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Rasul Shams\*

# Adjustment Constraints in Developing Countries

## A Comparative Study

*The debt crisis of the eighties has compelled many developing countries to catch up on a painful adjustment backlog. In addition to traditional stabilization measures sponsored by the IMF, many countries are now acquainted with the structural adjustment programmes of the World Bank.<sup>1</sup> Some have implemented these programmes successfully, others have terminated them after a short period or only partially completed them. What are the reasons for this?*

One major reason for the differing success which developing countries have had with the adjustment programmes is the commitment of the governments concerned to carry out structural reforms.<sup>2</sup> The notion of "commitment" however requires clarification. As a rule, it presupposes the existence of a configuration of socio-economic groups in a country capable of arriving at a workable consensus on the need for structural reforms. Not all constellations of interest groups are capable of such a consensus. How vigorously adjustment programmes will be carried out can be assessed by locating the politically relevant interest groups and by analysing their opposition or support strategies towards the reforms, their power and coalition potential, as well as their readiness for confrontation. A theoretical approach suited to analysing adjustment constraints is therefore an appropriately comprehensive theory of interest groups.<sup>3</sup>

This article will look at the provisional results of a comparative study of four developing countries based on the theory of interest groups.<sup>4</sup> Two of these countries, Mauritius and Jamaica, are small island economies, which can be viewed as extremely open. The other two, Bolivia and Kenya, can be regarded as representative of many small to medium sized Third World countries. These countries were selected for the study partly because they availed themselves of World Bank

adjustment loans early on and also because of their differing experiences.

### Causes of the Balance of Payments Crises

At the end of the seventies, all four of these countries were suffering from severe balance of payments crises. The cause was not only the worsening global economic climate (oil price crises and recession in the OECD countries): these crises were above all the result of mistaken economic policy.

At the beginning of the seventies, Mauritius benefited from high prices for sugar on the world market, which triggered a boom, but when the price of sugar dropped as of 1976, the welfare programmes begun under boom conditions were simply pursued at an undiminished pace. Mounting budget deficits were funded by means of loans from abroad. By 1981, the balance of payments deficit had quadrupled and the rate of inflation had

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<sup>1</sup> Cf. R. Shams: The World Bank's Structural Adjustment Loans: a Critique, in: INTERECONOMICS, Vol. 23, No. 5, p. 208 ff.

<sup>2</sup> Cf. C. Micalopoulos: World Bank Programs for Adjustment and Growth, in: V. Corboi, M. Goldstein, M. Kahn (eds.): Growth-oriented Adjustment Programs, Washington D. C. 1987, p. 41.

<sup>3</sup> Cf. R. Shams: Adjustment policy and Interest Groups in Developing Countries, in: INTERECONOMICS, Vol. 23, No. 2, 1985, p. 91 ff.

<sup>4</sup> These case studies are being conducted by the Hamburg Institute for Economic Research as part of a project sponsored by the German Research Association (DFG).

doubled. In 1980, GNP declined by 10 %. With hardly any debts in 1976, Mauritius plunged into serious indebtedness in a matter of a few years.

In Jamaica, the 1973 oil crisis was partly offset by means of higher prices for bauxite and aluminium exports. The rapidly rising balance of payments deficit since the seventies was thus more a result of waning exports due to production shortfalls than increased import prices. Though external factors clearly played an important role in Jamaica's rapid economic decline in the seventies (decline in GNP 1974-1980 of 19.8 %), economic policy must shoulder much of the blame for Jamaica's demise, more so than in the case of Mauritius.<sup>5</sup> Jamaica's serious economic problems started with a comprehensive economic plan initiated by Michael Manley's government in 1972, which comprised many welfare schemes as well as the modernization and expansion of the infrastructure. The government also took over public utility companies. Within a few years the budget deficit rose from 3.5 % (1972/73) of GNP to 15 % (1976/77). The main source of finance for this deficit was foreign credit, which rapidly pushed up foreign debt.<sup>6</sup>

Between 1971 and 1978, Bolivia achieved an average annual growth rate of 5.5 %. It gleaned high foreign exchange earnings during this period from petroleum exports and from high world market prices for tin and agricultural export produce. Its credit-worthiness thus assured, the government then proceeded to expand the public sector at breakneck speed, setting up government corporations and rapidly enlarging the administrative apparatus. Thanks to subsidies for government firms and inflated salaries, the budget deficit in 1977 had risen to eleven times that of 1971.<sup>7</sup> In 1975, the trade balance went into the red. Indebtedness spiralled, debt service rising from 12.9 % in 1971 to 30 % in 1978. The piling up of foreign debt and ebbing export prospects brought about a sudden curtailment of capital inflow in 1978/79, triggering a liquidity crisis.

Kenya too had a good growth performance in the seventies of 4.1 % a year on average (1974-83), but

inflation accelerated from 1973 onward and the current account deficit rose from 2.5 % of GNP in that year to 8.7 % in 1983. One reason for these deficits were the worsening terms of trade, the coffee boom of 1976-1977 having failed to fully offset the higher priced imports resulting from the oil crisis. Another was the augmented absorptive capacity due to progressively higher budget deficits, which rose on average between 1964 and 1973 by 5.5 % a year, leaping to 10.2 % in the period between 1974 and 1983.<sup>8</sup> Here, too, the government resorted to foreign savings, which caused debt service to rise from 5.4 % in 1970 to 20.3 % in 1982.

### Structural Adjustment Programmes

In all cases, i. e. even under favourable external conditions as in Bolivia, extending the government sector by heavy foreign borrowing was a cause of the subsequent balance of payments crisis. All four countries were compelled by the crisis to apply for financial assistance from the IMF and the World Bank (see Table 1). Their experience with the stabilization and adjustment programmes agreed on, however, differed widely (see Table 2).

The only country in which the adjustment process has been reasonably successful is Mauritius. Following a period of worsening crisis between 1980 and 1984, the situation has ameliorated from 1985 onward. Not only has substantial progress been made in growth rates, exports, balance of payments and inflation; unemployment has declined to such an extent that in some areas there is now a serious shortage of manpower. After years of stagnation, Jamaica in

**Table 1**  
**Stabilization and Adjustment Agreements**  
**by the Four Countries under Investigation**  
**with the IMF and the World Bank 1980-87**

|           | 1980       | 1981       | 1982       | 1983       | 1984       | 1985       | 1986 | 1987 |
|-----------|------------|------------|------------|------------|------------|------------|------|------|
| Bolivia   | SAL<br>SBA |            |            |            |            |            | SAF  |      |
| Kenya     | SAL<br>SBA |            | SAL<br>SBA | SBA        |            | SBA        | SAP  |      |
| Jamaica   |            | EFF        | SAL        | SAL        | SAL<br>SBA | SBA        |      | SBA  |
| Mauritius |            | SAL<br>SBA |            | SAL<br>SBA |            | SAP<br>SBA |      | SAP  |

SAL = Structural Adjustment Loan (IBRD)  
SAP = Sector Adjustment Programme (IBRD)  
SBA = Standby Arrangements (IMF)  
SAF = Structural Adjustment Facility (IMF)  
EFF = Extended Fund Facility (IMF)

<sup>5</sup> Cf. R. E. Looney: The Jamaican Economy in the 1980s, Boulder and London 1987, p. 7 ff.

<sup>6</sup> Cf. O. Davis: An Analysis of the Management of the Jamaican Economy: 1972-1985, in: Social and Economic Studies, Vol. 35, No. 1, 1986, p. 80.

<sup>7</sup> Cf. J. R. Ladman: The Political Economy of the "Economic Miracle" of the Banzer Regime, in: J. R. Ladman (ed.): Modern-Day Bolivia: Legacy of the Revolution and Prospects for the Future, Tempe, Arizona 1982, p. 326.

<sup>8</sup> Cf. J. Vandemoortele: Causes of Economic Instability in Kenya: Theory and Evidence, in: Eastern African Economic Review, Vol. 1, No. 1, 1985, p. 91.

contrast didn't manage a modest upswing until 1986, which kept up into 1987/88. Resurgent growth and subsiding inflation have however been accompanied by a rising deficit on current account: the dilatory change of course towards stabilization is thus still beset with serious risks.

The adjustment programmes in Bolivia and Kenya have also been hampered by considerable obstacles. The programme initiated in Bolivia in 1980 was terminated after a short time. Now, thanks to renewed efforts at stabilization since 1985 a new agreement with

the IMF has been reached. The stagnant economy has not as yet however received any new momentum. Only counterinflationary measures have recently had any appreciable success. In Kenya, the two SAL agreements of 1980 and 1982 have only been partially put into effect and have now been more or less written off. Only the stabilization conditionalities of the standby agreement with the IMF at the start of the eighties have been to a large extent met. A more energetic structural adjustment drive was launched in 1986 and is to be assisted in the coming years by the IDA and the IMF.

**Table 2**  
**Economic Indicators for Mauritius, Jamaica, Bolivia and Kenya 1980-1987**

| Mauritius                                 |         |         |         |        |         |          |         |                   |
|---|---------|---------|---------|--------|---------|----------|---------|-------------------|
|   | 1980    | 1981    | 1982    | 1983   | 1984    | 1985     | 1986    | 1987 <sup>a</sup> |
| Growth of real GNP (%)                    | -10.1   | 6.4     | 5.8     | 0.4    | 4.7     | 6.8      | 8.6     | 7.4               |
| Rate of inflation (%)                     | 42.0    | 14.5    | 11.4    | 5.6    | 7.3     | 6.7      | 1.9     | 1.1               |
| Balance of payments (US \$ millions)      | -117.9  | -153.1  | -42.2   | -22.9  | -55.1   | -28.9    | 101.5   | ..                |
| Exports (MRs billions)                    | 3.3     | 2.9     | 3.9     | 4.6    | 5.4     | 7.0      | 9.4     | 12.0              |
| Debt service/Exports (%)                  | 6.0     | 9.5     | 12.0    | 16.2   | 14.9    | 11.7     | 7.3     | ..                |
| Budget deficit/GNP (%)                    | 14.0    | 12.8    | 9.5     | 6.4    | 5.4     | 3.7      | 2.2     | 4.0               |
| Jamaica                                   |         |         |         |        |         |          |         |                   |
|   | 1980    | 1981    | 1982    | 1983   | 1984    | 1985     | 1986    | 1987 <sup>a</sup> |
| Growth of real GNP (%)                    | -5.4    | 4.0     | 1.1     | 2.3    | -0.9    | -4.5     | 2.1     | 4.9               |
| Rate of inflation (%)                     | 28.7    | 5.1     | 6.9     | 12.5   | 28.9    | 23.0     | 14.4    | 7.7               |
| Balance of payments (US \$ millions)      | -166.0  | 336.9   | -379.9  | -354.9 | -332.3  | -301.4   | -33.7   | -122.1            |
| Exports (US \$ millions)                  | 963.0   | 974.0   | 723.0   | 685.7  | 702.3   | 568.6    | 589.5   | 673.5             |
| Debt service/Exports (%)                  | 19.9    | 6.6     | 11.2    | 16.4   | 21.1    | 26.7     | 21.3    | 20.5              |
| Budget deficit/GNP (%)                    | 18.0    | 14.7    | 15.0    | 15.9   | 6.2     | 6.0      | 2.8     | 0.1               |
| Bolivia                                   |         |         |         |        |         |          |         |                   |
|   | 1980    | 1981    | 1982    | 1983   | 1984    | 1985     | 1986    | 1987 <sup>a</sup> |
| Growth of real GNP (%)                    | 0.6     | 0.3     | -2.8    | -6.5   | -0.3    | -0.2     | -2.9    | 2.1               |
| Rate of inflation (%)                     | 47.2    | 32.1    | 123.5   | 275.6  | 1,281.0 | 11,749.6 | 276.4   | 14.6              |
| Balance of payments (US \$ millions)      | -119.0  | -285.0  | -86.6   | -137.9 | -174.4  | 282.1    | -399.8  | 411.5             |
| Exports (US \$ millions)                  | 942.0   | 913.3   | 797.7   | 755.1  | 724.5   | 623.4    | 546.6   | 469.9             |
| Debt service/Exports (%)                  | 26.2    | 16.6    | 21.0    | 39.8   | 49.8    | 46.7     | 42.5    | 34.9              |
| Budget deficit/GNP (%)                    | 6.2     | 6.0     | 16.1    | 6.7    | 29.6    | 4.9      | 0.6     | ..                |
| Kenya                                     |         |         |         |        |         |          |         |                   |
|   | 1980    | 1981    | 1982    | 1983   | 1984    | 1985     | 1986    | 1987 <sup>b</sup> |
| Growth of real GNP (%)                    | 3.3     | 5.3     | 1.8     | 3.1    | 0.9     | 4.5      | 5.7     | 4.0               |
| Rate of inflation (%)                     | 13.1    | 19.3    | 13.7    | 9.6    | 10.9    | 10.4     | 4.0     | 9.0               |
| Balance of payments (US \$ millions)      | -885.0  | -723.0  | -500.0  | -48.0  | -126.0  | -98.0    | -102.0  | -250.0            |
| Exports (US \$ millions)                  | 1,390.0 | 1,177.0 | 1,041.0 | 980.0  | 1,078.0 | 977.0    | 1,199.0 | 1,000.0           |
| Debt service/Exports (%)                  | 12.3    | 16.7    | 21.5    | 20.2   | 13.9    | 19.3     | 23.2    | 34.7              |
| Budget deficit <sup>1</sup> (K£ millions) | ..      | -339.4  | -341.9  | -319.8 | -392.6  | -396.9   | -452.2  | ..                |

<sup>a</sup> Provisional figures.

<sup>b</sup> EIU estimates.

<sup>1</sup> Financial Years 1981/82 – 1986/87.

Sources: EIU – Country Profile 1988/89, Mauritius, Seychelles; EIU – Quarterly Review of Madagascar, Mauritius, Seychelles, Comores, Annual Supplement 1984; EIU – Country Profile 1987/88, Kenya; EIU – Country Report Kenya No. 2, 1988; EIU – Quarterly Economic Review of Kenya, No. 4, 1985; Inter-American Development Bank, 1983-1988 Reports.

A high deficit on current account, export standstill, budget containment and heavy debt service liabilities are still causing Kenya problems.

The success spectrum of structural adjustment programmes sponsored by the IMF and the World Bank in these countries thus spans reasonably effective to completely abortive efforts at adjustment. The readiness of those countries where adjustment projects have foundered to renew their efforts has however apparently increased. To account for these disparate results by means of the theory of interest groups, we shall have to start by looking at the given constellations of strategic groupings and their actions and interactions. It may be assumed that the degree of consensus on the need for structural adjustment amongst the major strategic groups is a crucial determinant of the scope a government has to implement the relevant policy. Whether a consensus can be reached at all depends on the level of development and the economic structure of a country, but it is also contingent upon the power of those groups (and changes in their power) most affected by the balance of payments crisis preceding the adjustments and by the programme's measures. As we shall show, the countries investigated differed markedly in this respect.

### **Mauritius: Success via Consensus**

After independence in 1968, the coalition government comprised two major strategic groups: the Indo-Mauritian elite based in the government sector and represented by the Mauritian Labour Party (MLP) and the Franco-Mauritians dominant in the sugar-cane sector. The economic policy in the seventies linked this coalition with other important social groups via clientist relations. Welfare and wage policy largely aimed at binding the Indo-Mauritian small planters in the sugar-cane sector and the Indo-Mauritian plantation and industrial workers to the state. The contractually guaranteed sugar sales on the EC market kept both small planters and the "sugar oligarchy" happy. From the outset this coalition was endangered politically by youth unemployment resulting from high birth rates. Attempts to tackle this problem via a policy of import substitution failed early on due to the constricted domestic market, which induced Mauritius to adopt an export promotion policy as early as the start of the seventies under which the entire island was converted into an export processing zone (EPZ). This engendered a grouping of industrialists made up of Franco-Mauritians and Indo-Mauritians which bolstered the coalition. The Indo-Mauritian elite was also adept at mobilizing the Indo-Mauritian majority in the population

to consolidate their own position in periods of crisis by invoking ethnic solidarity.<sup>9</sup>

Adjustment action was not taken until the early eighties, when the crisis beginning in 1976 started to cause major cracks in the fabric of clientist relations which could not be patched up by the ongoing welfare policy. Spreading unemployment and worsening inflation alienated a growing section of the population from the government. This weakened the constellation established at the beginning of the seventies and the socialist opposition under the leadership of a Creole intelligentsia (Mouvement Militant Mauricien – "MMM") gained an increasing number of supporters.

### **No Radical Change**

Under these conditions, the response to adjustment policy varied. Supported by the industrialists and uncontested by the unions, some of its major components, such as export promotion via EPZs, agricultural diversification, consolidation of the sugar sector and the promotion of tourism were not on the whole topics of dissension. Basically, they had already formed part of official governmental policy hitherto. The unions did however oppose policies relating to exchange rates, income and the budget, which entailed cutting welfare expenditure.

Compounded by natural disasters, developments then became increasingly critical. A new broad coalition emerged consisting of the unions, the Creole middle and lower classes, Sino-Mauritians, small planters and Indo-Mauritian small-scale urban businessmen. Factions within the industrialists, who thought a change of government would be beneficial and had been assured by the MMM of its pro-industry stance, also joined this coalition of interests.

Owing to the extremely diverse set of interests it represented, the government based on this broad coalition elected in June 1982, allying the MMM with the Parti Socialiste Mauricien (PSM) could not survive for long. Its pledge to implement structural adjustment prompted by the economic predicament estranged the unions. The MMM's coalition partner, the PSM, was a splinter of the MLP controlled by a younger generation of the Indo-Mauritian elite. Dissension within the coalition on adjustment policy, amongst other things, helped this group to enhance its position and set itself up as the representative of the interests of the Indo-Mauritian small planters.<sup>10</sup> The crisis compelled the

<sup>9</sup> Cf. R. Shams: *Interessengruppen und Anpassungskonflikte in Entwicklungsländern, Fallstudie Mauritius* (to be published soon).

government to hold early elections in August 1983, which returned the old coalition under the leadership of the new stratum of Indo-Mauritian PSM politicians to power. The adjustment programme was thus consistently continued. From 1984 on, the economy recovered, not only thanks to adjustment successes in the EPZ, but also to the improved terms of trade.

Conducive to the implementation of the adjustment programme in Mauritius was a broad consensus on the need for it. In major areas, the programme in no way implied a radical change in policy, merely a more consistent application of strategies already agreed on. A key condition facilitating the realization of the adjustment policy was the weakness of the unions, with their disunity and their factional loyalties to different parties.

## **Jamaica: Relative Government Autonomy**

In contrast to Mauritius, the government in Jamaica is not under the hegemony of any strategic group. The powerful import substitution industry is made up of two clearly demarcated groups. Large-scale industry is dominated by a few very rich families and multinationals. Numerous purely indigenous businesses make up small and medium industry. Both groups however reject any further government regulation of the domestic market. Small-scale industry is even more protectionist than the big industrialists and demands governmental protection of the home market from foreign competition.<sup>11</sup> Both groups wield political influence via a large number of channels, from contributions to parties, holding political office and personal relationships with politicians to blatant corruption and bribery. By these means the private sector can, however, only influence policy in the implementation phase, because the government is also heavily under the sway of other groups, thus enjoying a certain degree of autonomy with regard to any single group.

The emergence of both large parties in Jamaica was

<sup>10</sup> Typical of this was the dispute over sugar export duties, which a commission recommended abolishing; politicians construed this as a sign of the preferential treatment of the rich sugar barons by the Creole elite. For more details, cf. R. S h a m s, *ibid.*, p. 37 ff.

<sup>11</sup> Cf. C. S t o n e: *Class, State and Democracy in Jamaica*, New York and London 1986, p. 41.

<sup>12</sup> For more detail cf. J. D. F o r b e s: *Jamaica, Managing Political and Economic Change*, Washington and London 1985, p. 9 ff.

<sup>13</sup> Cf. C. S t o n e, *op. cit.*, p. 108.

<sup>14</sup> Cf. *ibid.*, p. 58.

<sup>15</sup> Cf. *ibid.*, p. 84.

<sup>16</sup> Cf. R. E. L o o n e y, *ibid.*, p. 192 f.

closely associated with the trade union movement.<sup>12</sup> Originally the unions used the political parties to represent their interests, with each large party associated with a union. Since the end of the fifties though, the unions have increasingly tended towards relative autonomy in their relations to the parties, resorting to more militant tactics (strikes, blockades).<sup>13</sup> The unions, however, confine their actions to representing the immediate interests of their members. They have devised no strategy to influence development guidelines.

The parties in Jamaica have their own particular relationship to the mass of urban and rural poor. Despite their middle-class leadership, the two large parties' hard core membership stems from these two poor strata. Via an extensive clientist system of exchanging economic advantages for political support, the parties can mobilize these strata at elections and control them. For this purpose the parties also avail themselves of the services of armed bands engaged in the drug trade under their protection.<sup>14</sup> These arrangements also mean that the parties cannot afford to completely ignore the needs of these poor sections of the population in their economic policies.

## **Democratic Tradition**

The configuration of groupings delineated above has led to Jamaica developing a working democratic tradition, as far as the election of governments and their removal from office is concerned. To obtain broad support politicians are obliged to make compromises when formulating their economic policy platform. Due to its nationalization measures, its ideological diatribes against private enterprise and its attempts at curbing the latter's influence by setting up a new team of advisers dominated by social scientists, the Manley administration for example forfeited the support of the private sector soon after taking up office in 1972.<sup>15</sup> This prompted increased capital flight and the exodus of human capital.

The stabilization programme agreed on with the IMF as of 1977 could not make good this loss of confidence, since the government did not alter its basic attitude towards private business.<sup>16</sup> Capital flight persisted, whereas there was hardly any capital inflow. Under these conditions, the programmes failed to stimulate growth, while their deflationary effect aggravated unemployment. In response to the deterioration in living standards caused by economic contraction, inflation and unemployment, some of the poorer sections of the population withdrew their support and the government lost the elections.

Initially, the Seaga government, which took office in 1980, enjoyed the broad support of all groupings. All the major groups, however, soon voiced their opposition to the continuation of adjustment and stabilization policies. The private sector criticized the relaxation of import restrictions, the tight credit policy and the growing fiscal burden. The government's brash approach towards capital flight also incurred the enmity of influential businessmen.<sup>17</sup> With inflation climbing, exchange rate and wage policy met with opposition from the unions and lower income groups.<sup>18</sup> Under this political pressure the exchange rate and liberalization policies could not be implemented in a straightforward way, which meant that the incentives bias against exports was not properly corrected. On top of this, measures to promote the export of non-traditional goods were hampered by the permanent lack of foreign exchange, which was largely due to the marked contraction of the bauxite/aluminium sector, whose share of exports dropped by 15 % to 50 % in a few years. Exports of farming produce (sugar, bananas) were also on the decline. Only tourism brought in high foreign exchange earnings, some of which were not, however, at the country's disposal due to capital flight.

Banking on its relative autonomy as regards social groupings, the government in Jamaica endeavoured to push through a policy in collaboration with the IMF and the World Bank which was not fully backed by any significant group inside the country. Although these groups were not in a position to bring about coalitions that could have seriously threatened government policy, their opposition sufficed to narrow the government's leeway, which was also constricted by falling exports. This resulted in partly inconsistent policymaking and a tactical manoeuvring between the Seaga government and the IMF from 1986 onwards.<sup>19</sup> Tensions did not relax until 1987, when foreign exchange earnings rose appreciably thanks to better external economic conditions (high revenue from the tourist trade, improved terms of trade, a powerful boost to textile exports as part of an agreement with the USA). This did not of course have an impact on the living standard of

the broad mass of the population straight away: unable to turn these improvements into political capital in time, the Seaga administration lost the elections of 10 February 1989.

### **Bolivia: Lack of Consensus**

As in Jamaica, the government in Bolivia is not dominated by any single strategic group. Unlike Jamaica however this has not meant the relative autonomy of the government; it has had a permanent destabilizing effect. The key difference to Jamaica is that each strategic grouping in Bolivia wields enough political power to seriously challenge the authority of the state. Since in the long run no group is able to assert itself against other groups, one group takes over the reins of government for a short while or a fragile coalition of groups is forged. The result is a continuous change of government.<sup>20</sup>

The major strategic groups in modern Bolivia are the military, which is splintered into several factions, the powerful federation of unions, Central Obrera Boliviana (COB), the farmers and the farmworkers with their own organizations, such as the Confederacion Sindical Unica de Trabajadores Campesinos de Bolivia (CSUTCB), the regionalist movements aspiring towards devolution represented in the so-called *Comité Civicos* and finally the private sector comprising commercial and industrial interests in mining and petroleum.<sup>21</sup> Another group must be added to the list which has grown up over the last twenty years around drug trafficking. It is now powerful enough to challenge the government's authority or to ally with it via offers of coalitions and clientist relations.

Under the conditions depicted above, the prospects of successfully implementing an adjustment programme must of necessity be very slim. Groups adversely affected by such a programme are not only able to safeguard their interests by means of defence strategies: they can coerce the government into relinquishing such policies, which is why several attempts to put stabilization programmes into action since 1978 failed from the very beginning for fear of unleashing social unrest. Even the IMF and World Bank sponsored programme announced for tactical reasons on 2 December 1980 failed. It stipulated a devaluation of the peso and price rises for petroleum and transport services. Rents and the cost of basic foodstuffs were to

<sup>17</sup> Cf. *ibid.*, p. 64.

<sup>18</sup> Price rises for gas incited extensive widespread unrest in January. Two weeks after the announcement of a new agreement with the IMF in April 1985, a general strike took place. From January 1986 on, public employees repeatedly protested against pay cuts.

<sup>19</sup> In May 1986, the government switched to an expansive budgetary policy. Negotiations with the IMF up to the end of 1986 were conducted according to tactical considerations to obtain better terms. The US administration also threatened to impose sanctions (cutting development aid and lowering the import quotas for sugar). Cf. A. J. Payne: *Orthodox Liberal Development in Jamaica: Theory and Practice*, in: *Third World Quarterly*, Vol. 10, No. 3, 1988, p. 1231 ff.

<sup>20</sup> Since independence in 1925, a change of government has occurred on average more than once a year.

<sup>21</sup> Cf. W. Hofmeister: *Staat und soziale Bewegungen in Bolivien*, in: *Zeitschrift für Politik*, Vol. 34, No. 2, 1987, p. 171 ff.

remain unaltered.<sup>22</sup> The COB, which had devised its own economic plan with price controls, import restrictions for luxury goods and large wage rises, then organized extensive protest action. The farmers' unions, discriminated against by frozen prices for foods, organized street blockades. On 14 December the government was obliged to grant concessions by raising wages and rescinding fixed prices for foodstuffs. A military coup in July 1984 ended the short period of attempted democratization for the moment and the projects to stabilize the economy were shelved.

As of 1985, conditions became more conducive to stabilization measures. The military, gradually pushed onto the defensive, now backed the new civilian government. The political weight of the unions also attenuated. Their political image was tarnished by their resolute policy at the beginning of the eighties<sup>23</sup> and the plummeting tin production due to the collapse of prices on the world market since 1985 forced the closure of numerous mines, putting many mineworkers out of a job and thus weakening a major traditional power base.

Since 1985 therefore, the group constellation in Bolivia has altered, though not very radically. Although the efforts at economic stabilization are still meeting with resistance, violent upheavals have so far been averted.

### Kenya: Safeguarding Political Equilibrium

Despite remarkable political stability, Kenya has proved as unamenable to the implementation of adjustment measures as Bolivia. Unlike Bolivia and similar to Mauritius, the state is controlled by strategic groups. Far more than in the other three countries, economic policy decision-making is a process of exchanging political support for scarce resources. Government is heavily centralized, revolving around the President of the Republic, whose ethnic allegiances are a decisive factor in the distribution of scarce resources. The ethnically biased clientist system is not, however, allowed to jeopardize the security of the state: political affairs are conducted by fractions and cliques, who mediate between the leadership and ethnic, regional and sectoral interests and contend with one another for control over resources.<sup>24</sup>

Under these conditions, the allocation of political offices, investment flows and the prices for important goods and services are politically regulated. Changes incite the opposition of those affected and everything is done to avoid any disturbance in the delicate balance of interests which could rock the political boat. Only for political reasons, i.e. only when major battles within the various strategic groups or subfractions are waged, are changes made in the mode of distribution and hence existing regulations. Under these circumstances, adjustment measures aiming at economic rationality can easily clash with the political rationality of the system. Only those components of an adjustment programme have a chance of being implemented which do not run counter to the politically predetermined distribution structure.

Added to this, the political conditions in Kenya at the beginning of the eighties were the worst imaginable for implementing structural adjustment policies. Kenyatta's successor, Moi, was busy consolidating his power base. As a member of the Kalenjin tribe he had to deal from the outset with the opposition of influential groups from the dominant Kikuyu tribe. Power struggles within his own circle made for additional problems.<sup>25</sup> His initiatives of pursuing a populist course, embarking on circumspect political liberalization and winning allies by granting concessions to other politically disadvantaged tribes appeared to be quite successful at first. From 1982 on, however, the political climate worsened. With a deteriorating balance of payments, repressive action was taken against unions and students, political opponents were arrested and the alliances with other tribes were severed.<sup>26</sup> The widespread corruption further undermined Moi's authority. These developments culminated in an unsuccessful coup by air force officers in August 1982, which paralyzed the government for a long time.

The exchange rate and interest rate policies were successfully carried through despite the unfavourable political conditions. They adversely affected the labour force by lowering real wages and the Kenyan industrialists, who are exclusively geared to import substitution, also came off badly. Controlled by the state, the unions could hardly be expected to offer any resistance. Industry is either controlled by multinational companies or Kenyan nationals who are members of the Kikuyu tribe or of Asian origin. Depriving this group of

<sup>22</sup> Cf. J. R. Ladman: The Failure to Redemocratize, in: J. R. Ladman (ed.), *op. cit.*, p. 357 f.

<sup>23</sup> In line with its understanding of itself as representing "the people", the COB openly challenged the civilian governments after 1982 by demanding direct governmental powersharing. Cf. W. Hofmeister, *op. cit.*, p. 179.

<sup>24</sup> Cf. D. W. Throup: The Construction and Destruction of the Kenyatta State, in: M. G. Schatzberg (ed.): *The Political Economy of Kenya*, New York and London 1987, p. 33 ff.

<sup>25</sup> The reference here is to the intense rivalry between the then Vice-President, Kibaki, and the Minister for Constitutional Affairs, Njonjo.

<sup>26</sup> The famous Luo politician Odinga, who had been backed by Moi after 1979 to gain the support of the Luo tribe, was now abandoned.



some advantages conformed with the policy scenario at the beginning of the eighties, which was geared towards a balance of interests.<sup>27</sup>

Other structural adjustment measures were far more difficult to carry out. The planned liberalization of foreign trade was only partly achieved and export promotion was not undertaken at all. Nor was the market for maize liberalized, something the World Bank had particularly pushed for. Here, the impotence of the World Bank was at its most conspicuous. The big maize producing farmers in Kenya carry a lot of political weight. To date, all attempts to reform the maize market, begun as early as the forties, have failed.<sup>28</sup> Another aspect is the fear that liberalizing the market would permit Asian Kenyans to gain the upper hand. These strained relations with the World Bank prevented the conclusion of a planned third adjustment agreement.

### Conclusions

The main aspects of the above findings are compiled in Table 3. These results are perforce hypothetical and need verifying, refining and/or revising by means of further analysis. This rough picture does however furnish some valuable insights. A comparison of the political structures in Mauritius and Kenya, for example, clearly indicates that an adjustment policy must converge with the interests of the groups making up the government if it is to succeed. Clientistic relations exist in both countries and ensure reasonable political stability for both. Whereas this stability has been inimical to structural adjustment in Kenya, in Mauritius just this ability to carry out adjustment measures is conducive to political stability.

The cases of Bolivia and Jamaica show that in countries where there is no stable and long-term state hegemony by coalitions between socio-economic

groups, the crucial factor is how much autonomy the government in power disposes of. Where the individual groups politically neutralize each other to a large extent, the government is able to pursue a comparatively independent policy course and effect adjustment measures quite successfully, provided this serves to consolidate its own power. Bolivia's group constellation poses particular problems, fragile coalitions being able to maintain power for only short periods. Here, the government neither possesses the requisite autonomy nor can it enter into solid coalitions.

Overall then, conclusions of general application cannot be drawn. Clientist systems do not necessarily obstruct the implementation of adjustment policies. Conversely, comparative governmental autonomy is no guarantee of the success of an adjustment programme. The decisive factor affecting the feasibility of adjustment measures is therefore the specific power structure of the particular group constellation concerned. Adhering to IMF and World Bank conditionalities can at least to a certain extent be in the interests of a given government and serve to enhance its power. Faced with external economic crisis and massive shortages in foreign exchange along with overindebtedness, it can often only choose between total economic ruin and structural adjustment. The path proposed by the Bretton Woods institutions can turn out to be the safer option.

In our brief survey, many questions have been left unanswered. It would for example be interesting to examine in more detail which measures and mechanisms in adjustment policy bolster or lessen a government's relative autonomy (as in the case of Jamaica) and hence help or hinder it in maintaining power. Another question worth looking at would be under what conditions powerful groups lose influence over time or how their interests alter (e.g. Bolivia). Of key importance for the degree of acceptance of adjustment programmes would appear to be the ability to raise export revenue, particularly for manufactured goods. The question of how far this success is impeded by political constraints or thwarted by omissions in adjustment programmes also requires further investigation. Another important question that needs posing is what inferences can be drawn from the adjustment constraints analyzed here for the future planning of relevant programmes by the IMF and the World Bank.

**Table 3**  
**Political Structure and Adjustment Successes**

|  | Mauritius       | Jamaica             | Bolivia        | Kenya               |
|--|-----------------|---------------------|----------------|---------------------|
| Control of the state by strategic groups       | Yes             | No                  | No             | Yes                 |
| Autonomy of the government from other groups   | Not applicable  | To a large degree   | No             | Not applicable      |
| Adjustment in the interest of governing groups | Yes             | Not applicable      | Not applicable | Partly              |
| Feasibility of adjustment policy               | Largely assured | Only partly assured | Not assured    | Only partly assured |

<sup>27</sup> Cf. D. W. Throup, *op. cit.*, p. 63.

<sup>28</sup> Cf. P. Mosley: *The Politics of Economic Liberalization: USAID and the World Bank in Kenya, 1980-84*, in: *African Affairs*, Vol. 85, No. 339, 1986, p. 110 ff.