POLICY RESEARCH WORKING PAPER 2443

The Politics of Economic Policy Reform in Developing Countries

Richard H. Adams Jr.

Various social groups may oppose economic reforms such as currency devaluation, privatization of state firms, and the elimination of consumer (food) subsidies because of doubts about the benefits of these reforms or because they believe that these reforms will harm their economic interests. Whether such opposition can stall reform depends on the aggregate political weight of the affected social groups.

The World Bank
Poverty Reduction and Economic Management Network
Poverty Division
September 2000

POLICY RESEARCH WORKING PAPER 2443

Summary findings

Because of politics, some economic policy reforms are adopted and pursued in the developing world and others are delayed and resisted. Economic reform is inherently a political act: It changes the distribution of benefits in society, benefiting some social groups and hurting others. Social groups may oppose reform because of doubts about its benefits or because they know it will harm their economic interests.

Adams shows how three types of reform—currency devaluation, the privatization of state enterprises, and the elimination of consumer (food) subsidies—affect the utility of nine different social groups (including international financial institutions).

When governments try to privatize state-owned enterprises, for example, more social groups with greater political weight are likely to be disadvantaged than helped. Urban workers, urban bureaucrats, urban students, and the urban poor are likely to "lose out" and will strongly oppose privatization. But the ruling elite and urban politicians are also likely to at least partly resist privatization, fearing that such reform will reduce their economic "rents." More social groups and power points thus oppose privatization than favor it, so this policy reform is likely to be delayed or not implemented at all.

However, social groups do not possess an absolute veto over economic reform, and policy reform can (and often does) occur despite the opposition of certain social groups. It depends on the aggregate political weight of the groups opposing reform.

For example, as Adams shows, five social groups either wholly or partly oppose eliminating consumer (food) subsidies, but the combined weight of those groups is only roughly equal to the political weight of the four social groups—international financial institutions, the ruling elite, urban politicians, and urban capitalists—that favor this reform. Politically, consumer subsidies can be eliminated or reduced if the right kind of concern is shown for opposing social groups.

This paper—a product of the Poverty Division, Poverty Reduction and Economic Management Network—is part of a larger effort in the network to understand the political economy issues affecting economic reform and poverty interventions. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Moira Coleridge-Taylor, room MC4-554, telephone 202-473-3704, fax 202-522-3283, email address mcoleridgetaylor@worldbank.org. Policy Research Working Papers are also posted on the Web at www.worldbank.org/research/workingpapers. The author may be contacted at radams@worldbank.org. September 2000. (44 pages)

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in Developing Countries

Richard H. Adams, Jr.

PRMPO

Room MC4-815

World Bank

1818 H Street, NW

Washington, DC 20433

Phone: 202-473-9037

E-Mail: radams@worldbank.org

While some attempts at economic policy reform are adopted and pursued in the developing world, other efforts at reform are delayed and resisted.[1] For instance, despite the positive contribution that policy reforms like currency devaluation, privatization of state companies and elimination of consumer subsidies might make to trade and budget deficits and general economic welfare, a recent study by the International Monetary Fund (IMF) found that "economic reform remains incomplete and external viability elusive" in many developing countries (IMF, 1993: 40). What are the reasons for the adoption of some types of economic reform, and the resistance to other reform policies? This article tries to explain this phenomenon by reference to: the content of different reform policies, the differential impact of these policies on competing social groups, and the political weight of social groups favoring and opposing reform.

In recent years the economic literature has posited two basic reasons for the resistance to economic reform in some countries. Each of these explanations has been based on the heterogeneity of group interests in society and the uncertainty that different groups have about the net benefits of reform.

In the first explanation, there is a conflict between social groups over how the known cost of economic reform will be divided (Drazen and Grilli, 1993; Alesina and Drazen, 1991). In this approach, although each social group knows the net benefit that it

would receive in a policy change, each group is uncertain about the net benefits other groups will enjoy through reform.

In the second approach, the key concept is that some social groups are uncertain about the benefits they themselves will enjoy if a particular economic reform is adopted (Rodrik 1996, 1113; Fernandez and Rodrik, 1991). In this approach, reforms tend to be resisted, and the "status quo" extended, because of the uncertain distributional effects of policy change.

This article presents a framework which encompasses both of these explanations, while at the same time broadening and extending these approaches in five key ways. First, the analysis emphasizes the positive: in many instances, resistance to reform has been overcome and economic reform policies have been implemented. Second, this analysis brings to the fore the notion of politics: in most developing countries economic reform is as much a political as an economic issue. Economic reform is inherently political because by changing the distribution of benefits in society, economic reform benefits some social groups and harms others.[2] Third, in the economic literature the decision calculus of politicians in choosing to implement economic policy reform is seldom specified. This analysis seeks to remedy this omission by modeling how politicians pursue reform through their interactions with competing social groups. Fourth, in the economic literature, resistance to reform is often viewed in terms of the distributional conflicts between two or three social groups.[3] However, in the real world society is composed of more than two or three stylized groups, and these social groups have different political power or weight in the reform process. The key, then, to

understanding why policy reforms are implemented and/or delayed is to identify both the political weights of different social groups and how these groups are affected by various types of reform. Fifth, this article broadens the notion of social group heterogeneity by incorporating ideas from the rent-seeking literature. According to the rent-seeking literature, "the government apparatus is employed to create and extract rent" (Mbaka and Paul, 1989) and politicians are considered as "brokers of wealth transfers between the various interest groups" (Kimenyi and Mbaka, 1993). In this approach, national politicians (and government bureaucrats) become social groups in their own right, "selling" access or control of the government apparatus to other social groups. Since the process of economic reform is likely to deprive politicians and government bureaucrats of the "rents" they receive as brokers, these two social groups may try to delay or resist policy reform.

The paper is organized as follows. Section 2 presents the nine social groups in the model. Sections 3 and 4 analyze the utility of each social group with and without rent-seeking. Section 5 describes the political weight of each social group, and Section 6 analyzes the decision calculus of politicians for undertaking reform. Section 7 then applies the model to three specific types of economic reform: currency devaluation, privatization of state-owned companies, and elimination of consumer (food) subsidies. These sections show how different types of policy reform have a differential impact on competing social groups, and how summing up the political weights of "advantaged" and "disadvantaged" social groups shows whether or not a particular reform will be implemented or opposed. If a particular reform engenders enough opposition among

social groups with large political weight, that reform will be delayed and/or not implemented. Section 8 summarizes these, and other, findings of the study.

At the outset, it should be emphasized that this paper abstracts from the country case-study approach in the sense that it presents few specific examples from developing countries. Clearly, the impact of economic reform on social groups will vary considerably from country to country, and so will the ability of these different groups to adopt or resist reform. While in the past considerable attention has been focused on the political economy of reform in specific developing countries,[4] few of these studies have explicitly sought a broader understanding of the role that differently weighted social groups play in supporting or resisting the reform process.[5] This paper consciously seeks to produce a broad, political economy map of how social groups with different political weights affect the process of economic reform.

2. The Model

There are nine different social groups in our stylized economy.

1. An external group of international financial institutions (group i), which urge or promote economic reform;

2. A ruling elite (group e) within the country, responsible for deciding if and when to pursue economic reform;

3. An urban group of politicians (group p);

4. An urban group of capitalists (group k), producing industrial goods M;

5. An urban group of workers (group w);

6. A group of government bureaucrats (group b), responsible for implementing economic reform;

7. An urban group of students (group s);

8. An urban group of poor people (group u);

9. A rural group of rich farmers (group r), producing agricultural goods A.

In the model the impetus for economic reform is assumed to be exogenous; that is, international financial institutions (like the IMF and the World Bank) place pressure on the social structure to make policy changes.[6] Within the country a ruling elite (elected or otherwise) decide if and when to pursue specific policy reform. While they do not make decisions on reform, urban politicians work with another social group -- government bureaucrats – to help implement policy reform. In the model ownership of industrial capital is assumed to be concentrated in the hands of the state and a few urban capitalists; the latter form a social group who typically have good access to urban politicians and the ruling elite. Urban workers are assumed to be those who work in the private, modern industrial sector. Urban workers are relatively well-paid, and may or may not be organized into politically-powerful interest groups.[7] Two other social groups – urban students and the urban poor – are not usually organized into interest groups, but members of these groups possess a type of "crypto-political" power by being able to protest in the streets in order to delay economic reform. In the model ownership of land and agricultural capital is assumed to be concentrated in the hands of rich farmers; but since members of this social group live outside the capital area their influence on policy reform is less than other groups.

From this outline, it follows that seven of the nine social groups use rent-seeking to influence the process of economic reform. Of the seven groups which use rent-seeking, four groups – urban capitalists, urban workers, urban poor and rich farmers -- attempt to "buy" political influence in order to delay the pace of reform. Three groups – ruling elite, urban politicians and government bureaucrats – then "sell" their political influence in order to expedite or impede reform.

Two groups, however, are not involved in rent-seeking activities. International financial institutions are assumed not to receive or pay rent; their activities are assumed to focus more on a disinterested desire to initiate policy reform. Similarly, urban students are assumed not to be involved in rent-seeking, since they lack the economic resources to pay or receive rent.

The mechanics of the policy reform process can be more formally elucidated by considering the utility of each competing social group, both with and without rent-seeking. Such an examination will help pinpoint the political and economic reasons why different social groups chose to accept or oppose different types of policy reform.

3. Group Utility without rent-seeking

With the exception of the international financial institutions, which are considered to not receive any utility from policy reform, it can be assumed that each other social group either gains or loses utility in the policy reform process.

Following Pedersen (1997), each social group of agents, i, derives utility from a bundle of consumer goods bought in the market place, the aggregate of which is symbolized by V^i, a group-specific public good, F^i, produced by the public sector and supplied free of charge to group i, and a public good, G, produced by the public sector and supplied free of charge to all members of society. In the derivations below, the groups of agents are assumed to have Cobb-Douglas utility functions:

$$U^i = (V^i)^{\alpha i}(F^i)^{\beta i}(G)^{\varepsilon i} \qquad (1)$$

where $\alpha^i + \beta^i + \varepsilon^i = 1$, and $\alpha^i > 0$, $\beta^i > 0$, $\varepsilon^i \geq 0$.

In addition, two social groups – ruling elite and urban politicians – are assumed to derive utility from political longevity, L, measured as the number of years in office. Political longevity is assumed to directly and positively influence the utility of the ruling elite and urban politicians in some unspecified, multiplicative manner. Thus, for the ruling elite and urban politicians, the Cobb-Douglas utility function will be:

$$U^i = (L^i)\,[(V^i)^{\alpha i}(F^i)^{\beta i}(G)^{\varepsilon i}] \qquad (2)$$

where $\alpha^i + \beta^i + \varepsilon^i = 1$, and $\alpha^i > 0$, $\beta^i > 0$, $\varepsilon^i \geq 0$.

For all social groups, the indicator of the level of consumption goods bought in the market place, V^i, is assumed to be a homothetic function of the consumption of agricultural goods, the price of which is p_A, and the consumption of industrial goods, with

the price of p_M. Letting $e_v(p_A, p_M)$ be a unit expenditure function (the price per unit of consumption baskets), V^i will equal $V^i = Y^i/e_v(.)$, where Y^i is the amount spent on consumer goods in the market place by agents in group i. In order to simplify the exposition, the unit expenditure function is assumed to be the same for all agents, no matter which social group they belong to.

Disregarding rent-seeking costs (and benefits), the expenditures on consumer goods for each social group must equal income after taxes and transfers:

Social group	Income (without rent-seeking)
Ruling elite (group e)	$Y^e = (L^i)\,[W^e - T^e]$
Urban politicians (group p)	$Y^p = (L^i)\,[W^p + H^p - T^p]$
Urban capitalists (group k)	$Y^k = p_M M - W^w - T^k$
Urban workers (group w)	$Y^w = W^w + H^w - T^w$
Urban students (group s)	$Y^s = H^s$
Urban poor (group u)	$Y^u = W^u + H^u - T^u$
Government bureaucrats (group b)	$Y^b = W^b - T^b$
Rich farmers (group r)	$Y^r = p_A A + H^r - T^r$ (3)

The formulations in equation (3) can be explained as follows. All agents (except urban students) are assumed to pay taxes ($T^i > 0$) to the government. Five groups — urban politicians, urban workers, urban students, the urban poor and rich farmers — are assumed to receive transfers, H^i, from the government; these transfers, which may possibly equal zero, include, for example, consumer subsidies. The ruling elite and urban politicians are both treated as government employees, receiving wage income, W^i; this wage income is multiplied by their political longevity in power (L^i), which is unknown.

Urban capitalists earn profits, $p_M M - W^w$, and in this formulation the distribution of value added in industry, $p_M M$, is assumed to be exogenously determined, for example, by the country's terms of trade for manufactured goods. Like urban politicians, government bureaucrats are treated as government employees, receiving wage income, W^i. However, since government bureaucrats serve fixed terms of service, which are not dependent upon political forces, their wages are not affected by considerations of political longevity, L^i. The income of rich farmers is assumed to be the value added in added in agriculture, $p_A A$. For all social groups, the economy is assumed to be small and open, so the prices for agricultural and manufactured goods, p_A and p_M, are exogenous, given by the world market.

4a. Group Utility with rent-seeking: The Government

In the real world, not all social groups are equal. With respect to economic policy reform, only two groups – international financial institutions and the ruling elite – make decisions about how and when to pursue policy reform. Two other groups – urban politicians and government bureaucrats – are responsible for implementing policy reform.

Since in our model international financial institutions (like the IMF and World Bank) are assumed to not receive any utility from policy reform, the other three political and implementing groups – the ruling elite, urban politicians and government bureaucrats -- can be considered as the "government." In other words, it is these three groups who – either through their direct decisions on policy reform or through their decisions about how to implement reform – that decide "who gets what, when and how."

4b. Group Utility with rent-seeking: Rent-paying Groups

In the real world, four social groups -- urban capitalists, urban workers, the urban poor and rich farmers – are engaged in a constant distribution struggle with the government, with each group trying to maximize the amount of public goods that it receives from the government. This struggle necessarily involves each of these groups with the political and implementing groups described above.

In an attempt to "buy" favorable decisions from the government, the four social groups engage in "rent-seeking." (The fifth group, urban students, is assumed not to have the economic resources to engage in "rent-seeking.) That is, urban capitalists, urban workers, the urban poor and rich farmers each pay rent or bribes, B, to buy the political influence of the three groups which constitute the "government." In our case, it is assumed that bribes are paid to two groups -- the ruling elite and urban politicians -- to influence decisions regarding economic reform, and that bribes are paid to the third group -- urban government bureaucrats -- to affect the implementation of these reform decisions.

Since rent-seeking means income transfers from the four competing groups (e_vB^k , e_vB^w, e_vB^u , and e_vB^r) to the ruling elite, urban politicians and government bureaucrats, with rent-seeking the income of the various social groups may be expressed as:

Social group	Income (with rent-seeking)
Ruling elite (group e)	$Y^e = (L^i)\,[W^e - T^e] + e_v(B^k + B^w + B^u + B^r)$
Urban politicians (group p)	$Y^p = (L^i)\,[W^p + H^p - T^p] + e_v(B^k + B^w + B^u + B^r)$
Urban capitalists (group k)	$Y^k = p_M M - W^w - T^k - e_v B^k$
Urban workers (group w)	$Y^w = W^w + H^w - T^w - e_v B^w$
Urban students (group s)	$Y^s = H^s$
Urban poor (group u)	$Y^u = W^u + H^u - T^u - e_v B^u$
Government bureaucrats (group b)	$Y^b = W^b - T^b + e_v(B^k + B^w + B^u + B^r)$
Rich farmers (group r)	$Y^r = p_A A + H^r - T^r - e_v B^r$

(4)

This formulation means that rent-seeking is measured in terms of units of consumption baskets, the price of each is e_v.

From the standpoint of the four groups that pay rent – urban capitalists, urban workers, the urban poor and rich farmers -- the problem is to decide how much rent to pay to each of the three groups that constitute the "government." In other words, how much rent should be paid to the ruling elite and urban politicians to support (or block) the decision to pursue reform, and how much rent should be paid to government bureaucrats to support (or block) the implementation of reform? In order to simplify the exposition, it is assumed that each group pays the same amount of rent to each group in the "government."

5. Political Weight of Competing Groups

Not only do social groups differ on the basis of whether they receive or pay rent, but these groups have different political power or weight in the process of policy reform. More specifically, it can be assumed that social groups have different political weights on the basis of their physical and/or social "distance" from the two key groups that make decisions about policy reform: international financial institutions and the ruling elite. In other words, social groups which are physically close to – and/or frequently socially interact with – international financial institutions and the ruling elite are assumed to have more political input into the policy reform process. This means that two groups -- urban politicians and urban capitalists – have relatively more political weight in the reform process. By contrast, those groups which are physically or socially removed from international political institutions and the ruling elite have less weight in the reform process. This means that the urban poor – who have little physical or social contact with decision makers – and rich farmers – who are physically removed (in rural areas) from decision makers – have less input into the reform process.

Assuming that international financial institutions and the ruling elite each have a maximum political weight of 10, it is possible to assign weights to the other social groups as follows:

Social group	Political Power or Weight in Reform	
International financial Institutions (group i)	10	
Ruling elite (group e)	10	
Urban politicians (group p)	9	
Urban capitalists (group k)	8	
Urban workers (group w)	7	
Urban government Bureaucrats (group b)	7	
Urban students (group s)	6	
Urban poor (group u)	5	
Rich farmers (group r)	4	(5)

It is possible to explain the political weights in equation (5) as follows. Since they are located in urban areas and interact frequently with the ruling elite, urban politicians have a political weight of 9. For similar reasons, urban capitalists are assigned a weight of 8. Because they can organize into potentially powerful interest groups, and thus can protest for or against policy reform, urban workers have a weight of 7. Urban government bureaucrats, who are responsible for implementing (but not deciding on) reform policies, also have a political weight of 7. As noted above, urban students and the poor, although they lack physical and social contact with decision makers, possess a type of "crypto-political" power because they can "take to the streets" to delay economic reform. Urban students, who tend to be better organized, are thus assigned a political weight of 6, and the urban poor a weight of 5. Rich farmers, both because they are physically removed from decision makers and because they generally do not "take to the streets" to protest, have a weight of 4.

6. Decision Calculus of Politicians for Reform

At this point, one critical question needs to be addressed, namely: Why would the ruling elite choose to pursue policy reform in the first place? That is to say, since the ruling elite will receive rents with or without economic reform, what is the incentive for them to undertake reform in the first place?

Economic reform is typically pursued when international financial institutions convince one key political group – the ruling elite – that their political longevity depends on pursuing reform. The emphasis here is on the self-interests of the ruling elite: that is, outside organizations (like the IMF and World Bank) need to convince the ruling elite that without economic reform the latter's hold on power will be either fatally weakened or will shortly end. From this perspective, it is not the disinterested concern of the ruling elite for improving the life of the masses that leads to reform, but the cold-hearted concern of the elite for their own survival that prompts action.

Two inter-locking reasons for this decision calculus can be cited. The first is self-interest. Following Hobbes and other social theorists, it can be assumed that social groups – including the ruling elite – are motivated primarily by self-interest. The second reason has been cited in the economic literature on reform; namely, the notion of uncertainty. Since the ruling elite of any country are uncertain about the benefits that either they or the members of their society will enjoy if a particular reform is adopted, the first principle -- self-interest -- becomes the determining factor. For example, if the ruling elite become convinced that their tenure in office will be threatened by not

pursuing currency devaluation, then they will by all means choose to devalue. In this example, the perceived utility of receiving rents and income in the future outweighs the disutility that might come about from being thrown out of office (either by election or other means).

One basic reason why the ruling elite are uncertain about the benefits of reform has to do with intersectoral factor mobility. This denotes the ability of different factors of production — land, labor and capital — to move between various sectors of the economy, such as the import and export sectors. In most countries the ruling elite tend to be uncertain about the net benefits of economic reform because they simply don't know how mobile land, labor and capital are in the economy. For instance, if the ruling elite decide to privatize state-owned firms, this is likely to increase unemployment in the short-term. For this reason, privatization is likely to be resisted by urban workers. However, if in the long-term, labor can move between different sectors of the economy — in this case, between the urban public and private sectors --- privatization of state firms might not necessarily lead to large unemployment. If unemployed state workers are able to find jobs in newly established private firms, the long-run consequences of privatization may not be so deleterious.

With regards to time orientation, it should be emphasized that the decision-making calculus of the ruling elite is typically fixed more on the short-term than on the long-term. Stated more baldly, political longevity in office often consists more of taking a series of short-term decisions that are not likely to offend important political groups rather than

taking one long-term decision designed to improve the material lot of a wider variety of groups.

7a. Applying the Model to Specific Types of Policy Reform

It now becomes useful to apply the model to specific types of policy reform. One important part of this "practical" application of the model is to specify how a particular reform will affect the utility of differently-weighted social groups. Groups which benefit from a particular reform are likely to favor that reform, while groups which do not benefit are likely to oppose that initiative. Summing up the net political weights of "advantaged" and "disadvantaged" groups will show whether a particular policy reform is likely to be adopted or opposed.

As noted above, policy reform in the model is considered to be exogeneous, that is, reform is initiated by international financial institutions. These institutions are therefore assumed to support all types of policy reform.

For similar reasons, in most cases, the ruling elite is also assumed to be in favor of policy reform. In the model, reform is only initiated when the international financial institutions convince the ruling elite that their political longevity depends on adopting and pursuing reform.

With these assumptions in place, the first type of policy reform to be considered is currency devaluation.

7b. Currency Devaluation

By raising the price of tradable goods (exports and imports) relative to non-traded goods (e.g. construction), a policy reform like currency devaluation can help correct a balance of payments deficit. For this reason, international financial institutions, which are anxious for countries to reduce their external deficits, are often strong proponents of currency devaluation (Table 1).

Once they are convinced of the need to devalue, the ruling elite are also likely to favor devaluation, because such a move is likely to improve their country's external deficits by stimulating exports and (hopefully) raising general economic activity. This, in turn, will increase the political longevity (L^e) of the ruling elite and their ability to collect rents ($e_v(B^k + B^w + B^u + B^r)$).

The position of other social groups is less clear. In the short-run, if factors of production are relatively immobile, then owners of those factors of production which produce for the international market are likely to benefit. According to Table 1, rich farmers (producing export crops) and urban capitalists (producing export goods) will likely favor devaluation because their value added in agriculture ($p_A A$) and in industry ($p_M M$) will increase. However, as shown in the table, if it is difficult to move land and capital between the traded and non-traded sector, rich farmers and urban capitalists who are <u>not</u> producing for the export market are likely to be harmed by devaluation. For example, since many rich farmers in Zimbabwe grow maize for the domestic market, it is not clear whether large farmers in this country would benefit from devaluation (Skalnes, 1989). Similarly, since the banking and credit systems in Ghana are in such disrepair, it is unclear whether urban capitalists were able to take advantage of the export

opportunities presented by large devaluations in that country in the 1980s (Herbst, 1993).[8] For these reasons, the net effects of devaluation on rich farmers and urban capitalists are mixed, and some members of these two groups will support devaluation and others will oppose it.

Table 1 shows that devaluation is likely to have a wholly negative effect on one group – urban government bureaucrats – and a partly negative effect on another group -- urban politicians. In many developing countries, devaluation often replaces the administrative rationing of foreign exchange. This rationing has some of the same effects as a tariff that expands domestic production of the imported good (usually capital-intensive) and decreases production of the exported good (usually labor-intensive). By removing this tariff, devaluation has the effect of raising the price of imported goods, and reducing the price of exported goods. Urban government bureaucrats and politicians are thus harmed in two ways. First, to the extent that they have a high propensity to consume imported goods, their ability to buy these imported goods -- and thus their real wage income (W^b and W^p) — will fall. Second, to the extent that urban bureaucrats and politicians "control" the administrative rationing of foreign exchange, their ability to derive "rents" $e_v(B^k + B^w + B^u + B^r)$ from these controls will decline with devaluation.[9] Currency devaluation will thus have a doubly deleterious impact upon the income of government bureaucrats, and this group will likely oppose devaluation.

However, the position of urban politicians is more mixed, because in certain situations currency devaluation will actually extend the political longevity (L^p) of urban politicians. In other words, in the short-run, the income of urban politicians may fall, but

in the long-term – by staying in office – their income is likely to rise. Some urban politicians will thus support devaluation, and others will oppose this reform.

According to Table 1, the position of the final three social groups -- urban workers, urban students and the urban poor -- on devaluation will probably be uncertain.

On the one hand, urban labor is likely to benefit from a devaluation that replaces administrative controls and raises the relative price of labor-intensive manufactures vis-a-vis more capital-intensive sectors. Because of factor mobility, in theory, urban workers should be able to move between sectors as outputs (and income) grow in the labor-intensive export sector, and shrink in the more capital-intensive sectors. However, in both the short- and medium-term, these processes may lead to more unemployment, especially when the export sector does not expand as expected and/or imported intermediate goods are important in production. Moreover, while in theory labor may be freely mobile between sectors, in reality many developing countries have employment policies which act as obstacles to the smooth movement of labor between sectors. For example, in Chile the policy of wage indexation coupled with the suspension of labor laws so inhibited the mobility of labor that after a large devaluation in 1982 effective unemployment peaked at 31 percent in 1983, and did not fall below 20 percent until 1986 (Meller, 1991: Table 9; Toye, 1995). Thus, for urban labor as a whole, weighing out the possible net gains from higher incomes versus increased unemployment is difficult, and urban workers are consequently likely to adopt an uncertain position on currency devaluation.

For similar reasons, urban students and the urban poor are also likely to adopt an uncertain, wait-and-see position on currency devaluation. Urban students are not selling their labor, and so the issue of intersectoral labor mobility does not affect them. Furthermore, it is difficult to know how devaluation will affect the transfers (H^s) going to students. Likewise for the urban poor: since most of the members of this social group work in the informal sector, it is unclear how currency devaluation will affect either their wage income (W^u) or the transfers (H^u) that they receive.

If Y^u represents aggregate private sector income for the eight social groups (excluding the international financial institutions), then the net distributional effects of currency devaluation can be summarized as:

$$\begin{aligned} Y^u = {} & (L^e\uparrow + W^e\uparrow + e_v(B^k\uparrow + B^w\uparrow + B^u\uparrow + B^r\uparrow) \\ & + (L^p\uparrow + W^p\uparrow\downarrow + e_v(B^k\uparrow\downarrow + B^w\uparrow\downarrow + B^u\uparrow\downarrow + B^r\uparrow\downarrow) \\ & + (p_M M\uparrow\downarrow + e_v B^k\downarrow) + (W^w? + e_v B^w\downarrow) \\ & + [W^b\downarrow + e_v(B^k\downarrow + B^w\downarrow + B^u\downarrow + B^r\downarrow)] + (H^s?) \\ & + (W^u? + H^u? + e_v B^u\downarrow) + (p_A A\uparrow\downarrow + e_v B^r\downarrow) \qquad (6) \end{aligned}$$

where for the ruling elite, political longevity, real wages and rents received will increase; for urban politicians, political longevity will increase but real wages may/may not increase and rents received will increase/decrease; for urban capitalists, value added in industry may/may not increase but rents paid out will fall; for urban workers, the net level of real wages is uncertain, but rents paid out will fall; for urban government bureaucrats, both real wages and rents received will decline; for urban students, the level of transfers

received is uncertain; for the urban poor, the level of real wages and transfers is uncertain but rents paid out will fall; and for rich farmers, valued added in agriculture may/may not increase, but rents paid out will decrease.

Summing up the political power points of the social groups for and against reform, Table 1 suggests that currency devaluation is a policy reform that is likely to be implemented. While there are 30.5 political power points in favor of devaluation, only 17.5 power points are against devaluation. Of key importance here is the large number of "uncertain" power points: 18. As explained above, the position of three social groups – urban workers, urban students and the urban poor – vis-à-vis currency devaluation is unclear.

These findings suggest that currency devaluation is a policy reform that is likely to be implemented because it generates more political support than opposition from social groups. Moreover, currency devaluation is a reform that is relatively easy to implement. In fact, as Gordon (1996: 1528) argues, devaluation is "essentially self-implementing."[10] Once technical experts (typically the IMF) and the ruling elite have agreed on the technical aspects — for example, how much to devalue, whether to adopt an adjustable or crawling peg, what basket of currencies, if any, to peg to — all that is required is for the ruling elite to instruct government bureaucrats to implement that new exchange rate.[11] From a political standpoint, therefore, it is difficult for social groups to resist currency devaluation. Moreover, those groups which are most opposed to devaluation -- for example, urban government bureaucrats -- are not likely to "take to the streets" to demonstrate against this move.

All of this accords with practice in the real world. In a recent review of economic policy reforms in 40 developing countries, the World Bank (1988: Table 3.1) found that 38 of the 40 countries successfully went through some type of currency devaluation. Currency devaluation is relatively easy to implement, because social groups with large political weight tend to support this reform.

7c. Privatizing State Companies

During the 1950s and 1960s many developing countries adopted import substitution policies which were designed to spur domestic industrial growth. These import substitution policies were often coupled with socialistic policies whereby "leading" domestic industries — such as those in chemicals, steel, fertilizers and yarn — were placed under state ownership and control.

Beginning in the mid-1980s, the international financial institutions began urging countries to privatize the very industries that had been nationalized in earlier years. The goal of these privatization efforts was twofold: one, to reduce the large deficits that many of these state-owned enterprises were beginning to accumulate; and two, to stimulate private sector development in order to attract private capital, accelerate economic growth and create jobs.

As Table 2 suggests, international financial institutions are likely to be prime supporters of efforts to privatize state companies. However, the position of other social groups is likely to be less positive.

In many countries state-owned, and protected, enterprises represent an important vehicle through which two key groups – the ruling elite and urban politicians -- can redistribute wealth and build political support. By overmanning state-owned firms and by setting the wage rates at these enterprises higher than those in the private sector, the ruling elite and urban politicians can reward supporters and punish opponents.

For these reasons, Table 2 shows that the ruling elite and urban politicians are likely to partly support – and partly oppose – privatization. The key issue here concerns long-term gains versus short-term costs. In the long term, privatizing inefficient, state-owned enterprises may help attract private capital and increase economic growth, thereby extending the political longevity (L) of the ruling elite and urban politicians. In the short term, however, with privatization, these two social groups will no longer be able to offer safe employment sinecures and higher public wages to their supporters. This in turn will reduce the short-term "rents" $e_v(B^k + B^w + B^u + B^r)$ that the ruling elite and urban politicians will be able to collect.

Urban government bureaucrats are likely to oppose privatization more strongly than the two preceding groups. Urban government bureaucrats are not concerned with the increased political longevity that privatization might bring; furthermore, privatization is likely to reduce the "rents" $e_v(B^k + B^w + B^u + B^r)$ that government bureaucrats are able to collect, without offering them any compensating increase in wages. Writing about privatization efforts in Ghana and Zambia, Martin notes:

> Politicians and civil servants were the most powerful group in both countries. They resisted or delayed (privatization) not only because they believed that it would not work, but also because the reforms damaged their interests by reducing their living standards, bringing layoffs, depriving them of "rents" from existing policies. . This applied especially to (privatization) reforms in major parastatals. . . .(Martin, 1993: 139)

Urban workers and the urban poor are also likely to strongly oppose privatization. Privatization is likely to increase unemployment and cause real wage rates (W) for both groups to decline. This will be particularly true in countries which do not have enough formal and informal sector jobs to absorb large numbers of dismissed public sector employees. In Africa, for example, public sector employees represent 54 percent of all non-agricultural employees (Heller and Tait, 1983: 45).[12] While in the long-term labor may be able to move between sectors, the relative absence of employment opportunities in the private sector in Africa – and elsewhere – means that urban workers and the urban poor will generally resist demands to privatize.

Urban students are also likely to oppose privatization. Since in many countries a large proportion of university graduates typically seek public sector employment, privatizing state companies is likely to reduce the future job opportunities (and wage-earning possibilities) of urban students. This social group is thus likely to resist privatization.

According to Table 2, only one social group — urban capitalists — is likely to benefit from, and thus favor, privatization. Urban capitalists are likely to gain from privatization because as company payrolls decrease, their value added in industry ($p_M M$) will rise. Urban capitalists are also likely to benefit from the second- and third-round

effects of privatization, because any increase in the number of unemployed is likely to put downward pressures on the real wages paid to workers (W^w).

The position of the final social group -- rich farmers -- vis-a-vis privatization is uncertain. On the one hand, the demise of inefficient, state-owned enterprises will probably reduce the prices (and increase the quality) of those goods produced by local firms. This will, of course, benefit rich farmers. However, to the extent that these wealthy rural residents look to public firms and enterprises as safe sources of employment for their offspring, the move towards privatization might be unsettling.

If Y^u represents aggregate private sector income for the eight social groups (excluding the international financial institutions), then the net distributional effects of privatization can be summarized as:

$$\begin{aligned} Y^u = {} & (L^e\uparrow + W^e\uparrow + e_v(B^k\uparrow\downarrow + B^w\uparrow\downarrow + B^u\uparrow\downarrow + B^r\uparrow\downarrow) \\ & + (L^p\uparrow + W^p\uparrow + e_v(B^k\uparrow\downarrow + B^w\uparrow\downarrow + B^u\uparrow\downarrow + B^r\uparrow\downarrow) \\ & + (p_M M\uparrow + W^w\downarrow + e_v B^k\downarrow) + (W^w\downarrow + e_v B^w\downarrow) \\ & + [W^b\downarrow + e_v(B^k\downarrow + B^w\downarrow + B^u\downarrow + B^r\downarrow)] + (\text{future } W^s\downarrow) \\ & + (W^u\downarrow + H^u? + e_v B^u\downarrow) + (p_A A? + H^r? - e_v B^r\downarrow) \qquad (7) \end{aligned}$$

where for the ruling elite, political longevity and real wages will increase but rents received may/may not increase; for urban politicians, political longevity and real wages will increase but rents received will increase/decrease; for urban capitalists, value added in industry will increase and real wages and rents paid out will fall; for urban workers, real wages and rents paid out will fall; for urban government bureaucrats, both real wages

and rents received will decline; for urban students, the level of future wages will fall; for the urban poor, the level of real wages and rents paid out will fall; and for rich farmers, the level of valued added in agriculture is uncertain, but rents paid out will decrease.

Summing up the political power points of the social groups for and against reform, Table 2 suggests that privatization is a policy reform that will be very difficult to implement. While there are 27.5 political power points in favor of privatization, there are 34.5 power points against privatization and 4.0 points are "uncertain". In other words, there are more power points – and groups – opposing privatization, than there are favoring this particular reform. Privatization is thus a policy reform that is likely to be delayed and/or not implemented, because of the array of social groups opposing it. Writing about efforts to privatize in Africa, Herbst observes:

> . . .there is no defined constituency that is demanding (privatization) because improved public sector management would probably mean trimming the work-force in an attempt to make parastatals more efficient, and reducing the largesse that is now distributed quite widely. The (privatization) of state-owned corporations might benefit a few individuals, but it is unlikely to bring significant economic benefits to many. . . .(Herbst, 1989: 81).

In light of the above, it is not surprising that a recent IMF study of economic reforms in 19 countries found that "public enterprise reform in most countries is far from complete. In general, these countries need further divestiture and liquidation (of public enterprises). . . ." (IMF, 1993: 14). Privatization of public firms remains incomplete in many developing countries because social groups with significant political weight firmly oppose this particular policy reform.

7d. Eliminating Consumer (Food) Subsidies

In many developing countries consumer (food) subsidy programs often place a large burden on the public budget and make a sizeable contribution to government budget deficits. Moreover, these subsidy programs are often not economically efficient because their benefits sometimes do not reach those in greatest need, that is, the poor. Because of improper targeting, a large part of consumer subsidies is often "leaked" to high-income people.

For these and other reasons, international financial institutions are likely to be strong proponents of efforts to eliminate consumer subsidy programs (Table 3). Once they are convinced of the need to eliminate subsidy programs, the ruling elite are also likely to favor this policy reform. By eliminating consumer subsidies, the ruling elite will be better able to balance the government budget, and thus to (hopefully) qualify for more external loans and assistance. This in turn will extend the ruling elite's political longevity (L^e) and their ability to collect rents $e_v(B^k + B^w + B^u + B^r)$.

For many of the same reasons, urban politicians will also favor eliminating consumer subsidies. Since the transfers (H^p) that they receive from these subsidies represent only a small proportion of their incomes, urban politicians will be more concerned with eliminating subsidies in order to extend their political longevity and their ability to collect rents.

By contrast, urban capitalists are likely to partly favor and partly oppose the elimination of consumer subsidies. On the one hand, with the elimination of costly subsidy programs, it is conceivable that the tax burden (T^k) of urban capitalists will fall.

However, consumer subsidies have enabled many developing country governments to engage in wage repression; that is, by providing in-kind consumer subsidies, governments are able to keep real wages lower than otherwise would have been the case. To the extent that the elimination of consumer subsidies puts an upward pressure on real wage rates (W^w), urban capitalists may oppose the elimination of consumer subsidies.

In the countryside, rich farmers will also partly favor and partly oppose the elimination of consumer subsidies. If the government imports food, and sells it at a subsidized price, the elimination of food subsidies will increase the prices received by those farmers who grow that food. To the extent that rich farmers grow food crops, the elimination of food subsidies will increase their value added in agriculture ($p_A A$). However, if the government also subsidizes other production inputs into agriculture — such as fertilizer, water — the situation becomes more ambiguous. If the government eliminates all subsidies — food and agricultural — then the net effects of this reform on rich farmers are unclear, and will differ in different countries.

The social group that is responsible for administering consumer subsidies – urban government bureaucrats – is likely to oppose the elimination of these subsidies. The reason for this is simple: leakage. No matter how well designed, consumer subsidy programs "leak" a certain percentage of their benefits (e.g. subsidized food, fertilizer) to the non-poor. In many cases, government bureaucrats, who are charged with implementing subsidy programs, can take steps to ensure that they receive a good percentage of these leaks. For example, in Bangladesh government bureaucrats have been able to "cut deals" with private rice mill owners in order to share a portion of the

subsidized rice that was intended for the poor (Adams, 1998). Thus, with the elimination of consumer subsidies, the real income of urban government bureaucrats is likely to fall because the "rents" $e_v(B^k + B^w + B^u + B^r)$ they receive from administering these subsidy programs will disappear.

The social group which is the main intended recipient of consumer subsidies – the urban poor -- will also oppose the elimination of these subsidies. In many countries the food and other subsidized commodities that the urban poor receive account for 10 to 20 percent of their total consumption expenditures.[13] Any cutback in subsidies will therefore not only reduce the poor's transfers (H^u), but it will also force them to spend more on consumption, thus causing their real wages (W^u) to decline.

Since consumer subsidy programs are usually not well targeted, these programs also tend to benefit "unintended" groups, like urban workers and urban students. For example, both workers and students benefit from the large, untargeted subsidy on bread in Egypt (Ali and Adams, 1996). Thus, any cutback in subsidies will also force members of these groups to spend more on consumption, and (in the case of urban workers) cause their real wages (income) to fall.

In many countries the opposition of the urban poor and urban students to cutbacks in consumer subsidies can lead to widespread social unrest. As noted above, members of these two groups possess a type of "crypto-political" power to take their concerns to the street. In fact, members of these groups have led street protests against consumer subsidy cutbacks in a wide variety of developing countries: Jordan (1996), Zimbabwe (1993), Zambia (1986), Sudan (1985), Morocco (1984, 1981), the Dominican Republic (1984)

and Tunisia (1984). Oftentimes, the threat of such street protests can make the ruling elite of a country think twice about eliminating consumer subsidy programs.

If Y^u represents aggregate private sector income for the eight social groups (excluding the international financial institutions), then the net distributional effects of eliminating consumer subsidies can be summarized as:

$$\begin{aligned} Y^u = &(L^e\uparrow + W^e\uparrow + e_v(B^k\uparrow + B^w\uparrow + B^u\uparrow + B^r\uparrow) \\ &+ (L^p\uparrow + W^p\uparrow + e_v(B^k\uparrow + B^w\uparrow + B^u\uparrow + B^r\uparrow) \\ &+ (W^w\uparrow + T^k\downarrow + e_vB^k\downarrow) + (W^w\downarrow + H^w\downarrow - e_vB^w\downarrow) \\ &+ [e_v(B^k\downarrow + B^w\downarrow + B^u\downarrow + B^r\downarrow)] + (H^s\downarrow) \\ &+ (H^u\downarrow + W^u\downarrow) + (p_AA\uparrow\downarrow + H^r\downarrow - e_vB^r\downarrow) \qquad (8) \end{aligned}$$

where for the ruling elite, political longevity, real wages and rents received will all increase; for urban politicians, political longevity, real wages and rents received will all rise; for urban capitalists, real wages paid to workers will rise, but taxes and rents paid out will fall; for urban workers, real wages, transfers received and rents paid out will all decline; for urban government bureaucrats, rents received will fall; for urban students, transfers received will fall; for the urban poor, transfers received and real wages will fall; and for rich farmers, valued added in agriculture may/may not increase, but transfers received and rents paid out will decrease.

Summing up the political power points of the social groups for and against reform, Table 3 suggests that eliminating consumer subsidies is a policy reform that will be difficult – but not impossible – to implement. While there are 33 political power points

in favor of eliminating consumer subsidies, there are 31 power points opposing this reform and 2 power points which are "uncertain." In other words, this is a policy reform that will need to be implemented with the slimmest of political margins. With the right kind of demonstrated concern for the interests of opposing social groups, it should be politically possible to reduce and/or eliminate consumer subsidy programs.

These findings parallel those of the real world. In those countries where international financial institutions (like the IMF and the World Bank) have been able to convince the ruling elite to eliminate consumer subsidies, these subsidies have typically been reduced by following three basic principles. Each of these principles, it should be emphasized, tries to minimize the opposition of the social groups noted in Table 3.

First, to avoid the type of street unrest that can be caused by sudden subsidy cutbacks, several countries have reduced consumer subsidies on a slow and gradual basis. For instance, Bangladesh (1984-90), Tunisia (1984-93) and Egypt (1985-95) all reduced consumer subsidies by gradually reducing the number and size of subsidized commodities over a period of years.[14] Second, these gradual reforms have typically been pursued in a phased and staggered manner. In Zambia, for example, the general subsidy on maize was replaced in 1989 by a coupon system, and in 1990 this coupon system was made available only for the poor (Pearce, 1990). Third, reductions in consumer subsidy programs have often been coupled with compensatory measures. For instance, as food subsidies were reduced in Tunisia, minimum wages were raised to placate urban workers, and aid to school cafeterias was increased to appease students (Tuck and Lindert, 1996: 31).[15]

8. Conclusion

While some attempts at economic policy reform are adopted and pursued in the developing world, other attempts at reform are delayed and resisted. As this paper has demonstrated, the reason for this is politics. By its very nature, economic reform is an inherently political act: because it changes the distribution of benefits in society, economic reform benefits some social groups and harms others. In certain situations, as the economic literature has argued, social groups may oppose reform because they are uncertain about its possible benefits (Drazen and Grilli, 1993; Rodrik, 1996, 1993). However, as this paper has demonstrated, in many other instances social groups oppose reform because they are well-aware of how reform will harm their economic interests.

This paper has shown how three specific types of economic reform – currency devaluation, privatization of state-owned companies, and elimination of consumer (food) subsidies – affect the utility of eight different social groups (excluding international financial institutions). According to the analysis, the key to understanding how each of these policy reforms will be implemented and/or opposed is to identify the impact of each reform on the political power or weight of "advantaged" and "disadvantaged" social groups. For example, when governments try to privatize state-owned enterprises, more social groups with greater political weight are likely to be disadvantaged than advantaged. Specifically, when governments try to privatize, four social groups – urban workers, urban government bureaucrats, urban students and the urban poor – are likely to "lose out" and thus will strongly oppose this particular reform. Moreover, two other groups – the ruling elite and urban politicians – are also likely to at least partly resist

privatization because they fear that this reform will reduce the "rents" that they receive. With more social groups – and more power points – arrayed against privatization than favoring this reform, privatization is a policy reform that is likely to be delayed and/or not implemented at all.

However, it would be erroneous to conclude that social groups can successfully resist all types of economic reform. Rather this paper emphasizes that social groups do not possess an absolute veto over the whole economic reform process. Contrary to the pessimism that neoclassical political economy analysis sometimes suggests for the prospects of economic reform,[16] this paper shows that policy reform can – and often does — occur despite the opposition of certain social groups. The key here is to understand which social groups oppose reform and how much political weight these opposing groups have in the policy reform process. Consider, for instance, the case of eliminating consumer (food) subsidies. As this paper has shown, a total of six social groups either partly or wholly oppose eliminating consumer subsidies. However, the combined political weight of these six opposing groups is only roughly equal to the political weight of the four social groups – international financial institutions, the ruling elite, urban politicians and urban capitalists – which favor this reform. In other words, from a political standpoint, eliminating consumer subsidies is a policy reform that can be achieved. With the right kind of concern for the interests of opposing social groups, it should be possible to reduce and/or eliminate consumer subsidy programs in many developing countries.

Notes

1. In this paper economic reform refers to two broad types of policies: stabilization and structural adjustment. While stabilization policies aim at controlling inflation and improving the balance of payments, structural adjustment policies stress reducing trade barriers, enlarging the role of the private sector, and changing a country's development strategy from import-substitution to one of export-promotion.

2. For similar perspectives on the political nature of economic reform, see Killick (1995), Herbst (1990) and Bienen and Gersovitz (1985).

3. For example, Alesina and Drazen (1991) assume two contending social groups (capital and labor), as do Laban and Sturzenegger (1994).

4. For useful country case studies of the political economy of economic reform, see Radelet (1992) on Gambia, Hawkins (1991) on Zambia, Haggard (1990) on the Philippines and Herbst (1989) on Zimbabwe.

5. Two possible exceptions to this statement are Mosley, Harrigan and Toye (1991: Table 4.7), who briefly examine the effect of economic reform on different occupational groups in the developing world, and de Janvry et al (1994), who use a computable general equilibrium (CGE) model to examine the effect of reform on interest groups in one particular country: Ecuador.

6. Writing about the process of economic reform in Sub-Saharan Africa, Gulhati states: "By and large, the initiative on policy (reform) has been taken not by leaders and bureaucrats, but by international organizations such as the IMF and the World Bank. The (national) economic agencies have not exhibited a capacity to undertake policy work; instead they have adopted the posture of reacting to policy proposals designed abroad" (Gulhati, 1988: 14).

7. In many developing countries, social groups may exist, but whether or not these social groups can develop into politically-powerful interest groups is often unclear. For example, Grindle writes: ". . . organized interest-group activity tends to be less clearly defined in developing countries than in the

industrialized West. Large portions of the population — peasants and urban shanty-town residents, for instance — are generally not organized for sustained political activity. . . . Additionally, many authoritarian regimes in the Third World actively discourage representation of social interests through formally organized interest groups. "Interests" clearly exist in developing countries, but the extent to which they are or can be formally constituted. .must always be identified empirically" (Grindle, 1991: 52).

8. Evaluations of economic reform in other developing countries have found that the supply response to devaluation is often inhibited because the banking system is unable to supply the quantities of credit needed by urban firms as working capital. See, for example, Taylor (1988).

9. On this point, Bienen writes ". . .the whole panoply of import controls has increased corruption in Africa. Those who have benefited most have been public-sector officials with the power to control licenses, quotas and access to foreign exchange" (Bienen, 1990: 726).

10. Similarly, Killick (1993: 174) notes that currency devaluation is a "relatively simple (policy instrument) to administer" and "it can be executed within existing institutions."

11. From the standpoint of urban politicians, there is some — admittedly old -- empirical data which suggest that currency devaluations are risky to those in power. In seven out of 24 countries which devalued in the 1960s, Cooper (1971) found that the government fell from power within a year of devaluing. This rate was about twice as high as would have otherwise been predicted.

12. In Asia public sector employees represent 36 percent of all non-agricultural employees, while in Latin America the corresponding figure is 27 percent (Heller and Tait, 1983: 45).

13. For example, subsidized food from the food subsidy system in Egypt accounts for 20.7 percent of the total consumption expenditures of those households in the lowest expenditure quintile group. See Adams (forthcoming).

14. For information on Bangladesh, see Adams (1998); for Tunisia, see Tuck and Lindert (1996) and for Egypt, see Ali and Adams (1996).

15. Likewise, in 1978 when Sri Lanka reduced by half the number of people eligible for its food subsidy

program, it also announced a wage increase of 25 percent to all wage earners who were no longer eligible for subsidized food (Pieris, 1992: 34).

16. For more on this point, see Grindle (1991: 58-67).

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Table 1 – Social Group Reaction to Currency Devaluation

Social Group	Political Power or Weight in Reform	Group Reaction to Reform	Political Power Points: Favoring Reform	Opposing Reform	Uncertain
(1) International financial institutions (i)	10	Favor	10		
(2) Ruling elite (e)	10	Favor $[L^{e}\uparrow, W^{e}\uparrow, e_{v}(B^{k}\uparrow + B^{w}\uparrow + B^{u}\uparrow + B^{r}\uparrow)]$	10		
(3) Urban politicians (p)	9	Favor $[L^{p}\uparrow, W^{p}\uparrow\downarrow, e_{v}(B^{k}\uparrow\downarrow +$	4.5	4.5	
		Oppose $B^{w}\uparrow\downarrow + B^{u}\uparrow\downarrow + B^{r}\uparrow\downarrow)]$			
(4) Urban capitalists (k)	8	Favor / Oppose $[p_{M}M\uparrow\downarrow, e_{v}$	4	4	
(5) Urban workers (w)	7	Uncertain $(W^{w}?, e_{v}B^{w}\downarrow)$			7
(6) Urban government bureaucrats (b)	7	Oppose $[W^{b}\downarrow, e_{v}(B^{k}\downarrow + B^{w}\downarrow + B^{u}\downarrow + B^{r}\downarrow)]$		7	
(7) Urban students (s)	6	Uncertain $(H^{s}?)$			6
(8) Urban poor (u)	5	Uncertain $(W^{u}?, H^{u}?, e_{v}B^{u}\downarrow)$			5
(9) Rich farmers (r)	4	Favor / Oppose $(p_{A}A\uparrow\downarrow, e_{v}B^{r}\downarrow)$	2	2	
Total	66		30.5	17.5	18

Notes: A = Value added in agriculture
B = Rents or Bribes
H = Transfers
L = Political longevity (years)
M = Value added in manufacturing
T = Taxes
W = Wages (real)
p = Profits

Table 2 – Social Group Reaction to Privatizing State Companies

Social Group	Political Power or Weight in Reform	Group Reaction to Reform	Political Power Points: Favoring Reform	Opposing Reform	Uncertain
(1) International financial institutions (i)	10	Favor	10		
(2) Ruling elite (e)	10	Favor } $[L^{e}\uparrow, W^{e}\uparrow, e_{v}(B^{k}\uparrow\downarrow + B^{w}\uparrow\downarrow$ Oppose $+ B^{u}\uparrow\downarrow + B^{r}\uparrow\downarrow)]$	5	5	
(3) Urban politicians (p)	9	Favor $[L^{p}\uparrow, W^{p}\uparrow, e_{v}(B^{k}\uparrow\downarrow + B^{w}\uparrow\downarrow$ Oppose $+ B^{u}\uparrow\downarrow + B^{r}\uparrow\downarrow)]$	4.5	4.5	
(4) Urban capitalists (k)	8	Favor $(p_{M}M\uparrow, W^{w}\downarrow, e_{v}B^{k}\downarrow)$	8		
(5) Urban workers (w)	7	Oppose $(W^{w}\downarrow, e_{v}B^{w}\downarrow)$		7	
(6) Urban government bureaucrats (b)	7	Oppose $[W^{b}?, e_{v}(B^{k}\downarrow + B^{w}\downarrow + B^{u}\downarrow + B^{r}\downarrow)]$		7	
(7) Urban students (s)	6	Oppose (future $W^{s}\downarrow$)		6	
(8) Urban poor (u)	5	Oppose $(W^{u}\downarrow, H^{u}?, e_{v}B^{u}\downarrow)$		5	
(9) Rich farmers (r)	4	Uncertain $(p_{A}A?, e_{v}B^{r}\downarrow)$			4
Total	66		27.5	34.5	4

Notes: A = Value added in agriculture
B = Rents or Bribes
H = Transfers
L = Political longevity (years)
M = Value added in manufacturing
T = Taxes
W = Wages (real)
p = Profits

Table 3 – Social Group Reaction to Eliminating Consumer (Food) Subsidies

Social Group	Political Power or Weight in Reform	Group Reaction to Reform	Political Power Points: Favoring Reform	Opposing Reform	Uncertain
(1) International financial institutions (i)	10	Favor	10		
(2) Ruling elite (e)	10	Favor $[L^e\uparrow, W^e\uparrow, e_v(B^k\uparrow + B^w\uparrow + B^u\uparrow + B^r\uparrow)]$	10		
(3) Urban politicians (p)	9	Favor $[L^p\uparrow, W^p\uparrow, e_v(B^k\uparrow + B^w\uparrow + B^u\uparrow + B^r\uparrow)]$	9		
(4) Urban capitalists (k)	8	Favor / Oppose } $(W^w\uparrow, T^k\downarrow, e_v$	4	4	
(5) Urban workers (w)	7	Oppose $(H^w\downarrow, W^w\downarrow, e_v B^w\downarrow)$		7	
(6) Urban government bureaucrats (b)	7	Oppose $[e_v(B^k\downarrow + B^w\downarrow + B^u\downarrow + B^r\downarrow)]$		7	
(7) Urban students (s)	6	Oppose $(H^s\downarrow)$		6	
(8) Urban poor (u)	5	Oppose $(H^u\downarrow, W^u\downarrow, B^u\downarrow)$		5	
(9) Rich farmers (r)	4	Favor / Oppose } $(p_A A\uparrow\downarrow, H^r\downarrow, e$		2	2
Total	66		33	31	2

Notes: A = Value added in agriculture
B = Rents or Bribes
H = Transfers
L = Political longevity (years)
M = Value added in manufacturing
T = Taxes
W = Wages (real)
p = Profits

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