic order was impossible to be achieved immediately. That is to say, statist policies continued even though Peron did not.

The continuance of protectionist policies led to an overvalued currency in Argentina and uncompetitive exchange rates. The economy became dependent on the imports of capital and intermediate goods required to sustain industrialization, thus creating a growing trade deficit. Mounting indebtedness led to recession and economic collapse resulting in high unemployment and a decline in living standards.⁹⁴ The chaos and economic collapse led to Carlos Menem winning the election in 1989, ironically a Peronist, who immediately undertook structural adjustment reforms. The usual measures were implemented with public service and utilities being privatized and government investments in health, housing and education falling as well. Despite FDI increasing substantially in the early 1990s, from US\$3.2 billion to US\$10.7 billion in 1993, the reductions in state infrastructure and social safety nets made sustained economic growth unviable. Grugel and Riggiorzi explain Menem’s transformation of the federal government as being one of massive reductions in state expenditures and also policies that shifted fiscal responsibilities for healthcare, education and welfare to the provinces that were ill-equipped to manage their new responsibilities. The substantial cuts in public expenditure strained many layers of political trust as relations between the central government and the now burdened provinces deteriorated and the traditional bonds between the poor and working class with the government eroded.

Grugel and Riggiorzi explain this succinctly when they write:

With provinces taking on new responsibilities for health, education and welfare, the federal government was able to shed jobs: more than 200 000 between 1990 and 1992 alone. The social costs of labour restructuring and rising unemployment were partially mitigated by populist redistribution policies and patronage, but a steady increase in

⁹³ Ibid., pg. 88

⁹⁴ Ibid., pg. 89

impoverishment and social exclusion and a decline in public services over the long term were inevitable.⁹⁵

Growing disenfranchisement led to growing disenchantment with neoliberal policies, as worsening living conditions undermined faith in their wisdom. For example, in 1980 11.5% of people living in Buenos Aires (population 12 million) lived below the poverty line. This is, of course, not an ideal situation. However by 1995, after the implementation of SAPs, 25.8% of people in Buenos Aires were living below the poverty line and in 2000 nearly 33% of the country were poor by World Bank standards.⁹⁶

In the wake of the dissatisfaction with the status quo, a new central left government led by Fernando De La Rúa took over from the *Alianza por el Trabajo, La Justicia y La Educacion* (Alliance for work, justice and education). Elected under further promises of reform, La Rúa, once in office, was unable to overcome the rigidity of domestic and external pressures to maintain the fixed exchange rate and the broader neoliberal agenda.⁹⁷ That being said, in an effort to display his commitment to financial stability he announced a ‘zero deficit plan’, which included cutting pensions and public wages by 13%. Even though these measures were inline with the World Bank and IMF, Argentina still ironically fell out of favour with the IMF when it imposed restrictions on bank withdrawals and money transfers as they were desperately trying to prevent further capital flights.

Declining wages coupled with cuts in social spending and social welfare institutions led to a new social phenomenon that Grugel and Riggiozzi address as the ‘New Poor’. The distance between the government and the people rose along with poverty, which was at 38.3% in October 2001 and at a staggering 57.5% a year later.⁹⁸ The ‘New Poor’ were not those that resided in the extreme poverty bracket that was 27%, but mainly composed of the suddenly impoverished members of the lower middle class and upper working class who had survived declining public spending and rising unemployment in the 1990s only to be reduced to poverty in 2001.⁹⁹ With regards to this embedded level of poverty, Grugel and Riggiozzi share in Rodrik’s criticism that poverty will not be solved by neoliberal policies unless there is investment in welfare spending to

⁹⁵ Ibid., pg. 92

⁹⁶ Ibid., pg. 92

⁹⁷ Ibid., pg. 93

⁹⁸ Ibid., pg. 94

⁹⁹ Ibid., pg 94

buffer the poor from the worst shocks of structural adjustment.¹⁰⁰ They argue that “marginalization and social inclusion on the scale described here almost certainly cannot be resolved simply through job creation because many people have become unemployable in the new economy and many jobs are being created in the informal sector. New forms of imaginative and well-funded welfare schemes are required to repair the social damage created by the combined effects of a decade of neoliberalism and economic meltdown.”¹⁰¹ Furthermore, they argue that providing policies that support a robust export market, as well as social-safety nets and social spending must be seen as mutually supportive endeavors and if not addressed the scale of deprivation will only continue.¹⁰²

6.3.2 ARGENTINA: CASE STUDY TWO

Roberta Villalon, like Grugel and Riggiozzi, is quick to use categorical language in her description of Argentina’s experience with SAPs. In ‘*Neoliberalism, Corruption and Legacies of Contention: Argentina’s Social Movements, 1993-2006*’, Villalon describes the implementation of SAPS – privatization, reduction of state employment, reform of the welfare system, and opening of domestic markets to foreign trade – as things that initially brought about economic growth and monetary stability. However, “in the longer term [Argentina] experience severe impoverishment, unemployment, income polarization, recession, and, finally, monetary and financial instability that, combined with the rollback of the state, generated a growing heterogeneous mass of unemployed people without institutional protection from the state, the unions, or other organizations.”¹⁰³

Villalon’s mention of a growing heterogeneous mass of unemployed people is precisely where her case study focuses. In her estimation, a method to understanding the failure of SAPs in Argentina is to understand the countervailing force they created in the form of popular dissent against the policies. That is to say, that the mass protests calling for an end to neoliberal policies are inextricable from the problems of unemployment and poverty that SAPs created. However, it

¹⁰⁰ Ibid., pg. 104

¹⁰¹ Ibid., pg. 105

¹⁰² Ibid.,pg.105

¹⁰³ Villalon, Roberta, *Neoliberalism, Corruption, and Legacies of Contention: Argentina’s Social Movements, 1993-2006*, Latin American Perspectives, (Vol.34 No.2) 2007, pg. 140

is very interesting that Villalon argues that the problems Argentina faced as a result of SAPs took on an added dimension as the institutions historically and typically designed to represent workers were also popularly associated with the corruption and negative fallout from structural adjustment.¹⁰⁴ For example: “Various types of protests constantly expressed their disagreement with partisanship and unionization, denouncing high levels of corruption and inadequate representation of the largest unions and the major political parties.”¹⁰⁵ What she means by this is that, historically speaking, unions in Argentina has been a critical connection between the working class and the government, but after neo-liberal reform unions had lost their strength as a result privatization. Moreover, “both the unions and political parties had a crisis of legitimacy reflected in charges of illegal political practices.”¹⁰⁶ Hence, there was also a crisis of institutions that were responsive and representative of the majority of the poor and affected.

“In short, the traditional channels of societal representation had lost their effectiveness and legitimacy, and their constituents found themselves in a position of severe economic disadvantage without any sort of institutional protection.”¹⁰⁷ Recalling to mind the problems associated with a reduction in state spending and investment on social safety-nets and social insurance, it is interesting to see Villalon’s point that these problems were exacerbated by an actual erosion of public trust in the very institutions that were traditionally there to advocate for them as well. This is, of course, not something that could have easily been predicted, and a phenomenon reliant on the endogenous power sharing structures within Argentina, but it is worthy of mention because with all that has been said regarding the importance of social institutions, the SAPs produced a situation conducive towards corruption and led to further political disenfranchisement amongst the poor and working poor.

6.4 IMF AND WORLD BANK PUBLICATIONS

The purpose of this section is to examine a selection of recent documents published by the World Bank and IMF on loan conditionality as well as on social safety nets. A discernable theme throughout the previous section was one that showed a consistent flaw in neoliberal

¹⁰⁴ Ibid., pg. 140

¹⁰⁵ Ibid., pg. 140

¹⁰⁶ Ibid., pg. 140

¹⁰⁷ Ibid., pg. 141

structural adjustment. Argentina, Peru and Bolivia, despite differences in their respective endogenous institutions all suffered from the implementation of SAPs due to a lack of social insurance and social safety nets that was not accounted for in the initial policy prescriptions of the Washington Consensus. This insufficiency has been common across the board and is considered now to be absolutely paramount and inextricable for successful market transitions to occur.

It is encouraging to see a change in rhetoric advocating the necessity for a more comprehensive and socially involved perspective on development from the World Bank. Ostensibly learning from past policy failures, it appears that the World Bank is responding to advice laid out by Dani Rodrik that social safety nets are an absolute preconditions for a developing country to have if it is to be successfully integrated into global markets. After all, as Rodrik stated “societies that expose themselves to greater and greater amounts of external risk demand a larger government role as shelter from the vicissitudes of global markets.”¹⁰⁸ This statement is unequivocally echoed in chapter two of ‘*Protection and Promotion: The Design and Implementation of Effective Safety Nets*’, a World Bank publication, when its stated “safety nets deserve a role in development policy in all countries. They mitigate extreme poverty through the redistribution of resources; they help households invest in their future and manage risks; and they help governments make sound policy decisions in macroeconomic, trade, labour and many other sectors.”¹⁰⁹

Again echoing Rodrik, it is stated that safety net implementation must be in concert “with the existing policy context and be balanced with existing or planned safety nets, social insurance, and other social or poverty alleviation policies.”¹¹⁰ The case for safety nets is outlined in the World Bank literature and signifies a change in policy towards poverty alleviation prescriptions adopted by the IFIs in earlier times. Knowledge of these advancements comes in the form of their outlining of the reasons for safety nets, which they breakdown as having four objectives:

- 1) Safety nets and transfers have an immediate impact on inequality and extreme poverty.
- 2) Safety nets enable households to make better investment in their future.
- 3) Safety nets help households manage risk.
- 4) Safety nets help governments make beneficial reforms.

¹⁰⁸ Rodrik (1997), pg. 53

¹⁰⁹ Grosh, Margaret, Del Ninno, Carlo, Tesliuc, Emil & Ouerghi, Azedine, *For Protection and Promotion: Ch. 2, The Case for Safety Nets*, The World Bank, (2008), pg. 11

¹¹⁰ *Ibid.*, pg. 11

The last point is quite salient as it relates to previous reforms that failed. What the World Bank is now saying is that they understand how important social safety nets are to help push through market reform in developing countries and that they are cognizant that non market institutions work in a symbiosis with markets and that the health of one affects the other.

What is important to express in the World Bank literature is that they now see safety nets operating in a sort of complementarity with the policy prescriptions of the SAPs. Safety nets are not isolated as solutions themselves, but now a necessary part of a broader solution to underdevelopment. For example, it is discussed that safety nets can help prevent malnutrition and enhance education – both areas of conspicuous absence throughout SAP implementation in Bolivia, Peru and Argentina. They write: “inadequate income can contribute to malnutrition by curtailing diets in quantity and quality: reducing access to services such as health, education, water and sanitation; and affecting the knowledge and time available for and dedicated to adequate feeding of young children.”¹¹¹ With this in mind, it is easy to recall Hays-Mitchell’s case study in Peru, where when food-subsides were repealed the price of bread increased by a staggering 4000%, all of this in conjunction with lowered real wages made it near impossible for women to adequately provide for their dependents.¹¹² Further evidence for this is contained in this statement by the world bank: “There is clear evidence that families that suffer from short-term shocks may be forced to cut back on the feeding or schooling of their children...Thus, the Peruvian children suffered higher infant mortality during the country’s 1988-1992 economic crisis.”¹¹³ Moreover, in light of these pressures, they argue that in the absence of safety nets, shocks may force poor households with low coping capacity to sell their productive assets. Families that disinvest in their livelihoods in such a way will find it very difficult to rebuild their earning capacities.

As mentioned previously, the World Bank now acknowledges that safety nets help governments make beneficial reforms. Reforms that came under the SAPs in the 1980s and 1990s were fully focused on efficiency, but now they recognize that policy reform has to think explicitly about the distributional impact of these policies and as such the goal then becomes “to design reforms with fewer losses to the poor or that compensate them, sometimes through sector-specific

¹¹¹ Ibid., pg. 15

¹¹² Hays-Mitchell (2002), pg. 71

¹¹³ World Bank (2008), pg. 17

compensatory mechanisms.”¹¹⁴ This will aid the government in sustaining reforms because there will be less opposition when there are mechanisms in place to compensate losers or to assist the poor who often became poorer during the downturns that followed structural adjustment. The World Bank goes on to reference Rodrik directly, stating that he “provides supporting empirics for this premise looking at the presence of mechanisms for societal conflict resolution (safety nets and social insurance among them), macroeconomic policies, and robust growth.”¹¹⁵ From this it is obvious that the World Bank now sees the importance of implementing safety nets concurrently with SAPs and not in response to the crises that are propagated from them.

An evolution in thinking about structural adjustment can also be seen in the IMF by reading their most recent loan conditionality factsheet. The focus of loan conditionality from the IMF has not deviated far from initial prescriptions, but rather maintain them with a broader focus than just macroeconomic and structural policies, which now include a focus on social safety nets.¹¹⁶ Furthermore, the IMF can now be heard echoing Rodrik’s assertion that there should be no fixed blueprint for structural adjustment and that policies must fit a more nuanced, country-specific implementation. This can be seen in their writing: “The objectives of a program and the types of policies involved depend on country-specific circumstances. But the overarching goal is always to restore or maintain balance of payments viability and macroeconomic stability, while setting the stage for sustained, high-quality growth.”¹¹⁷

To re-iterate, it is clear that the IMF’s focus is still to do with macroeconomic policy, but now the IMF sees that non-market institutions are inextricably intertwined with, and do indeed support market institutions. This is manifest in their discussion on recent changes in conditionality:

Up until the early 1980s, the IMF conditionality largely focused on macroeconomic policies. Subsequently, the complexity and scope of the structural conditions attached to IMF loans increased significantly. This broadening and deepening of conditionality reflected in part the IMF’s growing involvement in low-income and transition countries, where structural problems hampering broader economic stability and growth were particularly severe.¹¹⁸

¹¹⁴ Ibid., pg. 20

¹¹⁵ Ibid., pg.21.

¹¹⁶ "Factsheet -- IMF Conditionality." *IMF -- International Monetary Fund Home Page*. Web. 10 April 2010. <<http://www.imf.org/external/np/exr/facts/conditio.htm>>.

¹¹⁷ Ibid., pg.1

¹¹⁸ Ibid., pg. 2

From this statement the admission that social insurance and safety nets are important to successful structure adjustment is implicit. The broadening and deepening of conditionality, which they speak of, goes on to include a discussion on supporting safety nets by “strengthening [the governments] use of resources for social safety nets.”¹¹⁹ In this context, the IMF has allowed for its structural conditionality to evolve a more multi-dimensional and comprehensive approach to reform in order to strengthen a countries capacity to prevent and resolve crises.

7. DISCUSSION

In his work *‘Has Globalization Gone Too Far?’* Dani Rodrik concludes that the “social welfare state is the flip side of the open economy.”¹²⁰ What he means by this is that as societies open their economies up to the global markets people are exposed to far more risks and require more social insurance. Yet as the economies of Peru, Bolivia and Argentina were opened up due to structural adjustment programs prescribed by the World Bank and IMF, their ability to provide adequate social insurance were simultaneously diminished as government spending was scaled back and social welfare institutions receded.

When comparing Peru, Argentina and Bolivia’s respective experiences with SAPs, one common denominator that can be deciphered is that they all experienced the dilemma with globalization, which Rodrik identified. That is to say, the policy prescription of the SAPs undermined and negated their own efficacy because opening markets require sufficient social insurance, but SAPs simultaneously reduced the states ability to support the necessary social welfare institutions effectively. Moreover, the same group of people – the poor and working poor – were the ones most affected by the ‘shocks’ produced from structural adjustment. The NEP in Bolivia resulted in a dire deterioration of employment security as state enterprises privatized and GDP per capita plummeted. All of this was viewed by the World Bank as more incentive for Bolivians to work harder, with no mention of how employment risk was not being mitigated by social insurance.¹²¹ In Peru, Hays-Mitchell’s gendered accounts of the effects SAPs have had on poor women reveals many similarities with the Bolivian experience. As a result of rapid structural

¹¹⁹ Ibid., pg. 3

¹²⁰ Rodrik (1997), pg. 53

¹²¹ Jenkins (1997), pg. 111

adjustment, there were enormous rises in commodities and the cost of living – bread, for example, increasing in price by 4000%. This was exacerbated by a decline in real wages of 50% resulting in nearly 60% of the national population living in poverty in 1994.¹²² Again, these burdens were not mitigated by sufficient social insurance and as such, poverty rose. Argentina reveals further similarities. Opened borders, declining real wages and cuts to social spending and social welfare resulted in what Grugel and Riggirozzi identify as a new social phenomenon known as the ‘New Poor’; those marginalized by declining franchisement and a lack of social insurance to buffer them from the hardships that arose from structural adjustment.

Since the respective, yet similar, experiences of Peru, Bolivia and Argentina have revealed a common failure of SAPs; it is interesting to see how this validates previous research on the topic of SAPs in general. Michael Walton argued that structural adjustment policies have to be linked to the endogenous institutional context and that institutions in place determine the success of SAPs. These institutions include provisions for social insurance. Dollar and Svensson stressed SAP success was dependent upon institutional capacity as well – emphatically stressing readiness in helping people absorb the blows of adjustment. Ramirez stresses also the propensity of SAPs to exacerbate poverty if there are not adequate social safety nets in place and a graduated scaling back of prices. And finally, Dani Rodrik’s compelling case for markets to be supported by non-market institutions had direct pertinence to the cases of Peru, Argentina and Bolivia as they all clearly align with Rodrik’s contention that as borders open to free trade, risk increases and social welfare institutions are critical in maintaining the survival of other structural reforms. What further validate the findings of this paper are the recent publications of the World Bank and IMF. Both identify that deficiencies in social welfare institutions are perilous for sustained economic growth and the success of structural reform.

¹²² Hays-Mitchell (2002), pg. 72

8. CONCLUSION AND FUTURE RESEARCH

Individuals live and operate in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function. Not only do institutions contribute to our freedoms, their roles can be sensibly evaluated in the light of their contributions to our freedom. To see development as freedom provides a perspective in which institutional assessment can systematically occur.¹²³

In the final analysis, it is fitting to begin with an appreciation for Amartya Sen's words on how inextricable and deterministic institutions are in peoples daily lives. What has been shown in this paper with reference to Argentina, Peru and Bolivia's experiences with SAPs is that institutions do indeed matter, and more to the point work in concert with each other. Institutions have to be viewed with an integrated perspective and understand that market oriented policies and institutions need to operate in symbiosis with non-market institutions that can help insulate the very people who comprise the market from the most severe shocks of adjustment.

In keeping with Sen's analysis it is regretful that the intended results of SAPs failed to create new social and economic opportunities for the recipients, and that attempts at development away from poverty did not result in enhanced freedoms. However, it is reassuring to see that financial institutions as influential as the World Bank and the IMF have demonstrated an enhanced knowledge of the importance of non-market institutions, and now both advocate the bolstering of social safety nets in developing countries. It is outside the scope of this paper to discuss specifically how it is successful safety nets can be implemented on a country-by-country basis, but it is a topic of particular interests and importance for future research. The cost feasibility of adequate social welfare institutions in poor countries does raise important questions about their economic viability. Questions such as these require the countervailing approach of what the cost of inaction would be. How much will an economy lose by not supplying safety nets? The World Bank has opined on this question and has stated that the case of malnutrition provides an excellent example of the importance of social safety nets:

¹²³ Sen (1999), pg. 142

Malnutrition can cost at least 2-3% of GDP and lock affected children in a cycle of impaired cognitive development and physical growth, lower productivity, less education, lower earnings, and high health care needs – in short, the intergenerational transmission of poverty.¹²⁴

To not address the issue essentially condemns a developing nation as a whole to poverty for at least another generation.

¹²⁴ World Bank (2008), pg. 31

9. BIBLIOGRAPHY

Arce, Moises, *The Societal Consequences of Market Reform in Peru*, Latin American Politics and Society, Vol.48 No.1 (2006), pp. 27-54.

CIA - The World Factbook, *Welcome to the CIA Web Site — Central Intelligence Agency*. Web. 10 May 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/ar.html>>.

CIA - The World Factbook." *Welcome to the CIA Web Site — Central Intelligence Agency*. Web. 10 May 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/pe.html>>.

"CIA - The World Factbook." *Welcome to the CIA Web Site — Central Intelligence Agency*. Web. 10 May 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/bl.html>>.

Dollar, David & Svensson, Jacob, *What Explains the Success or Failure of Structural Adjustment Programmes?* The Economic Journal, Vol.110 No.466 (Oct. 2000), pp. 894-917.

Fukuyama, Francis. *State Building: Governance and World Order in the 21st Century*, Ithaca: Cornell University Press, 2005.

Grosh, Margaret, Del Ninno, Carlo, Tesliuc, Emil & Ouerghi, Azedine, *For Protection and Promotion: The Design and Implementation of Effective Safety Nets*, Washington: The World Bank, 2008.

Grugel, Jean & Riggirozzi Maria Pia, *The Return of the State in Argentina*, International Affairs, Vol.83. No.1 (2007), pp. 87-107.

Hays-Mitchell, Maureen, *Resisting Austerity: A Gendered Perspective on Neoliberal Restructuring in Peru* Gender and Development, Vol. 10 No.3 (Nov. 2002) pp.71-81

IMF Conditionality - Factsheet , *IMF -- International Monetary Fund Home Page*. Web. 29 May 2010. <<http://www.imf.org/external/np/exr/facts/conditio.htm>>.

Jenkins, Rhys, *Structural Adjustment and Bolivian Industry*, The European Journal of Development Research, Vol.9 No.2 (Dec. 1997), pp.107-128

Kohl, Benjamin, *Challenges to Neoliberal Hegemony in Bolivia*, Antipode, Vol.38 No.2 (2006), pp. 304-326

Meier, Gerald M. & Stiglitz, Joseph E., *Frontiers of Development Economics: The Future in Perspective*: New York, Oxford University Press, 2001.

Mohan, Giles et al., *Structural Adjustment: Theory, Practice and Impacts*: New York, Routledge, 2000.

North, Douglas C., *Institutions*, The Journal of Economic Perspectives, Vol.5 No.1, (Winter 1991), pp. 97-112.

Pritchett, Lant & Woolcock, Michael, *Solutions When Solutions Are the Problem: Arraying the Disarray in Development*, World Development, Vol.5 No.2, (2004), pp.191-212.

Ramirez, Miguel D., *Stabilization and Adjustment in Latin America: A Neo-Structuralist Perspective*, Journal of Economic Issues, Vol.27 No.4 (1993), pp.1015-1040

Rodrik, Dani, *Has Globalization Gone Too Far?* Institute for International Economics, 1997.

Rodrik, Dani, *Institutions for High-Quality Growth: What Are They and How To Acquire Them*, National Bureau of Economic Research; Working Paper No.7540, 2000.

Rodrik, Dani, Subramanian, Arvin & Trebbi, Francesco, *Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development*, Centre for International Development at Harvard University; Working Paper No.97, 2002.

Sen, Amartya. *Development As Freedom*, New York: Anchor Books, 1999.

Villalon, Roberta, *Neoliberalism, Corruption, and Legacies of Contention*, Latin American Perspectives, Vol.34 No.2 (2007), pp. 139-156

Walton, Michael, *Neoliberalism in Latin America: Good, bad or Incomplete* Latin American Research Review, Vol.39 No.3, (2004), pp. 166-183.

"Washington Consensus." *Harvard Kennedy School - Center for International Development*. Web. 02 May 2010. <http://www.cid.harvard.edu/cidtrade/issues/washington.html>

Weyland, Kurt, *Neoliberalism and Democracy in Latin America: A Mixed Record*, Latin American Politics and Society, Vol.46 No.1, (2004), pp.135-157

Williamson, John, *What Washington Means by Policy Reform*, Institute for International Economics, 1990.

Yin, Robert K., *Case Study Research: Design and Methods*, Thousand Oaks: Sage publications, 2003.