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Rasul Shams*

Adjustment Policy and Interest Groups in Developing Countries

Adjustment programmes promoted by the IMF and the World Bank have met with mixed success in recent years. What part has the interaction of interest groups in the countries concerned played in this connection? What lessons are to be learnt for future adjustment programmes?

In recent years the world economic environment and interventionist domestic economic policies have led many developing countries into a foreign debt crisis that has forced them to undergo a painful process of adjustment. As a rule, adjustment has been assisted by IMF and World Bank adjustment programmes in which structural aspects have gained increasing prominence. Structural adjustment programmes aim at a liberalisation of foreign trade and the financial system in addition to a reduction in the absorption of foreign capital and correction of the exchange rate. They also remove serious obstacles to growth via institutional reforms in the monetary and tax systems, in state enterprises and in public investment programmes and provide urgently needed foreign exchange.

Experience with adjustment programmes in the developing countries has been mixed. While their implementation was soon suspended in some countries, such as Bolivia and Zambia, the IMF has held up other countries, such as Turkey and Ghana, as an example to emulate. In some countries, such as Kenya, only part of the agreed measures have been carried out and in many developing countries, such as Sudan, Egypt and Tunisia, IMF programmes have led to political unrest or a change of government; in others, such as Thailand in 1982-83 and Colombia in 1985-86, they have been implemented with little or no friction.

How are these differences to be explained? Orthodox economic analysis would put the stress on examining the structure of the adjustment programmes.¹ However

important the issue of the programmes' technical efficiency may be, it fails to address the problem of political acceptability and its relevance to the success or failure of the programmes. An approach of this kind is encouraged by the traditional view of the state as omnipotent but acting exclusively in the interest of ensuring the welfare of the nation as a whole. In contrast to this conventional view, the new political economy emphasises the pursuit of self-interest by politicians. In the public choice approach, for example, economic policy is viewed as the outcome of a process of give and take in a political market in which politicians and the bureaucracy are the suppliers of economic measures and the voters the consumers.

The Theory of Interest Groups

The public choice approach analyses only voluntary acts of exchange, however; it does not examine the exercise of power and coercion² and it is based on the assumption of a democratic political system. On both counts it is therefore not a good basis for analysing adjustment policy in developing countries. Far more appropriate for this purpose is the theory of interest groups, which is not subject to such limitations.

¹ Typical of this view, for example, is the blaming of setbacks in the liberalisation policy of the seventies in the "southern cone" on inconsistency between individual economic measures. The question as to the ultimate cause of the inconsistency remains unanswered, however. See M. S. Kahn, R. Zahler: Trade and Financial Liberalization given External Shocks and Inconsistent Domestic Policies, in: IMF Staff Papers, Vol. 32, No. 1, 1985, pp. 22 ff.

² Cf. J. M. Buchmann: The Public Choice Perspective, in: J. M. Buchmann (ed.): Liberty, Market and State: Political Economy in the 1980's, Brighton, Sussex 1986, pp. 20 f.

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The theory of interest groups distinguishes between different socio-economic groups (including politicians, the bureaucracy and the military) that in every society invest in politics in order to foster their own interests. Such investment is profitable, since it improves the group's net income position, or protects it against erosion, more than alternative actions. It is therefore a rational form of behaviour. However, the uneven distribution of political resources leads to marked differences in the ability of the various groups to achieve their objectives. This ability depends crucially on factors such as access to information, organisational ability, the availability of economic resources, the willingness to form coalitions and to secure support through every conceivable means, including bribery and intimidation.

The practical economic policy is therefore the outcome of a balance of interests among a number of socio-economic groups at a given point in time and depends essentially on the strength of the various groups.

Interest Groups in Developing Countries

A number of special features must be taken into account when applying this theory to developing countries. The label "interest group" should not be confined to formally organised groups; even groups that are not formally organised can have an enormous influence on the shaping of economic policy. Interest groups usually mirror socio-economic differences within society, but in developing countries other organisational parameters such as ethnic origin can also become an important factor in the formation of groups. The channels for influencing policy may also be very different from those in industrial countries. The concept of "interest groups" must therefore be defined much more widely in the context of developing countries.

The structural diversity of developing countries also makes it virtually impossible to postulate a uniform configuration of interests. A particular pattern of interest groups predominates in each country at a particular point in time, depending on the country's historico-social

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This book sets out to develop further the existing theory of allocation in small, open economies within the framework of a general theory of equilibrium of international trade relationships, so that the external dependencies of national allocation processes can be analysed systematically. The author succeeds in unveiling the consequences of the specific conditions of production in individual countries which are the reason for the structural differences between industrial and developing countries. Significant differences are revealed between the allocative and distributive effects of an export boom in countries at different levels of development.

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circumstances and the level of development it has reached. A few examples will illustrate the point.³

□ Mexico is dominated by a political bureaucracy to which all the important socio-economic groups have access via institutionalised channels. A balance of interests is reached by negotiation, a process that is fraught with contention but which lessens the danger of open and unexpected conflicts.

□ In the seventies Turkey was governed by party politicians with strong client relations with small industry, farmers, trade unions and major importers, whereas large-scale industry suffered under the constraints of the import substitution strategy and the bureaucracy was forced into a subordinate position by the government.

□ Pakistan is ruled by a military bureaucracy that has an alliance of interests with large landowners, big businessmen and industrialists.

□ In many African countries young bureaucracies have developed whose members use the power of the state to promote their own well-being. They are faced with large ethnic groupings that regard the state as a secondary institution that can be used wherever possible to raise the prosperity of the group by playing on ethnic associations.⁴

There are further differences among the developing countries as a result of the way in which relations between groups controlling the state and other socio-economic groups are formally organised. Here a distinction can be drawn between liberal and authoritarian corporatism. In the latter the state attempts to use the other groups as instruments of its own policy, whereas in the former the other groups can pursue their own interests more or less free of restrictions.

It is usually assumed that authoritarian corporatist structures predominate in the developing countries. As Bianchi has shown, however, such structures generally provoke resistance that may lead to the emergence of liberal corporatist structures.⁵ The relations between the governing group and other interests within a country may therefore change over time.

By the same token, the configuration of interests within a developing country can be affected by changes in world economic conditions, a crisis in the country's

development strategy or the emergence of new socio-economic groups in the course of the development process. All of these factors modify the relative positions of the various interest groups, change the distribution of political resources and permit the formation of new coalitions and alliances.

Feasibility of Adjustment Programmes

The configuration of interests at the time when an adjustment programme is introduced is of crucial importance for the feasibility of the programme. As a rule, there will be a coalition of interest groups whom the existing development model will have favoured and whose position it will have strengthened. Their previous position will be threatened, however, by the acute balance-of-payments crisis that has triggered the need for adjustment. The more serious the economic crisis, the greater the loss of legitimacy and the more serious the ensuing political crisis. The political crisis disturbs the previous balance of interests and creates an opportunity for the emergence of new coalitions of interests offering solutions to the economic crisis.

The programmes agreed with the IMF and World Bank are therefore implemented in a difficult political climate. Moreover, the adjustment of relative prices and the planned liberalisation require a transformation of the old configuration of interests, since they completely alter the economic basis on which it was built. The resistance this can provoke may find expression in administrative incompetence, incomplete implementation of the programme or inconsistent measures taken under pressure from strong interest groups. In the interests of remaining in power, the ruling group may even cancel the programme completely.

Examples

The feasibility of adjustment programmes thus depends crucially on winning support from the configuration of interests that gains the upper hand.⁶ This too can be illustrated by a few examples. For instance, the launch of a successful adjustment programme in Turkey in 1980 can be attributed to the strenuous efforts of heavy industry, backed up later by the military.⁷ The relative success of the 1976

³ Cf. R. Shams: *Interessengruppen und entwicklungspolitische Entscheidungen*, Berichte aus dem weltwirtschaftlichen Kolloquium der Universität Bremen, No. 12, Bremen 1987.

⁴ Cf. G. Hyden: *Ethnicity and State Coherence in Africa*, in: *Development: Seeds of Change*, No. 1, 1987, pp. 82 ff.

⁵ Cf. R. Bianchi: *Interest Group Politics in the Third World*, in: *Third World Quarterly*, Vol. 8, No. 2, 1986, pp. 507 ff.

⁶ The distinction often made between regimes according to whether they are authoritarian or democratic is of no importance here, since it indicates nothing about the prevailing structure of interests. As expected, this distinction has also been shown empirically to be irrelevant. Cf. K. L. Rømmer: *The Politics of Economic Stabilization*, in: *Comparative Politics*, Vol. 19, No. 1, 1986, pp. 1 ff.

⁷ Cf. R. Shams: *Anpassungskonflikte und Interessengruppen in der Türkei*, HWWA Report No. 74, Hamburg 1988.

adjustment programme in Mexico was due largely to the particular corporatist structure of the Mexican political system.⁸

In India the liberalisation programme introduced in 1985 met with open or covert opposition from powerful interest groups. Public and private sector industries insulated from international competition, politicians in the Congress Party, trade unions close to the party and the bureaucracy feared the loss of important privileges. There was no serious counterweight to this coalition of the opponents of liberalisation, so that the implementation of the programme became increasingly difficult.⁹

The examples of Argentina at the end of the seventies and two smaller Latin American democracies in the eighties – Costa Rica and the Dominican Republic – show how much the manner in which adjustment programmes are implemented is determined by the prevailing structure of interests.

The military dictatorship that displaced Peronism in Argentina in 1976 forged a close coalition with agricultural exporters and powerful financial interests, whereas industry played a subordinate role. The first phase of the stabilisation programme from 1976 onwards, which was a compromise of ad hoc measures to combat inflation, greatly benefited agricultural exporters and high finance.¹⁰ However, the poor results it achieved meant that from 1978 onwards the exchange rate had to be used as a weapon against inflation, leading to overvaluation of the currency. This policy, which harmed not only industry but also the agricultural exporters and the banks, eventually led to the collapse of the original coalition of interests and the removal of the government of General Jorge Videla.

Costa Rica and the Dominican Republic took harsh deflationary measures with noticeable success, without this leading to political unrest or an increase in state repression. As in Mexico, the integration of all important socio-economic groups in the machine of state seems to have given the political systems in these countries a high degree of flexibility. However, it is the large state sector that forms the basis for that integration; measures in this field, such as budget cuts or the privatisation of state enterprises, have consequently

made little progress and the initial vigour with which subsidies were reduced has gradually waned.¹¹

IMF and World Bank as an Interest Group

The examples given above show that there are limits to the implementation of adjustment programmes promoted by the IMF and the World Bank. This is easy to explain against the background of the theory of interest groups, for the two Bretton Woods institutions can also be seen as a kind of interest group whose "interests" lie in the attainment of a tolerable balance-of-payments situation, financial stability and the promotion of growth in the countries concerned. They have highly effective means of promoting these interests, including the capital transfers associated with the programme and their catalyst function in the restoration of international creditworthiness.

Whether and to what extent the two institutions can achieve their objectives also depends, according to the theory, on the interests, resources and strategies of other groups involved. The result is always a compromise, achieved by making concessions as the programme proceeds.

Conclusions

It can therefore be concluded that adjustment programmes stand the greatest chance of success where the IMF and the World Bank are able to form a coalition with important interest groups within the countries concerned. The more interest groups are involved in formulating adjustment programmes, the more likely it is that the programmes will be politically feasible. This could be achieved if the IMF and the World Bank negotiated not only with governments but also with representatives of all important socio-economic groups in the country. The discussions could perfectly well be informal. This might greatly improve the flow of information in both directions, provide ideas for shaping the programme better and increase the readiness of the indigenous interest groups to compromise.

The need for parallel social programmes to cushion the effects of adjustment programmes on income and wealth distribution is already widely recognised and is likely to be paid increasing heed in future adjustment programmes. Involving interest groups directly in the adjustment process may be a further effective means of reducing the conflict potential inherent in adjustment policies and to ensure that they can be carried out.

⁸ Cf. L. V. Whitehead: Mexico from bust to boom: A political evaluation of the 1976-1979 stabilization programme, in: *World Development*, Vol. 8, No. 11, 1980, pp. 834 ff.

⁹ Cf. J. Manor: Tried, then abandoned: Economic liberalisation in India, in: *IDS Bulletin*, Vol. 18, No. 4, 1987, pp. 39 ff.

¹⁰ Cf. E. C. Epstein: Recent Stabilization Programs in Argentina, 1973-86, in: *World Development*, Vol. 15, No. 8, 1987, pp. 991 ff.

¹¹ Cf. K. Stenzel: The Politics of Adjustment in Small Democracies: A Look at Two Success Stories in Latin America, in: *Vierteljahresberichte*, No. 108, June 1987, pp. 145 ff.