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The IMF and the South: The Social Impact of Crisis and Adjustment, by D. Ghai

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The IMF and the South: The Social Impact of Crisis and Adjustment.
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This is a disturbing book—for the issues that it raises, but more for the solutions that it fails to provide. The focus of this book is the economic crisis faced by the countries in sub-Saharan Africa, Latin America and the Caribbean, the policy prescriptions of the IMF in response to the crisis, and the consequent effects of these policies on both the economic and social structure in these countries. Apart from the introduction, the book is divided into three parts. In Part I there are five essays providing regional overviews while in Parts II and III we get six more essays on individual country experiences—Mexico, Nigeria, Brazil, Uganda, Mozambique and Nicaragua.

What is different about this book from other similar ones is the emphasis on the distributional and social aspects of the adjustment policies, not at a suitably aggregate level that is found in the current literature, but at the level of various sectoral and occupational groups that are affected by these policies. The adjustment literature in academic economics journals has only recently begun to appreciate the distributional and social aspects of adjustment policies. Even the IMF and the World Bank now talk about "adjustment with growth" [2]. In that respect the book does a commendable job of bringing these issues into focus. For example, both Ghai & Alcantara in Chapter Two and Mamdani in Chapter Ten rightly point out that freeing producer prices do not have the desired effect on production if input prices also rise as a result of other institutional and structural bottlenecks. Schvarzer, in analyzing the experience of Argentina, relates how in response to the crisis it greatly liberalized both financial and commercial transactions, only to find that the effects were asymmetrical: with highly mobile capital, the quick financial opening had considerably more profound and long lasting effects than the commercial opening. While the current theoretical literature on liberalization does consider the sequencing of liberalization, it does not satisfactorily deal with the second major point that Schvarzer raises—how initially the opening up of the financial sector results in an increase in the level of the foreign debt, which later, in a vicious circle, serves to consolidate the opening up process.

Most of the papers are written without the polemics that sometimes pervades discussions of these kinds of issues. With one notable exception they all examine the crisis not only in terms of its external sources but also its internal sources. The exception is Mkandawire, who steadfastly insists that the problems of sub-Saharan Africa are of a purely external origin. He does, in my opinion correctly, reject the personalist rule theory and the cultural traits theory as causes of the crisis. However, his answer (in part) to overvalued exchange rates and the import substitution strategy as causes of the crisis reads: "A number of problems arise with this 'neo-classical political economy approach.' First is the vacuity of the populist and libertarian versions of this approach, in which it is supposed that the unleashing of market forces on the parasitical distributional coalitions will erode or dissipate rents, and will benefit the peasant producers who have had no role in the coalitions behind state policies." Instead of rhetoric, his arguments could have used a bit more rigor. In support of his hypothesis he does cite the results of a single equation regression, which if it has been correctly specified, has the dependent variable unchanged at unity for all observations! [p. 92, n. 24].

The major flaw of the book is that it fails to discuss alternative solutions. For example, many of the authors condemn the declining real wages—and the consequent effects on groups who are already at the low end of the income scale—which results from adjustment policies. However, from a purely theoretical point of view, with labor and capital as the only factors of production, and with capital mobile, any increase in external competitiveness through a reduction in the price of domestic goods must come through a fall in the wage rate. The policy dilemma is how to increase competitiveness without a severe reduction in the standard of living of the low income groups. But among all the authors who raise the point, only Amadeo and Camargo, in a well argued chapter on Brazil, refer to cooperation between organized labor and the state as a way out of the dilemma, even though Brazil's experience in this regard does not suggest a high degree of optimism. Similarly, Mamdani, in discussing the case of Uganda, brings up important issues such as the redistributive effects of devaluation, the improper focusing on only the expenditure side in reducing the budget deficit and the supply side effects of demand management policies such as credit restriction.[1] But his suggested solutions such as land reform, institutional changes to properly distribute credit and "to liberate the productive energy of the peasantry" are suitably vague so as not to be of any practical use.

In conclusion, it may be said that this book is a strong indictment of the current adjustment policies of the IMF. However, the authors' failure to provide serious alternatives to the policy dilemmas diminishes the importance of the book. In spite of that, the book is worth reading.

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References

1. Eusufzai, Zaki. "Devaluation and Restrictive Credit Policies." Economics Department Working Paper No. 9211, Loyola Marymount University, 1992.

2. Khan, M.S., P. Montiel and N. U. Haque, "Adjustment with Growth: Relating the Analytical Approaches of the IMF and the World Bank." *Journal of Development Economics*, 1990, 32: 155–79.

1. Studies have shown that devaluation accompanied by restrictive credit policies can improve the balance of payments but sometimes only at the cost of reduced output levels and accompanying unemployment. See Eusufzai [1].