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## Globalization and social development after Copenhagen: Premises, promises and policies

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Geneva 2000 Occasional Paper No. 10

June 2000

**Globalization and Social Development  
after Copenhagen:  
Premises, Promises and Policies**

*by Thandika Mkandawire and Virginia Rodríguez*



United Nations Research Institute for Social Development

The **United Nations Research Institute for Social Development (UNRISD)** is an autonomous agency engaging in multidisciplinary research on the social dimensions of contemporary problems affecting development. Its work is guided by the conviction that, for effective development policies to be formulated, an understanding of the social and political context is crucial. The Institute attempts to provide governments, development agencies, grassroots organizations and scholars with a better understanding of how development policies and processes of economic, social and environmental change affect different social groups. Working through an extensive network of national research centres, UNRISD aims to promote original research and strengthen research capacity in developing countries. Current research programmes include: Civil Society and Social Movements; Democracy and Human Rights; Identities, Conflict and Cohesion; Social Policy and Development; and Technology and Society. A list of the Institute's free and priced publications can be obtained by contacting the Reference Centre.

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## Acronyms

<b>AIDS</b>	Acquired Immune Deficiency Syndrome
<b>ASEAN</b>	Association of South East Asian Nations
<b>BWIs</b>	Bretton Woods institutions
<b>CIS</b>	Commonwealth of Independent States
<b>DAC</b>	Development Assistance Committee (OECD)
<b>ECLAC</b>	Economic Commission for Latin America and the Caribbean
<b>ESAF</b>	Enhanced Structural Adjustment Facility
<b>EU</b>	European Union
<b>FDI</b>	foreign direct investment
<b>GDP</b>	gross domestic product
<b>GNP</b>	gross national product
<b>HIPC</b>	heavily indebted poor country
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>NIC</b>	newly industrialized country
<b>NIEO</b>	New International Economic Order
<b>ODA</b>	official development assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>SAP</b>	structural adjustment programme
<b>UNCSD</b>	United Nations Commission for Social Development
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UNDP</b>	United Nations Development Programme
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>UNICEF</b>	United Nations Children's Fund
<b>WIDER</b>	World Institute for Development Economics Research
<b>WSSD</b>	World Summit for Social Development

## Summary/Résumé/Resumen

### Summary

This paper explores the social, economic and ideological context within which the World Summit for Social Development took place. As its subtitle implies, the discussion focuses particularly on some of the assumptions about global trends that were prevalent in 1995 and evaluates their adequacy in the light of the actual course of events during the following five years.

The Summit was conceived during a period when neoliberal orthodoxy was at its height. Many countries were—willingly or unwillingly—implementing structural adjustment policies, devised by the Bretton Woods institutions (BWIs), that systematically weakened earlier national development strategies. The public was insistently reminded that, in the much-quoted words of Margaret Thatcher, there was no alternative to the free-market revolution. The collapse of the Soviet Union lent force to that assumption.

The neoliberal case against earlier models of economic development and social welfare was further strengthened by growing reference to the process of “globalization”, which was seen not as the (reversible) outcome of particular national policies, but as an inevitable fact of contemporary economic life. This justified a broad attack on the welfare state, and indeed on many less comprehensive forms of public social provision that were assumed to be unviable in a highly competitive international marketplace. Notions of equity and social justice became unfashionable.

A second feature of the period leading up to the Social Summit was the standardization of economic policy prescriptions, applied across a large part of the developing world. The “fundamental” to which these prescriptions were tethered was not growth, but stabilization; and in most cases they worsened both poverty and inequality. But international financial institutions used the spectacular economic performance of a number of Asian countries (the so-called Asian miracle which, by 1995, was well into its second decade) to argue that neoliberal insistence on free markets was entirely justified. A third element in the climate of ideas surrounding the Summit was therefore a serious ongoing debate about the extent to which successful Asian economies did, in fact, epitomize free-market principles. Sceptics noted that the state in these countries played a major role in protecting and promoting national industries.

Fourth, the mid-1990s were a time when renewed economic growth outside Asia seemed just around the corner. Economic statistics were looking healthier than they had in years. And the rapid surge of private financial flows toward some developing countries further supported a sense of optimism.

How has this environment changed over the last five years? At the ideological level, neoliberalism is today far more contested than it was at the time of the Summit. Erosion of the theoretical and empirical underpinnings of the model has been accompanied by growing political opposition. The collapse of important Asian economies in 1997 dealt a serious blow to those who believed



uncritically in rapid financial liberalization. And slow growth continued to afflict the majority of developing countries throughout the remainder of the decade. Indeed, in a sample of 95 developing economies monitored in the 1990s, 32 experienced declining per capita income in 1999, compared to only 14 in 1996.

Five years after the Social Summit, poverty and inequality continue to grow, and prospects that this trend will be reversed remain quite poor. Continuing emphasis on austerity does not create the conditions for broad-based growth and social development. Unemployment and underemployment are increasing in many parts of the world. Moreover, the quality of work and working conditions is declining, under the impact of “flexible” labour policies and the expansion of the informal sector. Private financial flows have not proved a panacea, either. They are concentrated in relatively few developing countries and, when significant, imply serious risk of greater economic volatility.

Given this generally sombre picture, it is not surprising that poverty alleviation now occupies a central place on the development agenda. The World Bank has begun to justify support for social sectors on developmental grounds, and the IMF has been forced to recognize the importance of addressing social concerns. But there is still a tendency to deal with these issues in technocratic ways. Thus a single-minded focus on poverty reduction, without broader commitment to improving the quality of life throughout society, obscures issues of income distribution and social equity. In addition, targeting resources only toward the poorest or toward certain groups encourages the creation of a dual structure of social services—one aimed at the poor, funded by the state, and one aimed at the rest of the population, which can afford to pay for private services. This is not only poor politics, but also poor economics. In fact, neoliberal economics has traditionally denounced targeting in the economic field, citing problems of imperfect information, fundamental distortion of incentives, moral hazard, high administrative costs and corruption. Market orthodoxy is based on an ideal of non-intervention. Thus it is paradoxical that while universalism is championed in economics, it is roundly rejected in social policy.

In another significant reversal of previous policies, the Bretton Woods institutions now concede a much more important role for the state. But this concession comes after years during which there has been a devastating weakening of state capacity. There is therefore a danger that states in parts of the developing world will now be expected to do too much—often in association with a trend to place ever more stringent conditions on delivery of loans or grants. The debt relief programme for heavily indebted poor countries, known as the HIPC initiative, clearly reflects this problem. Countries still struggling under the weight of inappropriate structural adjustment policies are required to assume anti-poverty commitments for which both resources and institutional capacity may be insufficient.

Finally, recent years have witnessed attempts to rethink global governance and to create a more stable international economic environment. In most cases, however, this seems a patchwork affair. Suggestions for remedial action are tacked onto a system that is not being fundamentally analysed or challenged. If real progress is to be made, questions of distributive justice and social policy

must become an integral part of the debate on development—not an add-on to be considered when existing economic policies prove inadequate.

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## **Résumé**

Ce document explore le contexte social, économique et idéologique dans lequel s'est tenu le Sommet mondial pour le développement social. Comme l'implique le sous-titre, il porte en particulier sur les hypothèses les plus couramment admises en 1995 en matière de tendances mondiales et évalue leur justesse à la lumière des événements des cinq années suivantes.

L'idée du Sommet est née au moment où l'orthodoxie néolibérale était à son apogée. De nombreux pays appliquaient, bon gré mal gré, les politiques d'ajustement structurel élaborées par les institutions de Bretton Woods, qui ont systématiquement affaibli les stratégies antérieures de développement national. On ne cessait de rappeler au public que, pour reprendre le mot souvent cité de Margaret Thatcher, il n'y avait pas d'autre option que la révolution de la liberté de marché. L'effondrement de l'Union soviétique a accredité cette hypothèse.

La thèse du néolibéralisme, avec ses arguments contraires aux modèles précédents de développement économique et de protection sociale, a été encore renforcée par des références de plus en plus fréquentes à la "mondialisation", vue non pas comme l'issue (réversible) de politiques nationales données, mais comme un fait incontournable de la vie économique contemporaine. Cela justifiait une attaque en règle contre l'Etat-providence et, en fait, contre bien des formes moins achevées de la protection sociale publique dont on supposait qu'elles ne seraient pas viables sur un marché international hautement concurrentiel. Les notions d'équité et de justice sociale étaient passées de mode.

La seconde caractéristique de la période qui a précédé le Sommet social est l'uniformité des politiques économiques prescrites, qui ont été appliquées dans une grande partie du monde en développement. La valeur essentielle attachée à ces prescriptions n'était pas la croissance, mais la stabilisation et, dans la plupart des cas, elles ont aggravé à la fois la pauvreté et les inégalités. Cependant, se fondant sur les résultats économiques spectaculaires d'un certain nombre de pays d'Asie (ce qu'on appelait alors le miracle asiatique qui, en 1995, durait déjà depuis plus de dix ans), les institutions financières internationales affirmaient que l'accent mis par les néolibéraux sur la liberté de marché était entièrement justifié. On se demandait donc dans quelle mesure les économies asiatiques en plein essor incarnaient les principes de la liberté de marché. Cette question, qui faisait alors l'objet d'un sérieux débat, est le troisième élément qui a marqué le climat intellectuel dans lequel s'est tenu le Sommet. Les sceptiques faisaient observer que, dans ces pays, l'Etat jouait un rôle majeur dans la protection et la promotion des industries nationales.

Quatrièmement, vers le milieu des années 90, la reprise de la croissance économique hors d'Asie semblait être à portée de main. Les statistiques économiques semblaient plus saines qu'elles ne l'étaient depuis des années. La montée rapide des flux financiers privés à destination de certains pays en développement contribuait encore à l'optimisme ambiant.

En quoi les conditions ont-elles changé au cours des cinq dernières années? Sur le plan idéologique, le néolibéralisme est aujourd'hui beaucoup plus contesté qu'à l'époque du Sommet. L'érosion des fondements théoriques et empiriques du modèle s'est accompagnée d'une opposition politique croissante. L'effondrement en 1997 d'importantes économies d'Asie a porté un rude coup à ceux qui avaient une foi aveugle en une libéralisation financière rapide. La majorité des pays en développement ont continué à être affligés d'une croissance lente pendant le reste de la décennie. En fait, sur 95 économies en développement suivies dans les années 90, 32 ont enregistré une baisse du revenu par habitant en 1999, contre seulement 14 en 1996.

Près de cinq ans après le Sommet social, la pauvreté et les inégalités continuent de croître et les chances de voir cette tendance s'inverser restent maigres. La persistance des politiques d'austérité ne crée pas les conditions d'une croissance et d'un développement social largement partagés. Le chômage et le sous-emploi progressent en de nombreux points du monde. De plus, la qualité du travail et des conditions de travail baisse sous l'influence des politiques du "travail flexible" et de l'expansion du secteur informel. Les flux de capitaux privés ne se sont pas révélés une panacée non plus. Ils se concentrent sur un nombre relativement restreint de pays en développement et, lorsqu'ils sont importants, entraînent un risque sérieux d'instabilité économique.

Etant donné ce tableau généralement sombre, il n'est pas surprenant que la réduction de la pauvreté occupe maintenant une place centrale à l'ordre du jour du développement. La Banque mondiale s'est mise à invoquer des raisons de développement pour justifier son appui aux secteurs sociaux et même le FMI a été obligé de reconnaître qu'il était important de s'attaquer aux problèmes sociaux. Mais on a encore tendance à le faire dans un esprit technocrate. Ainsi, une politique uniquement axée sur la réduction de la pauvreté, si elle ne s'attache pas de manière plus générale à améliorer la qualité de la vie pour l'ensemble de la société, occulte les questions de la répartition des revenus et de l'équité sociale. En outre, en orientant les ressources uniquement vers les plus pauvres ou vers certains groupes particuliers, on encourage la création d'une double structure de services sociaux, l'une pour les pauvres, financée par l'Etat, et l'autre pour le reste de la population, qui a les moyens de se payer des services privés. Cette politique des pauvres n'est pas seulement une piètre politique, mais aussi une piètre économie. En fait, l'économie néolibérale a toujours dénoncé le ciblage en économie, invoquant à ce sujet l'imperfection des informations, les distorsions inhérentes aux incitations, le risque moral, les coûts administratifs élevés et la corruption. L'orthodoxie du marché repose sur l'idée de la non-intervention. Il est donc paradoxal que, tout en se faisant le champion de l'universalisme en économie, elle le rejette carrément en politique sociale.

Autre revirement important par rapport aux politiques précédentes: les institutions de Bretton Woods concèdent maintenant un rôle beaucoup plus

important à l'Etat. Mais cette concession arrive après des années durant lesquelles la capacité de l'Etat s'est terriblement affaiblie. On risque donc maintenant d'attendre trop des Etats dans certaines régions en développement, attitude qui va souvent de pair avec une tendance à assortir l'octroi de prêts ou de dons de conditions toujours plus draconiennes. Le programme d'allègement de la dette des pays pauvres très endettés (connu sous le nom de "HIPC initiative"), témoigne clairement de ce problème. On demande à des pays qui se débattent encore avec des politiques d'ajustement structurel inadaptées de prendre, dans la lutte contre la pauvreté, des engagements qu'ils ne peuvent pas forcément tenir, faute de ressources et de capacités institutionnelles suffisantes.

Enfin, on s'attache de plus en plus depuis quelques années à repenser la gouvernance mondiale et à créer un environnement économique international plus stable. Dans la plupart des cas, cependant, les efforts manquent de coordination. On propose des mesures correctives sans procéder à une analyse véritable du système et sans le remettre foncièrement en cause. Si l'on veut enregistrer des progrès réels, il faut que les questions de justice distributive et de politique sociale fassent partie intégrante du débat sur le développement et cessent d'être un rajout que l'on ne prend en considération que lorsque les politiques économiques en place se révèlent insuffisantes.

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## **Resumen**

En este documento se explora el contexto social, económico e ideológico en el que tuvo lugar la Cumbre Mundial para el Desarrollo Social. Como se da a entender en el subtítulo, la discusión se concentra especialmente en algunos de los supuestos que prevalecían en 1995 sobre las tendencias mundiales, y se hace una evaluación de su utilidad a la luz del curso real de los acontecimientos durante los cinco años subsiguientes.

La Cumbre fue concebida en un período cuando la ortodoxia neoliberal estaba en su apogeo. Muchos países estaban aplicando, voluntaria o involuntariamente, políticas de ajuste estructural que habían sido diseñadas por las instituciones derivadas de Bretton Woods, y que debilitaron sistemáticamente las estrategias de desarrollo nacional anteriores. Se recordaba insistentemente a la opinión pública que, en las multicitadas palabras de Margaret Thatcher, no había otra alternativa ante la revolución desatada por el libre mercado. La caída de la Unión Soviética fortaleció más aún dicho supuesto.

El argumento del neoliberalismo en contra de los modelos anteriores de desarrollo económico y social, se fortaleció todavía más por las referencias crecientes al proceso de "mundialización", el cual se veía como un hecho inevitable de la vida económica contemporánea y no como resultado de políticas nacionales específicas que pudieran ser modificadas. Con ello se justificó un ataque amplio al estado de bienestar y, en realidad, a muchas de las formas parciales de previsión social del sector público, que se supuso no eran

viabiles en el ámbito de un mercado internacional sumamente competitivo. Las nociones de equidad y justicia social se convirtieron en algo fuera de moda.

Un segundo rasgo del período que condujo hacia la Cumbre Social fue la homogeneización de las prescripciones de política económica que se aplicaron en una gran parte del mundo en desarrollo. El aspecto fundamental al que dichas prescripciones estaban atadas no era el crecimiento sino la estabilización; y en la mayoría de los casos empeoraron tanto la pobreza como la desigualdad. Pero las instituciones financieras internacionales utilizaron el espectacular comportamiento económico de varios países asiáticos (el famoso milagro asiático que por 1995 había entrado ya en su segunda década de crecimiento sostenido), para alegar que la insistencia en el mercado libre estaba plenamente justificada. Un tercer elemento en el clima de ideas que rodearon a la Cumbre fue, por lo tanto, un debate serio y constante sobre hasta dónde el éxito logrado en las economías asiáticas, era resultado de los principios del libre mercado. Los escépticos advertían que en aquellos países, el estado había tenido un papel importante en la protección y promoción de la industria nacional.

Cuarto, a mediados del decenio de los 90, fuera de Asia, el crecimiento económico renovado parecía ser inminente. Las estadísticas reflejaban una economía más saludable de lo que había sido en años anteriores. Y el surgimiento rápido de flujos financieros privados hacia algunos de los países en desarrollo permitía más aún que hubiera un cierto optimismo.

¿Cómo ha cambiado este tipo de ambiente en los últimos cinco años? Al nivel ideológico, el neoliberalismo está hoy siendo más criticado que en los días de la Cumbre. Al deterioro de los apuntalamientos teóricos y empíricos del modelo lo ha acompañado una oposición política creciente. En 1997, la caída de importantes economías asiáticas fue un golpe serio para aquellos que creían absolutamente en la liberalización financiera rápida; y el crecimiento lento siguió afligiendo a la mayoría de los países en desarrollo por el resto del decenio. En efecto, en una muestra de 95 economías en desarrollo observadas durante el decenio de los 90, en 1996 sólo 14 de ellas habían sufrido una reducción de su ingreso per cápita, en tanto que en 1999, la cifra se había elevado a 32.

Casi cinco años después de la Cumbre Social, la pobreza y la desigualdad continúan creciendo y las probabilidades de que esta tendencia se revierta siguen siendo muy bajas. El énfasis que continuamente se da a la austeridad no permite crear las condiciones para lograr un crecimiento y desarrollo social de cobertura amplia. El desempleo y el subempleo están aumentando en muchos lugares del mundo. Más aún, la calidad del trabajo y de las condiciones laborales está bajando a consecuencia de las políticas laborales “flexibles” y a la expansión del sector informal. Los flujos de financiamiento privado tampoco han demostrado ser una panacea; se concentran en un número relativamente pequeño de países en desarrollo y cuando son significativos, implican riesgos graves de que haya una mayor volatilidad económica.

Dado este panorama generalmente sombrío, no es de sorprender que la reducción de la pobreza ocupe ahora un lugar central en la agenda sobre desarrollo. El Banco Mundial ha empezado a justificar el apoyo a los sectores

sociales con la finalidad de promover el desarrollo, y hasta el Fondo Monetario Internacional ha sido forzado a reconocer lo importante que es atender los problemas sociales. Pero todavía se tiende a tratar estos asuntos de manera tecnocrática. Así, un enfoque unilateral de corta visión sobre la reducción de la pobreza, sin un compromiso más amplio para mejorar la calidad de vida de la sociedad en general, oscurece los problemas de distribución del ingreso y equidad social. Además, destinar los recursos hacia los más pobres o solamente hacia determinados grupos especiales, favorece el establecimiento de una estructura dual de servicios sociales: una dirigida a los pobres, financiada por el estado, y otra dirigida al resto de la población que pueda pagar por los servicios que preste el sector privado. Esto no sólo es una deficiencia política sino también económica. De hecho, la economía neoliberal tradicionalmente ha denunciado la idea de otorgar un trato especial a determinados grupos de personas (*targeting*) en el campo económico, citando problemas derivados de información insuficiente, distorsión fundamental de los incentivos, expectativa de recibir privilegios, de costos administrativos elevados y corrupción. La ortodoxia del mercado se sustenta en un ideal de no intervención. Por ello, es paradójico que mientras en lo económico se aboga por el universalismo, en la política social se rechaza rotundamente.

En otra revocación significativa de las políticas previas, las instituciones de Bretton Woods conceden ahora un papel mucho más importante al estado. Pero esta concesión llega después de varios años durante los cuales ha habido un debilitamiento devastador de la capacidad del estado. Por lo tanto, hay el peligro de que en algunas partes del mundo en desarrollo se espere que los estados atiendan demasiadas demandas, peligro vinculado a menudo con una tendencia a poner condiciones más rigurosas que nunca a la entrega de préstamos o de donaciones. El programa de reducción de deuda dedicado a los países pobres sumamente endeudados, conocido como iniciativa HIPC (siglas en inglés), refleja claramente este problema. Se requiere que los países que están batallando todavía bajo el peso de políticas de ajuste estructural inadecuadas, asuman compromisos contra la pobreza, para los cuales tanto los recursos, como la capacidad institucional, pueden ser insuficientes.

Finalmente, en años recientes se ha observado que hay un intento creciente de repensar la idea de gobernabilidad mundial y de crear un ámbito económico internacional más estable. Sin embargo, en la mayoría de los casos, parece que se trata de un asunto de remiendos. Las sugerencias de emprender acciones para remediar la situación están ligadas a un sistema que fundamentalmente no se analiza ni se pone en tela de juicio. Si se ha de lograr un avance verdadero, los problemas relacionados con la distribución equitativa de recursos y la política social deben llegar a formar parte integral del debate sobre desarrollo, y no ser sólo un agregado al que se toma en consideración cuando las políticas económicas existentes resultan ser inadecuadas.

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## **Introduction**

The World Summit for Social Development made a number of commitments to address global social problems. Among these were (i) the commitment to the creation of a “economic political, social, cultural and legal, environment that will enable social development”; (ii) the commitment to the “eradication of poverty”; (iii) the commitment to full employment; (iv) the commitment to accelerating economic, social and human resource development in Africa and the least developed countries; and (v) the commitment to ensuring that when structural adjustment programmes are agreed to they include social development goals, especially eradicating poverty, promoting full and productive employment and enhancing social integration (see UNCSD, 1995). The objective of this paper is not to present a step-by-step account of what has been achieved with respect to each of these commitments. Rather, our purpose is first to present the context within which these commitments were made and to explore some of the underlying assumptions about global trends that were common in 1995, and then to examine how these have turned out in light of actual events since the Summit. We also examine some policy initiatives taken up between 1995 and 1999.

## **The Context and Premises of the Social Summit**

### ***Socio-economic conditions***

The Social Summit was an acknowledgement of disturbing developments, mirrored in a range of indicators of social welfare, social relations and social institutions and culminating in what UNRISD then termed “states of disarray” (UNRISD, 1995). In the developed countries, the “Golden Age” of steady growth, full employment and extension of the welfare state had come to an end by the late 1970s. The welfare state was said to be in “crisis”, and a large number of workers were exposed to levels of uncertainty not known since the Great Depression. Unemployment reached levels unprecedented in the post-war period. A new generation was faced with the prospect of never holding a steady job. Inequality also rose in most of the OECD countries during the 1980s and early 1990s: according to UNDP, it grew most rapidly in Sweden, the United Kingdom and the United States (UNDP, 2000). In the developing world, although some countries (especially those in East Asia) enjoyed historically unprecedented rates of growth, the economies of a much larger number of countries stagnated or declined. And in Africa and Latin America, the “lost decades” in terms of economic growth led to serious social problems and further entrenched poverty. The collapse of the Soviet Union suddenly exposed large numbers of people in Eastern Europe to the rigours of markets without the necessary social protection measures that advanced capitalist countries had developed over the years. In an alarming number of countries economic crisis, the erosion of the legitimacy of the public sector, increased competition over diminishing resources, and a growing sense of alienation engendered social conflicts that led to armed struggle and the collapse of states.



### ***The ideological context***

The Social Summit was conceived at the height of neoliberal orthodoxy during which the “Washington consensus” held sway. Many countries were implementing, willingly or unwillingly, stabilization and structural adjustment policies devised by the Bretton Woods institutions (BWIs). The public was being told, with great insistence, that—in the famous words of Margaret Thatcher—“There Is No Alternative” to this orthodoxy; and the collapse of “socialist” experiments seemed indeed to confirm the closure of all other options. The attraction of neoliberalism lay not only in its logical constituency and parsimony of assumptions, but in its political appeal to the conservative politicians who had ascended to power in a number of OECD countries and who exercised inordinate influence in the BWIs. As Bob Deacon (2000) argues, the approach challenged the tripartite welfare settlements among governments, employers and employees that had been created in the post-colonial era, during the period of import substitution. Central principles of the universality of social welfare that underpinned most of the post-war social order were challenged, as “workfare” was proposed as a more viable substitute for “welfare”. The neoliberal case against the welfare state and redistributive policies was reinforced by a seemingly more formidable phenomenon: globalization. For as Ramesh Mishra notes:

Coming after the neo-conservative assault, globalisation appears as one more giant step towards sharp reductions in social welfare programmes and the delivery of social services. The difference, however, is that globalisation provides a far more powerful justification than neo-conservative ideology for retrenching the welfare state. For neo-conservatism at least appears as a matter of political and ideological choice, albeit one which claims to best promote competitiveness and economic growth. Globalisation, on the other hand, appears as an external constraint—not a matter of political choice at all, but rather of economic necessity—so that nationals can do little besides follow the dictates of footloose capital in a downward spiral of deregulation, lower social spending and lower taxes, especially corporate (1996:317).

Even “leftist” interpretations of globalization tended to lead to similar conclusions, suggesting that while the welfare state was functional to the Keynesian/Fordist era in which mass consumption and employment were closely linked, such arrangements are dysfunctional in a world of flexible production and global markets. Both the “right” and “left” versions of dysfunctionality of the welfare state, however, are based on a devaluation of politics, ideology and history. In fact, while the Social Summit insisted on the need for the economy to serve social development, even it still treated the economy as somehow autonomous of society and as something to which all societies must adjust.

Of course this was not the first time national and international actors had to ideologically and practically address problems related to the internationalization of economic activities. The post-war period saw the edification of an international order girded by the Bretton Woods institutions, which assumed that there would be considerable national autonomy in the elaboration of economic and social policies. In the 1970s, developing countries agitated for a New International Economic Order (NIEO) that addressed problems of gross global social imbalance and poverty. Underlying these calls for a NIEO was a belief both in the importance of the nation state and in the possibility for

deliberate collective action to reshape the global order. In sharp contrast to this, the new discourse on globalization postulated a more or less ineluctable process to which individual countries had to “adjust”—or perish. Any attempt to slow down, let alone halt, the process of globalization would be futile.

In the developing countries, nationalist/developmentalist ideologies were severely attacked by the new orthodoxy. Countries were urged to abandon “development planning” and inward-looking strategies, and to adopt open and market-driven development strategies. The “macro-populism” that often coloured developmentalist ideologies was blamed for the fiscal crisis of the state and for the penchant to finance through borrowing, rather than through adjustment (Dornbusch and Edwards, 1992). A number of social measures that accompanied national development policies—subsidized medical services, free education, food subsidies, minimum wages—were abandoned or radically modified to conform to the exigencies of structural adjustment, which was said to be necessary to cope with globalization.

The particular twist given to globalization tended to denigrate national ideologies of social change and to underrate social policy. More specifically, it tended to suggest that notions of equity and social justice were either hopelessly old fashioned or “ideological”, or simply doomed to be swept aside by the inevitable force of globalization. In this sense, globalization either provided an excuse for those who would want to set aside the agenda for equity and justice, or served to demoralize or disarm those who might have sought to use national policies to address these issues. Even more significant is the fact that policy makers at the national level were at great pains to conceal whatever egalitarian inclinations they might have had. One simply ceased talking about equity and poverty, as global markets might perceive this negatively. The need to attract foreign capital further re-enforced the persuasiveness of this ideological posture.

The Social Summit stood against this perception of what was socially desirable and what was collectively possible. Already by the early 1990s, the social ills of unregulated globalization had begun to show; and the crisis of the developed welfare states brought the case of the developing countries against the neoliberal adjustment programmes close to home. On the ideological level, the Social Summit can be read as either defying the tide or as signalling a shift in ideological position. It was, in any case, “the most significant global accord on the need to tackle poverty, social exclusion and social development, North and South” negotiated to date (Deacon et al., 1997:87).

### ***Economic policies and social policy initiatives***

A second feature of the period was the standardization of economic policy. Social policies have generally reflected the overall understanding of development and the macroeconomy, as well as the strategies that have been informed by such understanding. In an earlier period, the elimination of poverty was a central preoccupation of development policies. This entailed removal of a whole range of structural constraints that prevented mobilization and efficient allocation of resources in the developing countries. It entailed addressing issues of human resources—hence the focus on such things as eradication of illiteracy, health campaigns and community development. In

turn, the scale of requisite efforts and the need for co-ordination of such activities required special funding and some form of comprehensive policy framework. Accordingly, “development plans” were drawn up for each country, often by visiting experts. “Development banks”, such as the World Bank and national development banks, were assigned the task of mobilizing resources to finance key investment programmes and projects, and to bridge the gap between the perceived social value of such projects and their profitability to individual producers. In this Golden Age of capitalism, rapid economic growth was achieved in quite a large number of countries. However, by the mid-1970s, it became increasingly clear that the high-growth strategies did not automatically lead to the reduction of poverty through benefits that trickled down from higher to lower income groups. Consequently, new policies to address poverty directly, by ensuring “redistribution with growth”, were proposed. These included integrated rural development schemes, basic needs strategies and so forth. No sooner had these new growth with equity strategies been promulgated than the growth rates on which they were premised disappeared (at least in Africa and Latin America) with the oil crisis and the recession induced by measures to curb inflation in developed countries.

While much of the fairly high economic performance of the 1960s and 1970s was associated with interventionist state development policies, by the 1980s the fiscal crisis of the state (due to debt and the collapse of trade-based revenue sources) and the crisis of the welfare state led to an assault on such interventionism. Many developing countries had to turn to the BWIs for financial support. These institutions often recommended or imposed a fairly standard package of stabilization and structural adjustment, which came to constitute the cornerstones of virtually all macroeconomic policy initiatives in Africa and Latin America during the decade-and-a-half before the Social Summit. Key elements of these packages were the reigning in of the state, freeing-up of markets and opening of the economy through trade and financial liberalization.

Although it was admitted that macroeconomic policies pursued for much of the following decade lacked a “social dimension”, it was asserted that prescriptions could be given a “human face” without fundamentally challenging their theoretical underpinnings. And thus, although in 1990 the World Bank signalled a return to poverty concerns and a departure from the excessive focus on debt management and stabilization, it proposed a strategy for poverty alleviation that assumed its structural adjustment programmes would provide the “enabling environment”—if only governments would get their policies right.<sup>1</sup> The strategy of the World Bank involved adding on to the standard structural adjustment programmes activities that would directly affect people’s welfare. It proposed:

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<sup>1</sup> Although its official statements now call for a change of strategy, the World Bank is still the source of much of the research that argues that the “standard pro-growth . . . basic policy package of private property rights, fiscal discipline, macro stability and openness to trade increases the income of the poor to the same extent that it increases the income of the other households in society” (Dollar and Kraay, 2000:6). The study adds rather ominously that “On the other hand, we find no evidence that formal democratic institutions or a large degree of government spending on social services have any effect on income of the poor” (p. 7).

[a] dual approach to reducing poverty. The elements of the twofold strategy are efficient labour-intensive growth based on appropriate market incentives, physical infrastructure, institutions and technological innovations; [and] adequate provision of social services, including primary education, basic health care, and family planning services (World Bank, 1990:138).

This two-pronged strategy was later given a third prong: social safety nets. The assumption of the World Bank was that SAPs would underwrite the first element of labour-intensive growth. In the axiomatic formulation of the neoliberal policy framework, it was assumed that reliance on the market would lead to more efficient allocation of resources. In labour-abundant economies this would favour the poor by generating employment through the incentives given to labour-intensive activities. From these static allocative efficiency arguments, a leap of faith was made to suggest that “labour-intensive growth” would follow—although, over the years, SAPs have not been associated with high growth rates, nor has the relationship between the various components of structural adjustment and growth been clearly established. Furthermore, the analysis failed to take into account the growing evidence that SAPs themselves contribute to *increasing* poverty through the austerity measures that reduce the state’s capacity to provide essential services, as well as through retrenchment. The period of SAPs has also been a period of regression in terms of income distribution, and one of increasing absolute and relative poverty. Part of this was deliberately triggered. The incentives proposed under SAPs are premised on a shift in incomes toward non-wage earners (mostly owners of capital) so as to provide the requisite incentives for investment. As for the growth and development part, it has become clear that the models of adjustment informed by this orthodoxy are inadequate as a basis for long-term development. During most of the adjustment years, many countries of Africa and Latin America have suffered severe losses in per capita incomes. “Recoveries” have been sporadic and short-lived, dependent on such favourable exogenous factors as terms of trade, weather and external financial flows. The “fundamental” element to which SAPs were tethered was above all stabilization, not growth and development. There is now considerable evidence that macroeconomic reforms have led to slow economic growth, which thus far has not sufficed to offset damage of the “lost decades” of the 1980s and 1990s.

### **“Economic miracles”**

A third feature of the context surrounding the Social Summit was the “Asian miracle”. The year 1995 marked more than two decades of spectacular economic performance by a number of Asian countries, suggesting that unprecedentedly high rates of growth were possible in developing countries and that such growth could go a long way to reducing poverty within a generation. There were, of course, controversies as to what factors lay behind the Asian miracle, over the existence of an “Asian model” and how replicable such a model could be. But it was generally agreed that initial equity or asset redistribution and the high employment elasticity of growth (i.e., the rate of employment as the result of changes in growth of gross domestic product) had played an important role in poverty alleviation in East Asia. The orthodox interpretation was that the Asian experience demonstrated that “export pessimism” behind inward-looking strategies was not well founded. The global environment was indeed an enabling one, and thus domestic policies must have

accounted for the poor performance of many developing countries of Latin America and Africa. Open and “market friendly” policies would lead to rapid growth that was labour intensive and, therefore, poverty reducing. The set of policies needed were said to be quite well established and were available in the form of stabilization and SAPs administered by the BWIs. The capacity for employment generation of the growth process and relatively high levels of equity in East Asia were interpreted as supportive of the standard trade theory view that poor countries would become more egalitarian in the face of globalization, since trade would favour unskilled labour in these countries.<sup>2</sup>

The most controversial assertion of the orthodoxy was that the Asian miracle had been achieved by non-interventionist state policies, a position challenged by research suggesting that the “developmental state” had played an important role (see Amsden, 1985; Chang, 1999; Singh, 1995; Wade, 1991; Woo-Cumings, 1999)—a point the World Bank conceded, albeit grudgingly, in **The East Asian Miracle** (World Bank, 1993). A significant twist given to the Asian experience related to social policy. By comparison with Western countries, East Asian governments are relatively low spenders on welfare, and non-state agents—community, firms and family—have been expected to play a major role in providing welfare within the ideological context in which self/mutual help is encouraged and dependence on the state is discouraged (indeed stigmatized). “Oriental welfarism” essentially meant that welfare was a family or firm affair, with the state providing incentives to both enterprises and families to provide social security and welfare services (Goodman et al., 1998). Prior to the East Asian crisis, it was suggested that such features made these countries exemplary, partly because they were linked to a developmental ideology and practice that subordinated welfare, particularly in the form of progressive redistribution, to the overarching priority of economic development and productivity. In addition, the model imposed a low fiscal burden, allowing public investment to go to directly productive uses. By discouraging dependency on the state, it provided positive work incentives and pressures for work discipline. And finally, funded insurance schemes provided substantial financial resources that could be used for developmental purposes under state direction. Some read this to suggest that comprehensive social programmes were not necessary for good economic performance or that social programmes could be introduced without violating the core precepts of the neoliberal model, a variant of which the Asian model was claimed to be. Economies enjoying high growth rates and rising levels of employment would achieve significant reduction of poverty without state intervention, which, in any case, bore the blame for the distortions that had rendered economies non-competitive and had produced capital-intensive patterns of growth.

A closer look, however, shows that successful NICs pursued social policy that served as a handmaiden to their rapid industrialization. White and Goodman (1998) confirm that Asian NICs are, indeed, low spenders on welfare, but they also point out the important role of the state as a regulator, enforcing welfare

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<sup>2</sup> Empirical evidence suggests the contrary. Jeffrey Williamson (1997) notes that the reduction in equality during nineteenth-century globalization can be attributed more to mass migration than to trade effects. He cites a study of seven countries in Latin America and East Asia which shows that wage inequality typically did not fall after trade liberalization; rather it rose.

programmes without providing direct finance. Moreover, to a significant extent, what would be considered social welfare activities were embedded in the corporate structure that emerged in these countries (following what has been referred to as the “Japanese model”) (Deyo, 1992). This assumption of a social role by the private sector was underwritten or enforced by the state, which provided a wide range of incentives favourable to this particular form of corporate governance.

The East Asian financial crisis of 1997 brought out the negative aspects of this model. First, the crisis has demonstrated that the model was basically pro-cyclical and its viability depended on high rates of economic growth and that, in times of crisis, the system could not provide the social safety nets that welfare systems (with their counter-cyclical features) are supposed to. Second, the reliance on the non-state sector meant that women bore most of the burden, and reinforced male dominance and female dependency. The crisis exposed the vulnerability of family or enterprise welfare systems to sudden shifts in profitability and employment. Built upon successful integration into global markets, the model was vulnerable to external conjuncture. Third, it is important to note that the model thrived in essentially authoritarian contexts and would thus be unlikely to survive. It was a top-down system not anchored in popular democratic demands. Finally, although the Asian model was hailed as one of shared growth, equity in Asia preceded the economic miracle and was the result of major land reform and asset redistribution programmes of the 1950s. During much of the period of high performance, there was evidence of long-term increases in inequality. The financial crisis underscored the regressive nature of the model’s underlying redistributive measures and inequalities.

### **Signs of recovery**

A fourth feature of the period leading up to the Social Summit was related to signs of recovery in the United States, Latin America and Africa. Although the Summit occurred in the year of Mexico’s tequila crisis—with its effect of contagion on financial crises on other Latin American economies—which lowered rates of growth in Latin America, 1995 figures generally showed improving economic performance across the globe (see Singh, 2000). Even Africa, which had “lost” more than a decade, began to show signs of recovery, as economic growth in 1995 exceeded population growth for the first time in many years. Here again, there were disagreements on the nature of the recovery, its policy basis and its sustainability. For the Bretton Woods institutions, it was evidence that SAPs were finally working. A more plausible explanation attributed positive growth rates to favourable external factors—weather conditions, improved terms of trade (see table 1) and increased private and official financial flows to some countries. In terms of financing development, the massive inflow of capital into Asia and Latin America had finally relaxed the financial constraint on development.

**Table 1: Terms of trade in Africa and Latin America (% change)**

	1990–94 <sup>a</sup>	1995–97	1996	1997	1998	1999 <sup>b</sup>	2000 <sup>b</sup>
Sub-Saharan Africa	-1.3	1.9	5.0	-0.6	-9.1	-2.5	3.6
Oil exporters	-2.6	7.7	22.6	1.9	-28.8	-10.4	16.5
Non-oil exporters	-0.4	0.1	-1.1	-0.3	-1.3	-0.1	-0.5
Latin America and the Caribbean	na	na	-0.9	3.8	-4.1 <sup>b</sup>	na	na

Notes: a: average; b: estimate; na: not available.

Source: Jones and Ocampo, 1999

The Social Summit recognized that in order for most developing countries to begin to seriously address poverty, they would have to achieve much higher rates of growth than they were then beginning to enjoy. The concept of “poverty elasticity” has been used to estimate the rate of growth required to reduce poverty to a certain level during a specified time period. For a country whose population is growing at 3 per cent and is characterized by commonly high levels of inequality, growth rates of at least 5 per cent would be required to make a dent in poverty. The recovery surrounding the Social Summit suggested that this facilitating growth would be feasible.

### ***The promise of increased access to private capital***

A fifth feature of the mid-1990s was the importance of private capital in the recovery of some countries. The Summit took place during the upswing of private financial flows to developing countries. In some of the countries, recovery or substantial growth was facilitated by these flows, which also allowed much higher levels of imports than would have been possible on the basis of a country’s own exports. This possibility of bridging the resource gap through increased reliance on foreign capital supported the case for liberalization of the capital account. Indeed, this became an IMF conditionality, despite the absence of evidence that capital mobility allows efficient smoothing of expenditures through the business cycle, or that capital account liberalization is unequivocally associated with high growth rates, or that adhesion to IMF programmes attracts private capital.

More significantly, the surge in private capital encouraged the belief that there was no need for specialized “development finance” and that reliance on the market would generate the necessary capital. The prospect of financing development through private capital may partly have contributed to the relaxation of pressures on the developed countries to increase aid to developing countries, since it seemed obvious that any country pursuing the right policies would have access to foreign capital. Even within the United Nations there was a growing view that “partnerships” with the private sector would mobilize the necessary resources for addressing a wide range of issues related to development. In addition, international financial flows might one day be taxed (Tobin Tax proposals), not only in order to stabilize financial markets but also to finance “global public goods”—including development and poverty alleviation (see the proposals in ul Haq et al., 1998). Such taxes could also solve some of the fiscal problems faced by national governments in the face of

transnational corporations' increased capacity to circumvent national tax regulations, and enhance the policy autonomy of national governments.

## **The Aftermath**

How have these assumptions been borne out by events and developments subsequent to the Social Summit? More specifically, have events and developments provided an enabling environment that would reduce poverty and promote employment?

### ***Ideas and ideologies***

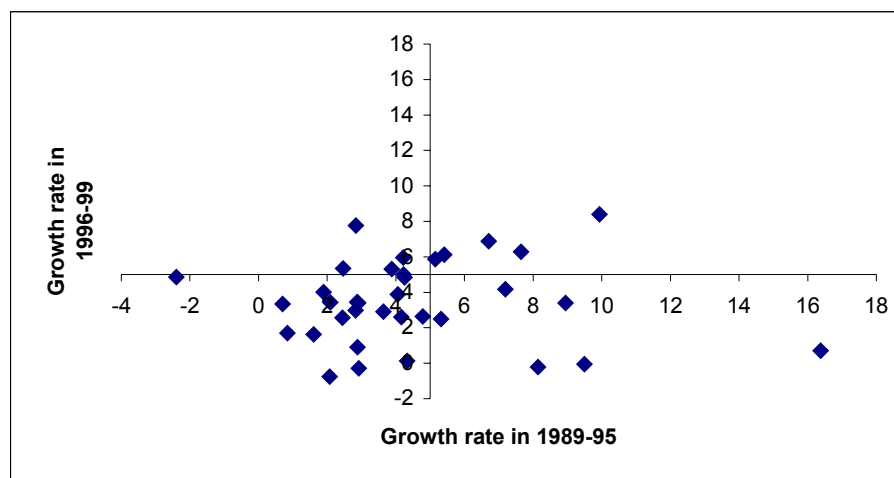
At the ideological level, neoliberalism is today more contested than it was in much of the pre-Summit phase. National-level political developments have undercut neoliberal rhetoric, if not practice. The neoliberal model is increasingly questioned, both in terms of addressing problems of welfare in the developed countries and as a model of development for the developing countries. In light of this growing recognition of the inadequacy of neoliberal orthodoxy as a development model, as well as increasing political opposition to the social blindness of SAPs and the erosion of their theoretical and empirical underpinnings, even BWIs have sought to go beyond the Washington consensus and broaden their agenda to include some critical items of the Social Summit agenda. This enabling ideological shift is one of the major gains of the last five years. Calls for social justice, "globalization with a human face", and solidarity do not sound as outlandish as they did only a decade ago.

### ***Economic and social performance***

We noted above the importance attached to economic growth in poverty alleviation, and the relatively bright prospects of achieving such growth around the time of the Summit, as a broad range of countries witnessed some recovery. However, for most developing countries, the recovery was too slow to adequately address problems of poverty and was dramatically reversed by the Asian financial crisis. While growth rates in some of the Asian countries became negative for the first time in decades, growth rates in Africa and Latin America during the 1996–99 period were below population growth rates, implying falling per capita incomes. The overall picture for developing countries remained basically unchanged. The number of countries enjoying a growth rate of more than 5 per cent was no higher in 1996–99 than it was in 1989–95. Indeed, most countries were still caught in low levels of growth (the lower left quadrangle in figure 1). Out of 95 countries monitored, those countries experiencing a decline in per capita income increased from 14 in 1996 to 32 in 1999 (table 2). Recent projections by the IMF (1999) suggest that most economies are unlikely to reach the growth rates (5–8 per cent) necessary for poverty alleviation (table 3).



Figure 1: Growth rates before and after the Summit



Source: IMF, 1999

Table 2: Growth of per capita output in developing countries, by region (1996–99)

	Number of countries monitored	Decline in GDP per capita				Growth of GDP per capita exceeding 3 per cent			
		1996	1997	1998 <sup>a</sup>	1999 <sup>b</sup>	1996	1997	1998 <sup>a</sup>	1999 <sup>b</sup>
<b>Frequency of high and low growth of per capita output (number of countries)</b>									
<b>Developing countries</b>	95	14	18	40	32	39	34	23	13
<i>of which:</i>									
Latin America	24	5	3	8	9	9	8	4	1
Africa	38	6	8	13	8	14	11	12	6
East and South Asia	18	0	3	10	5	13	12	6	6
Western Asia	15	3	4	9	10	3	3	1	0
<b>Memo items</b>									
Least developed countries	40	12	9	17	14	11	9	7	3
Sub-Saharan Africa	31	5	4	10	5	12	9	9	6
<b>Percentage of population</b>									
<b>Developing countries</b>	95	3.7	9.8	26.7	19.2	73.8	72.1	60.5	53.3
<i>of which:</i>									
Latin America	24	8.2	3.1	55.1	54.4	34.9	37.6	22.1	1.7
Africa	38	12.3	24.3	42.3	24.4	27.5	27.6	24.0	9.7
East and South Asia	18	0.0	6.8	15.9	8.5	93.9	90.9	79.3	76.2
Western Asia	15	16.5	18.5	59.1	59.5	34.9	36.9	9.3	0.0
<b>Memo items</b>									
Least developed countries	40	19.7	13.0	33.6	26.1	52.4	39.9	28.7	6.7
Sub-Saharan Africa	31	19.5	16.5	32.6	27.2	38.0	29.6	17.2	16.4

Notes: a: preliminary estimates; b: forecast  
Source: UN/DESA, 1999:table 1.2

**Table 3: Growth rates in selected regions**

	1997	1998	1999	2000
Industrial countries	3.0	2.5	2.0	2.2
Euro area	2.5	2.9	2.0	2.2
Asian NICs	6.0	-1.50	2.1	4.5
Developing countries	5.7	3.3	3.1	4.9
Africa	3.1	3.4	3.2	5.1
Asia	6.6	3.8	4.7	5.7
Middle East and Europe	4.4	2.9	2.0	3.3
Western hemisphere	5.2	2.3	-0.5	3.5
Transition countries	2.2	-0.2	-0.9	2.5

Source: IMF, 1999

Almost five years after the Social Summit, the most salient outcome of recent economic changes has been stalled social progress and the reversal of some major gains in a number of countries, reflected by the fact that “poverty” has once again become a priority on the development agenda. Simply stated, prospects for poverty reduction will remain quite poor in most regions if post-Summit trends and policies persist. The figures for 1998, which are preliminary estimates, clearly show that both the share of population and the number of people living on less than \$1 per day declined substantially in the mid-1990s, after increasing in the early 1990s (table 4). The same is true for those living on less than \$2 per day. But the numbers increased in the aftermath of the global financial crisis. The decline in numbers is almost exclusively due to a reduction in the number of poor people in East Asia, most notably in China. These significant, albeit partial, gains in the fight against poverty have been partly reversed by the crisis. The dramatic fall in incomes in Asia and the brake on the recovery imposed by the drying-up of private capital flows to Latin America and declining terms of trade for Africa have significantly increased the number of poor. As a result, the overall number of the poor has increased since the Social Summit.

Although slow economic growth remains a major cause of poverty, growth alone does not ensure an improvement in the income or consumption of the poor. Resources and opportunities generated by growth may not be utilized in ways that promote changes in social indicators usually associated with improved social welfare and equity. In various parts of the world, there is considerable evidence that growth has failed to reduce poverty. During the economic recovery of the 1990s in Latin America and the Caribbean, although the proportion of poor households was reduced from 41 per cent in 1990 to 36 per cent in 1997, the region did not recover to the level of 1980 (35 per cent) (Ocampo, 1998). Absolute poverty has not been reduced: an average of 200 million people now live in absolute poverty, compared with 136 million in the 1980s. And in sub-Saharan Africa, the number of people living below \$1 per day has been increasing since the late 1980s, from 217.2 million in 1987 to 290.9 million in 1998 (World Bank, 1999b). In Central Asia and Eastern Europe, the number of people living below \$1 per day also increased dramatically during the 1990s—from 1.1 million in 1987 to 24.0 million in 1998. As for East Asia, the reversal of fortunes—as millions of middle- and

working-class people fall into poverty—has been the most poignant. Thus, for Indonesia, the World Bank notes that assuming no changes in income distribution, the share of people living on less than \$1 per day could increase from 6.6 per cent of the population in 1997 to 16.3 per cent by the year 2000—or from 13 million to 34 million people. “This level of poverty is comparable to that of the late 1980s and early 1990s, meaning that Indonesia could suffer a 10-year setback” (World Bank, 1999b:2). Projections for South Asia, though more mixed, do not seem promising either.

**Table 4: Population living on less than \$1 per day in developing and transition economies (1987–98)**

Region	Population covered by at least one survey (%)	Number of poor (millions)				
		1987	1990	1993	1996	1998 (est.)
East Asia and Pacific	90.8	415.1	452.4	431.9	265.0	278.3
(excluding China)		109.2	76.0	66.0	45.2	55.6
Eastern Europe and Central Asia	81.7	1.1	7.1	18.3	23.8	24.0
Latin America and the Caribbean	88.0	63.7	73.8	70.8	76.0	78.2
Middle East and North Africa	52.5	25.0	22.0	21.5	21.3	20.9
South Asia	97.9	474.4	495.1	505.1	504.7	522.0
Sub-Saharan Africa	72.9	217.2	242.3	273.3	289.0	290.9
Total	88.1	1,196.5	1,292.7	1,320.9	1,179.9	1,214.2
(excluding China)		890.6	916.3	955	960.1	991.5

Source: World Bank, 1999b

The reasons given for this dismal picture vary. In most cases, poor economic performance has played a role. However, even in periods of positive economic growth, very little has happened in terms of poverty reduction. This has been attributed by the World Bank to low “poverty elasticity” of growth, uneven distribution of growth and “poor governance”. Many other observers would point to the fact that any “recovery” or growth in Latin America and Africa has taken place under SAPs, and the regressive distributive impact of such programmes partly accounts for the failure of growth to significantly affect poverty. SAPs have pushed for particular forms of integration into the global system, spawning highly skewed structures of income distribution at the national level. Even in East Asia, a case has been made that the standard austerity package imposed by the IMF in the wake of the financial crisis was unnecessarily deflationary and contributed to dramatic increases in poverty. More disturbingly, the recovery may follow qualitatively different growth paths, likely to involve much less equity than in the past. While in the past programmes to improve health and expand education opportunities were combined with government action to promote investment and broad-based growth, austerity measures are not permitting such a combination of social and economic policy. Although the need for safety nets has been underscored by

the crisis, it is doubtful that the measures being introduced will establish the “virtuous circles” that characterized past economic growth in the region.

### **Access to education and primary health care**

Access to education has been widely accepted as an important measure in the fight against poverty. Impressively, even as economies faltered, overall primary enrolment surged on and, indeed, was the main achievement of the second half of the 1990s, with around 50 million more children enrolled in primary school than in 1990. Regionally, the rates of progress varied. Latin America and the Caribbean together with East Asia, Southeast Asia and the Pacific made great progress in the last decades. According to the **Human Development Report** (UNDP, 1999:179), in 1997 Latin America and the Caribbean had a 93.3 per cent primary enrolment ratio, East Asia (including China) 99.8 per cent, and Southeast Asia and the Pacific 97.8 per cent. These compare favourably with the net primary school enrolment ratio in the industrialized countries (99.9 per cent). However, in South Asia, over 50 million children were not in school in 1995 despite an increase in enrolment from 60 per cent in 1970 to nearly 70 per cent. Differences in primary enrolment can also be noted between urban and rural areas (UNICEF, 1999). In Africa, the picture is quite mixed. Sub-Saharan Africa experienced declines in enrolment rates between 1980 and 1996 (World Bank, 1999b). Net enrolment in 1997 was 56.2 per cent (UNDP, 1999). There were, of course, some exceptions—Botswana, Cape Verde, Malawi, South Africa and Zimbabwe had enrolment rates of 90 per cent or more (UNICEF, 1999:15). However, despite these exceptions, full enrolment by 2015<sup>3</sup> will remain elusive for much of the continent.

It is important to stress that enrolment does not mean completion. In the Latin American case, only two thirds of the children who start the first year of primary school are still there five years later (UNESCO, 1998). In the Middle East, there is a significant gender gap in completion rates for primary school, as more girls drop out. This gap widens for female students in secondary enrolment. Furthermore, nearly a quarter of the region’s women are illiterate, compared with less than 10 per cent of all men. In Central and Eastern Europe, the Commonwealth of Independent States (CIS) and the Baltic states, universal access to free education was achieved by the early 1980s. However, there are still many children out of school. Big declines in enrolment were experienced in Armenia, Georgia, Kazakhstan, Kyrgyzstan, the Republic of Moldova and Ukraine between 1991 and 1995 (UNICEF, 1999).

Although the share of government expenditure on education has, in most countries, remained constant despite pressure for further cuts under adjustment programmes, funds available per student have fallen sharply. The result is that classes are crowded and students are deprived of basic teaching materials. Thus behind improved enrolment rates there is declining quality in education in many countries (see Scott, 2000).

In terms of life expectancy, there was a general improvement in most countries between 1970 and 1997. Nevertheless, life expectancy declined during the first

<sup>3</sup> This was one of the OECD/DAC’s International Development Goals (see OECD/DAC, 1996).

years of transition in Central and Eastern Europe, the CIS and the Baltic states, although this decline appears in most cases to have been reversed (UNDP, 1999). Life expectancy is declining in the sub-Saharan African countries (Tanzania, Uganda, Zambia, Zimbabwe) hit hardest by the AIDS epidemic (World Bank, 1999b).

### **Full employment**

One of the major commitments of the Social Summit was to increase opportunities for employment. This is not surprising, since employment makes an important contribution to poverty alleviation. The picture that emerges five years after the Summit points in the same direction as other key social indicators. First, because of slow growth, employment generation has been rather low in both Africa and Latin America. Until 1997, in contrast, East and Southeast Asia were making progress toward the commitments of full employment and poverty eradication. Since that year, employment levels and wages have fallen sharply in many countries of the region. In the Republic of Korea, for example, real wages of formal sector employees fell 12 per cent between 1997 and 1999. In Latin America, the unemployment rate rose from 7.3 per cent in 1997 to 8 per cent in 1998, the highest level in 15 years (ECLAC, 1999). In the Middle East as well, open unemployment seems to have increased since the Social Summit. Levels of unemployment in the Syrian Arab Republic in the mid- to late-1990s are estimated at 6 per cent, in Yemen at 12 per cent, Jordan at 17 per cent, and Iraq at 33 per cent (ILO, 1999:17). In Central and Eastern Europe, the CIS and the Baltic states, the gap between the countries has widened since the Social Summit. And for Western Europe, a common trend has been the increase of unemployment, which has shown in many cases the inability of governments to create more jobs.

High rates of unemployment have led to the growth of the informal sector. Thus there has been a trend away from the goal of full employment and higher quality jobs. Although this has been attributed to labour market inflexibility, available evidence suggests that the situation is much more complex. In most countries, labour has indeed become more “flexible”, and the labour supply more elastic. Yet increased growth has been accompanied by decreasing real wages, suggesting that the low employment intensity of growth cannot be attributed to rigid labour markets. What we have is not “jobless growth”, as is often asserted, but rather “growthless jobs” (Standing, 1999). In Europe, the jobs that have been created have often been temporary and part-time. The ILO points out that in 1997 “. . . nearly 18 per cent of all EU employees were working part-time and nearly one quarter of them would have preferred full-time work. Part-time workers are predominantly women (over 80 per cent)” (ILO, 1999:23). In Latin America, 8 out of 10 new jobs are temporary or part-time. They usually provide lower wages and worse labour conditions than conventional jobs. This increased informalization of the labour market is a widespread phenomenon, and is compounded by the “feminization” of poorly remunerated activities.

One other negative aspect of the labour market is the widening of wage differentials within countries and industries due to the selective nature of the current growth pattern, which favours skilled over unskilled labour. In most parts of the world, the intensification of trade during the last few years has

raised the demand for skilled labour. In addition, the availability of more capital goods imports has increased the returns to skilled labour. Furthermore, the dominance of large firms in the production of manufactured exports implies less employment creation than would otherwise be expected (ILO, 1999). The situation has led to an increase in income inequality.

The crisis has also led to sharp changes in power relations that have disfavoured wage earners. Under the pressure of widespread unemployment, trade unions have often been compelled to accept a lowering of standards. The weakness of labour movements has led to an erosion of previous gains. Wages lag behind labour productivity. Most welfarist policies have been deemed incompatible with the exigencies of the model of global competition and integration. Governments have sought to increase the employment intensity of growth through:

. . . use of wage or employment subsidies, weakening of protective labour regulations, the greater use of special measures to absorb some of the unemployed into jobs or training and the erosion of unemployment benefits, through tighter conditionality and lower income replacement rates which are supposed to induce more of the unemployed to take low-paid jobs (Standing, 1999:150).

One consequence is that, in most cases, real wages and working conditions remain less adequate than they were in pre-crisis years.

We should also stress the fact that states have shed a number of social responsibilities. In some cases, the proximate reasons for this may be a fiscal crisis and the austerity measures deemed necessary to address it. In addition, current wisdom counsels against the pursuit of expansionary macroeconomic policies by individual nations, as this is likely to trigger capital flight. Unfortunately, the prospects for internationally co-ordinated Keynesian demand stimulation are slim. In most cases, the state has simply abandoned legislation to protect labour. SAP pressures have led many affected countries to remove minimum wage legislation, even in cases where there was no evidence that such legislation raised average wages.

### ***Financial mobility and development finance***

We have already noted the widespread belief at the time of the Social Summit that private financial flows would finally relax the foreign exchange constraint that had bedevilled efforts to achieve rapid rates of growth. And indeed, for a while and in some countries, financial flows supported levels of investment higher than what domestic savings would have allowed. However, it should be borne in mind that most of the high growth/high investment countries were also higher savers, so that the importance of foreign flows may have had much less to do with levels of investment than with access to technology and managerial skills. For most African countries, the gap between savings and investment was bridged by multilateral debt and aid.

UNCTAD (1999) has made important points about the recent role of private capital flows in promoting development.

- The growth of private capital inflows in the 1990s represents, to a large extent, a recovery from the depressed levels of the 1980s,

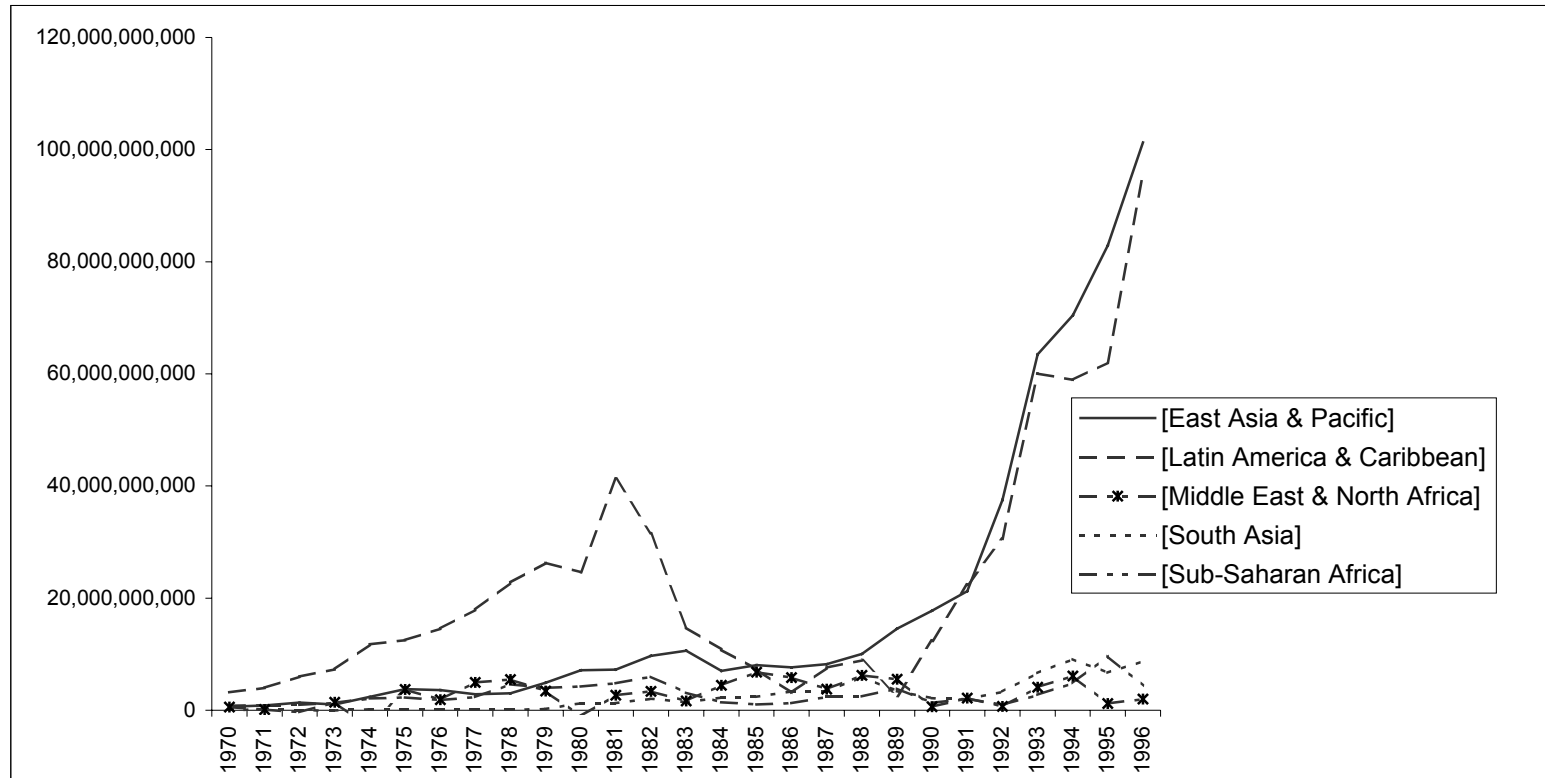
rather than a break with past trends. Compared to the period prior to the debt crisis of the 1980s, there has been no increase in net capital inflows in terms of their share of recipient countries' GNP. Furthermore, the inflows are increasingly concentrated in a small number of developing countries—the so-called emerging markets.

- An increasing proportion of all private capital inflows have been offset by capital outflows—notably short-term outflows—or has been devoted to costly reserve accumulation to safeguard against instability of capital flows and speculative attacks on the currency, rather than being destined to finance current-account deficits. Both phenomena are closely linked to capital-account liberalization in developing countries.
- For sub-Saharan African countries, the trickle of private capital has been more than offset by terms of trade losses.
- There has been a marked increase in the instability of private capital flows to developing countries. Since the beginning of the 1990s, a number of emerging markets have experienced booms and busts in private financial flows, as surges in capital flows were followed by equally sharp reversals of these flows, triggering currency and financial crises.<sup>4</sup> Thus, an important part of the capital inflow constitutes an unreliable source of development finance.
- Finally, while there are reasons to believe that foreign direct investment (FDI) is less unstable than most other types of private capital flow, it is increasingly being linked to mergers and acquisitions, including acquisitions associated with privatization, which can only happen once. It is consequently questionable whether the recent surge in FDI can be sustained over the longer term. Moreover, it is doubtful that inflows associated with one-off adjustments in the portfolios of global investors, made possible by the opening-up of capital markets in developing countries, can be sustained.

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<sup>4</sup> The term “instability” is used here to refer to the boom/bust phenomenon, rather than year-to-year variations. For an account of such crises in emerging markets, see UNCTAD, 1998, Part One, Chapters III and IV.

Figure 2: Private flows to developing countries, by region



Source: World Bank, 1998



One should also add the uneven nature of these flows. During 1990–97, 10 developing countries received more than three quarters of the total flows. (Also see figure 2, which shows private flows by region from 1970–96.) Meanwhile, per capita foreign direct investment in sub-Saharan Africa was under \$5 a year, compared to \$62 in Latin America and \$31 in ASEAN countries. Parts of the developing world were so marginalized from the financial markets that their adherence to BWI policies and the creation of a favourable environment for private capital simply had no effect in reversing their perceived investment “risk”. In fact, there is evidence to show that African countries are systematically rated as more risky than is warranted by underlying economic characteristics. There is also strong evidence that even for those countries that have attracted foreign capital inflows, “push” rather than “pull” factors have played a significant role—i.e., trends in relative returns to investment and “fashions” have often shaped the flows. One consequence has been the herd-like movements of capital. In any event, in “marginalized” countries the important flow of foreign capital came from ODA. This has been falling in real terms, from 0.33 per cent of the GDP of OECD countries in the 1980s to 0.23 per cent in 1998.

A number of social policy questions related to these financial inflows should be raised. Premised as they were on state non-intervention in their allocation and on guarantees by governments or the IMF, these flows had some worrisome attributes. First, they weakened the fiscal capacity of the state and, consequently, the ability to finance social policy. High mobility of assets led to low taxation. Moreover, there is strong evidence that as globalization advances, the tax burden of social insurance programmes is shifted from capital to labour (Rodrik, 1997). This has obvious implications for social service provision, which depends on the fiscal health of the state.

Second, greater reliance on markets entails greater economic volatility. This is presumably the price one pays for the benefits of capitalist dynamism and the allocative efficiency of markets. However, in the current economic order, the costs of such volatility are unequally borne. While the system has established a number of measures to bail out creditors and speculators, innocent bystanders remain unprotected (Binder, 1999). Resolving the bank crises associated with such volatility can be extremely costly. A World Bank study found, for a sample of 14 banking crises, a 5.2 per cent decline in output growth after the crisis. Direct fiscal outlays required to resolve such crises can take anywhere from 1 per cent of GDP in the United States (following the crisis of savings and loan banks in 1989) to as much as 40 per cent in Kuwait. Pressures from international financial institutions compel individual states to give priority to the demands of the financial sector and to undertake such costly bailouts if they are to have access to foreign capital. In contrast, no such bailouts are available to producers, and definitely not to labour.

Third, while most of the developed countries have maintained key features of the welfare system, which has provided some measure of safety for the poor, most developing countries have been pushed toward austerity measures that provide only tattered safety nets, unlikely to hold more than a handful of affected citizens. And in any case, the social problems that entrenchment causes have arisen at precisely the time when the fiscal capacity of the state has not been commensurate with the demands for social provision. Finally, the

need to “signal” to foreign capital that a country is pursuing the right policies has often meant that social policy must be downplayed in public discourse. It is this policy stance that has induced fears of beggar-thy-neighbour policies which can unleash a race to the bottom, as states seek to attract private investments and private investors play one state off against another (Crotty et al., 1998).

### **Targeting the poor**

We noted earlier that an orthodox reading of the Asian miracle obviated the needed for comprehensive social policies to accompany the growth process. Nevertheless, with growing evidence that SAPs were having adverse effects on large numbers of people, the BWIs were compelled to shift their position. Poverty was brought back onto the adjustment agenda, with the IMF compelled to give explicit recognition to the importance of social policy, as the following quote suggests:

The IMF’s growing emphasis on social policy issues has emerged from an explicit recognition that more importance must be attached to equity and the full development of human resources if reform programs are to be viable in the long run.

The IMF’s mandate is to promote international monetary co-operation, the balanced growth of international trade, and a stable system of exchange rates. Fulfilling this mandate is the IMF’s primary contribution to sustainable economic and human development. In pursuing it, however, the IMF has increasingly come to recognize the need to address social concerns—such as rising unemployment, malnutrition, and social marginalization—that arise in the context of macroeconomic stabilization and structural adjustment reforms. This realization reflects two broad trends that have manifested themselves over the past two decades: the emergence of more open and participatory forms of government, and a growing recognition that popular support for traditional adjustment programs has become an essential precondition for their ultimate success.

The IMF has also begun to draw on the theoretical and empirical material casting doubt on the simplistic views about the trade-off between growth and equity and on the importance of human capital to development.

As part of this effort, the IMF focuses on social sector spending of member countries—in particular on health and education—in its surveillance and program activities. This focus reflects recognition of the crucial links between the level and efficiency of health and education spending and economic growth (IMF, 1998).

The two key measures proposed by both the IMF and the World Bank have been (i) social safety nets, which were introduced to address the adverse effects of SAPs, and (ii) “targeting the poor”. Initially, these were viewed as temporary, as the need for them would be diminished by the high employment elasticity of growth associated with structural adjustment programmes. Meanwhile, social policy was intended to enhance the efficiency of resource allocation or to make reform more palatable. The macroeconomic model itself remained unquestioned, although its failure to promote development was increasingly recognized.

The case for targeting has been that, given limited resources, it is important that they reach the poor and are not captured by the well-off, whose needs can be met by the private sector. The privatization of a whole range of social services, including education and health, was supposed not only to relieve the state of a heavy fiscal burden, but also to compel those who could afford to

pay user chargers to do so. In such markets, individuals would be induced to make the right investment in human capital, reflecting changes in demand in well-functioning labour markets. The preference for targeting is rather paradoxical, especially in light of the World Bank's aversion to targeting in many economic activities, such as selective industrial policies or credit rationing in the financial sector. Advocates of such selectivity or rationing have argued that given limited savings or access to foreign exchange in developing countries, it is necessary to prioritize allocation of resources through "comprehensive planning", targeting and so forth. Many industrial and trade policy interventions have been premised on such a case for targeting.

Structural adjustment policies have sought to eliminate such interventions. Arguments deployed against targeting in the economic field revolved around possibilities that it might generate *information distortions, incentive distortions, moral hazards, administrative costs and corruption*. It was asserted that governments did not have the knowledge to pick winners or to monitor the performance of selected institutions. In situations of asymmetric information, beneficiaries of such policies would conceal the information necessary for correct interventions. Selective policies and rationing of credit or foreign exchange produced perverse incentives, making it more rewarding to seek rents than to engage in directly productive activities. Furthermore, there was the ever-present danger of opportunism (moral hazards), and governments could not always guarantee reciprocal behaviour from those to whom it had extended favours. Developing countries were identified with weak administrative institutions, which could not be expected to manage the detailed requirements of selective policies. In addition to the purely technical problems, there was the question of the integrity of public institutions and the commitment of personnel. In such situations, the "targeting" of economic policy was an open invitation to rent seeking and corruption. The solution was "universal" policies—i.e., policies that applied equally to all entrepreneurs by creating a level playing field. Lump-sum transfers or uniform tariffs that applied to all were strongly recommended.

Paradoxically, when it comes to social policy such universalism is rejected on both equity and fiscal grounds. Instead, selectivity and rationing are recommended—apparently in total oblivion of the many arguments against selectivity raised with respect to economic policy. Suddenly, governments lambasted elsewhere for their ineptitude and clientelism are expected to put in place well-crafted institutions and be able to monitor their performance. And yet there is nothing to exclude the possibility that targeting in the social sector may be as complex and amenable to capture as targeting with respect to economic policy. It is definitely the case that the criteria for selection are at least as complicated, as controversial and as ambiguous as those for economic policy. Social indicators are extremely difficult to construct, and poverty itself is multidimensional. Amartya Sen (1999) has raised these arguments against targeting in the social sphere. Asymmetry of information and the attendant moral hazards would always pose the danger of including the non-needy among the needy, or of not including some of the truly needy. Targeting can also have perverse effects on economic activity—for example, when individuals avoid activities that might so improve their incomes that they would no longer be eligible for public support. Targeting makes difficult demands on the administrative capacities of most developing countries and can easily lead to inefficiencies and corruption.

In addition to these problems, Sen identifies two others—*disutility and stigma*, and *political sustainability and quality* (1999). Given the growing attention now being paid to self-respect and empowerment, the danger of stigmatization inherent in targeting is an important policy issue. Furthermore, it is necessary to consider the kind of political coalitions that would be expected to make such policies politically sustainable. The World Bank's approach is based on the assumption that resources can be optimally allocated to the poor, who are essentially viewed as politically passive. Such an approach therefore does not deal with the relationship between targeting and the political economy of domestic resource mobilization. Indeed, it concentrates on the problem of disbursing external resources (aid), and not on that of generating and disbursing domestic resources. The experience in developed and middle-income countries is that universal access is one of the most effective ways to ensure the political support of the middle class for taxes to finance welfare programmes.

In addition, the focus on poverty reduction obscures issues of income distribution and social equity. The creation of a dual structure—one aimed at the poor and funded by the state, and one aimed at the well-to-do and provided by the private sector—not only skirts the political issue of financing public provision but also the problems of incentives and equity produced by such a system, which is likely to consist of a relatively poor quality sector for the poor alongside a second more modern “internationalized” system (see Deacon, 2000). Another likely result will be the siphoning-off of human resources from public sector social services to the private sector. (see Solimano, forthcoming).

Finally, we should bear in mind both the haphazard nature of much targeting and its weak resource base. As UNDP notes, most targeted interventions have had to do with emergencies. Many were responses to breakdowns—financial crisis, prolonged recession, drought, external shocks, or population displacement due to internal conflicts. “All these programmes are dealing with poverty after the fact, holding the line against further deterioration. They have not been designed, at least originally, to eradicate the roots of poverty, which can persist even under conditions of prosperity” (2000:13). And they are rarely funded on an adequate and sustainable basis.

### ***New aid initiatives***

Critics of structural adjustment have pointed out that short-term adjustment policies are undermining long-term development prospects by destroying the social capacities of the affected societies, undermining the legitimacy of the state, reducing social and physical investment, and worsening income distribution, which together serve to accentuate conflict (Stewart, 1994). Excessive focus on stabilization and neglect of many other development fundamentals—such as investment, human capital and political stability—have exposed orthodox stabilization and adjustment programmes to widespread criticism. Partly in response to this criticism, and to the obvious failure of adjustment either to address problems of poverty or to place economies on a long-term growth path, the World Bank has begun to shift its focus toward poverty alleviation and to justify its support to social sectors on developmental grounds. Indeed it has gone as far as to propose a Comprehensive

Development Framework that considers “structural, social and human aspects” of development (Wolfensohn, 1999). Through this framework, the Bank seeks to move beyond discreet projects and programmes or indicators of economic performance and human capacity to address the ensemble of “fundamental long-term issues of the structure, scope, and substance of societal development.” More importantly, the framework treats structural and social concerns equally and contemporaneously with macroeconomic and financial concerns.

There are some puzzles in all this, which produce a sense of *déjà vu*. The case for “development planning” in pre-adjustment years was argued along the same lines of the need for a “holistic approach” to development and for co-ordination of different projects to address the many co-ordination failures in markets in developing countries. The debates on “balanced” or “unbalanced” growth linkages, externalities, and forward and backward linkages were all about this. National development plans were to provide the framework through which aid would be channelled to address these developmental issues, which were understood to be closely interrelated. Much of development planning was abandoned in the 1980s for a host of reasons, including ideological aversion to state intervention implicit in planning, increased reliance on markets, egregious failures of some planning exercises, and so forth. One argument for the abandonment of comprehensive development planning was that governments in the developing countries lacked capacity for such a complex task.

The Social Summit devoted considerable attention to the state, not because it is the only agent of social change but because of the more or less explicit tasks spelled out for it in the Programme of Action. This, of course, entailed enhanced capacity in terms of financial resources, administrative capacities and social embeddedness. Such capacity was to be deployed through democratic processes that ensure respect of human rights. While democratic institutions constitute an important element of the restructuring the state, however, it is important to bear in mind that their inclusiveness in terms of social class, gender or ethnicity will depend both on the design of these institutions and the political agenda of the key social actors using them.

In another significant reversal of previous policies, the World Bank now concedes a much more important role to the state than it has in the last decade and a half. It argues that this involvement by the public sector is justified on both theoretical and practical grounds to improve equity, through securing access by the population to health, nutrition and reproductive services; and to promote efficiency, by correcting for market failure, especially where there are significant externalities or serious information asymmetries. But this concession comes after years during which the adjustment process was premised on the reigning in of the state, which condoned a devastating weakening of the capacity of the state. There is thus the obvious danger that the new agenda will overburden much-weakened states. In the absence of efficacious national institutions, the temptation to draw up new “comprehensive plans” in donor countries will be enormous. The conditions required to gain access to debt relief under HIPC, as well as the countries that have thus won this status, suggest that the core model of adjustment retains all its orthodox characteristics—i.e., it is conditionality-based and technocratic.

Other new approaches have been advocated by the OECD Development Assistance Committee (DAC), which, after recognizing that free markets could not function effectively without an “intricate web of institutions”, has shifted its discourse on aid toward overall social and political development. In May 1996 DAC adopted “people-centred development” in a document titled **Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation**. The basic principles of this approach are:

- a shared vision, defined by measurable goals of economic well-being, social development and environmental sustainability;
- effective partnership, with basic changes to be implemented through compacts that allocate responsibility, reinforce local ownership, strengthen local capacities and foster participation and self-reliance;
- qualitative foundations, such as democratic accountability, the protection of human rights and the rule of law, as essential to the attainment of the more measurable goals; and
- recognition of the need for coherence between aid policies and other policies that affect developing countries.

These intentions point in the right direction and are in the spirit of the Social Summit. At the moment, they are merely statements of intention and will ultimately depend on what individual donor countries do, and on their relationship with individual recipients. In contrast to this view of aid is the view that aid in general, and debt relief in particular, should be based on the sustained pursuit of “good policies” as defined by the BWIs. The current discourse on the HIPC initiative (as well as other aid initiatives) suggests that access to debt reduction will be contingent upon pursuing the “right” macroeconomic policies and allocating national resources to poverty measures. This, of course, raises the vexed question of conditionality and poses the danger of re-enforcing technocratic styles of governance, in which experts from donor institutions basically call the shots, oblivious of domestic policies or democratic institutions (Bangura, 2000).

However, juxtaposed with good intentions is declining ODA. The World Bank reports that net concessional assistance to developing countries totalled \$32.7 billion in 1998, \$12 billion below the 1990 level (World Bank, 1999a). Net disbursements of concessional assistance in 1998 to all developing countries totalled only about one sixth of the amounts pledged (and just over half of the amounts disbursed) under rescue packages to Brazil, Indonesia, the Republic of Korea, Russia, and Thailand. The share of net ODA in the GNP of the DAC countries declined to 0.22 per cent, compared to 0.35 per cent in the mid-1980s. Only four countries—Denmark, the Netherlands, Norway and Sweden—exceeded the United Nations target of 0.7 per cent of GNP in 1997, with Norway close to 1 per cent of its GDP. Among DAC donors, Japan recorded the highest net ODA in 1997 (\$9.4 billion, 0.22 per cent of GNP), followed by the United States (\$6.2 billion, 0.09 per cent of GNP), France (\$6.3 billion, 0.48 per cent of GNP), and Germany (\$5.9 billion, 0.28 per cent of GNP). According to World Bank statistics, the decline in ODA in recent years has been driven by the largest DAC donors—ODA flows from the G-7

countries have declined by \$5.2 billion (12 per cent) since 1995, and represented only 0.19 per cent of their combined GNP in 1997. By contrast, ODA from non-G-7 countries has remained stable in nominal terms and averaged 0.46 per cent of their combined GNP in 1997. ODA rose in real terms in 1997 in 12 of the 14 countries in this group. The DAC data on ODA do not include assistance provided to the transition countries of Eastern and Central Europe (see figure 3 and table 5).

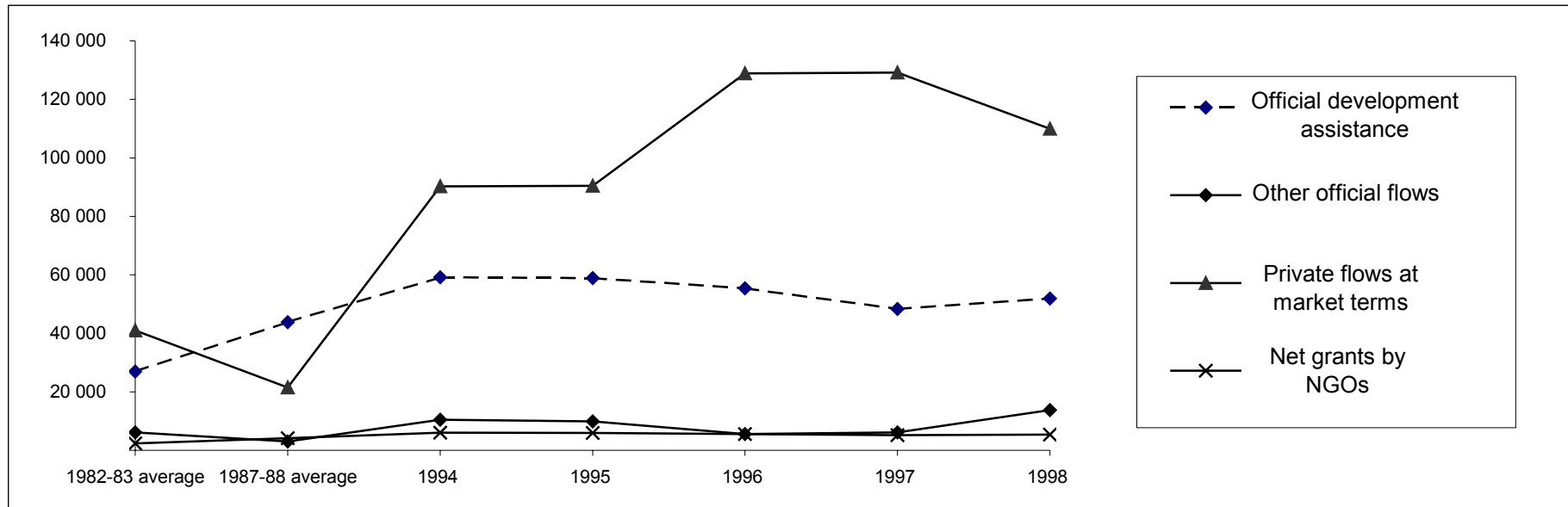
**Table 5: Net official long-term flows to developing countries, 1990–98  
(\$ billions)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998 <sup>a</sup>
Official development finance	56.9	62.6	54.0	53.3	45.5	53.4	32.2	39.1	47.9
Concessional finance	44.8	51.0	44.0	41.5	45.8	44.7	40.1	33.4	32.7
Grants	29.2	35.3	30.5	28.3	32.4	32.3	28.9	25.7	23.0
Loans	15.6	15.7	13.5	13.2	13.3	12.3	11.2	7.7	9.7
Bilateral	9.6	9.3	7.0	6.7	5.6	5.1	2.9	0.2	2.8
Multilateral	6.0	6.4	6.5	6.5	7.8	7.2	8.2	7.4	6.9
Non-concessional finance	12.1	11.6	10.0	11.8	-0.3	8.8	-7.9	5.7	15.2
Bilateral	2.9	3.9	4.5	3.4	-2.5	5.0	-12.7	-8.0	0.8
Multilateral	9.2	7.6	5.5	8.4	2.3	3.7	4.8	13.7	14.4
<b>Memo items</b>									
Use of IMF credit	0.1	3.2	1.2	1.7	1.6	16.8	1.0	14.7	21.0
Technical co-operation grants	14.3	15.9	18.0	18.6	17.3	20.6	19.4	17.0	16.1

Source: World Bank, 1999a

Note: a: preliminary

Figure 3: Net flow of financial resources from DAC countries to developing countries, by type of flow



Source: OECD/DAC, 1999



Every region has experienced a sharp fall in concessional flows relative to GNP since 1990, with the exception of Europe and Central Asia where concessional flows rose in the early 1990s following the break-up of the Soviet Union (see table 6). In the World Bank's view, aid continued to fall just as improvements in policy regimes were enabling countries to use aid more effectively (World Bank, 1999a).

The Bank summarizes the emerging long-term trends as follows:

- Net concessional flows remain depressed, and are now one third below 1990 levels in real terms. Despite a few positive developments in 1998, the prospects for recovery remain poor.
- The downward trend in aid flows comes at a time when the conditions for aid to be effective appear to be improving. Several low-income countries are making important advances in policy reform, and recent studies have found evidence that aid is successful in reducing poverty in countries with sound economic management. Reallocating the current level of aid only to countries with good policies and large numbers of poor people could substantially increase the number of people who escape poverty. The fungibility of aid means that donors need to consider the adequacy of the overall expenditure programme in determining whether aid is effective.
- Substantial progress was made over the past year in assisting the poorest developing countries to achieve sustainable debt levels through the HIPC initiative. But a large number of countries remain to be considered, including several that are experiencing, or just emerging from, civil conflicts. The HIPC initiative can strengthen the effectiveness of aid by supporting countries with a solid track record of policy performance.

**Table 6: Regional allocation of concessional flows, 1990–98**

	Regional share				Share of total aid as a share of GNP			
	1990	1996	1997	1998	1990	1996	1997	1998
East Asia and Pacific	16.7	13.5	14.7	15.6	0.8	0.3	0.3	0.3
Latin America and Caribbean	10.0	10.2	9.0	9.8	0.4	0.2	0.2	0.2
Middle East and North Africa	19.2	12.0	11.7	10.7	1.8	0.7	0.6	0.5
South Asia	11.8	10.5	8.4	12.5	1.4	0.8	0.5	0.7
Sub-Saharan Africa	37.1	35.4	39.2	38.8	6.0	4.6	4.1	3.8
Europe and Central Asia	4.9	18.5	17.1	12.5	0.2	0.7	0.5	0.3
All developing countries	100.0	100.0	100.0	100.0	1.0	0.6	0.5	0.5

Source: World Bank, 1999a

## **Debt relief**

The most significant new departure in debt relief for highly indebted countries has been the HIPC initiative. Much has been written about the appropriateness of the selection criteria for countries deserving such relief; on the adequacy of the amounts involved and on the speed of disbursement of such relief. Perhaps more significant than these considerations is the fact that to qualify for HIPC assistance countries have to implement standard structural adjustment policies as prescribed in the Enhanced Structural Adjustment Facility (ESAF). These policies have been clearly shown to be non-developmental in their thrust, given their excessive focus on stabilization. Indeed what is being suggested is that countries should intensify the implementation of reforms whose appropriateness is now widely questioned, even by institutions that have supported them for years.<sup>5</sup> Only when this is done will countries obtain funding.

At the same time, active social policy against poverty is a major component of HIPC conditionality. Yet there is obvious underestimation of the ease of transition from the ESAF model to the presumably more socially conscious model to be funded by debt relief. Two decades of adjustment have seriously eroded the capacity of the state to carry out comprehensive social policies. The administrative capacities of ministries of health and education have been left to wither; national planning agencies that thrived in the 1960s and 1970s have been either disbanded or marginalized. Although the current focus on “capacity building” constitutes an implicit recognition of the destructive nature of the anti-statist stance, it generally underestimates the extent of the destruction and the enormous costs of recreating the capacity and rebuilding the *esprit de corps* of the public sector.

## **Global arrangements**

For the global economy as a whole, there has been growing concern that the volatility of the system not only poses serious economic threats but also overtakes the political arrangements and social fabric of many countries. Consequently, following recent financial crises, much has been said about the need for a new “global financial architecture”. However, most of these debates have been confined to issues of the *stability* of the system and have eschewed addressing issues central to the Social Summit. There is thus complete silence on the “social developmental architecture” expected to accompany the restructuring of the financial system, even though globalization has led to volatility not only in financial markets but in product and labour markets as well. The present financial architecture does not allow individual countries to adopt Keynesian measures of reflating the economy to combat recession without provoking capital flight. The fear of speculators forces governments to adopt deflationary policies: increasing interest rates, raising taxes, cutting spending. There is no consideration in the current debate on the global financial architecture of new elements that would allow more room for individual states to address such social problems unilaterally.

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<sup>5</sup> Joseph Stiglitz’s (1998) call for going beyond the “Washington consensus” was one of the strongest reminders of the need to change course. James Wolfensohn (1999) has also called for a new policy framework that encompasses a much broader range of “fundamentals” than the standard SAPs.

The Social Summit's commitments were made in a context of growing globalization and the realization that there was a need for rethinking global governance in the direction of institutions that would ensure better *social* performance by both national governments and global institutions. The question, as posed by Ajit Singh (2000), is whether these proposed new institutional arrangements strengthening liberalization and globalization are likely to help or to hinder the achievement of the Summit goals of full employment and poverty reduction. In the absence of fundamental rethinking of economic policies in line with a new social concern and understanding of social policies, it is unlikely that economic policy will produce the necessary global conditions for realization of the Summit goals.

## Concluding Remarks

This analysis suggests that the “enabling environment” for implementing the major commitments of the social Summit is not yet in place. Economies have yet to reach a high growth path that can make a dent in poverty. And although there have been a flurry of new initiatives with respect to institutions for and financing of poverty alleviation, instruments remain insensitive to distributional impact and assume that corrective measures will lie elsewhere. In most cases, their relationship to policy packages that have contributed to economic and social malaise has not been clearly spelled out. The current focus on poverty and its link to HIPC debt relief—which, in turn, is tethered to adopting structural adjustment policies that have failed as development models—are not associated with a strategy that clearly indicates how investment will be stimulated to ensure growth. There is indeed the danger that the policies introduced will lead to unsustainable poverty alleviation measures, focused as they are on the use of foreign aid and not on generation and mobilization of domestic resources and investments. The narrowing of options within SAP, accompanied by an idiosyncratic interpretation of what global market forces “want”, tends to support the minimalist perception that the reduction of absolute poverty is the only valid concern for social policy. The current focus on poverty also risks compromising the larger developmental tasks that will ensure sustainable decent living standards for all. Obviously, the exclusion of other aspects of social policy implies ignoring the moral imperatives of distributive justice, as well as recognition of the fact that social policies can facilitate sustained economic growth and development (Solimano, forthcoming).

The separation of social from economic policy is partly explained by an economic theorizing that separates distribution from efficiency issues. Yet there is a growing literature in economics suggesting the close interrelationship between distribution and efficiency issues. Much of this literature emphasizes the prevalence of imperfect information and imperfect market perspectives, and thus challenges the assumption of perfect competition that has informed much of the Washington consensus. These more realistic models seek to deal with the realities of monopolies, incomplete markets for present and future goods, incomplete and asymmetric information, and increasing returns to scale. New growth theories have also drawn upon some of these assumptions, and proposed serious reconsideration of social welfare as a major input in “human

capital”—one of the major determinants of growth. From this perspective, distribution and social policy become integral to the overall analysis, not additions to be considered once stabilization, efficiency and growth have been established. At the same time, one needs to consider not only the distributional implications of growth, but also the *growth* implications of different patterns of growth. In other words, growth and distribution have to be considered simultaneously.

There is also a clear danger that, in the absence of fundamental questioning of the premises of the dominant economic policy package, measures intended to mitigate the now widely admitted negative social consequences of the orthodox policy package will fail. Simply attaching social policies or safety nets to unreformed SAPs creates a Sisyphean task, since gains made through one set of policies are eroded by losses from others. What is clearly necessary is social policy that no longer serves as a handmaiden to socially flawed economic policies, but is an integral part of the development model itself. It is now widely accepted that many objectives of social policy constitute key instruments of development, because they enhance the productive capacity of society, improve the efficiency of institutions (including markets) and ensure social stability.

Finally, we noted how globalization has been posited as an ineluctable, technology-driven process to which countries must adjust—or perish. Such a view needs to take a number of factors into account. The first of these is the possibility of reversal in the direction of change. The second is conspicuous opposition by organized groups, including those voicing nationalist, sub-nationalist and strident ethnic claims. The third is the fact that globalization is still very much embedded in national institutions, without which most of the key processes associated with it would probably not survive.<sup>6</sup> And finally, there are simply no structures of global governance that can enforce many of the rules, or implement the social policies, associated with modern government. To this one must add the absence of global institutions that meet the demand for democratic governance, which is still largely a national practice and highly valued.

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<sup>6</sup> In the words of Saskia Sassen, “The strategic spaces where global processes are embedded are often national; the mechanisms through which new legal forms, necessary for globalisation, are implemented are often part of national state institutions; the infrastructure that makes possible the hypermobility of financial capital at the global scale is embedded in various national territories. This partial embedding of global dynamics in national territories in a context of exclusive territorial authority by the national state signals a necessary engagement with the national state” (Sassen, 1998:29).

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