



AALBORG UNIVERSITY
DENMARK

Aalborg Universitet

The State and Civil Society

The Political Economy of the "New Social Policy"

Bienefeld, Manfred

Publication date:
1997

Document Version
Publisher's PDF, also known as Version of record

[Link to publication from Aalborg University](#)

Citation for published version (APA):

Bienefeld, M. (1997). *The State and Civil Society: The Political Economy of the "New Social Policy"*. Institut for Historie, Internationale Studier og Samfundsforhold, Aalborg Universitet.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- ? Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- ? You may not further distribute the material or use it for any profit-making activity or commercial gain
- ? You may freely distribute the URL identifying the publication in the public portal ?

Take down policy

If you believe that this document breaches copyright please contact us at vbn@aub.aau.dk providing details, and we will remove access to the work immediately and investigate your claim.

DEPARTMENT OF DEVELOPMENT AND PLANNING
AALBORG UNIVERSITY
FIBIGERSTRAEDE 2
DK 9220 AALBORG Ö
DENMARK

ISSN 0904-8154

**The State and Civil Society: The Political Economy
of the “New Social Policy”**

by

Manfred Bienefeld

DEVELOPMENT RESEARCH SERIES
RESEARCH CENTER ON DEVELOPMENT
AND INTERNATIONAL RELATIONS (DIR)

TEL. +45 96 35 80 80
FAX. +45 98 15 32 98

WORKING PAPER NO. 60

December, 1997

The State and Civil Society: The Political Economy of the “New Social Policy”¹

Manfred Bienefeld*

Summary and Overview

A “New Social Policy” (NSP) is rapidly becoming the norm throughout Latin America. More decentralised, more flexible and allegedly more efficient, it is widely hailed as a major advance that promises to deliver more appropriate services with better economic and social consequences even under difficult economic conditions. But how and why has this new approach to an old problem suddenly come to occupy centre stage in so many countries around the world? And is it likely to live up to the claims being made on its behalf? These questions are addressed in this brief paper at a broad historical level, in the hope that this will provide a suitable background to more detailed discussions of the strengths and weaknesses of this approach in practice.

The paper begins by noting that the empirical and the theoretical foundations of the claims being made on behalf of the NSP, are generally very weak. This rules out the possibility that this change is the result of a collective learning experience that has yielded a deeper understanding of the issues and allowed objectively superior social policies to be designed. And that conclusion necessarily focuses attention on the more political aspects of this policy shift, leading to a discussion of the interests that have promoted and supported it most vigorously. These turn out to be the same corporate interests, and the same international financial institutions, that are promoting neoliberal adjustment policies throughout the developing world.

This conclusion serves as the point of departure for a discussion of the meaning and the significance of the NSP; a discussion that is largely concerned to determine how much of the debate surrounding this new model is best regarded as politically convenient rhetoric, and how much is really concerned with improving our capacity to alleviate the suffering of society’s most vulnerable groups. Given the ambiguity of the supporting evidence, and the declared political priorities of the NSP’s most ardent supporters, it is not surprising that this discussion should conclude that rhetoric undoubtedly plays a very large role. But if the widely stated concern about

* Manfred Bienefeld is professor in the School of Public Administration at Carleton University, Ottawa, Canada. He was visiting professor at Research Center on Development and International Relations, Aalborg University in May 1997 where he gave a number of seminars, conference key-note and lectures on globalization and social change and issues of development and political economy.

the urgent need to protect the vulnerable is largely rhetoric, then one must ask why these interests are supporting the NSP.

Three explanations are considered, bearing in mind that these are not mutually exclusive and that each probably has some claim to a share of the truth. The first sees the NSP both as a holding action designed to create the illusion that “something is being done” and as an effective means of dividing the opposition (decentralisation, local self-reliance), opening the door further to ultimately unaccountable foreign interests (promoting NGOs) and making the victims of neoliberalism take responsibility for managing a social policy process that is most likely to fail (“empowerment”!).

Of course, this entire discussion should have been prefaced by an acknowledgment that many of those who promote the neoliberal model would be genuinely happy to see the vulnerable protected by the “trickle down” effect, as the prosperity that they expect this model to deliver, is diffused through society. Unfortunately, it is precisely because that has not been happening, that there is a need to make poverty alleviation a serious policy priority, and this is what the ideologues of neoliberalism, and those who benefit so massively from their “model”, have generally refused to do. Indeed, from this perspective the NSP can be seen as an attempt to avoid the need to make such a difficult political choice since it suggests that these welfare problems could be resolved within the confines of the neoliberal model, with some better targeting and the fuller engagement of something called “civil society”.

A discussion of the “basic needs” debate of the seventies provides some historical perspective for these recent events. At that time concerns about the persistence of poverty were appropriated and de-politicised by the international financial agencies and the major aid donors. Rejecting suggestions that a fundamental review of the neoclassical development model and some difficult political decisions were needed to deal seriously with this problem, the Bank and its supporters developed a “basic needs” strategy which claimed that the problem could be addressed within the context of the existing growth model, simply by means of better targeting and some modest redirection of resources. Of course, that same neoclassical development model was promoting the speculative financial flows that would lead to the debt crisis at that same time. And, when that debt crisis arrived in 1982, the concern with basic needs vanished from the World Bank’s policy agenda. The same institution that had so recently claimed that this to be one of highest policy priorities would acknowledge in 1986 that the welfare implications of the structural adjustment policies that it advocated in response to the debt crisis had “not been considered” up to that point. In short, despite the voluminous rhetoric, it seems that poverty alleviation was not a high priority after all. Moreover, in retrospect it seems that the main effect of the basic needs initiative was to deflect the demand for more radical action, and this was undoubtedly an

important explanation of the sudden widespread popularity of the poverty issue in the international financial institutions.

The NSP debate echoes these earlier events, though under far more difficult circumstances since there is less "fat" to be cut and therefore less room for manoeuvre at the end of the "lost development decade". Without doubt, the popularity of the NSP initiative is related directly to the fact that it is reinforcing and protecting the neoliberal policy process at a time when it is dispossessing the people of Latin America of rights, powers, resources, institutions and even of concepts whose loss will ultimately hinder the prospect for genuine national development. By fuelling centrifugal forces that undermine national cohesion; by pitting local communities and groups against each other; by giving the people responsibility but little power or resources; and by reinforcing the attack on the state and the public sector, the NSP reinforces the neoliberal strategy of creating a level global playing field on which giant global corporations can "compete freely and on equal terms" with the peasants of Chiapas and the informal sector vendors of Bogota. And it perpetuates the myth that the associated welfare losses can be managed by some better targeting and more popular participation.

Of course it is just possible that this monumental gamble could be won; that the neoliberal model will actually produce an explosion of prosperity and stability so that vulnerable groups could be effectively protected and the need for social policy measures could be reduced to manageable levels because the economy was managed in a way that created stable, well paying jobs for most people and households, providing them with an adequate income and a degree of economic security. However, the current situation in Latin America is not compatible with this hypothetical scenario. Indeed, the casualisation of labour, the explosive growth of the informal sector and the uprooting of peasant communities appear to be the neoliberal model's defining characteristic. But if these trends continue then the need for social assistance will grow dramatically and overwhelm the good intentions of the NSP, just as the debt crisis once overwhelmed the good intentions of the basic needs initiative.

These fears are doubly justified once one understands that Latin America's current social and economic situation is being distorted by the arrival of an unprecedented flood of foreign capital that dwarfs the inflows of the late seventies. As in the seventies, this is boosting growth rates and revenue streams in the short run, but its longer term implications are far more problematic for two main reasons. First because the impact of these inflows on the real economies of Latin America is highly problematic since much of this money is highly speculative and mobile and since it is so often used simply to gain control over existing firms, resources, services, technologies and utilities. And secondly because these flows reflect a global financial situation that is utterly unsustainable and that must collapse sooner rather than later. The question is not whether, but when.

In the meantime, Latin Americans need to think seriously about how their countries will be able to respond when the next global financial crisis disrupts these flows, as it surely will quite soon. Having undermined and weakened their public sectors; sharply reduced the moral authority of their governments; sold off their most valuable resources and utilities; locked themselves into highly restrictive international agreements; and decentralised their domestic political systems, they will have fewer levers with which to manage, or to moderate, the social and political consequences of such developments. One can only hope that their elites will not respond simply by reiterating their commitment to the logic of the global market at whatever cost, and then argue that the human costs are the inevitable result of “surplus population”.

Parallels with the late seventies are both relevant and disturbing. That period was also marked by large and often speculative financial flows that produced economic growth and improvements in wages and social conditions, although it should be noted that much smaller flows produced much more significant improvements. As today, the official mood was euphoric. Even short trends were foolishly extrapolated while countless experts competed to see who could predict just how soon the main Latin American economies would join the ranks of the developed countries. But the eighties reminded everyone: that there is a world of difference between genuine development, and the ability to grow rapidly for a time based on large capital inflows; and that those inflows can be turned from “promises of prosperity” into “stifling burdens of debt” from one day to the next, and for reasons largely outside of the control of the receiving country. And that is still so today.

To conclude, this paper argues that the NSP is unlikely to protect the vulnerable significantly; to empower people or communities; or to enhance the efficiency of social service delivery. By that will not reduce its popularity in certain circles, since that rests on other characteristics, including: its ability to fragment political opposition by undermining coherent national responses; and its ability to make the victims of neoliberalism appear responsible for the failure of the vestigial social policies that remain under such a regime, by making “the people” (or “civil society”), responsible for their administration.

This does not mean that the principles on which the NSP is based are inherently undesirable. Indeed, the final section of this paper shows that many of those elements are potentially positive, and that, in the right context, they could undoubtedly contribute to the development of more effective and responsive social policy regimes. But in order for that to be understood, it is necessary to reclaim concepts like self-reliance, community empowerment and popular participation from those who would ignore their political content and treat them as managerial issues. To start that process, one might ask: If self-reliance is important at the local level, then why is it not important at the national level? And, if it is important that local communities design and implement social policy, then why is the heavy involvement of international institutions, and

of sectarian NGOs, in this process not a problem? And if responsibilities are to be radically decentralised in the social policy field, then how is one to build a sense of citizenship and of national identity that is strong enough: to contain the centrifugal forces of the market; to allow taxes to be collected, and contracts to be enforced, effectively and efficiently; and to enable one to legitimise subsidies that moderate inequalities, protect social cohesion and provide a degree of social security commensurate with a society's values, culture and institutions?

It is high time that the social policy debate, like the development debate more generally, return to these fundamental questions, instead of obscuring them behind ideological assertions about the alleged inevitability, or the universal efficacy, of particular social or economic policy regimes. But that is clearly a question of power, since the intellectual foundations of such claims are so clearly and utterly inadequate.

The Theoretical and Empirical Foundations

The NSP is designed to protect vulnerable groups in a difficult fiscal and economic environment when public sectors are being systematically scaled down. It makes a virtue of necessity by suggesting that this should not be regarded as a negative development forcing societies to shift to inferior policies that reduce existing commitments to protect their more vulnerable members, but as an opportunity to adopt a more desirable social policy model focusing on empowerment, decentralisation and democratisation. This model will allegedly deliver "more for less" because it will break the strangle-hold of vested interests that have been able to use highly bureaucratised social welfare systems to subsidize the middle classes and to marginalise and disempower the poor by reducing them to passive recipients of inadequate and inappropriate benefits that often added injury to insult by also generating significant disincentive effects. In contrast, the new model will empower people and communities by decentralising the policy process so that both the making and the implementation of policy are brought closer to the people. It will reduce bureaucracy and enhance the system's responsiveness and flexibility by shifting responsibility for many functions from the state sector to civil society and, in particular, to community organisations and NGOs. And it will use targeting and increased surveillance to ensure accountability, so that the limited available resources will assist only those in real need, while minimising disincentive effects or "leakages" to people who do not meet the eligibility criteria. Thus, the NSP is said to lay

stress on appropriateness, decentralization, self-reliance, popular participation, sustainability, building up local institutions and getting rid of excessive and repressive bureaucracies (Moser: World Bank 1991).

It is, of course, difficult to disagree with such high minded and laudable objectives, but to understand the significance, or the meaning, of these extravagant claims we must begin by examining their theoretical and empirical foundations.

The theoretical rationale is rooted in public choice theory, which emphasizes the potentially chronic principal-agent problems that can be associated with state institutions because politicians (the principals) have difficulty in getting self-interested bureaucrats (the agents) to carry out their wishes, or to put out adequate effort. Within this context, this approach focuses on the likelihood that centralised social services, designed and delivered by the state will lead to large allocative efficiency losses, strong disincentive effects and increased dependency, as the capacity of vulnerable groups to make their voices heard is effectively stifled. However these theoretical concerns cannot justify the downsizing of the public sector until one has exhausted the possibilities of improving the performance of the public sector and has compared the problems associated with the public sector provision of social services, to those associated with alternative models such as the NSP.

The theoretical case for the public provision of social services is well known and ultimately rests on the fact that social cohesion, social stability and social justice are public goods in which all societies would be well advised to invest for political, social and economic reasons, quite apart from the ethical or cultural reasons that often provide the rationale for such investment. Public resources are required for this purpose because such public goods will not be adequately provided by private investors since benefits are widely diffused, making it difficult for recipients to be charged or for those who do not pay to be prevented from enjoying the benefits as “free riders”. But although this can explain the need for public funding, it does not explain when it may be preferable for such services to be publicly provided. For this we need to turn to the discussion of implicit contracts which is currently receiving much well deserved attention in the economics literature.

The implicit contracts debate focuses on the fact that all contracts are necessarily incomplete, meaning that they contain elements that cannot be unambiguously or precisely specified so that there is always room for competing interpretations. And this problem is especially serious in the social services where objectives are difficult to specify *ex ante*, and performance is difficult to measure *ex post*. As a result, such services are not easily contracted out to private firms since the true value of competing bids is hard to assess and since contract enforcement will inevitably be relatively costly and uncertain. That is why such services have historically come to be so widely delivered through public, or quasi-public agencies, that can encourage the development of trust between the contracting parties by relying on so-called “implicit”, or “relational” contracts² that can deal with “matters where performance cannot be precisely monitored .. [and] which cannot,

in general, be enforced by market transactions involving the exchange of well-defined property rights” (Holtham and Kay 1994, p 11).³

In general, the neoliberal solution to this problem is based on narrowly individualistic assumptions about human motivation, combined with an inordinate faith in market competition and in the possibility of solving this problem by extending legally enforceable property rights to more and more areas, so that contracts can become more complete. However, the costs of this can be very high so that the exercise becomes self-defeating after a point. A detailed review of Britain’s recent experience with social service reform along the lines of the NSP, led two leading mainstream economists to conclude with a warning that could serve as a reminder of why, historically, the provision of social services came to be a public sector responsibility in so many countries with such widely differing political and ideological orientations. The truth is that:

The unreliable completeness of contracts to provide public services or to undertake public functions is the reason why the contractual solution to the management of such services falls victim to consumer dissatisfaction and leads to pressures to reassert political control. (Holtham and Kay 1994, p 11)

This does not mean that the public provision of such services is universally desirable, or that it cannot benefit from innovative thinking about improved ways of motivating staff, serving citizens or husbanding resources within public sector agencies; or about more effective synergies between public, private and voluntary agencies. The tragedy of the NSP is that it addresses these important issues in a rather distorted and misleading way by starting from the premise that the public provision of such services should be minimised, even if there were no financial stringencies. In so doing it begs one of the most important questions, and undermines the credibility of the conclusions that it ultimately reaches. Moreover, it cannot disavow some responsibility for helping to reduce the scope for constructive solutions to these problems since it frames the questions in a manner that actually reduces the scope for building the trust on which real progress may ultimately depend. This is so, in part because:

A market model based on economic individualism gives rise to a political model based on economic individualism. That model, in turn, provides public services which are of an inadequate standard, inefficiently managed, and inequitably distributed. This is, in fact, what we see in otherwise successful individualist capitalist countries such as the United States. These deficiencies form the basis of a critique of political action which is held to justify economic individualism in the first place. The paradox is that the weaknesses of state intervention to which the New Right draws attention are the result of the kind of state intervention which is the only sort possible in the society they advocate. (Holtham and Kay 1994, p 11)

This observation goes to the heart of the matter and echoes the sentiments expressed by Robert Bates when he concludes a reflection on his own work as a public choice theorist in the development field, by observing that this approach is seriously deficient because it effectively excludes from consideration “the most important question of politics”, which he defines as the capacity of the political process to expand the scope for collective action in the public interest.⁴ And the NSP, which is a product of this approach, reflects this critical flaw in its *a priori* assumption that there is little or no scope for improving the public provision of social services in Latin America. And this is the reason why the NSP model can be presented as a “solution” without anyone having systematically compared its limitations, costs or risks to those actually associated with the “Old Social Policy” regimes it is intended to replace.

In short, the theoretical foundations of the NSP are clearly unable to support the general claims being made on its behalf. They are, in fact, narrowly based on a very particular set of assumptions about human behaviour that are contested, unproven and undoubtedly not universal. Indeed, they specifically ignore dimensions of human behaviour and motivation that are ultimately of great importance in the social policy area because they are important for dealing with the special problems associated with policy implementation in this field. In other words:

Those of an individualist stance often assume that people’s .. utility functions are substantially independent and they tend to favour a small role for political mechanisms and a large role for markets. Others who regard individual preferences as socially determined or highly interdependent, tend to believe that collective action is often appropriate and this ultimately requires effective political activity and processes. We have argued that broadly collective approaches are generally to be preferred in the provision of public services, but these should often be placed at a remove from the political process and in a broadly competitive framework, which, however, preserves relational contracts where possible. (Holtham and Kay 1994, p 15)

The importance of relational employment contracts is especially clear in the social policy field because of the particular difficulty of devising accurate and meaningful measures of performance with respect to this kind of work.

In general, the community has a strong incentive to preserve the sense of duty and *esprit de corps* ideally found in the military and among professionals in the caring services, since it is obviously a source of considerable economy to its employers. ... Not only is the preservation of a service ethic more cost-efficient for the ‘consumers’ of the services, or the tax-payers who finance them, it also generates producer surplus by providing opportunities to be of service, which would be less abundant in a relentlessly commercial society. Just as there are strongly

commercially oriented people, motivated largely by money, who must be given their head in a healthy and economically vigorous society, there are equally evidently people otherwise motivated. Social welfare is presumably enhanced if they can be accommodated, too. (Holtham and Kay 1994, pp 14,15)

In the final analysis, neither social, economic or political theory allows one to suggest that social policy should be primarily delivered through public, community or private institutions. Indeed broad generalisations in this area are almost invariably tendentious, ideological assertions that misrepresent the true task, which is to find a balance between these approaches and to do so in a manner that ultimately enhances a society's capacity for collective action in the public interest; and its capacity to deal efficiently with the many areas in which implicit contracts are a dominant fact of life. And the social services are just such an area.

In fact, the debate about an optimal social policy for Latin America must go well beyond the current ideological homilies about the wonderful results that might, hypothetically, be expected from the NSP. The issue is far too important to be treated in such a superficial manner. Ultimately, the theoretical basis for a more serious and effective discussion must be sought in the literature on the embeddedness of markets, in social, institutional and cultural structures. While this will provide a much better basis for policy formulation, it will not "discover" one optimal, universally applicable, social policy approach for Latin America. Rather it will show that any such claim cannot be taken seriously and can only be understood as a reflection of the unfortunate extent to which the current policy debate is driven and dominated by certain large international institutions who choose to advocate a particular policy regime as universally applicable, on the spurious grounds that it is known to be universally desirable because it promotes efficiency and enhances global welfare.⁵

The embeddedness debate could never yield such a simplistic conclusion since it addresses the world in a relatively serious and realistic manner. This means that it recognizes that trust, and malfeasance, are critically important aspects of all real world economies, and that it has been a "peculiar assumption of modern economic theory, that one's economic interest is pursued only by comparatively gentlemanly means".⁶ It then seeks to find a middle ground between the two main arguments that economists have developed to deal with this anomaly.

The first of these is embodied in the new institutional economics⁷ which sees

"malfeasance ... averted because clever institutional arrangements .. are now seen as having evolved to discourage malfeasance. Note, however, that they do not produce trust but instead are a functional substitute for it. The main such arrangements are elaborate explicit and implicit contracts ... and authority structures that deflect opportunism .. . These conceptions are undersocialized in that they do not allow for the extent

to which concrete personal relations and the obligations inherent in them discourage malfeasance, quite apart from institutional arrangements. *Substituting* these arrangements for trust results actually in a Hobbesian situation, in which any rational individual would be motivated to develop clever ways to evade them; it is then hard to imagine that everyday economic life would not be poisoned by ever more ingenious attempts at deceit. (Granovetter 1985, pp 59,60)

At the other end of the spectrum, there are economists who have

recognized that some degree of trust *must* be assumed to operate, since institutional arrangements alone could not entirely stem force or fraud. But it remains to explain the source of this trust, and appeal is sometimes made to the existence of a “generalized morality”.⁸ ... Now one can hardly doubt the existence of some such generalized morality; without it, you would be afraid to give the gas station attendant a 20-dollar bill when you had bought only five dollars’ worth of gas. But this conception has the oversocialized characteristic of calling on a generalized and automatic response, even though moral action in economic life is hardly automatic or universal.

The embeddedness approach seeks to combine these two perspectives in order to develop a deeper understanding of the interdependent evolution of these different aspects of social and political reality, even though the resulting complexity means that the analysis must be less rigorous, and the conclusions more qualified. In fact,

The embeddedness approach to the problem of trust and order in economic life .. threads its way between the oversocialized approach of generalized morality and the undersocialized one of impersonal, institutional arrangements by following and analyzing concrete patterns of social relations. Unlike either alternative, or the Hobbesian position, it makes no sweeping (and thus unlikely) predictions of universal order or disorder but rather assumes that the details of social structure will determine which is found. (Granovetter 1985, pp 60,63)

This discussion is important for the concerns of this paper for two reasons. First, because it provides a powerful analytical framework for thinking about the problem of trust which is of great importance in the social policy field where contracts are always particularly incomplete; and second, because it serves as a reminder that one’s assessment of the desirability of a particular social policy regime like the NSP must also take into account its potential impact on society’s capacity to engage in collective action, or on its “generalized morality”. And in this sense, the NSP is almost certainly regressive, since its explicitly individualistic assumptions and its *a priori* emphasis on the downsizing of the public sector, diverts attention away from efforts to expand

the scope for collective action by improving the effectiveness and efficiency of public service provision; and because its inordinate focus on decentralisation and on local self-reliance undermines the scope for developing a coherent policy response at the national level.

The bottom line is that there is no theoretical basis for the claim that the NSP represents an inherently more desirable approach to social policy. Although theoretical arguments can be made in its favour, these are no more persuasive than those that can be made for other approaches, including those that rely far more heavily on the public sector as a service provider. This makes it important to examine the empirical case for the NSP, since that is the only other basis on which one could claim to be advocating this policy on relatively objective, public interest grounds. Unfortunately for those making such claims, the empirical case also turns out to be so weak that it could not possibly justify, or explain, the enthusiasm of the main international financial institutions for these new policies. This may be less surprising if one recalls that the main elements of the current neoliberal policy regime also began to be strongly promoted by these institutions at a time when they had very little empirical evidence to support them.⁹

To justify the NSP within the context a neoliberal adjustment strategy, one would need two kinds of evidence: general evidence to show that the neoliberal strategy is likely to yield a pattern of economic growth that provides the majority of the population with adequate levels of income and economic security, so that only a small minority require support through some form of social policy; and specific evidence to show that the NSP could protect society's most vulnerable groups both in the short and the long term within such a context. The more general evidence is critically important and serves as another reminder that the task of social policy is ultimately defined within a context that is shaped by broader economic, institutional and cultural forces.

At present the general evidence does not lend strong support to the claim that Latin America's neoliberal policy regimes are generating the type of economic growth that will serve the economic and social needs of the great majority of the population. Indeed, although the statistics are ambiguous and suspect,¹⁰ it would be easier to argue that this policy regime tends to encourage the casualisation of labour, the polarisation of society and the rapid growth of the informal sector everywhere. Indeed, the middle classes and those in the formal sectors, who had attained a degree of economic security have seen their positions widely undermined, while informal sectors have grown explosively almost everywhere, providing relatively insecure income opportunities and unstable and probably declining income levels.¹¹ Moreover, these patterns do not appear to have changed significantly in the nineties, despite the massive inflow of foreign finance into the region. Indeed in some case, as in Mexico, these financial flows have clearly increased instability and social polarisation. Indeed, in Mexico this process has reached critical levels since the Peso crisis of 1994 and political pressures are building in response to a relentless process of economic and social polarisation.

The lack of access to land and capital has long been a problem in Mexico. For decades, rural workers have been streaming into the cities to sell their ability to work, both as permanent migrants and as weekday workers . . . Men have typically found work in the construction industry, while women have found work as live-in domestics. But with the 1995 collapse of Mexico's domestic market and the consequent shrinking of the demand for labor, there has been a downward displacement of workers, and both sources of work are drying up for migrant campesinos. This is happening just as Mexico's small-scale farmers face a sharp deterioration of their living standards and the unraveling of their communities.

"The campesinos don't fit into the government's project - not as producers and not as citizens. They are told to stop being campesinos and to adapt to another mode of life, but there is no room for them in the cities, and there is no policy to incorporate them elsewhere."

The move from social protection to a market-driven globalization has torn the fabric of society, leaving it to the radicals - of one sort or another - to remake the country from below. (Barkin, Ortiz and Rosen 1997, pp 18,20)

Nor are these patterns particular to Latin America. The same neoliberal model has produced similar polarising effects elsewhere. Even in the industrial world, where political and institutional resistance might have been expected to be more firmly entrenched, these effects have become so marked that even so conservative a voice as The Economist saw fit to deplore them in an eloquent editorial which noted that income differentials in many OECD countries had grown sharply in recent years, and that in Britain and the United States they were now higher than they had been for fifty years. Moreover:

It is no coincidence that the biggest increases in income inequalities have occurred in economies such as those of America, Britain and New Zealand, where free-market economic policies have been pursued most zealously (The Economist, 5 Nov 1994, p 19).

In general, one must conclude that the available evidence does not lend strong support to the claim that Latin America's neoliberal policy regimes are reducing the size of the vulnerable groups in need of social policy support. But in the absence of an inclusive pattern of economic growth that is conducive to such an outcome, the NSP cannot hope to protect the continent's vulnerable groups. And the evidence is not incompatible with the possibility that the NSP forms part of a regressive policy regime that is actually increasing vulnerability by promoting patterns

of growth that threaten large sections of the population with social and economic dislocation and increased insecurity, and that simultaneously undermine the capacity of governments to intervene in these processes in the national interest, partly by continuing to reduce the public sector's resources, together with its moral authority; and partly by undercutting the political constituencies that would be needed to support a more inclusive form of national development, as suggested in a 1990 UNRISD study on "The Crisis of the 1980s in Africa, Latin America and the Caribbean":

Macro-economic trends thus seem to be redefining the parameters of livelihood in Latin American .. societies in various ways: reinforcing a tendency for international interests to be favoured over national ones and for financial speculation to take priority over productive investment; encouraging entrepreneurship within the informal, rather than the formal, sector; decreasing the importance of national capitalist and working-class groups; enormously increasing the pool of labour engaged in petty services, trade and domestic manufacturing; challenging the ability of small farmers and peasants to engage in commercial agriculture.

The bases of support for the state are in turn inevitably affected by these processes, first because the ability of governments to protect and promote the interests of major sectors of society is constantly challenged and second because those interests are themselves changing as people devise new livelihood strategies. (Ghai and Hewitt 1990, p 22)

The question of whether such a reduction in the capacity of governments to pursue a coherent national development strategy should be a matter of concern, goes well beyond the limits of a short paper, but one's assessment of the NSP's suitability for Latin American in the nineties depends critically on the answer. Moreover, that question is not closed, even though it is currently fashionable to believe that it is known beyond reasonable doubt that states should play only a marginal, market facilitating role in the development process. In fact, it would be very risky and unwise to ignore the considerable evidence to the contrary. In fact, very few developing countries (other than city states) have, over the past fifty years, had sustained patterns of economic growth that have allowed them to combine rapid growth with full employment, sharply rising real wages and relatively low levels of inequality, or economic exclusion. In fact, only South Korea and Taiwan can currently be said to meet these criteria,¹² and in both of these cases the state has played a pervasive and central role reminiscent of that which it once played in Japan and Germany, when they successfully transformed their poor and technologically weak economies.¹³ Nor should this come as a great surprise since the ability of a national economy to generate, and to appropriate, technological rents is the key to its ability to provide its population with a rising standard of living over an extended period. And this capacity has to

be acquired by investing in the development of the appropriate skills, institutions and research foundations over an extended period.¹⁴ Moreover, the fact that the two successful East Asian NICs were willing to incur substantial additional costs and risks by strictly limiting their reliance on direct foreign investment and developing strong national firms and research institutions instead, should serve as a reminder that they, at least, thought that ownership matters; and it surely does if one is concerned to ensure that most of the resulting technology rents can be appropriated by national factors of production.¹⁵

Given this historical evidence, there are reasons to fear that Latin America has embarked on a risky and uncertain path that may not yield the kind of inclusive growth that is needed if the NSP is to protect its vulnerable groups over time. In fact, in its desperate search for relief from the painful reversals of the eighties, the continent may have taken a monumental risk by committing itself so totally to a development model that does not have an auspicious track record,¹⁶ especially since many bridges have been burned in the process. Ultimately the fate of its vulnerable groups will be determined by the outcome of that gamble, and so will the meaning and significance of the NSP.

In the meantime, the question is whether there is evidence to show that the NSP will significantly enhance the effectiveness and efficiency with which dwindling resources can be used in the social policy area. Here too, the evidence is far too weak to support grand generalisations about the desirability of the NSP. Indeed, a 1991 World Bank study of 20 countries assessing the effectiveness of the “compensatory measures” approach to social policy described them as *ad hoc* instruments that were no more than short-term palliatives, unable to deal with the longer term problem of chronic poverty (Moser 1992, IDS Jubilee citing Moser, Herbert and Makonnen 1991). And, even as palliatives, they had a very uneven record since their results varied widely, depending on the specific circumstances in which they were introduced. But this did not matter much since the World Bank had by then already thrown its weight behind the NSP (World Bank 1990; “Assistance Strategies to Reduce Poverty” R90-243; and World Bank 1990a “World Development Report 1990”).

Although frequent claims are made regarding the alleged efficacy of targetting,¹⁷ of user fees,¹⁸ or of NGOs as delivery mechanisms, these are rarely based on systematic or rigorous studies; they invariably ignore the existence of other studies that reach different conclusions; and they often depend on very specific and contestable interpretations of their own data. The bottom line is that universal generalisations about these policy instruments are quite untenable, which really should not come as a surprise to anyone. Obviously circumstances matter; circumstances like: the nature of the state and the bureaucracy; the nature of the NGOs; the local community’s power structure; and the distribution of income. And it is only when the relative merits of various forms of social service provision are examined in the context of a specific set of such circumstances, and in

accordance with a particular society's values and political priorities that one could make decision regarding the relative merits of the NSP. Generalised preferences promoted by IFI's throughout an entire continent could not possibly be legitimately derived from the empirical evidence, or justified as technical judgments.

The proposition that the IFI preference for the NSP was not based on any empirical evidence attesting to the efficacy of such policies, or even on an urgent desire to discover a better way of delivering social services, is further supported by the fact that very little attention was paid to the monitoring or evaluation of NSP policy initiatives, as noted in a comprehensive review of structural adjustment related "Safety Net" (SN)¹⁹ programs undertaken by UNDP in 1993.

Evaluation is one of the weakest features of SNs. Very few of them set quantitative targets, and even fewer review the fulfilment of those targets. Efficiency is difficult to measure as it would require cost-benefit analysis of individual projects, personnel productivity and so forth. Impact on the poor is evaluated in most programs against indicators such as the number of people who benefit from projects or the number of benefits provided - for example, jobs created, health centres built, etc. - but there is a lack of more sophisticated indicators, such as improvement of living conditions among the poor in such areas as income, health status, literacy.

A robust evaluation of performance of SNs is hampered by the lack of unified standardized criteria, which in turn is an outcome of the differences in programme goals, periods of operation, and quantity and quality of data. Furthermore, those SNs which report data give the impression they face more problems than those SNs which do not release information. (UNCTAD 1993, p 19)

In the absence of systematic data, the empirical evidence that was used to support the shift to the NSP at the micro level consisted largely of descriptions of the deterioration of existing public services in the context of the debt crisis and the structural adjustment response, and references to the positive effects of various survival strategies adopted by people in response to these developments. These generally valid observations were turned into arguments for the NSP either by implying that public sector service delivery was inherently problematic, in which case the NSP could be presented as inherently desirable; or by asserting that the restriction of public services had to be accepted as a given, for financial reasons, in which case the NSP was espoused as a second best, or a complementary, response. Even though these arguments were generally left implicit, it was common for the NSP to be presented as an inherently desirable alternative in many IFI discussions even though this kind of descriptive, and often anecdotal, evidence did not provide any basis for such claims..

The lack of systematic evidence is obscured by the habit of partisan analysts and institutions to support their often very general claims by citing a couple of selected “cases” that happen to corroborate those claims, as in the famous “boxes” that now litter virtually every World Bank report. But even if more systematic evidence were available, it would probably not allow such a complex social policy question to be resolved empirically, for fundamental methodological reasons.²⁰ The problem was neatly illustrated by a well funded team of IMF experts which was asked to analyse the empirical evidence to determine the impact of the Fund’s adjustment policies on poverty and welfare.²¹ It concluded that the impact was positive, but it was honest enough to acknowledge that it had proven impossible to derive this conclusion from the empirical evidence. Instead, it revealed that its estimates of their short term impact had had to be “primarily based on deductive reasoning and not on the evidence itself”; while its estimate of their long term impact had had to be based on “the axiomatic assumption that the impact of structural adjustment on welfare is subject to a J-curve effect”.²² But, since axiomatic assumptions are made *a priori*, this amounted to declaring the empirical evidence largely irrelevant. And, for the same reasons, any serious examination of the empirical foundations of the case for the NSP would also find that its conclusions depended critically on the theoretical framework that it used to select and to interpret the evidence. The facts do not speak for themselves, which means that the theoretical case for the NSP is not independent of the theoretical case, and that has been shown to be relatively weak. Moreover, it also means that the IFIs cannot justify their intense support for the NSP by claiming to be neutral, objective, “experts”. Instead, they have to admit that their position is both ideological and value laden, since it is really derived from theory and not from the evidence, as such. That in turn, would draw attention to the often neglected fact that the IFIs are political actors and that their actions have to be understood, justified and challenged in those terms.

In short there is no solid theoretical or empirical foundation for the claims being made on behalf of the NSP by the IFIs and others. And this raises the question of how one is to understand the strength and enthusiasm of that support.

The Meaning of the NSP

The sudden increase in the popularity of the NSP among IFIs in the early nineties cannot have been mainly due to their desire to protect the vulnerable, since there was not much evidence to show that it actually represented a superior approach to social policy delivery. In fact, their inordinate enthusiasm suggests that there must have been other reasons why they were supporting this policy, and these must be understood before one can understand the true meaning and significance of the NSP. Three such reasons will be examined.

First, these policies may help to secure other important, but unstated, objectives. Second, they may serve interests apart from the vulnerable groups they are ostensibly designed to protect. And

third, they may actually be preferred primarily on ethical or ideological grounds, even if they were no more effective in protecting the vulnerable. Ultimately each of these reasons can claim some credit for explaining the discrepancy between the strength of the IFI preference and the weakness of the case for the NSP.

There is no doubt that the NSP rationalises and reinforces the neoliberal policy regime and that this is important to those who regard that regime as their highest policy priority. In fact, for them this is probably the main reason why they were generated such enthusiasm for the NSP even though the evidence attesting to its actual effectiveness in protecting the vulnerable was so weak. In fact, it would be impossible to understand these developments in the social policy debate without placing it in the context of that broader economic policy debate. The truth is that the NSP would not have attracted the attention of the IFIs, or of their neoliberal client states, if it had not emerged as an important part of their attempt to manage the contradictions of structural adjustment.

The timing of the IFI “discovery” of the NSP provides an important clue to this connection. In the late 1980s, the welfare losses associated with neoliberal adjustment had become a major source of concern among the IFIs, largely because the political fallout was seen as a potential threat to the sustainability of these regimes. The IFIs responded by focusing attention on the general problem of governance, and on the specific task of managing the politics of structural adjustment.²³ Much of the ensuing discussion was extremely instrumental, focusing on ways of ensuring that the voices of the immediate beneficiaries were clearly heard, while those of the losers were muted, if necessary, by “buying off” the potentially most vocal groups among them. And the NSP, with its compensation approach to social welfare, suited this purpose admirably. It would divide opposition, by emphasising decentralization and local action. It would rationalise and justify cuts in existing welfare services and then make the victims appear responsible for administering the alternative support services. And finally, it would help to undermine the rights of citizenship, the moral legitimacy of government and the sense of national solidarity that must provide the foundations for a coherent national response to such matters. And these are the central objectives of the individualistic neoliberal model.

Certainly the NSP emerged at a time when there was concern about the rising level of political opposition and social unrest in response to a neoliberal strategy that was taking far longer than anyone had imagined, to “deliver the goods”. And this political reaction was especially marked in Latin America, where the adjustment era had witnessed

the highest rate of popular unrest with 16 of its 21 principal countries recording at least one uprising, and the continent as a whole contributing two-thirds of the worldwide total of protest events.

Typically, austerity protests were precipitated by drastic, over night price hikes resulting from termination of public subsidies on basic goods and services, proclaimed by the government as regrettably necessary reforms urged by the IMF and international lenders as conditions for new and renegotiated loans. (Walton 1993, p 41)

The NSP counters such responses by encouraging fragmented local responses that depoliticise the search for solutions by focusing efforts on immediate problems where people can make an immediate difference; or by focusing attention on self-help, or on help from charities or NGOs, as opposed help that is available as a right of citizenship. Where it succeeds, this process undercuts the scope for coherent political responses at the national level. And, of course, it co-opts people by making the victims of the larger process responsible for administering the dwindling and inadequate resources available for their protection. And by enmeshing them in the debts and uncertainties associated with the informal sector, to the point where it has been suggested that

“the encouragement of microenterprise [is] not so much a model of private sector development, but .. a substitute for state-sponsored social security” (Barkin, Ortiz and Rosen 1997, p 26)

Contrary to the participatory verbiage that is used to promote this model, the net effect can be seriously demobilising. Thus,

in practice, the outcomes of social movements [as encouraged under the NSP] are not always positive. For example, the process of “empowerment” that so many analysts celebrate is almost always confined to the realm of subjective feelings. .. rarely does empowerment involve the actual acquisition of economic or political power. What is more, with all the talk of empowerment, there is little recognition that people may not only become empowered with the sense of their own expanded capabilities, but also “disempowered” and ultimately demobilized.

This kind of disempowerment may occur when a movement is co-opted or repressed. But it may also occur when participants grow discouraged and disillusioned with the dynamics of group participation, the behavior of their co-activists who rise to leadership positions, or the bossiness of foreign or middle- and upper-class NGO workers. (Hellman 1997, p 16)

And these are not merely hypothetical possibilities. They are realities of the struggle that confront many activists throughout Latin America, and that were aptly described in the following passage by a Mexican *companero*.

A social left has emerged over the past ten years as a response to this disassembling of the country's social and economic networks from above. .. this left has formed around very concrete demands and proposals. While it has achieved success by setting itself narrow, achievable goals, there is a down side. "We were successful with the early stages," says Francisco Saucedo .. . "We demanded land and housing. We succeeded and we constructed the Assembly of Barrios. We had tens of thousands of people, almost in permanent mobilization. Now the government has penetrated us and divided us. The organizations are local and small and fighting for the same things. These small organizations, if not linked to some larger project, lack political impact. They become competitive and parochial." (Barkin, Ortiz and Rosen 1997, p 26)

In short, the NSP was "discovered" at a time when the social impact of the neoliberal policy regime had to be better "managed"; when opposition to it had to be defused. But this had to be done in ways that were entirely congruent with the neoliberal priorities, meaning that: there was "no scope whatsoever for increased [public] expenditure"²⁴; that "more had to be done with less"; that nationalist political responses were to be strongly discouraged; that markets were to be liberalised and opened to the outside world; that the distortion from financial speculation were to be largely ignored, while those from welfare subsidies were to be highlighted and removed; and that the public sector was to be systematically "downsized". Within these constraints, a set of policies were to be devised that would assure the vulnerable that "everything possible" was being done to alleviate their transitional difficulties. Given these constraints and objectives, any moderately competent consultant could come up with a version of the NSP. And, with some help from a public relations expert, this could then be presented as an exciting grassroots strategy that empowered people and communities, enhanced flexibility, improved the quality and appropriateness of social services and delivered more protection with fewer resources. Lack of evidence to buttress these claims would be no impediment since the package would do its job so long as it was believed. And it would be greeted with enthusiasm by those in power if it promised to do that without demanding any significant diversion of resources to the poor.

The next clue to the true meaning of the NSP stems from the rather extraordinary fact that the most enthusiastic supporters of this breathless celebration of popular empowerment, local self-reliance and grassroots policy making, turn out to be the IFIs and their corporate and neoliberal allies. The sheer implausibility of this observation suggests that this support is not primarily concerned with the protection of the vulnerable, and that the meaning of those "feel good" words may need very careful scrutiny.

After all, what is one to think when the World Bank, which demands that its client nations implement its value laden, divisive, risky and unproven neoliberal policies, extols the virtues of

local self-reliance? Or when that Bank sings the praises of populist, grassroots involvement, while urging governments to “lock in” their preferred neoliberal policy reforms by entering into international agreements that protect them from domestic political opposition? Or when it advocates community empowerment, at the same time as it denounces the evils of “subsidies” and promotes privatization even in areas where it would be perfectly legitimate, and probably efficient, for a (national?) community to choose a public service model? Or when it argues that local people must shape and implement their own social policies, while promoting the unlimited involvement of “foreign” NGOs? It is difficult to take these IFI arguments for the NSP at face value?

And they cannot be understood if they are taken at face value. They can be understood only, if one accepts that the IFIs and their allies, support the NSP primarily because it consolidates the neoliberal policy regime. And they support that regime primarily because it has served many powerful international and national interests, allowing them, in many cases, to amass enormous fortunes and to gain almost undisputed control over resources, people and governments. Those who have reaped these benefits are anxious to protect that policy regime, and they are enthusiastic about the NSP because it has been designed to do just that. They are not deterred by the weakness of the case for the NSP as a mechanism for protecting the vulnerable, since that is not their central concern, and since that will not become apparent for a long time, if ever. In any event, these institutions and interests have amply demonstrated, not least in the former Soviet Union, that they are prepared to accept any level (or duration!) of short term pain as they struggle to lay the foundations for the long term gains promised by their neoliberal policies at some unspecified time in the future. Of course, the pain must be borne by interests other than capital, since it must be entirely free to move which means that it can only be attracted, or retained, by means of positive incentives. Only if the pain that is inflicted in this process, threatens to kill the neoliberal goose that lays the golden eggs for the owners of capital, does it become a matter of serious concern. And this will always lead to the search for solutions that can solve the problem while minimising the need to divert resources to those other groups. And, from this perspective, the NSP appears to be a wonderful solution, for a time, at least.

While the NSP has been widely adopted primarily because it is strongly supported by the IFIs and their allies, it is important to note that these are not its only sources of political support. That also comes from certain local and grassroots interests, who appreciate the fact that it does direct more funds to local communities, either through NGOs or through relatively more decentralised public channels. And this will be especially important in situations where national governments are relatively unrepresentative, or where bureaucracies are really corrupt and inefficient. However, that local support is neither universal, nor can it be taken for granted. Ultimately it will depend on local political realities, since these will determine the extent to which such funding

mechanisms will encourage constructive dialogue within communities, or allow resources to be used in ways that truly reflect the community's interests and preferences. This cannot be assumed. In fact, such mechanisms can also become sources of instability and conflict. Thus,

micro-enterprises, a favorite project of international-aid givers, may develop into democratically managed cooperative projects, or they may become a further source of inequality and stratification - not to mention tension and even violence - in poor communities. (Hellman 1997, p 18)

Thus, an examination of the circumstances under which the NSP emerged; of the weakness of the evidence supporting its claims; of the interests and institutions that support it most strongly; of the congruence of its policy prescriptions and the requirements of a neoliberal model in crisis; and of the contradictions in the positions taken by the IFIs, leads to a clear conclusion. The IFIs and their allies support the NSP so strongly because they see it as a low cost way of responding to the political pressures arising out of the social dislocation resulting from the neoliberal policy regimes throughout the region. The fact that the evidence to show that the NSP will actually protect the vulnerable is weak, is no impediment to that support since the real benefits of the NSP lie elsewhere, namely in its ability: to undermine and divide opposition to the neoliberal model; or reinforce the attack on the public sector; to undercut coherent national responses by fostering divisions between communities and people along ethnic, gender or regional lines; to make welfare cuts palatable, or even to present them as desirable; and to create the impression that "everything possible" is being done for the vulnerable, short of diverting more resources to them. Within this context, empowerment, self-reliance and grassroots involvement can be celebrated by institutions that are utterly hostile to these concepts at the national level, because, at that level, they do not appear to pose a threat to the broader policy regime and because they will create conflicts that will make coherent political responses more difficult, especially if foreign NGOs can play an unrestricted role in this process.

However, while this describes the intent of the NSP, as seen from a particular perspective, that does not mean that this will also describe its actual outcome.

The Progressive Potential of the NSP

The positive potential of the NSP ultimately lies in its emphasis on popular participation, community empowerment and self-reliance. And although these concepts are largely depoliticised in the narrow, managerial version of the NSP that is popular within the IFIs, this does not rob them of the potential to flower and to expand under the right circumstances. Ultimately, one is reminded of Karl Polanyi's argument, which provides a particular reading of the dialectic of history, by suggesting that the excessive deregulation of markets will invariably turn out to be part of a "double movement", since it will simultaneously trigger an opposing

social movement that will eventually restore a more moderate balance between the social and the economic aspects of reality.²⁵ Polanyi emphasizes that this social response will generally be based on broad, diverse coalitions that are eventually brought together by the pain inflicted on them by misguided attempts to establish a self-regulating market. And this is precisely the problem facing the social movements in Latin America, since it has been said rightly that their potential can only be realized when their vision and goals are broadened, and when they manage to ally with others in a wider political organization - or even, a political party. (Hellman 1997, p 18)

Much depends on the kind of economic growth that will ultimately emerge from the neoliberal model. If its advocates turn out to be right, and it leads to a stable and sustained pattern of growth which diffuses benefits widely and reduces the number of vulnerable people, then the IFI version of the NSP may turn out to be sustainable and viable. It may even end up protecting society's most vulnerable people. But this seems highly unlikely. More likely is a situation in which continued economic instability and insecurity will accompany high levels of social and economic polarisation and uneven, though ultimately sluggish, growth. And it is under such circumstances that splintered and divided social movements may eventually discover enough common political ground to act coherently in response to the realisation that their suffering is not merely temporary pain for long term gain, and that significant improvements will require more concerted political action at national, or even supra-regional, levels.

Of course, this social reaction will not be easy since it has been anticipated and major obstacles have been placed in its path by now, including: international treaties partly designed for the express purpose of "locking in" the neoliberal policy regimes; the relentless denigration of all alternative visions of society as unworkable or unethical, by an increasingly centralised media; the enormous spread of consumerism, which entangles people in webs of debt and in the endless pursuit of "more"; and the gradual disintegration of social networks and community structures, in the face of market forces that demand unlimited flexibility from members of the labour force, while providing insufficient income and security to support stable human relationships in families or communities. But even these defences will not necessarily hold under really difficult economic and social conditions. In fact, as the eighties had shown in Latin America, severe economic difficulties can reverse those underlying trends, so that social and community networks may suddenly be rebuilt in places where they had atrophied. Of course, the eighties had also shown how difficult it is for those responses to come together in a more united front. So why might this be different in future?

The difference will be made by time. If economic hardship persists much longer or, in particular, if it intensifies again after a short and modest respite in the early nineties, the current

dominance of the neoliberal ideology will not survive long. Its promises will lose their credibility, as will its claim that current hardships and inequities have to be accepted as the basis of future prosperity. And, at that time, other perspectives that have now been declared dead, will regain credibility, especially among the ordinary people. The end of history will never arrive precisely because history is dialectical.

So why might renewed hardship befall the weary people of Latin America at this critical moment? Is not everyone announcing the onset of a hundred years of prosperity? Are not the markets thriving, and is not capital flowing as never before? Ironically, the answer is partly that this is precisely why there is reason for concern. It is well to remember that the current euphoria was last seen in the late seventies, just when so many miracles were about to turn into disasters for more than a decade.

The signs are everywhere if one is prepared to look. But, for the moment, such concerns are drowned out by the crowing of the speculators, as they celebrate their massive profits and trumpet their unshakeable confidence in the future of "the emerging markets". But underneath this froth, Latin America is actually repeating one of the most depressing phases of its history, and those who are genuinely concerned about the future of its vulnerable groups, should be making contingency plans to deal with the dramatic consequences of the major "correction" that is now inevitable. And, if history is any guide, its consequences will punish those vulnerable groups so severely that any marginal gains they may have made under the NSP will be utterly forgotten over night, just as the tiny achievements of the basic needs initiatives were obliterated by the last debt crisis.

To understand the current situation, one must remember that the lending boom of the late seventies produced much greater and more widespread gains for Latin America's people, but that did not prevent it from ushering in the debt crisis and the traumatic "lost development decade". At the time, concerns about a possible debt crisis were brushed aside as uninformed scare-mongering. In fact, the 1981 World Development Report declared the Third World's debts to be perfectly manageable, and suggested that financial flows to the developing world could, and should, be rather larger in future.²⁶ It was only eight years later, after Latin America had been punished and impoverished by the demand for full repayment of those debts, that the World Bank's 1989 World Development Report acknowledged that the lending boom of the seventies had been largely speculative and should, in retrospect, be regarded as "evidence that even competitive financial markets can make mistakes" (World Bank 1989, p 4) and a reminder that "market-based financial systems can be unstable and susceptible to fraud" (World Bank 1989, p 131). What the Bank did not say, was that this revealed the demand for full repayment of the debt to have been wholly unjustified ethically, since those speculators should surely have shared significantly in the costs of the resulting restructuring process.²⁷ The really important lesson is

that the costs of such speculative bubbles are not allocated on some ethical principles, or economic principles, but on the basis of power. And that is why the next adjustment will again impose enormous hardships on Latin America, and within it, on its most vulnerable people, notwithstanding the NSP.

Today's' financial flows absolutely dwarf those of the seventies; they are also highly speculative; and it is quite naive to think that, because they are taking a different form, a collapse would not impose enormous pain on the continent and its people. The aftermath of the Mexican Peso crisis of 1994 provide important clues as to what lies in store for much of the continent. In reading this account, remember that prior to that crash, Mexico was touted as the strongest, most advanced model of the new economy, especially after it joined the OECD when its prospects were discussed only in breathless superlatives.

The peso devaluation of December, 1994, and the ensuing capital flight and stock market crash, plunged the Mexican economy into its deepest depression since the 1930s. Within two months of the devaluation, the value of the currency had declined by more than half; within four months the level of unemployment had doubled; inflation jumped from 7% in 1994 to 52% in 1995; and the gross domestic product (GDP) had declined by 6.9% at year's end. The economic crisis saw the collapse of the country's internal market, the virtual disappearance of credit for small and medium-size businesses, a dramatic contraction of formal employment and an alarming growth of poverty. Twelve months after the peso debacle, an estimated 75% of Mexican families could not afford the "basic basket" of goods and services considered necessary to bring a family above the official poverty line. 1995 was not a happy year.

1996 saw a halt to the decline, and the beginning of what is now being touted - especially to foreign investors - as a "recovery". .. But [this] .. "recovery" is doing nothing to improve living conditions in Mexico. Real wages continue to fall, formal employment continues to be hard to find and the rate of poverty hasn't budged. .. The opening of the economy in the 1980s and the declining real incomes of the population rapidly eroded the market for domestic producers .. Without any adjustment or modernization program, and with soaring interest rates and a lack of credit, Mexican firms simply could not compete with the less expensive products .. being imported from Asia. .. The assault against domestic producers extended to other manufacturing areas, and dramatically to the rural economy. By the late 1980s, small farmers .. found that they could no longer compete with the growing volumes of imported grains, frequently subsidized by foreign governments. To seal their fate, the Salinas administration introduced constitutional changes .. to facilitate the sale of desirable plots to agroindustrial interests.²⁸

Now the markets are in full flight again, pouring billions into economies about which they often know little apart from the macro statistics, and about whose social conditions they could care less. Bond markets are in overdrive and even the banks are coming back into the picture in Latin America. Echoes of the seventies are everywhere.

Every month, dozens of U.S. and European bankers stop by Neil Malloy's office at steel maker Sivenza SACA in Caracas, Venezuela, and try to persuade him to take their money. "We already have nearly \$300-million [U.S.] in lines of credit and we don't need any more .. But they just keep coming. (Vogel and Frank 1997, p B8)

Meanwhile, the Mexican experience is widely discounted by economists on the grounds that it was just the result of bad economic management. With the wisdom of hindsight they claim that there would have been no crisis if the government had devalued earlier, but this argument is both wrong and dishonest. It ignores the fact that it was the Mexican government's commitment not to devalue that was the basis on which it had (once again) become a (temporary) "miracle" that had been so effusively praised by the financial and the economics community. Hence, Mexico cannot be dismissed so lightly. And there is another aspect of its experience that makes it highly significant for anyone wishing to imagine the consequences of the next crisis. This relates to the role of the mutual funds in shaping Mexico's policy response to an earlier, minor crisis in mid 1994.

The story is significant because it deals with two arguments that are often advanced as to why another crisis is unlikely, or why, if it happens, it will not be so serious. The first argument contends that another crisis is less likely because governments are now committed to "sound policies" and because that commitment will be enforced by ever vigilant financial markets, that will punish them instantly if they deviate from the straight and narrow. The second suggests that, if a crisis were to occur, the costs to Latin America would be smaller because a much larger share of the continent's new foreign obligations take a form which ensures that the foreign investor will necessarily bear a much larger share of the cost of such a crash as stock and mutual fund values decline in line with their economic performance. Both of these arguments are called into question by the Mexican experience.

In the middle of 1994 Mexico's economy came under severe pressure after the Colosio assassination. The government responded by allowing the Peso to drift downwards, giving the economy and its policy makers some breathing space as they sought to rebuild confidence. However, this response was not to the liking of certain mutual fund managers, who responded in a concerted manner, seeking to persuade the government to take a different tack. In so doing, they revealed something of the new power structure within which economic policy now has to be made in Latin America.

Some big U.S. mutual funds are showing increasing clout in developing countries, particularly in Latin America. In essence, the funds are trying to do overseas what they have already been doing in the United States: pressure management (in this case governments) to adopt policies that will maximise returns. .. In some ways, the mutual funds have taken over the financing role of big banks and quasi-governmental institutions such as the International Monetary Fund. **But unlike the banks**, whose role has diminished in developing nations since the Third World debt crisis of the 1980s, **fund managers have no long term commitments. They want nearly instant returns on their investments, and they are willing to use their clout to achieve these goals [emphasis added].**

The most dramatic example of the funds' clout came in April [1994], when Mexico's peso was tumbling after the Colosio assassination.. Enter Mr. John Liegey, president of Weston Group .. [who] quietly assembled an investor group called the Weston Forum .. [that] put together a document .. which included a list of six 'policy suggestions'... The suggestions were aggressive. Mexico was asked [among other things] to curb the speed of the peso's daily devaluations ... to insure investors against currency exchange losses on \$5-billion worth of peso-denominated securities if the peso dropped below a certain range ... [to see that] government issue long-term *tesobonos* .. with built in devaluation insurance ... [and to] back all these measures with central bank peso purchases to strengthen the currency.

Of course, the central bank would have to spend huge amounts of its reserves in the process. ... So far, the fund managers have reason to be pleased with Mexico's response. (Torres and Vogel 1994, pp B1,B8)

So much for the idea that the markets will simply ensure that government's pursue "sound policies", especially in view of the subsequent declarations that the problem was due to economic mismanagement by the Mexican government. So much also for the hope that mutual fund managers will simply sit back and allow the value of their assets to decline, in line with economic conditions. In fact, this aspect of the Mexican experience shows quite clearly that neither one of these complacent arguments can be taken seriously.

In fact, it is easier to argue that the room for manoeuvre for Latin America's policy makers will be even narrower than it was in the eighties, so that their ability to protect vulnerable groups will be even more limited, always assuming that this was a priority, which seems unlikely. Indeed, given the nature of most of the region's governments today it is more likely that they would respond with benign neglect while "rediscovering" Malthus and joining the growing ranks of those who argue that the problem is really one of "surplus population". Poverty, alas, must always be with us; or, rather, with them.

Ultimately there can be no doubt that the current flood of international finance is unsustainable, speculative and based on expectations that will not be met by the real economies of the region. And, as with every speculative bubble, these flows must cease abruptly at some point when it becomes apparent that further asset inflation is now impossible. The fact that this is currently happening in Thailand, one of the unjustly celebrated Asian “miracles”, is an ill omen. Moreover, when this reversal comes, it will have grave consequences for Latin America and its people. The process is well known historically, especially in Latin America, but those lessons of history are currently being ignored, probably because too many policy makers are too closely linked to that speculative process and the enormous fortunes that it generates, even as it is laying the foundations for the subsequent crash.²⁹ The essence of this process was nicely captured by Business Week at a time when the world economy was trying to digest the “mistakes” of the eighties, but when it had the foresight to envisage the current speculative bubble.

Badly burned during the ‘80s by costly over-expansion and ill-advised investments, banks, brokers, and insurance companies across the nation [i.e. the U.S.] have developed a zeal for fiscal conservatism. Rampant growth has been replaced by consolidation and shrinkage. ... Although financial executives insist they’ve learned their lesson, many cynics aren’t so sure. They say financial executives often profess prudence during slumps only to shift into overdrive as soon as the cycle shows signs of reversing itself. That could be a big mistake, they say, especially in the slow growth environment that many predict will characterize the ‘90s. (Spiro 1991, p 118)

Watching the wild developments in the world’s bond and stock markets in 1997 one would have to agree with the cynics. Stock market valuations are simply outlandish and historically without precedent by now;³⁰ bond markets have lost touch with reality, as large issues from bankrupt countries are regularly heavily over-subscribed;³¹ and property markets in many parts of the world, but especially in Asia, have reached dizzying heights from which they have a long way to fall.³² In May of 1997, the conservative Asia Times suggested that a “global financial meltdown” now had to be considered a real possibility,³³ and anyone without a vested interest in the process, would have to agree. Certainly any policy maker not making contingency plans for such an eventuality would be rightly charged with negligence by now.

Of course, even in the absence of a disastrous crash, recent financial developments spell trouble for Latin America’s vulnerable groups, especially as the continent opens its doors ever wider to these increasingly volatile flows. It is well known and widely accepted, even among mainstream economists, that “financial liberalization entails a rather dangerous set of policies when viewed from the perspective of sustainability” (Rodrik 1990, p 942) and this is especially

true with regard to their impact on allocative efficiency, economic instability and income inequality, all of great relevance to society's vulnerable groups. The truth is that speculation misallocates resources and distorts economies. Thus:

There is ample evidence that in industrial countries financial liberalization has resulted in a considerable increase in the volatility of interest rates, equity prices, exchange rates and the prices of real estate, gold, silver and collectible assets, and caused large and sustained deviations of these from their fundamental values. (Akyuz 1993, p 9)

And these problems are far more serious in developing countries, as their

exposure to short-term capital flows is much greater .. because their instability provides greater opportunities for quick, windfall profits on short-term capital movements while their ability to influence capital flows through monetary policy is much more limited. (Ibid., p 29)

Trapped in such volatile, divisive low growth economies, people will, no doubt, continue to respond in ways that will echo the "self-help" responses that are enshrined in the NSP. But, these responses will not, in themselves, serve to protect them from the consequences of this crude and brutal model of capitalism. In fact, such responses will often simply provide those financial markets with some welcome additional information, to the effect that people can survive on an even smaller share of the social product, if they are encouraged to support each other and to share their hardships. But, fortunately, over time, that same process will also provide the people of Latin America with an important additional piece of information, namely that fragmented and narrowly focused self-help activities will not ultimately improve their situation. And that the defence of their long term interests demands a broader, more serious political response. Herein lies the positive potential of the NSP.

Conclusion

This paper has suggested that the NSP is unlikely to protect Latin America's vulnerable groups so long as it is implemented as an integral part of the neoliberal model; and that there is no solid theoretical or empirical basis for believing that it would do so. So why has this policy become so popular, especially in IFI and neoliberal government circles? The explanation was that for many of its most influential supporters, the NSP's main object was not the protection of the vulnerable, but the protection, and consolidation, of the neoliberal model. That is why the weakness of the evidence is of such little concern. At the same time, any additional protection for the vulnerable that could be achieved within the limits of the neoliberal model with its highly regressive priorities, would undoubtedly be welcomed, although one would have to assume that

such “slack” would soon be removed in the name of efficiency, if that was possible without threatening the model’s political sustainability.

Ultimately the interests of Latin America’s vulnerable groups are most unlikely to be secured by the NSP. Indeed, in so far as the NSP helps to prolong the agonies and uncertainties of the current neoliberal model, it will help to ensure a bleak future for them. Even in Chile, Latin America’s most successful economy, and the place where the NSP has achieved its greatest successes, the long term prognosis is not favourable because there is, as yet, little evidence that it is laying the technological or industrial foundations that are needed if the long-term interests of its vulnerable groups are to be served.

The potentially positive aspect of the NSP lies in the possibility that prolonged economic hardship will allow its fragmented activities to coalesce and to produce a far more meaningful empowerment of the national community. One that would achieve at the national level, all of those things that the IFIs claim to value so highly at the local level, as they advocate the NSP. In other words, this national empowerment would enable the national community to exercise greater control over its social and economic policies by increasing its self-reliance and giving more substance to its democratic processes. But such a project would receive no support from the IFIs, but would encounter extreme hostility instead. Understanding the reasons for this asymmetry is an important beginning for understanding Latin America’s paradoxes and disappointments - both present and future.

Notes:

1. This paper was presented at an international conference on “Nuevas Tendencias en Política Social” organised by the Facultad de Ciencias Políticas y Relaciones Internacionales at the Pontificia Universidad Javeriana and held in Bogota, Colombia from 28th to 30th April, 1997.
2. Sociologists also refer to these as “trust relationships”. (See: MacAulay 1963; Macneil 1980; Hart 1988).
3. See (Holtham and Kay 1994) for an excellent discussion of economic thinking on this subject.
4. This discussion by Bates is extremely important as a critique of the limits of the public choice theory approach (Bates 1990).
5. The weakness of the supporting evidence is discussed more fully in (Rodrik 1990; Bienefeld 1993).
6. The point is that when neoliberal economists say that the minimalist state should “only ensure clearly defined property rights and see that contracts are enforced efficiently” they do not realise that this is actually an enormous undertaking since a state that wishes to do so must preside over the creation of a society in which the vast majority of the population will pay their taxes willingly, and will obey the law of their own accord, because they perceive it to be fair and in the public interest. If those things are not true, then contract enforcement, and tax collection, and social investment become very difficult and costly. (Granovetter 1985).
7. This important area of economics has recently enjoyed something of a revival, even though the profession as a whole still shies away from it largely because it defies modelling and requires economists to shift to an entirely different methodological terrain which is more historical and case study oriented and which is far less likely to yield policy prescriptions that simply extol the virtues of the market. See Dugger (1979);

- Granovetter (1985); North (1990); Hahn (1991); Williamson (1994).
8. This point was highlighted by Kenneth Arrow when he acknowledged that markets must be understood to function within a social, cultural context that is vitally important to their performance and outcomes. In particular, it is important to understand the ways in which societies "in their evolution have developed implicit agreements to certain kinds of regard for others, agreements which are essential to the survival of the society or at least contribute greatly to the efficiency of its working" (Arrow 1974, p26).
9. The lack of evidence is discussed in Bienefeld (1988 and 1993), drawing extensively on various IFI documents, including (Khan and Knight 1985; Heller et al 1988; World Bank 1988).
10. The statistical basis for Latin America's public policy debates is probably deteriorating, in response to deregulation; the dramatic growth of informal sectors (sometimes defined as the "unenumerated sectors"); and budget cuts and public sector downsizing. This provides greater scope for the massaging (if not the outright manipulation or falsification) of the resulting "soft statistics". And this scope is more likely to be exploited when economies are increasingly dependent on volatile, highly politicized, financial flows and on judgments about social trends that are made by distant people and institutions who cannot readily distinguish between "plausible" and "implausible" estimates. This creates difficult, but real, problems that cannot simply be ignored. The issue emerged at a symposium on urban poverty in Latin America, where Daniel Schydlowski, a respected mainstream analyst, responded to a particular summary of the statistics on income distribution, by pointing to certain methodological weaknesses, including the notorious unreliability of household survey data on incomes, and concluding that he "is inclined to trust his perceptions of a worsening situation in Latin American. ... I am not ready to throw out what my eyes and ears tell me and what I can sense in the atmosphere as I walk around Latin America ... I do not fully believe the numbers" (Walton 1993, p 30). While allowing "subjective impressions" to overrule the data is certainly dangerous, it may be warranted under certain circumstances. In any case, the issue is ignored at our peril since that could legitimate an Orwellian situation in statistics were treated as the only "truth" in a world in which the resources to produce systematic statistics were dominated by institutions that have little independence from the political pressures of the day. In such a world, the "truth" could be extensively manipulated, even though everyone appeared to be fully committed to the worthy principle that policy issues should be judged strictly "according to the evidence".
11. Trends in income inequality have to be assessed within a context of general decline, since "the lost decade saw per capita income in Latin America and the Caribbean fall by about 15%" (Berry and Stewart 1994, p 11). Although generalisations are difficult (Walton 1993, pp 30-31) partly because experiences varied significantly from country to country (Berry and Stewart 1994, pp 10-18), it is possible to suggest that the majority of informal sector participants probably suffered declining incomes: first, because overall incomes declined; and second, because "intragroup divisions have also become sharper and deeper in the informal sector" where a small group of informal entrepreneurs has done very well, "while most informal sector workers face increasing competition and are struggling to survive" (UNRISD 1995, p 48). This has led some to conclude that "those making a living in the informal sector would seem to have been hardest hit, although the statistics cannot cover the full range of unregistered entrepreneurial activities" (Ghai and Hewitt 1990, p 10).
12. These are the only two countries in this select group since it is defined as countries in which average real wages have risen more than three-fold since 1948. The fact that they have actually risen more than ten-fold in these countries (Amsden 1989; Wade 1990; Burton 1996) is an indication of just how unique their experience has been and this must be borne in mind when economies like Thailand, Indonesia or Chile are called "second tier NICs" just because they have achieved reasonably rapid growth for a few years.
13. The myth that the experience of these economies validated the neoliberal model because their success was due to their willingness to allow market forces to determine patterns of resource allocation has finally been abandoned by the IFIs as a result of the accumulation of contrary evidence (Bienefeld 1988; Amsden 1989; Wade 1990; World Bank 1992). This led the Bank to produce a study that acknowledged the dirigiste nature of these states, but argued that they had, nevertheless, "mainly" succeeded because they had essentially followed the core of the Bank's policy prescriptions, namely "sound macro policies" and "heavy investment in education" (World Bank 1993). While it did acknowledge that South Korea and Taiwan had used a range of other interventionist measures, these were declared peripheral or ineffective. Despite its wide distribution, this report has, however, been thoroughly discredited by responses that have shown its methodology to be flawed, and its discussion and conclusions to be highly selective (Lall 1994; Wade 1994; Rodrik 1994; Singh 1995; Jomo 1996; Rowthorn 1996).

14. This familiar argument has a long history, going back to Friedrich List in the nineteenth century. In the post-war period it was long associated with Alexander Gerschenkron (Gerschenkron 1965) and it has recently been restated in a more fully developed form by Alice Amsden (Amsden 1991). It can also be developed from a resolutely neoclassical perspective, if one concludes that the development of technological capacities involves significant externalities and learning effects (Mayer 1985; Stoneman and Vickers 1988; Romer 1992; Bell and Pavitt 1994).
15. The fact that many studies suggest that ownership does not matter is largely due to the fact that it is a necessary, but not a sufficient, condition for the national appropriation of technology rents. In fact, as the links between particular firms and their home economies become more tenuous, ownership will matter less and less. But this does not invalidate the point that in cases like South Korea the nationality of firms did matter since it allowed them greater scope to ensure that national factors of production would be the primary beneficiaries of the technology rents that resulted from the social investments that these states mobilised so effectively (Amsden 1989; Wade 1990; Lall 1994; Singh 1995).
16. Thus, in the introduction to a book that examined Latin America's structural adjustment experience in the eighties, Jeffrey Sachs reminded us that: "The basic ideas in most stabilization programs supported by the IMF and the World Bank are quite straightforward, and aim to reduce budget deficits, achieve a real exchange rate depreciation, and open the economy to international trade. The sobering point is that programs of this sort have been adopted repeatedly, and have failed repeatedly, in the [Latin American] countries under investigation during the past thirty years" (Sachs 1989).
17. IFI publications are filled with statements like: "Targetted food subsidies (through intelligently-located outlets or through a food stamp system) have proven more effective in reaching the neediest and far cheaper to the treasury" (Pfefferman 1987, p 19). But one would be hard pressed to justify such sweeping assertions. In reality, the situation is better described in an UNRISD study which concluded that: "Existing adjustment-related safety nets can fail to reach the poor for any number of reasons. But even if they do not reduce poverty significantly, the little they do achieve may still be worthwhile. .. In general it seems safe to assume that social funds have a positive impact on poverty and inequality - as far as they go. But whether they actually go far enough to justify their costs, or whether they are the best alternative, has to be judged on a case-by-case basis" (UNRISD 1995, p 54).
18. The discussion of user fees and their impact is frequently highly ideological. Thus when the Bank first began to promote user fees in health care in the eighties, it drew heavily on studies which suggested that the utilisation of health care facilities does not decline significantly after the introduction of such fees (Griffin 1988). This observation was "interpreted" as proof that people are willing to pay, and can afford to pay, for health care services. But this simply ignores the well known fact that health services cannot be treated like any other service because they often constitute an overriding demand on which resources must be spent, whatever the human, social or economic opportunity cost within the family, the community or society. If this had been acknowledged, then the fact that utilisation rates had remained largely unchanged, would only be of mild interest, but would have led to attempts to establish whether the imposition of such fees led to a redirection of income (e.g. from basic food requirements to health care) that imposed significant hardship on the users of those services or their families or communities, and/or imposed significant costs on society and economy (Russell 1996). Then, when numerous studies began to show that utilisation rates did drop in many instances (Litvack and Bodart 1995) the Bank maintained its commitment to the same policy, but argued that this effect could hypothetically be offset if some of the finances raised in the process were spent on improving the health facilities (World Bank 1995). This still ignores the question whether this new form of health care is imposing hardship on the users.
19. "The term 'safety nets' (SNs) is used .. broadly to encompass three different types: social action programs (SAPs), emergency social funds (ESFs), and social investment funds (SIFs). .. The pioneering experiments and largest concentration of these programmes are found in Africa and Latin America ... 15 of some 20 Latin American nations have some type of SN" (UNCTAD 1994, p 4).
20. In essence these problems revolve around the fact that: "before and after" studies are generally unreliable because conditions will have changed significantly in the meantime, especially since such policies are often introduced at times of crisis; cross sectional studies are problematic since *ceteris paribus* does not hold; and the only really legitimate comparison is that between what actually happened and that which would have happened in the absence of the policy (i.e. the counterfactual), but the latter cannot be empirically measured and can only be a hypothetical estimate that will always primarily depend on the analysts theoretical and ideological predilections.

21. The commissioning of this study reflects the growing concern with this aspect of the adjustment experience by the end of the eighties (Heller et al 1988).
22. These conclusions effectively declare the empirical evidence of secondary importance, at best (Heller et al 1988, pp 8 and 10).
23. The discussion by John Williamson (J. Williamson 1994) represents an extraordinarily blunt and arrogant statement of this position. It implicitly reduces democracy to a charade needed to legitimate "good policies" that are formulated by expert "technopols" (i.e. politicians who are also economists!), who are said to be willing to impose these on society even when they are intensely unpopular. Since, in doing so, they jeopardise their political future, they are presented as "selfless" public spirited individuals whose idealism is seen by Williamson as the "exception" that prove the general public choice theory rule that politicians are simply self-seeking. Williamson's prime example of such selflessness is the former President of Mexico, Salinas de Gortari, who is being sought by Interpol and the Mexican government to be tried on fraud charges, and who is currently living in Ireland, apparently because it does not have an extradition treaty with Mexico!
24. This is an important point, since it confirms that the NSP is not to represent a significant shift in priorities, or a significant redirection of resources (Pfefferman 1987, p 16).
25. This argument is developed by Polanyi in his seminal book, The Great Transformation (Polanyi 1944). The argument echoes that of Marx, in so far as capitalism is seen to generate contradictions that must eventually be resolved, whenever its logic leads the attempt to create a "self-regulating market". But the political analysis differs from Marx's, in that the question of who will be the political agent of society's counter-attack is left intentionally broad and even vague, making the point that such change is almost always based on diverse counter-movements that draw on many elements of society and that cannot be predicted *ex ante*. See (Bienefeld 1989a) for a fuller discussion of Polanyi's argument and its relevance to the current crisis.
26. In its 1981 World Development Report the Bank categorically dismissed the debt problem as a "short-term factor" and predicted that net borrowing by the Third World would (and should) proceed at a rate (as a proportion of GDP) that was only slightly below that of the late 1970s. Indeed, the Report considered it "quite feasible for capital flows to grow at a faster rate than (this)" (World Bank 1981, p 63).
27. The economic justification for those policies was destroyed when they failed to produce large enough supply side responses to allow recipient countries to meet the demand for full repayment without thereby imposing enormous social and economic costs that impaired both growth and efficiency. The resulting production losses were clearly inefficient from a global point of view. (See Bienefeld 1989).
28. The point is not that this is the inevitable consequence of such financial flows, but it must be considered a real possibility.
29. George Soros, now famous as the man who made \$1 billion dollars in ten days speculating against the British Pound in 1992, has explained why one cannot sit on the sidelines during a speculative bubble (Soros 1987). "Participants are not in a position to prevent a boom from developing even if they recognise that it is bound to lead to a bust. That is true of all boom/bust sequences. Abstaining altogether is neither possible nor advisable. For instance, in my analysis of mortgage trusts I clearly predicted a bad end, yet my advice was to buy now because the shares would have to rise substantially before they crashed." His conclusions should be carefully considered by all those Latin American policy makers who are not yet so deeply involved in this speculative process that they can still think about the public interest in a serious manner. The conclusion was: "Financial markets need to be supervised. Only some kind of intervention, be it legislative, regulatory, or a gentle hint from a central bank, can prevent boom/bust sequences from getting out of hand." (Soros 1987, pp 100 and 101).
30. There is a growing list of statistics that have now reached levels unprecedented in history, and in a number of cases the previous peak was not only substantially lower, but was reached shortly before the crash of 1929. These include: the capitalization of the US stock markets as a proportion of US GDP (now above 110%; previous peak 81.4% in 1929: Bary 1996); average returns on US stocks at current prices and earnings (now below 2%; previous low 2.9% in 1929: de Mercado 1997); combined private, public and corporate debt in the US, as a proportion of GDP (now 220%; previous peak 189% in 1929: de Mercado 1997).
31. In November of 1996, Russia issued its first international bonds since 1917, yielding just 345 basis points above U.S. Treasuries. Even so, these bonds were "oversubscribed twice over" leading Barron's Weekly to wonder why. In answering, one bond trader suggested that: "We're in one of those periods where everything's driven by stonking great liquidity" (Forsyth 1996, p MW10). Another article in the same

issue of Barron's notes that "the excitement over Russia as an investment .. grows ever more fervid" and then describes this as "the froth on a great wave, a vivid reflection of the global mania for financial assets" (Abelson 1996). And this "mania" is being generated in a context in which financial institutions have repeatedly made very large losses that reflect the inordinate risks that are being assumed. After yet another such event in the City of London, a senior financial commentator suggested that these things were happening largely due to "weaknesses inside City-based financial houses, most obviously the bonus structure that provides such huge incentives to successful traders that it pays them to cheat, and encourages internal supervisors to see no evil" (Buckingham 1997, p 16). Elsewhere, the implications were spelled out even more graphically: "The fact that a hole of such size could suddenly open up in Nat West's balance sheet without any instance of deceit or fraud has serious implications. It shows the uncertainties and risks to which every bank in the multibillion dollar interest rate derivatives market is exposed. It also shows the modern science of pricing derivatives is terribly inexact." (Gapper 1997) And so is the "pricing" of Russian bonds, and the assessment of "country risk".

32. Concerns about Asia's inflated property markets are now widespread and, in some quarters, this is translating into a much deeper concern about the region's banking systems. Thus a Business Week report of February 1997 warned that "Japan's banking system hit the wall when equity and property prices began collapsing in 1990, and it has been struggling to recover ever since. But now the malady is spreading to the rest of East Asia. From Seoul and Tokyo to Taipei and Bangkok, lenders have run up an estimated \$600 billion in nonperforming loans. ..[The resulting] credit squeeze could push some of the world's most dynamic countries into an economic slump" (Bremner et al 1997). Recently these fears have begun to be realised, as the Thai financial market has been shaken so severely that "the Thai government is preparing to take on as much as Baht 100 billion (\$3.9 bn) of bad debt from finance companies which have over-extended themselves to the country's troubled property sector" (Bardacke 1997, p 4).
33. It published an article entitled "Global financial meltdown is just around the corner" on May 22nd, which reported that "the extreme volatility of major United States stock exchanges .. has led several experts to predict not only the imminent collapse of Wall Street, but also a global recession that would make the Great Depression pale by comparison" (de Mercado 1997). And many other voices have drawn attention to the dangers inherent in the current situation. Thus, a detailed analysis of prices and earnings on the US stock market has recently concludes that "one has to make some pretty heroic assumptions if one is to believe that the US stock market can continue its recent progress. The fall may come within months or years", but come it must. (Coggan 1997 p 24) And when it does, there will be a lot of fallout, especially for the weaker economies of the world, if history is any guide.

Bibliography

- Abelson, A. (1996) "The Boris Bonds" Barron's Weekly (New York: The Wall Street Journal), Nov 25
- Akyuz, Y. (1993) "Financial Liberalization: The Key Issues" UNCTAD Discussion Paper NO. 56 (Geneva: UNCTAD) March
- Amsden, Alice (1989) Asia's Next Giant: South Korea and Late Industrialization, (Oxford: Oxford Univ Press):
- Amsden, A. (1991) "A Theory of Government Intervention in Late Industrialization" Political Economy Working Paper Series No.27 (New York: New School for Social Research) (pp 1-62)
- Arrow, K. (1974) The Limits of Organization (New York: Norton)
- Bardacke, T. (1997) "Thailand set to take on companies' bad debts" The Financial Times (of London), March 12 (p 4)
- Barkin, D., I. Ortiz and F. Rosen (1997) "Globalization and Resistance: The Remaking of Mexico" NACLA: Report on the Americas, XXX:4, Jan/Feb (pp 14-27)
- Barkin, D. and F. Rosen (1997) "Why the Recovery is not a Recovery" NACLA: Report on the Americas, XXX:4, Jan/Feb (pp 24-25)
- Bary, A. (1996) "Untested Waters: For the first time, the U.S. stock market is larger than GDP" Barron's Weekly (New York: The Wall Street Journal) November 25 (p 17)
- Bates, R. (1990) 'Macropolitical economy in the field of development' in J.E. Alt and K.A. Shepsle (eds) Perspectives on Positive Political Economy (Cambridge: Cambridge UP) (pp 31-54)

- Bell, M. and K. Pavitt (1994) "Knowledge, Property, and the System Dynamics of Technological Change" Proceedings of the World Bank Annual Conference on Development Economics (Washington D.C.: World Bank) - (pp 257-281)
- Berry, A. and F. Stewart (1994) "Market Liberalisation and Income Distribution: The Experience of the 1980s", Paper presented to Global Development 50 Years after Bretton Woods, A Colloquium in Honour of G. K. Helleiner, North-South Institute, Ottawa, Canada, June 22-24
- Bienefeld, M.A. (1988) "The Significance of the Newly Industrialising Countries for the Development Debate" Studies in Political Economy, No25, Spring (pp 7-40)
- Bienefeld, M. A. (1989) "A Time of Growing Disparities" in B.W. Tomlin and M. Molot (eds) Canada Among Nations: The Tory Record 1988, Lorimer: Toronto (pp 125-148)
- Bienefeld, M..A. (1989a) "The Lessons of History and the Developing World" Monthly Review, 41:3, July-Aug
- Bienefeld, M..A. (1993) 'Structural Adjustment: Debt Collection Device or Development Policy?', ADMP Series No.5 (Tokyo: Sophia University)
- Bremner, B. and M.L. Clifford, J. Lim and M. Shari (1997) "For Asia's Bad Banks, It's Pay-up Time" Business Week, February 24 (pp 112-116)
- Buckingham, L. (1997) "Bonus cuts likely after bank scandal" The Manchester Guardian Weekly March 9
- Burton, J. (1996) "Maturing S Korea suffers labour pains" The Financial Times (of London), Oct 2 (p 6)
- Coggan, P. (1997) "Bet on chicken entrails" The Financial Times (of London), March 24 (p 24)
- W. Dugger (1979) "Methodological differences between institutional and neoclassical economics" in Hausman (ed.) (1994) The Philosophy of Economics (Cambridge:CUP).
- The Economist (Editorial) (1994) "For richer, for poorer", 5 Nov 1994 (pp 19-21).
- Forsyth, R.W. (1996) "Russia's First Big Bond Issue since 1917 is a Roaring Success. The Question is: Why?" Barron's Weekly (New York: Wall Street Journal) November 25.
- Gapper, J. (1997) "When the smile is wiped out" The Financial Times (of London), 8/9 March 1997
- Gerschenkron, A. (1965) Economic Backwardness in Historical Perspective (New York)
- Ghai, D. and C. Hewitt de Alcantara (1990) "The Crisis of the 1980s in Africa, Latin America and the Caribbean: Economic Impact, Social Change and Political Implications" UNRISD Discussion Paper No. 7 (Geneva: UNRISD) January
- Granovetter, M. (1985) "Economic Action and Social Structure: The Problem of Embeddedness" in (1992) M.Granovetter and R.Swedberg (eds) The Sociology of Economic Life (Boulder CO: Westview Press)
- Griffin, C.C. (1988) "User Charges for Health Care in principle and Practice" EDI Seminar Paper No. 37 (Washington D.C.: World Bank Economic Development Institute)
- Hahn, F.H. (1991) "The Next Hundred Years" The Economic Journal, 101, January (pp 47-50)
- Hart, O. (1988) "Incomplete Contracts and the Theory of the Firm" Journal of Law, Economics and Organization, Vol. 4.
- Heller, P.S. et al (1988) "The Implications of Fund-Supported Adjustment Programs for Poverty" IMF Occasional Paper No.58, (Washington D.C.:IMF) May
- Hellman, J.A. (1997) "Social Movements: Revolution, Reform and Reaction" NACLA: Report on the Americas, XXX:6, May/June (pp 13-18)
- Holtham, G.H. and J.A. Kay (1994) "The Assessment: Institutions of Policy" Oxford Review of Economic Policy, Vol. 10, No. 3, Autumn 1994
- Jomo, K.S. (1996) "Lessons from Growth and Structural Change in the Second-tier South East Asian Newly Industrializing Countries", UNCTAD Project on East Asian Development: Lessons for a New Global Environment: Study No4 (Geneva: UNCTAD)
- Khan M.S. and Knight (1985) "Fund-Supported Adjustment Programs and Economic Growth", IMF Occasional Paper No 41, (Washington .D.C: IMF)
- Lall, S. (1994) " 'The East Asian Miracle' Study: Does the Bell Toll for Industrial Strategy?" World Development, 22:4, April
- Litvack, J. and C. Bodart (1995) "The Impact of Rising Fees and Service Quality: A Field Experiment in Cameroon" in R.P. Shaw and M. Ainsworth (eds.) Financing Health Services through User Fees and Insurance - Case Studies from Sub-Saharan Africa (Washington D.C.: World Bank)
- MacAulay, S. (1963) "Non-contractual Relations in Business" American Sociological Review, Vol. 28 (pp 55-67)
- Macneil, I. (1980) The New Social Contract (New Haven: Yale University Press)
- Mayer, C. (1985) "The Assessment: Recent Developments in Industrial Economics and their Implications for Policy" Oxford Review of Economic Policy, 1:3, Autumn (pp 1-24)

- Moser, C. (1992) "From marginality to vulnerability": The changing agenda of social policy from residual welfare to compensatory measures" IDS Silver Jubilee Paper, (Sussex, U.K.: The Institute of Development Studies)
- North, C. Douglass (1990) Institutions, Institutional Change and Economic Performance (Cambridge: Cambridge UP)
- Pfefferman, G.P. (1987) "Public Expenditure in Latin America" World Bank Discussion Paper No. 5 (Washington D.C.: World Bank) (pp 1-38)
- Polanyi, K. (1944) The Great Transformation, (Boston: Beacon Press)
- Rodrik, D. (1990) "How Should Structural Adjustment Programs be Designed?" World Development, 18:7 (pp 933-947)
- Rodrik, D. (1994) "King Kong Meets Godzilla: The World Bank and the East Asian Miracle" Centre for Economic Policy Research Discussion Paper No.944 (London: CEPR)
- Romer, P. M. (1992) "Two Strategies for Economic Development: Using Ideas and Producing Ideas" Proceedings of the World Bank Annual Conference on Development Economics (Washington DC: World Bank) (pp 63-116)
- Rowthorn, R. (1996) "East Asian Development: The Flying Geese Paradigm Reconsidered" UNCTAD Project on East Asian Development: Lessons for a New Global Environment: Study No4 (Geneva: UNCTAD) (pp 1-20)
- Russell, S. (1996) "Ability to Pay for Health Care: Concepts and Evidence" Health Policy and Planning, Vol. 11, No. 3 (pp 219-237)
- Sachs, J. D. (1989) Developing Country Debt and the World Economy (Chicago: University of Chicago Press) (in the Introduction pp. 1-36)
- Singh, A. (1995) "How Did East Asia Grow so Fast? Slow Progress Towards an Analytical Consensus" UNCTAD Discussion Paper No.97, (Geneva: UNCTAD) February
- Soros, G. (1987) The Alchemy of Finance (Toronto: Simon and Shuster)
- Spiro, L.N. (1991) "Older, Wiser - and a lot Wealthier" Business Week, 4 November 1991
- Stoneman, P. and J. Vickers (1988) "The Assessment: The Economics of Technology Policy" Oxford Review of Economic Policy, 4:4, Winter (pp i-xvi)
- Torres, C. and T.T. Vogel Jr. (1994) "The long arm of the funds" The Wall Street Journal (as reprinted in the Toronto Globe and Mail, 17 June 1994, pp B1 and B8)
- UNCTAD (1994) "Recent Developments In Social Funds and Safety Nets", Background note by UNCTAD Secretariat to the Standing Committee on Poverty Alleviation, GE. 93-54356, November 22
- UNRISD (1995) (UN Research Institute for Social Development) States of Disarray: The social effects of globalization (Geneva: UNRISD)
- Vogel, T.T. and S.E. Frank (1997) "Lending Boom Sweeps Latin America" The Wall Street Journal (as reprinted in The Toronto Globe and Mail, 9 July, p B8)
- Wade, R. (1990) Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton N.J.: Princeton University Press)
- Walton, J. (1993) "Urban Poverty in Latin America" Latin America Program Working Paper No. 202, (Washington D.C.: Woodrow Wilson International Center for Scholars)
- Williamson, J. (1994) "In Search of a Manual for Technopols" in John Williamson (ed) The Political Economy of Reform (Washington D.C.: Institute for International Economics) (pp 11-47)
- Williamson, O. (1994) "The Institutions and Governance of Economic Development and Reform" Proceedings of the World Bank Annual Conference on Development Economics (Washington D.C.: World Bank) (pp 171-208)
- World Bank (1981) World Development Report 1981 (Washington D.C.: World Bank)
- World Bank (1987) Financing Health Care in Developing Countries: An Agenda for Reform (Washington D.C.: World Bank)
- World Bank (1988) Adjustment Lending: An Evaluation of Ten Years of Experience (Washington D.C.: World Bank)
- World Bank (1989) World Development Report 1989 (Washington D.C.: World Bank)
- World Bank (1990) "Assistance Strategies to Reduce Poverty", Paper No. R90-243 (Washington D.C.: World Bank)
- World Bank (1990a) World Development Report 1990 (Washington D.C.: World Bank)
- World Bank (1992) World Bank Support for Industrialization in Korea, India and Indonesia (Washington DC: World Bank Operation Evaluations Department)
- World Bank (1993) The East Asian Miracle: Economic Growth and Public Policy (Washington D.C.: World Bank)
- World Bank (1995) Financing Health Care in Sub-Saharan Africa through User Fees and Insurance (Washington D.C.: World Bank)

DEVELOPMENT RESEARCH SERIES

WORKING PAPERS:

- No. 1: *Olav Jull Sorensen*: Marketing Issues in Peasant Agricultural Development, 55pp, 1983.
- No. 2: *Hans Gullestrup*: The Ecol-Humanistic Technology - the new Technology as Experiences from the Past, 33pp, 1983.
- No. 3: *Georg Sorensen*: Transnationals and the Transfer of Technology to the Third World, 31pp, 1984.
- No. 4: *Georg Sorensen*: International Bureaucracies and Aid: The Political Economic of the 'B-Share', 11pp, 1984.
- No. 5: *Georg Sorensen*: Notes on Materialism and Boredom - Western Development Ideals, 12pp, 1984.
- No. 6: *Olav Jull Sorensen*: Marketing Systems and Economic Development. An Institutional-Structural Approach, 41pp, 1984.
- No. 7: *Georg Sorensen*: How much Poison is Another Man's Meat? - Notes on the Logic of World Systems Analysis, 29pp, 1984.
- No. 8: *Georg Sorensen*: Peace and Development: Looking for the Right Track, 18pp, 1984.
- No. 9: *Georg Sorensen*: The Twists and Turns of Development Theory - A Comment on "The European Experience" by Dieter Senghaas. 19pp, 1984.
- No. 10: *Jacques Hersh & Ellen Brun*: Aspects of Soviet Participation in a Shifting World Economy. 45pp, 1984.
- No. 11: *Olav Jull Sorensen*: Marketing System Development and Labour Migration: Analysis and Consequences. 41pp, 1984.
- No. 12: *Georg Sorensen*: How Cold is the Second Cold War? - An Assessment of the Scope of 'the Great Contest'. 23pp, 1984.

- No. 13: *John E. Kuada*: Agricultural Development in the Third World. 23pp, 1984.
- No. 14: *Olav Jull Sørensen*: Profiles of Tanzanian Peasants and their Marketing Implications. 52pp, 1984.
- No. 15: *Jørgen Kristiansen*: Urban Passenger Transport in Developing Countries - Socio-economic Impact and the Choice of Technology. 58pp, 1985.
- No. 16: *John E. Kuada*: Marketing Systems in a Development Process. 35pp, 1985.
- No. 17: *Georg Sørensen*: Some Contradictions in a Rich Concept on Development. 14pp, 1985.
- No. 18: *Olav Jull Sørensen*: Marketing of Agricultural Inputs/Implements and Profiles of Farmers in Kenya: Project Preparations. 47pp, 1986.
- No. 19: *Georg Sørensen*: Development Through the Eyes of a Child. 17pp, 1986.
- No. 20: *Georg Sørensen*: International and External Intertwined: 5 Obstacles to Development in India. 20pp, 1986.
- No. 21: *John E. Kuada*: Macro-Micro Integrated Framework for Market Opportunity Analysis and Project Selection. 14pp, 1986.
- No. 22: *Olav Jull Sørensen*: Co-operatives: Movement-to-Movement Cooperation. Some Conceptual Views. 15pp, 1986.
- No. 23: *John E. Kuada*: Financing Rural Food Marketing Systems in Ghana. 16pp, 1986.
- No. 24: *Hans Gullestrup*: Culture, Cultural Analysis and Cultural Ethics - Or What Divides and What Unites Us? (Out of print) (in Danish). 84pp, 1987.
- No. 24a: *Hans Gullestrup*: Culture, Cultural Analysis and Cultural Ethics - Or What Divides and What Unites Us? (Second revised edition) (Out of print) (in Danish). 92pp, 1988.
- No. 25: *John E. Kuada*: Food Marketing in Ghana, the Role of Rural Food Traders. 53pp, 1988.
- No. 26: *Henrik A. Nielsen*: Monitoring Rural Development in Bangladesh. 22pp, 1989.

- No. 27: *Hans Gullestrup*: The Ethical Dilemma in *the* Intercultural Co-operation, or: The Development Aid Worker's Personal Problem (in Danish). 26 pp, 1991.
- No. 28: *Chaiwoot Chaipan*: Current Issues on Economic Development in East and Southeast Asia. 24pp, 1991.
- No. 29: *Henrik Nielsen*: Databased Information on Danida-Projects 1962-91: Overview and Analysis of the Daniproj-Database. 55pp, 1992.
- No. 30: *Hans Gullestrup*: Evaluating Social Consequences of Social Changes in the Third World Countries. 24pp, 1993.
- No. 31: *Johannes Dragsbæk Schmidt*: In The Shadow of the Pacific Century - Comparative Perspectives on Externalities Influence on Economic Policy-Making in Southeast Asian Would-be NICs. 106pp, 1993.
- No. 32: *Henrik A. Nielsen*: Local Community Development Around the Bay of Bengal: Context, Crises and Perspectives. 27pp, 1994.
- No. 33: *Johannes Dragsbæk Schmidt*: Southeast Asian State Responses to a Regionalized World Economy. 21pp, 1994.
- No. 34: *Johannes Dragsbæk Schmidt*: Semi-autonomy in Economic Policy-making: The Case of Thailand. 28pp, 1994.
- No. 35: *Johannes Dragsbæk Schmidt*: Increasing Exports in a Decreasing World Market: The Role of Developmental States in the ASEAN-4. 27pp, 1994.
- No. 36: *Johannes Dragsbæk Schmidt*: State Capacities and Bargaining Strategies in the Global Disorder. 14pp, 1994.
- No. 37: *Samir Amin*: The Future of Global Polarization. 17pp, 1994.
- No. 38: *Peter W. Cunningham*: The Re-affirmation of State Socialism. The South African Debate. 17pp, 1995.
- No. 39: *Andre Gunder Frank*: Nothing New in the East: No New World Order. 28pp, 1994.

- No. 40: *Johannes Dragsbæk Schmidt*: State Intervention in Southeast Asia. Creating Growth without Welfare. 20pp, 1994.
- No. 41: *Garry Rodan*: Ideological Convergences Across 'East' and 'West': The New Conservative Offensive. 24pp, 1995.
- No. 42: *Jacques Hersh*: North Korea: Ideal-Type Anomaly. 18pp, 1995.
- No. 43: *Research Centre for Development and International Relations (DIR), Johannes Dragsbaek Schmidt et al. (eds.)*: Research Program 1995-1997. Globalization and Social Change - Structures, Systems and Unidisciplinary Research. 74pp, 1995.
- No. 44: *Feiwei Kupferberg*: Ethno-nationalism, Liberal Democracy and the Psychology of the Post Cold War Era. 19pp, 1995.
- No. 45: *Feiwei Kupferberg*: Uncertainty, Chaos and Learning: Prolegomenon to a Sociology of Creativity. 27pp, 1995.
- No. 46: *Feiwei Kupferberg*: Strategic Learning: East Germany as a "Model Case" for Transformation Theory. 26pp, 1995.
- No. 47: *Li Xing*: China and East Asia vs. The West: Controversies, Clashes and Challenges. 19pp, 1995.
- No. 48: *Kwang-Yeong Shin*: Democratization and Class Politics in Korea, 1987 - 1993. 20pp, 1995.
- No. 49: *Joachim Hirsch*: Regulation Theory and its Applicability to Studies on Globalization and Social Change. 12pp, 1995.
- No. 50: *Ellen Brun*: The New Social Contract: Sustainability from below. 20pp, 1995.
- No. 51: *Li Xing*: The Dynamics of East Asian Intra-Regional Economic Relations. 22pp, 1995.
- No. 52: *Kwang-Yeong Shin*: Characteristics of the East Asian Economic System: Authoritarian Capitalism and The Developmental State. 33pp, 1996.
- No. 53: *Li Xing*: Playing Democracy and Human Rights. The International System and the China-West Case. 17pp, 1996.

- No. 54: *Jacques Hersh & Johannes Dragsbaek Schmidt*: Dirigisme or Laissez-Faire? - Catching-up Strategies in the Global System After the Demise of Soviet-Style Command Economies. 22pp, 1996.
- No. 55: *Johannes Dragsbaek Schmidt & Jacques Hersh*: Peace Convergence and Political Legitimacy in Israel and Palestine. 16pp, 1997.
- No. 56: *David Harvey*: Globalization in Question. 22pp, 1997.
- No. 57: *Amiya Kumar Bagchi*: In Praise of the Developmental State. 35pp, 1997.
- No. 58: *Su-Hoon Lee*: The Rise of Environmentalism in South Korea. 31pp, 1997.
- No. 59: *Mark Beeson & Kanishka Jayasuriya*: The Politics of Regionalism: APEC and the EU in Comparative Perspective. 37pp, 1997.
- No. 60: *Manfred Bienefeld*: The State and Civil Society: The Political Economy of the "New Social Policy" 35pp, 1997.