

Betz, Joachim

Article — Digitized Version

The social effects of adjustment policy in LDCs

Intereconomics

Suggested Citation: Betz, Joachim (1990) : The social effects of adjustment policy in LDCs, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 25, Iss. 3, pp. 125-130, <https://doi.org/10.1007/BF02924794>

This Version is available at:

<https://hdl.handle.net/10419/140240>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

they may be, easily exhaust the goodwill of the population that has to bear the consequences. This threatens the confidence the population has in their new governments, so that they are skating on very thin ice. The impossibility of reducing existing social and economic disparities quickly enough can very easily undo the initial success of these reform efforts.

It is therefore all the more important for Western industrialised countries to try to provide support without

imposing socially harmful economic requirements and conditions. A new and yet familiar problem will then arise, in that the already inadequate assistance being given to the South – the “traditional” developing countries – will tend to be eroded in favour of support for Eastern Europe, whose development prospects are more promising in many respects. In all probability these shifts will make the nineties the decade of West-East development, while the North-South conflict will erupt again with renewed vigour.

Joachim Betz*

The Social Effects of Adjustment Policy in LDCs

Since the onset of the debt crisis at the beginning of the eighties the Third World countries, and especially the most heavily indebted countries of Africa and Latin America, have displayed a marked and in some cases severe deterioration in social conditions, a rising level of absolute poverty, a partial collapse of the social and physical infrastructure, an increase in crime and internal unrest. The per capita income of the heavily indebted countries has fallen by one-seventh since 1980 and that of sub-Saharan African countries by one-quarter.¹ In Africa the investment ratio, which gives an indication of future growth prospects, has fallen to the level recorded in the mid-sixties and in some countries it is no longer sufficient to maintain the economy's capital stock. In the most heavily indebted countries real wages are now lower than in 1982 (38% lower in Mexico and 21% lower in Brazil) and unemployment has risen considerably owing to slow economic growth.² Public expenditure has fallen by 18% in the most heavily indebted countries and public investment has been cut by 35%, damaging the prospects for growth and leading to a deterioration in the social indicators. For example, most developing countries have cut their expenditure on health care and education and reduced the quality of public services in these areas. Per capita expenditure on education in Latin America is now lower than at the beginning of the eighties and spending on equipment for educational institutions is now no more than a fraction of what it was. The same applies to the health service, with the result that the decline in infant mortality in Third World countries has slowed down and overall mortality is again rising slightly. Nutrition has also deteriorated again in many countries, not least owing to the rise in agricultural producer prices.³

There is now a wider-spread tendency in socially critical literature on the Third World to blame the adjustment programmes prescribed by the IMF or the World Bank for these adverse developments, since they all require quite severe cuts in budget expenditure and other measures to curb demand and steer the less developed economies towards exports, resulting in a fall in real wages, a temporary increase in unemployment and the destruction of domestic production capacity. Implementation of the programmes is also held responsible for the rising level of internal conflict and repression in developing societies. On the other hand, one often reads that democratisation and adjustment are irreconcilable or that only authoritarian regimes are in a position to carry out typical IMF programmes.⁴

Criticism of the IMF and World Bank

These critics see the poor and the working class as the main victims of the adjustment programmes laid down by the international financial institutions, in other words the very groups that benefited least from the earlier debt-financed growth. It is claimed that they are regularly the main losers from the IMF's demand for the

¹ With regard to adjustment during the debt crisis, see for example World Bank: World Development Report 1984, Washington, D. C., 1984; World Bank: World Debt Tables, 1988-89 Edition, Washington, D. C., 1988; Jeffrey D. Sachs: Introduction, in: Jeffrey D. Sachs (ed.): Developing Country Debt and the World Economy, Chicago and London 1989. Figures from World Bank: World Debt Tables, 1987-88 Edition, Washington, D. C., 1987.

² Figures from World Bank: World Development Report 1988, Washington, D. C., 1988.

³ Ibid.

⁴ Cf. World Food Council: Consultations on the Food-Security Impact of Structural Adjustment, WFC/1989/4, 11th April 1989; Klaus Didszun: The Debt Crisis and IMF Policy, in: INTERECONOMICS, July/August 1988; Jandhyala B. G. Tilak: Economic Slowdown and Education Recession in Latin America, in: IDS-Bulletin, Vol. 20, 1989, No. 1.

*Institut für Allgemeine Überseeforschung, Hamburg, West Germany.

removal of subsidies on food, water, electricity and public transport. Basic foodstuffs are said to have become so expensive that the poor can no longer afford them. It is also argued that the poor are hardest hit by cuts in educational and health services, the introduction of user charges and cuts in public employment and public sector wages, since savings are always made at the bottom and social services are the first to feel the knife. Finally, it is claimed that the poor suffer the most from the acceleration in inflation as a result of devaluation of the currency and the rise in official prices, from the general narrowing of employment opportunities and from the switch of emphasis towards exports, for example as a result of the expansion of export-oriented cattle farms at the expense of small farmers.⁵

Counterarguments

These criticisms, which have necessarily been set out here in a somewhat condensed form, can be countered with the following arguments:

□ If expenditure within the economy permanently exceeds the available resources (including capital inflows), economic adjustment – in other words restriction – is unavoidable, as are the adjustment costs that will occur at least over the short term in the form of job losses and foregone consumption.⁶ It is immaterial whether the shortfall of available resources is due to internal causes (such as excessive expansion of state economic activities) or external factors (declining terms of trade and demand for Third World products in industrial countries, a rise in international interest rates or the reluctance of banks to lend). However, it should be noted that vulnerability to debt crises is determined much more by internal economic strategies than the popular criticism of the IMF and World Bank acknowledges.⁷

□ Economic adjustment necessarily entails at least temporary social costs in the shape of a contraction in economic activity in sectors producing for the domestic market, in other words unemployment, falling public expenditure (including spending on social programmes), a not inconsiderable redistribution of incomes (especially if resource allocation is to be altered in favour of exports and agriculture), some hardship for

the mass of the population and hence overall a potentially higher level of internal political conflict.

□ These adjustment costs are all the higher, the more slowly the economy reacts to the new system of incentives (exchange rates, agricultural producer prices, etc.), the more rigid wages and prices are, the less exportable domestic output is and the greater the pre-adjustment discrepancy between domestic prices and those in world markets. Consequently, the adjustment costs and the time and financial resources required for adjustment are highest in internally oriented economies with severe price distortions.

□ If a minimum of growth-generating investment is to be maintained, savings must be made primarily in consumption, and within the state sector in public expenditure. Given the small number of really wealthy people in developing countries, the poor must also be affected if appreciable savings are to be achieved.

□ The common adjustment policy entailing a contraction in the state sector and in industries producing for the domestic market naturally gives rise to high social adjustment costs and major income redistribution in partly industrialised countries where these sectors have reached a certain size, mainly those in Latin America, but not in African states that rely more heavily on the subsistence economy. The adjustment costs therefore vary markedly according to economic structure and not only according to the severity of IMF conditions.⁸

□ It is distinctly unfair, but frequently the case, that the deterioration in economic and social conditions in a country that has pursued an economic policy that can no longer be financed and has therefore sought adjustment loans from the World Bank or the IMF is blamed on these organisations without considering how the situation would have changed in the absence of such programmes. In most cases the countries seeking adjustment loans had exhausted their financial reserves and the only alternative to IMF programmes would have been a disorderly, inflationary process of shrinkage that

⁵ See for example Peter Körner et al.: *Im Teufelskreis der Verschuldung. Der Internationale Währungsfonds und die Dritte Welt*, Hamburg 1985; Richard Gerster: *Fallstricke der Verschuldung. Der Internationale Währungsfonds und die Entwicklungsländer*, Basle 1982; Alexander Schubert: *Die internationale Verschuldung: Die Dritte Welt und das transnationale Bankensystem*, Frankfurt 1985.

⁶ Ibid.

⁷ Cf. Mohsin S. Khan and Malcolm D. Knight: *Fund-Supported Adjustment Programs and Economic Growth*, Occasional Paper No. 41, IMF, Washington, D. C., 1985; Tony Killick: *The Impact of Fund Stabilisation Programmes*, in: Tony Killick (ed.): *The Quest for Economic Stabilisation*, London 1984. This recognition is now also reflected in the literature with a strong social emphasis. Cf. Roger Peltzer: *Plädoyer für die Revision einiger Leitvorstellungen der Dritte-Welt-Bewegung*, in: *Blätter für deutsche und internationale Politik*, April 1989.

⁸ Cf. Yukon Huang and Peter Nicholas: *The Social Costs of Adjustment*, CDP Discussion Papers No. 1987-6, March 1987 (abridged version in *Finance & Development*, No. 2/1987).

would certainly have harmed the poor at least as badly.⁹ The only sensible comparison would be between socio-economic developments in programme countries and those in countries in a similar economic situation that have not concluded loan agreements with the international financial agencies. Even then, such a comparison would be conditional on other external and domestic economic factors remaining equal.

□ Critics often overlook the time factor in assessing the consequences of adjustment: short-term social hardship as a result of plant closures, dismissals and increases in food prices may, however, be subsequently offset by positive medium-term effects, such as increased job opportunities in the export sector, increased and hence cheaper food production, etc. The acceptance of short-term sacrifices for the sake of higher growth over the medium term is the very rationale of the international institutions' structural adjustment programmes. The assessment of programmes may therefore differ, depending on the timespan chosen for judging their social and economic consequences.¹⁰

□ In this connection, the question arises whether the poorer sections of society really benefited so much from the economic course the IMF and the World Bank were endeavouring to correct, as the critics of these two organisations often imply. To answer that question, the probable effects of an economic policy oriented strongly towards the internal market and the state sector with high budget deficits, rapid erosion of the value of money and state controlled prices will be compared with the effects of corrections in these areas prescribed by the IMF and the World Bank.

But first a few more preliminary remarks in this connection. The poor in developing countries are first and foremost inhabitants of rural areas, in other words small farmers and farm workers, and only to a lesser degree town dwellers, that is to say unemployed persons and those working in the informal sector, but not persons working in the import/export business,

government employees and the relatively well paid workers in protected branches of industry. It is a truism that a country cannot for long combat unemployment, poverty and other social problems without economic growth. Assuming identical effects on income distribution, a development strategy aiming at more rapid growth would therefore be preferable. However, it has been shown, and confirmed by a whole series of empirical studies, that the economic performance of Third World economies that are outwardly oriented, in other words ones that do not discriminate against exports and agriculture to the benefit of domestic industrial production, is better than that of countries geared more strongly towards the state sector and the domestic market, which in general are also more vulnerable to debt crises and hence more likely to be obliged to take up IMF or World Bank structural adjustment loans. The latter are characterised by poor export performance, lower capital productivity, more rapid growth of agriculture and domestic saving and frequently also more even income distribution.¹¹ Since the international financing institutions try to steer programme countries onto a more outwardly oriented, less regulated course, the less well-off members of society will also benefit over the medium term.

Impact of Adjustment Programmes

Structural adjustment loans from the World Bank and the IMF usually require measures to reduce the budget deficit (tax increases, reductions in subsidies, increases in the prices of public services), measures to curb credit expansion, especially to the state sector, pricing policy measures (currency devaluation, increases in agricultural prices), measures to contain wage increases and the examination and improvement of the state investment programme.¹²

Critics object that the programmes cause a significant restriction of demand and growth with those already at the bottom of the income ladder suffering most. This argument is not sustainable. It can be shown empirically that the IMF programmes up to the beginning of the eighties had not a negative effect on economic growth but a slightly positive one;¹³ under the later structural

⁹ Cf. World Bank: World Development Report 1987, Washington, D. C., 1987; Roger Peltzer, *op.cit.*; Christopher Colclough and Reginald H. Green: Do Stabilisation Policies Stabilise?, in: IDS-Bulletin, Vol. 19, 1988, No. 1.

¹⁰ Cf. Yukon Huang and Peter Nicholas, *op.cit.*; Tony Addison and Lionel Demery: Macro-Economic Stabilisation, Income Distribution and Poverty: a Preliminary Survey, ODI Working Paper No. 15, February 1985.

¹¹ See World Bank: World Development Report 1987, Washington, D. C., 1987; Joachim Betz: Verschuldung versus Anpassung: Die Entwicklungsländer im Zeichen weltweiter Rezession, in: Joachim Betz: Verschuldungskrisen in Entwicklungsländern, Munich 1983; World Bank/UNDP: Africa's Adjustment and Growth in the 1980s, Washington, D. C., 1989.

¹² Peter S. Heller et al.: The Implications of Fund-Supported Adjustment Programs for Poverty, IMF Occasional Paper No. 58, Washington, D. C., May 1988; Yukon Huang and Peter Nicholas, *op.cit.*; Ismail Seralgedin: The Social Dimensions of Structural Adjustment: Experiences from West Africa, internal World Bank document, 2nd March 1987.

¹³ Cf. Tony Killick, *op.cit.*; Joachim Betz: Die Bereitschaftskredite des Internationalen Währungsfonds. Maßnahmen und Auswirkungen, in: Lateinamerika. Analysen, Daten, Dokumentation, No. 4, July 1985.

adjustment programmes of the IMF and the World Bank, which couple demand constraint with supply-side measures to boost growth, a negative impact on economic growth is even less perceivable. On the contrary, loans under the IMF structural adjustment facility generally aim at a rate of growth (3-4%) that is rapid by comparison with that of the previous period; among the countries financed by the World Bank, those that pursued programme objectives energetically achieved noticeably faster growth than those that had no programme or made no effort to adjust.¹⁴ It must be conceded, however, that the more advanced developing countries show rapid and appreciable improvement, whereas the poorer countries, whose restructuring is more difficult and requires greater time, must usually accept a slight reduction in the rate of growth as a result of the programmes.

The claim made by many critics that adjustment programmes almost always cause a massive deterioration in the social indicators is a generalisation that is also unsustainable. Among the countries pursuing World Bank programmes in the eighties there was generally no worsening of infant mortality, life expectancy and school attendance rates, although some slowdown in their rate of improvement; there was a clear, though slight regression only in nutrition.¹⁵ Finally, it must also be said that the alternative of no adjustment and continued inflation would have an especially severe impact on the poor in developing countries, who cannot protect themselves against inflation by taking refuge in physical assets or exporting their capital.

A particularly delicate aspect of structural adjustment programmes relates to the reduction in budget deficits, in other words the requirement to increase taxes and the prices of public services and to reduce subsidies. These measures play a major role in as many as half of the programmes and obviously also affect the poor. It has been shown empirically, however, that during the crisis the indebted countries reduced their social expenditure by only 5% while cutting operating expenditure and public investment by 22%. Comparatively little, 8%, was also trimmed from their defence spending.¹⁶ The reason

why labour-intensive social expenditure escaped relatively lightly probably lies in political resistance to reductions in staffing and services. The poor appear to be hardest hit by reductions in food subsidies, especially in connection with an increase in agricultural producer prices, since they spend a large proportion of their income on food. However, it has to be said that higher food prices also benefit the poor rural population if they produce more than their own requirements. As a rule, low prices also depressed the growth in food production and hence led to food rationing, so that the poor were often forced to buy in the black market at prices well above the official level. Moreover, an examination of subsidisation programmes shows that they are an extremely imprecise way of reaching the really poor and that the main beneficiaries are prosperous town dwellers and government employees whose wages can be held artificially low by this means. Of course, the urban poor also suffer from the removal of food subsidies, but the same objective could be achieved better and more cheaply by targeting supportive measures more precisely at those truly in need, as shown by the experience of numerous countries that have attempted this.¹⁷

The more prosperous sections of society in developing countries are also the main beneficiaries of subsidies on other public services. In the health service, which is often free of charge, a large proportion of expenditure goes on expensive treatment in urban hospitals and little on rural health centres and preventive measures that could reduce mortality much more cheaply and with greater social equality.¹⁸ Resource distribution is even more uneven in the education system, which again is often provided free irrespective of need: the most costly area, the university level, from which the rich gain the greatest benefit, is the most heavily subsidised. A more sensible alternative would be to cover costs by charging fees, with provision to protect the poor.¹⁹ Subsidies for water and electricity consumption and local public transport also tend to favour the higher-income sections of the population and large industrial users, for the slums often have no mains connections and their inhabitants have to buy their water from expensive private suppliers. In short, it could

¹⁴ Cf. Peter S. Heller et al., op. cit.; Michael Bell and Robert Sheehy: *Helping Structural Adjustment in Low-Income Countries*, in: Finance & Development, December 1987; World Bank and UNDP: *Africa's Adjustment and Growth in the 1980s*, Washington, D. C., 1989.

¹⁵ See World Bank: *Adjustment Lending. An Evaluation of Ten Years of Experience*, Policy and Research Series No. 1, Washington, D. C., 1988.

¹⁶ Cf. Norman Hicks and Anne Kubisch: *Cutting Government Expenditure in LDCs*, in: Finance & Development, September 1984; Norman Hicks: *Expenditure Reductions in High-debt Countries*, in: Finance & Development, March 1989.

¹⁷ Cf. World Bank: *World Development Report 1986*, Washington, D. C., 1986; International Monetary Fund: *Fund-Supported Programs, Fiscal Policy and Income Distribution*, Occasional Paper No. 46, Washington, D. C., 1986.

¹⁸ Cf. World Bank: *Financing Health Services in Developing Countries: An Agenda for Reform*, World Bank Policy Study, Washington, D. C., 1987.

¹⁹ Cf. World Bank: *World Development Report 1988*, Washington, D. C., 1988.

therefore be claimed that a reduction in subsidies combined with better targeting at the poor would tend to improve income distribution. The same applies to measures to widen the tax base and reduce tax evasion.²⁰

More than 60% of IMF programmes include measures to limit wage and salary costs in the formal employment sector (industry and government service). These measures are designed to prevent the competitive advantages resulting from devaluation being immediately cancelled out by wage increases. They entail some degree of social hardship in countries that do not have an adequate social safety net and undoubtedly cause some reduction in the living standards of the middle classes. However, they contribute to a worsening of income distribution only where a large proportion of the population is employed in the modern sector, whereas in countries where most of the population works in agriculture and in the informal sector measures such as these, in combination perhaps with an increase in farm prices, tend to improve income distribution.²¹

Similarly, measures to rationalise and improve the efficiency of state enterprises, which often account for half of the budget deficit and hence restrict the scope for other purposes, do not particularly harm the poor, who seldom benefit from their activities in any case. Here too it is those on higher incomes who will be adversely affected – as a result of dismissals.

Currency devaluation increases the incomes and profits of those working in tradable goods sectors. Whether inequality and poverty increase as a result depends on the economic conditions in the country; if the production of tradable goods is in the hands of small farmers who consume only a small percentage of imported goods and if the switch in production from the domestic to the export market is not unduly protracted, devaluation improves income distribution. On the other hand, if the tradable goods are produced by large landowners or large capital-intensive companies, devaluation has the opposite effect. A series of other parameters – such as the responsiveness of the expansion in production in the export sector, the import intensity of export production, the involvement of the

informal sector in the production of tradable goods – must also be considered when assessing the social consequences of devaluation; these factors so complicate the picture that one can only marvel at the often categorical pronouncements of the effects of currency adjustments. The impact of devaluation on domestic prices is generally exaggerated; it cannot lead to a significant acceleration in inflation if the goods previously imported could not even be imported freely since the domestic market was protected by high customs tariffs and import licences that enabled importers to earn easy and sometimes substantial scarcity rents.²² The dismantling of this protection may, however, lead to a sharp contraction in employment and output if the switch to the production of tradable goods cannot take place quickly and smoothly enough.²³

Final Assessment

In summary, it can be said that the income distribution effects and social impact of a normal adjustment programme depend to a high degree on the country's economic structure, the responsiveness of the economy to changed market conditions and the power of social groups to protect themselves against the adverse consequences of adjustment.²⁴ Since IMF programmes make disbursements contingent only on the attainment of macro-economic targets and the IMF has always declined to involve itself with the domestic distribution of the adjustment burden, the authorities of a developing country implementing a structural adjustment programme have a strong influence over the question of whose demand is to be cut and whose not. Socially oriented programme components have not infrequently foundered as a result of resistance from powerful local interest groups. Above all, it appears that opposition to IMF and World Bank programmes in recipient countries themselves derives not so much from concern about the effects on the poor as from the correct assessment by the relatively privileged classes that their interests will be harmed the most by the reduction in the state sector, the removal of protectionist measures and the disappearance of the sinecures that go with them.²⁵ The monetary benefit of these sinecures or rents accounts for a substantial percentage of the gross domestic product of many developing countries. Opposition on

²⁰ Ibid.; International Monetary Fund, *op. cit.*

²¹ Cf. Tony Killick, *op. cit.*

²² Cf. Anne O. Krueger: The Political Economy of the Rent-Seeking Society, in: *American Economic Review*, Vol. 64, 1974, No. 3; Guido Ashoff: Rent-Seeking: Zur Relevanz eines relativ neuen Konzeptes in der ökonomischen Theorie der Politik und der entwicklungstheoretischen Diskussion, in: *Vierteljahresberichte*, No. 112, June 1988.

²³ Cf. Tony Addison and Lionel Demery, *op. cit.*

²⁴ Cf. Tony Killick, *op. cit.*; Yukon Huang and Peter Nicholas, *op. cit.*; Rasul Shams: Adjustment Constraints in Developing Countries. A Comparative Study, in: *INTERECONOMICS*, Vol. 24 (1989), No. 2.

²⁵ Cf. Gudrun Lachenmann: Die gesellschaftliche Problematik der Strukturanpassung in Afrika, in: *Vierteljahresberichte*, No. 109, September 1987.

the grounds of the burden on the poor is therefore often no more than a pretext.

The high proportion of IMF and World Bank structural adjustment programmes that are suspended or revised – around three-quarters – and the failure to implement the particularly sensitive conditions, such as tax reform and privatisation, should be a warning not to confuse the measures announced in the programmes and their possible consequences with the observed adjustment process and its actual impact. There is a general tendency among critics of these programmes to overestimate their social impact and also the power of the international financial organisations. If the latter were really as powerful as it is claimed, it would be difficult to explain why in the eighties the international commercial banks frequently failed to provide adequate support to accompany the agreements reached between loan recipients and the IMF or the World Bank.

Learning Process at World Bank and IMF

Although critics therefore grossly exaggerate the adverse social consequences of World Bank and IMF programmes and many of the adjustment measures enhance the chances that the poorer sections of society will enjoy a larger share of the fruits of more rapid growth, at least in the medium term, we must acknowledge that countries with serious price distortions and widespread urban poverty may suffer an immediate fall in the living standards of the poorer population that will be offset only by potential, as yet uncertain gains in growth and employment in the future. Unstable governments of dubious legitimacy in countries with a politically articulate middle class find it more difficult to persevere with adjustment programmes if the middle class can mobilise the underprivileged against programme implementation. The fact that for many years the IMF refused to become involved with the internal distribution of the burden of adjustment and did not even systematically investigate the effect of its programmes on income distribution and poverty has therefore proved fatal from the point of view of minimising opposition. Such misguided scruples necessarily brought the organisation into alliance with political forces in borrowing countries that were averse to the implementation of a socially balanced programme in any case. Moreover, ways of protecting the poor or improving their living conditions during the programme period played no part in the planning of World Bank structural adjustment programmes until 1986.

More recently, however, the IMF has emphasised that what matters is not economic adjustment per se but also

the form and content of adjustment; the various IMF missions have been instructed to discuss alternative, socially acceptable stabilisation measures with the governments of recipient countries, if the latter so desire. The policy framework for loans under the structural adjustment facility, which was introduced in 1986, also contains sections on the medium-term social impact of structural adjustment measures.²⁶ The reality of the adjustment programmes is still some way behind the rhetoric of the Fund's reform intentions, however. In December 1986 the World Bank set up a "Task Force Poverty", which later made recommendations for alleviating poverty during the adjustment period. The reasons for establishing the task force were the recognition that in most countries the adjustment period was longer than expected and therefore caused greater social hardship, that growth alone was not enough to protect the poor during this transitional period, and public criticism of the programmes' failure to address the poverty issue expressed in the industrialised countries.

The World Bank now increasingly supports programmes to reduce the social costs of adjustment and is collaborating with other development agencies that are oriented more strongly towards meeting basic needs. The measures to cushion the social impact of World Bank adjustment programmes include public employment programmes for dismissed workers, the socially targeted distribution of food (under local "food for work" programmes, for example), better targeting of public services to poor sections of society and changes in the pattern of state social expenditure.²⁷ Rather than offsetting the social consequences of adjustment programmes, it would be better to design adjustment programmes in such a way that the poor shared in the benefits of growth during the life of the programme by increasing their production potential, re-orientating social programmes, concentrating expenditure on items that were predominantly of benefit to the poor and by more careful adjustment or reduction of the corresponding subsidies. This is also the direction in which the World Bank itself wishes to move.²⁸

²⁶ Cf. Peter Heller: Fund-Supported Adjustment Programs and the Poor, in: Finance & Development, December 1988; Gerald K. Helleiner: Balance-of-Payments Experience and Growth Prospects of Developing Countries: A Synthesis, in: World Development, Vol. 14, 1986, No. 8.

²⁷ Cf. Tatjana Chahoud: Zwischenbilanz der Anpassungspolitik. Die Weltbank auf dem Wege zu einer neuen Politik der Armutsbekämpfung?, in: Peripherie, Vol. 8, 1988, No. 33/34; Weltbank: Sonderbericht Mittelvergabe für die Strukturanpassung: Aktuelle Bilanz, Weltbank Nachrichten, undated.

²⁸ Cf. World Bank: Adjustment Lending. An Evaluation of Ten Years of Experience, op. cit.