TRADE UNIONS AND STRUCTURAL ADJUSTMENT

A GUIDE FOR TRADE UNION PARTICIPATION

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CHAPTER 1

OVERVIEW OF STRUCTURAL ADJUSTMENT

This chapter presents a brief historical overview of Structural Adjustment Programs (SAP) including a general appreciation of related developments in Africa, Asia and Latin America. It also incorporates a clarification of the definitions of SAP and the recent changing perceptions in this regard.

INTRODUCTION

As the II World War was ending, in 1944 the conference at Bretton Woods proposed to restructure the international economy and created international regimes for money and trade. This proposal gave birth to two institutions in Washington, D.C. (USA) - the World Bank and the International Monetary Fund (IMF) - popularly referred to as the Bretton Wood twins as lenders of last resort to nations in need. The World Bank is a development institution. Some prefer to call it the "teaching bank" rather than merely a "lending bank" because it is supposed to be a resource where policy makers round the world are expected to learn sound economic development policies. The primary function of the IMF is to maintain an orderly system of receipts and payments between nations. On the trade front, the General Agreement on Tariffs and Trade (GATT) was launched. Safeguards were also provided to protect workers from unfair practices and to assist those who were displaced. The post-war social contract for workers sought to ensure full employment and comprehensive social welfare. For a greater part of the 1950s and the 1960s the dominant belief in several industrialized countries was that macro-economic monetary and fiscal policy should be geared to secure full employment, while micro-economic policy is expected to regulate inflation. As the post-war recovery boom began to taper off and as the oil prices inflicted heavy blows on most industrial countries, the inadequacy of the Bretton Woods order began to become apparent. Since 1970s, the world economic scene became volatile and increasingly uncertain (Krugman, 1988; 54-6):

The industrial countries experienced two major recessions since the 1930s.

Sharp decline in commodity prices, with the exception of oil and some food items.

Volatile exchange rates since the end of the Bretton Woods system of fixed exchange rates in 1973 (also see: IMF, 1996b). Dollar fell sharply against other industrial country currencies during the 1970s and rose equally sharply during the 1980s.

Inflation in the industrial countries rose during the 1970s. Interest rates too rose, but less steeply. Inflation industrial countries decelerated, but not interest rates on a comparative scale.

These changes caused external shocks to most developing countries. Krugman (1988;54-108) classifies them as following:

A. Shocks arising from the Goods Market (both exports and imports):

1. *Export shocks*: Recession in industrial countries had adverse impact on both the value (price) and the volume (quantity) of commodity exports from developing countries. Even the export of manufactured goods and services also suffered.

2. *Import shocks*: Mainly countries importing oil and food suffered from steep rise in their prices. Oil and food exporting countries benefited.

3. *Exchange rates and trade*: When the dollar rises, dollar import prices of developing countries seem to fall less than their export prices. The adverse export effect outweighs the favorable import effect. This is possibly because prices of commodities are relatively more flexible than the prices of manufacturers.

4. *The terms of trade*: The terms of trade is defined as the ratio of the average price of a country's exports to the average price of its imports. When a given volume of exports pay for a smaller volume of imports the terms of trade for that country can be deemed to have declined.

B. ***Shocks originating in capital market*** due to cost (determined by rates of interest and inflation) and constraints on international borrowing:

1. *Interest rates*: When interest rate increases, cost of fresh borrowings increases. Existing debt also becomes costlier, if the interest rate is not fixed, but floating. Some debt agreements fixed definite interest till the maturity of debt. The maturity of debt refers to length of payment. In floating-rate loans, the interest rates vary with changes in world interest rates. Usually floating rate is specified as a premium over the London inter-bank offer rate (LIBOR). Official lenders (World Bank and IMF) usually lend at fixed rates of interest and for specific length of time to low income countries. Middle income countries usually borrow from private commercial banks which normally insist on floating rate and for short period of maturity. When interest rates increase, the additional burden of servicing the debt must be met from fresh borrowing, higher exports or reduced imports.

2. *Inflation and debt*: The burden of debt depends not just on the money value of debt, but on the extra borrowing or exports or foregone imports required to generate foreign currency needed to repay it. When world inflation pushes the dollar prices of exports and imports, the decline, if any, in terms of trade, lands the indebted developing countries in double jeopardy.

3. *Real interest rate*: Interest rate minus inflation rate is the real interest rate. During 1975-79, the average world inflation was 8.9% and LIBOR , the standard interest rate for international loans, 7.8%. It favored debtors because the real interest rate was negative. But this situation changed in the 1980s and led to dramatic rise in the real cost of debt.

4. *Constraints on borrowings*: The availability of debt depends on the ability of the borrower to repay. Where confidence is lacking on the borrowers ability to pay, the lenders are likely to put additional conditions to safeguard the lenders' interests. Countries with huge debt, short period of maturity and low foreign exchange reserves suffer most when there is a crisis of confidence about their ability to repay debt.

APPROACHES TO DEAL WITH EXTERNAL SHOCKS

The external shocks described above result in either or a combination of the following policy responses: Borrow or adjust. Adjustment can take place through:

1. Expenditure changing policies such as fiscal and monetary policies, which affect the level of economic activity.

2. Expenditure switching policies such as trade and exchange rate policies which change the pattern of economic activity.

3. Financial policies concerning capital flows, debt management and the net foreign assets position.

The three approaches are not mutually exclusive.

C. ***Internal shocks and/or autonomous adjustment:*** Internal shocks may be due to variety of factors such as, for instance, economic effects of political changes, including revolution and excessive expansionary policy, financed by foreign borrowing. Some countries make adjustment autonomously, even if there is no external pressure. It is difficult, however, to distinguish between the effects of external adjustment and internal, autonomous adjustment.

REVERSAL OF PUBLIC POLICY OBJECTIVES AND INSTRUMENTS

As mentioned earlier, the difficult and uncertain developments in the world economy resulted in a trend towards the reversal of public policy objectives and instruments: macro-economic monetary and fiscal policy is targeted to control inflation while micro-economic policy is expected to influence employment and the rate of economic growth. As a result, several industrialized market countries - most of the OECD countries - began to focus on decentralization of economic decision-making and different orientation to labour market regulation (Standing, 1991). This new orientation became dominant in 1980s came to be known as the supply-side economics (or Reagonomics in the US or Thacherism in the UK) that shaped structural adjustment strategies and stabilization policies in many parts of the world.

In the following chapters of this concise volume, we shall try to examine what these policies are, why, if at all, they are necessary, who shapes them, what are the intended and actual effects and what trade unions can do influence policies that promote growth with equity so that economic development is in consonance with human development.

WHAT IS STRUCTURAL ADJUSTMENT?

Adjustment refers to bridging the gap between what exists and what is required. Structural adjustment is a term which is often used to describe a package of reforms usually advocated by the World Bank and the International Monetary Fund (IMF) while granting loans to countries in deep debt or acute foreign exchange crisis.

Adjustment loans are for two different purposes: For stabilization and for structural adjustment.

> *Stabilization* refers to short-term measures for instant or quick relief. Stabilization loans are usually provided by the IMF. The instant measures include devaluation to make imports costlier and exports cheaper or sudden lifting of state subsidies to balance the domestic budget. Usually stabilization loans have a short-span of 18-months.
>
> *Structural adjustment* measures are related to adjustment with a long-term focus. These measures take time to make an impact. Structural adjustment lending is usually done by the World Bank. Privatization is one such measure.
>
> *Structural adjustment lending* (SAL) is non-project lending to support programmes of policy and institutional change necessary to modify the structure of an economy so that it can maintain both its growth rate and the viability of its balance of payments in the medium term (World Bank, 1982).
>
> *Sectoral adjustment* is another term associated with structural adjustment in one or more specific sectors. Sectoral adjustment loans are for policy changes in specific sectors like energy, telecommunications and steel.
>
> *Social adjustment*, a relatively new phenomena, refers to lending for financing/setting up social development funds aimed at mitigating or averting adverse human affects of structural adjustment. Such funding is available for improving education, health, training and retraining of workers affected by SAP and the provision of affordable social safety nets.
>
> *Enhanced structural adjustment facility* refers to increased lending to take care of special problems/emergency situations such as in several sub-Saharan countries or, for instance, in the case of the December 1994 crisis in Mexico.

In the short-term, stabilization policies are adopted to check the immediate negative consequences in business cycles. They are aimed at reductions in the current account deficits in the balance of payments and the fiscal deficits to sustainable levels. In the long-term, SAP focuses on strategies for balanced and sustained economic growth with due regard for equitable distribution of incomes and wealth through economic reforms. The economic dimensions of these reforms are briefly described later in this volume. Of late, even the IMF has begun to realize that the gigantic and complex problems of heavily indebted countries require much longer-term focus. Therefore, it too began to advocate longer-term measures on the lines of structural adjustment.

Apparently, SAPs are aimed at overcoming economic crises, and contribute to economic growth. More recently they have begun to show concern for social progress and human development. SAP is not a one time action or activity, but a continuous process. As we shall see later, when we discuss the content of SAP, bulk of its thrust is based on greater reliance to market forces for determining the outcomes of the economic process of production and distribution of goods and services both at the national and international levels. Thus, we see, SAP is causing a major shift in emphasis from the government sector as the engine of economic growth to the private sector as a dominant partner in achieving accelerate rate of economic growth.

WHY STRUCTURAL ADJUSTMENT?

The subject bears significant relationship to the Structural Adjustment Loans (SALs) and sectoral adjustment loans (SECALs) for developing countries and East and Central European countries in transition plagued, mostly, by chronic crisis in balancing budgets (mounting debt) and balance of payments (foreign exchange). Bilateral and Multilateral and regional and international lending institutions, in particular, the World Bank and the International Monetary Fund (IMF) began prescribe certain terms and conditions to national governments while sanctioning and disbursing fresh loans. The need for structural adjustment and the accompanying strategy and substance of structural adjustment policies and programs prescribed by the World Bank and the IMF, commonly referred to also as the Bretton Wood twins, for acceptance and implementation by governments in borrowing countries. The rationale for structural adjustment basically stems from the need to balance domestic budgets and meet international foreign exchange obligations in terms of payment for excess imports over exports.

The World Bank (1992) identified the following seven objectives of structural adjustment:

1. Stabilizing the macro-economic environment
2. Promoting economic growth and alleviating poverty
3. Promoting the openness of the economy
4. Improving transparency in the incentive system
5. Improving efficiency in resource allocation
6. Improving scope for private sector development
7. Strengthening institutions and capacity for policy analysis.

The traditional package of structural adjustment has *two phases:*

1. *Stabilization phase* which is aimed at reducing budgetary and balance of payments deficits through cuts in public expenditure and public sector employment and through restrictions on non-essential imports
2. *Growth phase* which emphasized transition from plan to market (World Bank, 1996) through policies such as privatization, trade liberalization and deregulation.

Both these phases can be parallel or sequential. In prescribing policies and programs for structural adjustment the lending institutions were merely doing their duty: borrower must convince lender about the capacity and intention to pay. When the past record of macroeconomic management of a government was unsatisfactory, the World Bank and the IMF are merely dictating terms and conditions under which sovereign governments may borrow money from them. If a country does not borrow money, it is under no obligation to adhere to structural adjustment conditionalities. It must be added, though, that structural adjustment may become desirable and imperative even if a country does not want to borrow from the World Bank, the IMF or any other international or regional financial institution or some other source.

The usual terms of structural adjustment loans encourage governments to move away from central planning and subject themselves to the discipline of the market forces, drastically reduce subsidies, shift production towards tradable goods, dismantle protection to domestic industry and pursue export-led growth strategies.

SAP: STANDARDIZED PANACEA OR CUSTOMIZED SOLUTION?

The critiques of SAP argue that the World Bank and the IMF have the same set of prescriptions regardless of the special circumstances of different countries. The World Bank and the IMF deny this. Toye (1995; 22-23) presents evidence to suggest that the truth lies in between these two conflicting versions. Toye analyzed the precise content of adjustment loan conditionality and concludes that while different country packages are not identical, they have a strong family resemblance. "Although no one type of policy condition appeared in all the early policy packages of the 1980-86 period, the frequency of the most popular condition was 86 per cent, relating to the strengthening of the most popular condition was 86 per cent, relating to the strengthening of capacity to manage the public investment program. Also, appearing in more than 50 per cent of all SAL policy packages were nine other requirements (Toye, 1995; 23)":

(a) to remove import quotas (57%)

(b) to improve export incentives (76%)

(c) to reform the budget or the tax system (70%)

(d) to improve the financial performance of public enterprises (73%)

(e) to revise agricultural pricing (73%)

(f) to revise public investment priorities (59%)

(g) to revise industrial incentives (68%)

(h) to increase public enterprise efficiency (57%)

(i) to improve marketing and other support for agriculture (57%)

Over 80 percent of the conditions are described as "supply-side" and, in the view of the World Bank, "growth-oriented." They deal with "structural causes" of macroeconomic imbalance, allocative efficiency, institutional capacity (in the public sector) and the mobilization of savings and investment. They focus on production, not distribution. The social side of adjustment gets a passing reference under "social sector reforms"

It is not enough for trade unions to direct or deflect their ire against the World Bank and the IMF. Trade unions must accept the reality that when national governments borrow money from international sources, they lose their sovereignty. They must take the initiative in having a national dialogue to examine aspects relating to national economic policies and consider whether structural adjustment borrowing is really necessary. They should work out ways and means to balance the budgets domestically.

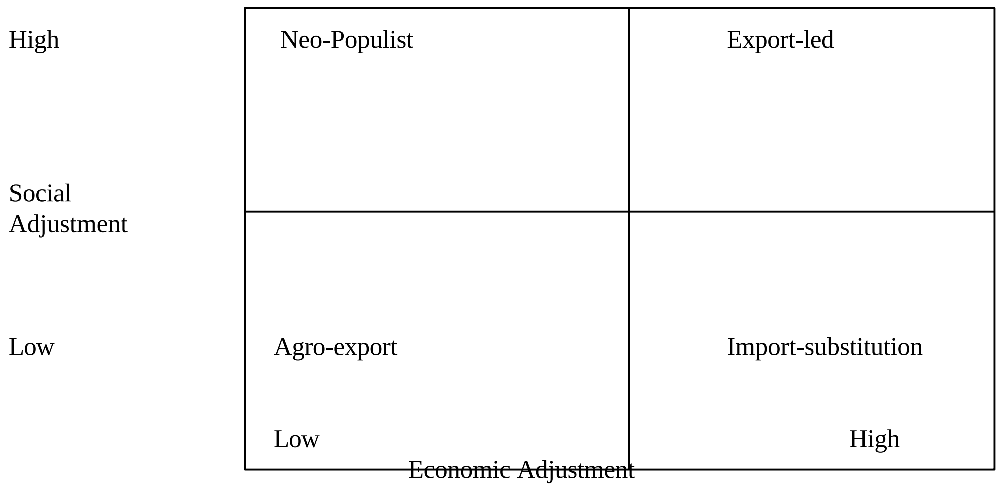
Structural adjustment can be driven by strategy or led by crisis. A stitch in time is considered to save nine. Similarly, when structural adjustment takes place proactively, the country and its social partners will have choices and discretion. When structural adjustment is led by crisis, even the governments lose control over their national, domestic economic affairs. When the government is subject to discipline by multi or bilateral international lenders, it has to bow to the latter's wishes and agrees to certain terms and conditions imposed by them while releasing the loans. Since such terms and conditions are usually known to affect social and labour policies, they are duty bound to consult with social partners. When such policies are externally dictated, consultations with domestic social partners is usually on matters of implementation, not policy. Understandably trade unions and often, even some employers' organizations, may consider this as a *fait accompli.*

DIVERSE DEVELOPMENT STRATEGIES

The above mentioned commonality of SAP conditionality should be viewed in the context of diverse development strategies pursued by different developing countries which are themselves in diverse circumstances, various stages of development, and began adjustment at various time periods. For instance, Standing (1991) identifies the following four distinct development strategies, each of which reflect the social and political structure and economic endowments of various countries:

1. *Agro-export production:* Common in countries with large estates and powerful landlords or agro-enterprises. Many countries in Central America, still adhere to something like this structure. In such cases, one finds impoverished "peasantry" supplying seasonal or migratory wage labour, a concentration of export crops to the relative neglect of domestically-consumed food crops, and a very limited growth of industrial capacity. Since urban-industrial

Figure 1



Source: Adapted from Standing (1993)

There are critical moments in history in general and in several countries in particular. The same industrialization strategy may have different effects at different points of time in a country as well as in countries in different phases/circumstances of growth.

Standing (1991) proposes five questions to find out whether adjustment brings economic and social benefits:

1. Will the adjustment strategy boost economic growth and per capita income?
2. What are the welfare consequences of such strategies, for poverty, income distribution and the level and type of employment and unemployment, both in the short- and medium-term?
3. Are there better alternatives in terms of growth and distributional outcomes, for the type of economy under consideration?
4. If the stabilization and structural adjustment policy urged on individual countries were to be adopted simultaneously by a large number of low-income countries, what would be the likely outcome for the average country involved?
5. Is it possible that what might "work" in some sense if only one country adopted the strategy might have very different consequences if 20 or 30 others did the same?

It appears in retrospect, that more-or-less standardized SAP formulae were imposed on countries which have had different levels of industrial development and, industrialization strategies and social circumstances. It does not require too much intelligence or imagination to underline the need for a case by case approach to suit a country's specific needs and circumstances.

SPEED AND SEQUENCING OF ADJUSTMENT

Bruno (1988) suggests that adjustment in financial markets may be fast, but not so in respect of export and import-substitution producers. As such, liberalization of capital markets should follow, not precede, liberalization in goods market. He cautions that rapid liberalization can have high unemployment costs. Bruno suggests (1988; 231), "The longer the time allowed for adjustment, the easier it is to smooth the process of transition." He cites the example of Israel to set aside doubts about the certainty and credibility of the process through a pronouncement of a phased program of tariff removal, for instance, in the case of trade liberalization. Liberalization has to be, therefore, gradual and properly sequenced. Measures to fight inflation should however be fast and for short periods. They should yield quick results because prolonged contractionary monetary and fiscal policies can push rates of unemployment and poverty.

STRUCTURAL ADJUSTMENT AND INTERNATIONAL LABOUR STANDARDS

The ILO "supports, in principle, structural adjustment linked to the promotion of dynamic and sustainable growth with a view to establishing the conditions for achieving the Organization's fundamental objective of social justice (ILO, 1993a)."

The ILO has identified several Conventions which are of particular relevance to structural adjustment (1993b). They include the following basic human rights Conventions as well as Conventions concerning promotion of economic and social rights:

Convention No.	Subject	Year of adoption
BASIC HUMAN RIGHTS CONVENTIONS		
22	*Forced Labour*	*1930*
87	Freedom of Association and Protection of Right to Organize	1948
94	Labour Clauses in Public Contracts	
98	Right to Organize and Collective Bargaining	1949
100	Equal Remuneration	1951
105	Abolition of Forced Labour	1951
111	Discrimination (Employment and Occupation)	1958
138	Minimum Age	1970
CONVENTIONS TO PROMOTE ECONOMIC AND SOCIAL RIGHTS		
102	Social Security (Minimum standards)	1952
122	Employment Policy	1964
131	Minimum Wage Fixing	1970
142	Human Resource Development	1975
158	Termination of Employment at the Initiative of the Employer	1982
168	Employment Promotion and Protection against Unemployment	1988

Structural adjustment efforts involve the following five basic elements from an ILO standpoint (Plant, 1994; 49):

1. Encouraging the creation of the highest possible level of productive and freely-chosen employment, in conformity with the objectives of Convention No.122, through enterprise development, improved labour market functioning and skill development.

2. Incorporating social dimensions, including social protection and strengthened institutional capacity, in the design stages of structural adjustment programs with a view to ensuring the structural adjustment is socially, as well as economically, sound.

3. Mitigating the social costs of adjustment through poverty reduction measures, most notably by designing and broadening the coverage of social safety nets, while ensuring that such measures are consistent with long-term development objectives.

4. Ensuring that structural adjustment programs are consistent with the provisions of basic ILO standards, particularly the human rights Conventions as well as other ILO standards that have special relevance to particular adjustment interventions.

5. Actively promoting dialogue and involvement of the social partners in the design and implementation of structural adjustment programs and policies with a view to achieving social consensus, while working to strengthen the capacity of workers' and employers' organizations to play an effective role in the structural adjustment activity.

INTERNATIONAL COOPERATION AND THE ILO INITIATIVES

There is a growing recognition about the social impact of structural adjustment, details of which will be discussed in the foregoing chapters.

Way back in 1984, the International Labour Conference revised the Employment Policy Recommendation and called upon the Governing Body to "make effective arrangements or rearrangements of its working methods to enable it to assess at regular intervals the impact of international and national governmental economic, financial and trade policies on employment levels." This led to a series of activities and reports leading to a High-Level Meeting on Employment and Structural Adjustment in 1987 which called on major international organizations, including the World Bank, the IMF and the ILO, to assist developing countries in the design and implementation of policies and programs which took into account the needs and problems of the poor and could be carried out with minimal social cost. The meeting also urged the ILO to remain vigilant in ensuring that full respect for its international labour standards on employment, human rights and tripartism formed an integral part of adjustment policies. The adjustment polices have come to be interpreted, over the years, to include not only the World Bank and/or IMF-sponsored policies, but also other voluntary, autonomous measures for economic adjustment. The High-Level Meeting mandated the ILO Committee on Employment and Social Policy to impress on other organizations, particularly the World Bank and the IMF, in so far as their member States were also the members of the ILO, the need for greater awareness, understanding and acceptance of the importance of the ILO's social and labour concerns. Since then the Committee has issued "possible guidelines on wages, non-wage labour costs and their relation to employment under conditions of structural adjustment," and took up relations with the Bretton Woods institutions regularly as an item of its agenda. The various issues of the World Labour Report and other publications discussed in detail, the impact of structural adjustment on various aspects such as employment, unions, industrial relations, wages, social security, gender issues and child labour, among others. In the early 1990s the ILO has set up an interdepartmental task force on structural adjustment, employment and training and started publishing World Employment Report (1996 and 1997) to highlight the concerns of employment and to present a viewpoint on factors impinging employment and unemployment, and outlining action for job creation..

The Social Summit at Copenhagen organized by the United Nations with active participation from the ILO, the World Bank, the IMF and various governmental and non-governmental organizations including employers' organizations and workers' organizations at national and international level highlighted the universal concern about unemployment and poverty. In recent years there have been many initiatives to sensitize the entire UN system both at the central and country levels, multi-bilateral donors, international and regional financial institutions including, particularly, the World Bank and the IMF.

The World Bank devoted its 1995 issue of the World Development Report to discuss the challenges facing workers in an integrating world (World Bank, 1995). the IMF adopted a declaration on “Cooperation to Strengthen the Global Expansion” in 1994 (IMF, 1994; x) which was revised at the 47th meeting of the Interim Committee of its Board of Governors and adopted a new declaration called the, “Partnership for Sustainable Global Growth (Box...). The 1996 declaration calls for employment oriented labour market policies, recognises the role of human resource development, investments in social sectors and provision of well targeted and affordable social security nets. Both the institutions began to incorporate social concerns into their programs and create new measures such as extended structural adjustment facility (ESAF), social development funds (SDF), debt reduction/ restructuring/rescheduling. The last mentioned aspect is discussed in detail in the next chapter.

Clearly, what was accomplished so far in sensitizing the international community and the myriad other stake holders, including the trade union activists and union members about structural adjustment and its impact is not enough.

ALTERNATIVE MEANS OF ACHIEVING STRUCTURAL ADJUSTMENT

If the purpose of SAP is increase competitiveness, it can be achieved through two ways (Porter, 1985): One way is to reduce costs and seek a more effective combination of resources. Firms employing this strategy seek "comparative advantage" and pursue cheap resources that some countries may offer. When the resources sought are limited, such a strategy progressively begins to taper off. Often the employment effects associated with this strategy are considered to be negative.

The other way to achieve competitive advantage is through differentiation by value addition. Differentiation can be secured in terms of products, delivery, after sales service, etc. An Indian company - Sundaram Fasteners - outbid six global players and became the world-wide supplier for radiator caps to all the plants of General Motors through this strategy: Against a world average of 150 defective spares per million, this company had a record of six defective parts per million. Also, in the past two years before securing the contract with General Motors, it never missed delivery on schedule. The focus is not just on cost, but quality, reliability and value addition.

Most developing countries undergoing structural adjustment do not have the capacity to engage in unemployment compensation or unemployment insurance on any significant scale. They have two options: First, review the process of structural adjustment itself so that the social impact can be softened without drastically undermining the adjustment process. Second, combine income support measures with skills, jobs and enterprises' creation measures.

CHAPTER 2

DESIGN AND IMPLEMENTATION OF STRUCTURAL ADJUSTMENT PROGRAMMES

This chapter begins with an overview of policy decision and implementation. It then discusses the major areas of policy - macroeconomic, government finances and administration, trade, agriculture, industry, financial sector, public enterprises and environment. It then reviews the timing and conditionality of adjustment lending and aspects relating to monitoring SAPs.

THE DESIGN AND IMPLEMENTATION OF SAP

The adjusting countries circumstances and problems may be different. But based on its cross-country experience the World Bank suggested some general guidelines as core elements of policy reform. Also the World Bank and the IMF consider that while a country's own program of reforms may be broader, they would support such programs as would fit with their objectives. The Bank staff prepare a document for each loan, called the President's report , which explains the rationale of the loan and the broad picture of the reform program to the Bank's Board. The report also contains the actions the borrowing country is expected to take in each of the three areas discussed in chapter 1: expenditure reducing, expenditure switching an supply-side, growth oriented policies. The crucial actions that the borrowing country need to take are spelled out as conditions or covenants in the Legal Agreement that sets forth the precise terms of the loan. 80 per cent of the conditions in SAPs are supply-side, growth oriented policies(Webb and Shariff, 1992; 69). Some of the other conditions like fiscal reforms and reduction of public sector deficits are usually reflected in the IMF conditionality which aims at stabilization. As discussed in the previous chapter, the IMF focuses on stabilization and the World Bank on growth. When one is looking at conditionalities, one should look at agreements with both the World Bank and the IMF. Where a country has no concurrent agreement with the IMF, the World Bank conditionalities also may include some of the elements that normally feature in the IMF loan agreement. It is important to note here that social aspects have taken a back seat in the design of SAP, but beginning to be reflected, marginally, in recent years.

Usually a loan is disbursed in two tranches. The first disbursement is after an assessment of the assurances and the second disbursement is based on the satisfactory fulfilment of conditions. The Bank and the IMF reserve their right to cancel loans, fully or partially. They exercise such right sparingly. During 1979-89, they cancelled three loans fully and two others partially.

The content of conditionality, lending operations and implementation of conditions by policy area and type of country and condition during 1979-89 are reproduced from Webb and Shariff's (1992; 69-96) contribution to a World Bank publication and presented vide tables ..... to ....

NATIONAL DECISION MAKING AND NEGOTIATION OF SAP

A country goes for SAL when it is in deep crisis. At that time, the international lending institutions - be it Paris Club, the Bretton Wood twins or bilateral agencies - stipulate some conditions with a view, among others, to ensure that the debtor country would take steps to use the loan such that it can eventually pay back the same with interest. Naturally in such circumstances, a country loses its sovereignty in decision-making on the concerned economic and social issues. The choice is not go for loan and adjust, internally. But, not all countries have the capacity to do so. Some can not do without SAL if adjustment without SAL can be even more painful in terms of its social consequences. A country which does not have sufficient foreign currency reserves and which depends significantly on imports to feed its people or to keep the wheels of its economy moving has little choice, and therefore, little discretion. Having failed to balance budgets and carry on the affairs of the country without resort to external lending or resources, this is a price that a government and the people who elect such governments need to pay.

The leverage between the World Bank/IMF and the country concerned depends on several factors. But the most important is the volume of foreign currency reserves a country has. In other words, the less desperate country's dependence on international lending institutions, the more discretion/choice it has.

If the government it self does not have choice and discretion, how can it provide these to the other social partners? Often, when the government signs agreements on dotted lines to save itself of embarrassment of defaulting loan or arranging resources to pay for critical (and sometimes even non-critical imports?)

Therefore, while ideally social partners should be consulted in formulating the strategy of structural adjustment, often it takes place at the implementation stage.

Trade unions and other social partners who object to external conditionalities of SAP have a major responsibility in taking keen interest in the management of their economy to ensure that the country manages its affairs within its own means. When the situation goes out of control and if the intention is to bring it back to normal, if external financing is considerable undesirable, trade unions should work with their national governments in bringing about adjustment to expenditure cuts or switches or capital market adjustments. In other words, trade unions can object structural adjustment loans and some of the attendant conditionalities, but not structural adjustment per se. When structural adjustment takes place with external borrowing, the decision-making power, to an extent, extends beyond the borders of a country. When structural adjustment can be accomplished without external borrowing, a country retain its sovereignty. But in an increasingly interdependent unequal world, it is doubtful whether any developing country can survive with a strategy of isolation, absolute self reliance or sheer import substitution.

How will the process of negotiation of SAL begin? A country may respond to the problem and go for a loan. Alternatively, lenders can exert pressure on a country in the event of an imminent default. Once it is clear that the immediate solution of the problem requires external borrowing, assessment is made, conditionalities mentioned as part of the loan package, and after negotiations between the government and the lending institutions agreement is made. The program goals are reviewed against actual performance and the lending institutions make their own audit, look for gaps, if any, between what was agreed and what was accomplished. Since disbursements are phased, actual disbursements are usually contingent on actual performance. When mid-term evaluations bring additional insights, program objectives may be modified or as it happened over the years, additional thrust is placed on the social side of adjustment. Where inevitable, as per guidelines on debt reduction/rescheduling or restructuring, debt or debt service burden is reduced.

TRIPARTITE CONSULTATIONS AT NATIONAL LEVEL

The components of SAP cover several aspects of the governance of an economy and enterprises within it. Usually policy changes in the areas concern money, tax, foreign exchange, international trade, industrial licensing, competition, changes in labour policies, removal of subsidies, etc. Agricultural reforms like land reforms, however, remain a taboo in most countries. On social and labour matters, the crucial issue in almost all countries concern the law an procedure relating to protection to workers retrenched/dismissed. Legal rules and agreements governing wages, working conditions forms of employment, etc., are usually sought to be revised in countries which seek to or made to adjust. For the workers, this is a key aspect of "job security"' for the employers, this is a major element of "freedom" or "right to manage."

These and many other aspects of SAP create problems among and between unions and employers and their organizations. Social consensus on such contentious issues provides a stronger basis for the adjustment process. The participation of employers' and workers' organisations can make restructuring process is easy and efficient. It may delay formulating policies and strategies for adjustment, but implementation can be smooth. When employers' and workers' organizations are avoided from the consultant in process in the hope of avoiding conflict or obstacles at the policy package formulation stage, there would be greater conflict at the implementation stage.

National level consultations of employers' and workers' organizations during structural adjustment have been analysed by Trebilcock (1993). The following analysis is largely based on excerpts (ILO, 1993 January, 4-5) provide information on five developing countries, Argentina, India, Mexico, the Philippines, and Zambia:

Argentina: Since the restoration of democracy in 1983 the involvement of social partners in policy discussions has been very limited. From the authorities side, the role of tripartite bodies seems to have been misinterpreted, with either the incorporation of social partners into the government (which they were supportive), or their exclusion. From the unions' side, uncritical submission or confrontation seem to have been the options, depending on the political links with the government. The outcome has been that less restrictive and more direct alternatives are preferred to consultation, such as direct lobbying by employers.

India: Tripartite consultations began in India in 1944, but remained inactive from the early 1970s until recently. The implementation of an adjustment programme since 1990 revived the participation of social partners, without lending a serious dislocation of the program. The mood of confrontation changed to one of greater acceptance of the inevitability of structural adjustment. In addition to normal tripartite consultation mechanisms, a special tripartite committee was set up to oversee structural adjustment related matters and another six industrial tripartite committees were revived to focus on sectors where the incidence of sickness was considered rampant. The discussions are leading to evolving a national minimum wage and the evolution of broad principles on the approaches to dealing with sick units in both the public and the private industries. Special attention was focused in examining each case of sickness in about 58 out of 240 central public sector undertakings. Workers and employers' representatives arrived at an agreement on the reasons for non-performance in loss-making enterprises and in textiles, steel and pharmaceutical, tripartite agreements were reached on revival of sick units. A special fund, called, the National Renewal Fund (NRF), was established with representation for both workers' and employers' representatives. The NRF is supposed to fund voluntary separations of surplus labour in sick units, assist their retraining and redeployment and contribute to the regeneration and rejuvenation in industrial areas in decline.

Mexico: Mexico too has a long-tradition of tripartite consultation where the bargaining power of the different social partners had been quite uneven. In 1987, when the government introduced a major change in the adjustment policies it was pursuing since 1982, a tripartite Social Pact, called Pacto, was signed. It is revised and renewed periodically. This Social Pact seem to have contributed to the recovery of first stability and later growth, taking the country out of its economic crisis and enabling implementation of a more effective adjustment program that involved greater sacrifices from workers.. But, the unanticipated and unprepared 1994 crisis puts a question mark on the intrinsic value of such consultations.

Philippines: In Philippines too there is along tradition of tripartite consultations. Given the political polarisation, tripartite meetings create opportunities to share views than generate consensus. They have also provided opportunities to arrive at some principles or guidelines on wages and related issues. When there is a deadlock, the government made final decisions.

Zambia: The transition from one-party rule to democracy paved the way for consultation with social partners on structural adjustment and related issues. Tripartite agreements have had considerable impact in the areas of labour law reform and labour market policy through the Tripartite Consultative Labour Council. The Government is well aware of the establishing influence that opposition to structural adjustment had on the previous regime, and is hopeful that greater participation by the social partners will make painful structural adjustment measures easier to accept. However, the limited experience permits only tentative inferences, not firm conclusions.

When one is considering international experiences, it is useful to learn not just about the mechanisms or fora for consultation and the declarations or statements or agreements reached at such fora, but go deep into actual implementation of the agreements and the underlying difficulties, if any.

Structural adjustment measures pose deep dilemmas both for unions and employers. Competition, privatization, technological change, mergers, acquisitions and various forms of adjustment and/or restructuring bring about changes in the dynamics of unions and industrial relations at the enterprise level. They also impact and impinge on diverse groups of workforce in diverse ways. The resulting divisive influence may pit one group of workers against the other and one union against the other. Certain groups of workers and certain unions may lose and others may benefit. For instance, certain adjustment measures may have adverse affects on unskilled workers while skilled workers may benefit. In cases where both groups of workers are represented by different unions, the impact of such adjustment would be perceived differently by both the unions.

Similarly employers also face dilemmas. Take for instance devaluation. Those manufacturers who produce goods with a high import content and who cater mainly to the domestic demand usually oppose it since it would push up their costs. But the predominantly export-oriented manufacturing units and a section of those who deal in foreign trade welcome it. When it comes to liberalization, local employers typically prefer domestic liberalization to occur first and globalization or competition across borders to be allowed only after some time so that the intervening time can provide opportunity for preparing a level playing field.

SAP usually entails major paradigm shifts in the governance of the economy, management of enterprises and policies concerning labour, labour markets and labour market institutions. Resistance to the reforms needed for adjustment is common in most, if not all the countries. The only way the resistance can be dealt with in a sustainable manner is by caring for the concerns of all those involved and /or affected by the changes. Change should be seen as beneficial and worthwhile by all the social partners rather than by one more groups only. This requires consultation and cooperation within and among groups at each constituency (i.e., labour/unions, management/employers and government, at bipartite and tripartite levels).

Adjustment programmes also involve huge political risks for political leadership. Broad-based political support and coalitions need to be worked out. Generally employers have been more supportive of the reforms than trade unions (Venkata-Ratnam, 1993). But in many cases, even such employers' organisations who initially endorsed SAP began to circumspect as they began to experience some of the adverse effects of adjustment. Political support for SAP is possible when all concerned see the gains outweigh the pains during the transition and within the short-term itself.

Economic crisis and other pressures for restructuring at enterprise level is resulting in greater consultations at enterprise level with a view to develop cooperative attitudes and approaches. What Fashoyin (1990) wrote about the developments in Nigeria in this regard is applicable to other developing countries as well:

> "The current level of cooperation between unions and management (cooperation which has developed for the most part outside the established consultative machinery) is no doubt a transient phase, not destined to lead to an end to adversarial relations. On the other hand, the introduction of fundamental economic restructuring will emphasize the competitiveness of industry through deregulation and privatization and thus increase the need for labour-management cooperation to improve the efficiency of enterprises. In the final analysis, the question then seems to revolve around the fact of economic recovery and growth and genuineness of both parties' commitment to security of employment as a joint union-management objective."

MONITORING ADJUSTMENT

Trade unions should look at the following documents relating to their country if they want to understand the relevant issues relating to SAP in their own country, the policy framework/prescription, the criteria for measuring outcomes and the perception of constraints as between the Brettonwood twins and the national government:

Country Assistance Strategy (CAS)

Country Economic Memorandum (CEM)

Policy Framework Paper (PFP)

Performance Audit Reports (PAR)

Project Completion Report (PCR)

Staff Appraisal Reports (SAR), etc.

These documents contain basic information, assessment of lending institutions, policy prescriptions, performance audit, evaluation of constraints, and responses and commitments made by borrowing country at various stages. Often they contain more information than is generally made public either in the formal channels or through discussions in parliament, media and other channels. These are documents released for official use only. But trade unions as social partners representing the working class in national economic and labour institutions can ask for copies either from the World Bank and the IMF direct or obtain them direct through the concerned ministry in the national government.

In addition to the above, the World Bank has created "Adjustment Lending Conditionality Implementation Data Base (ALCID)" at its headquarters in Washington, D.C. which provides comprehensive global picture about the conditions imposed on each of the countries undergoing SAP and the extent of their compliance.

For independent assessments, they would also benefit from looking at country reports published by such agencies like the Economic Intelligence Unit of the Economist and the (London), debt tables and world development report issued annually by the World Bank. The World Employment Report (first of which was published in 1995) and the World Labour Report published by the ILO and the Human Development Report published by the UNDP also provide useful comparative pictures on several social trends in different countries. The Staff Working papers published by the IMF and the World Bank, the monographs and reports on sub-regional and regional conferences and the governing body of the ILO and other UN agencies also contain a gold mine of information.

The following issues deserve special attention in examining the modus operandi for monitoring the impact of adjustment.

1. It is important to design monitoring system such that the causal relation between various components of adjustment policies and measured outcomes can be clearly established. It is equally important to look for direct and indirect impacts, short-term and long-term effects and intended and unintended consequences.

2. The lending agencies would focus on monitoring with reference to their policy objectives. They compare planned policy changes with actual policy changes and actual changes in macroeconomic indicators with projected figures. They are likely to focus on macroeconomic variables such as the following:

   Fiscal indicators (% of GDP)
   Government savings - central, state, total
   Debt services/tax revenues - central, state, total

   Investment (% of GDP)
   - Public
   - Private

   Public Enterprise (PE) Reform
   - PE profit/losses
   - Rates of return to capital

   Other Efficiency Indicators

   Risk Assessment
   - Political stability (consistency)
   - Social and political reaction to adjustment (commitment risk)
   - Continuity in policies (credibility)
   - Slow supply response risk (lukewarm private investment and import shortages)
   - Unforeseen exogenous shocks (slow growth of world trade, inadequate balance of payments support, etc.)

   Labour Market Indicators
   - Productivity
   - Public sector employment

   In addition, from borrowers' point of view, the following indicators also are important:

   Total External Debt
   - Volume of debt
   - External debt as % of GNP
   - External debt as % of export of goods and services
   - Debt service as % of exports of goods and services
   - Ratio of present value to nominal value of debt (%)

3. In addition to macroeconomic variables, the social trends also should be monitored. The UNDP Human Development Report has, over the years, developed several measures including the following:

   Basic Indicators

   - Average annual growth of population (%)
   - % population in labour force (sector and gender-wise)

GNP per capita (US$) and percentage share of income or consumption (Gini index, lowest 10% onwards)
Purchase power parity per capita (US$)
Life expectancy at birth (years)
Infant mortality (per 1,000 live births)
Prevalence of malnutrition (% under 5 years)
Adult illiteracy (%)

Other Key Socio-economic Indicators
Measure of poverty (defined income/consumption level)
Poverty (% poor to total population)
Inflation
Unemployment (open unemployment, disguised employment and underemployment
Employment in formal sector (% of the total workforce)
Trends in nominal and real wages
Minimum wages
Access to education, health, housing and social security

The problem with social indicators is that usually the project documents do not provide targets or quantitative framework for assessing the social dimensions of adjustment. Also data is dated, hard to find and often unreliable. Many performance audit reports of the World Bank often confess that in the absence of firm data, definite answers about the nature and extent of social impact of reforms are not possible.

4. Monitoring through projections based on past experience is inappropriate to gauge the impact of SAP. When structural changes take place through adjustment, past assumptions become irrelevant. For example, when technological change has diminished employment intensity in manufacturing, we can project employment generation potential of fresh investments, foreign or otherwise, based on earlier assumptions. Therefore there is a need for a review.

5. There should be multiple channels or sources of information and feedback. Exclusive reliance on surveys and statements prepared by those who have responsibility for implementation should be avoided. A combination of quantitative and qualitative, perceptual (questionnaire surveys) and factual, official and non-governmental (for instance, community monitoring) inputs should be built into the monitoring system. van der Hoeven (1991) gives the example of nutrition project in Iringa, Tanzania, where communities were empowered to monitor and indicate nutrition problems. Community participation in monitoring social progress is one of the most effective ways. At least, community inputs should figure prominently in the feedback system.

6. Monitoring should provide for some form of early warning system for social indicators so that preventive and proactive steps can be initiated well in time to ward off potential social crises.

7. While the Social Dimensions of Adjustment Program (SDA) in Africa funded by the UNDP and the World Bank have improvement of statistical data collection and analysis as one of the objects, it is often found that in some countries the capacity and willingness to generate and make available timely, systematic, valid and reliable data and information leave much to be desired. Social partners - particularly trade unions - should take active interest to study such inadequacies and initiate action to overcome such limitations..

CHAPTER 3
SOCIO-ECONOMIC DIMENSIONS OF STRUCTURAL ADJUSTMENT

This chapter explores the underlying rationale of the economic dimensions of structural adjustment and explore whether, when and why the real experiences of different countries do not fit into rational theoretical explanations.

The basic thrust in the stabilization measures is to secure internal and external balance in resource position with respect to fiscal budget, current account and foreign exchange reserves. In principle, the suggested stabilization measures can not be disputed if care is taken to see that the remedy does not prove to be worse than the disease itself. In achieving the aforementioned balances, if there is a contraction in the economy, as has happened in several developing countries, it signifies the case of the solution becoming the source of another a problem. Clear understanding of the contextual factors and a customized approach rather than a standardized, uniform straight jacket imposition underscores the need for flexible, not rigid, conditionalities.

If growth results in greater inequity, higher exports cause scarcities in domestic supplies, competitiveness is achieved at the expense of tremendous job loss and increased poverty, and liberalization makes it attractive for foreign investment, but increases the difficulties for domestic businesses, there is a need to see whether adjustment is an end or a means to development for human progress.

With the above caveat, the policy framework for stabilization and adjustment is considered in the following paras.

MACROECONOMIC POLICY

Fiscal policy has four broad goals: (b) show fiscal prudence; (b) check inflation; (b) maintain a stable real exchange rate; and, (d) let capital market function efficiently.

Fiscal prudence. Whether it is an individual, enterprise or a nation, it is preferable to live within ones means. Budget deficit per se may not be too bad, but the limits to its size depend on how it is financed: increase taxes, print more money, borrow in domestic markets, foreign sources, or both. There is a limit to taxation. Higher taxes may bring down compliance levels and fail to get more revenue. Printing money beyond a point can be inflationary. Money borrowed has to be repaid with interest, defaults, carry premium on servicing the debt. It is also important to consider where the money is going and why? Fiscal prudence is therefore considered necessary.

The indicators of fiscal prudence include: (a) level of taxes; (b) size of money supply; (c) debt and deficits; (d) increases in government spending. When there is abnormal increase in government spending, analyse sources and uses of government funds. If too much money is spent on non-productive purposes, be sure that there is an impending crisis.

Inflation. Inflation is bad and therefore must be checked. But sometimes moderate inflation does more good than bad, particularly if it augments output and facilitates job creation. In inflation is due to non-productive expenditure where too much money chases too few goods, it can have a bad effect. Tolerance to moderate inflation can be contagious and therefore it is preferable to avoid.

Indicators of inflation could be based on targets of inflation. If inflation moves from single digit to double digit, it can be presumed that it is no longer moderate and sustainable.

Exchange rates. Real exchange rate is the ratio between price of home goods and the price of traded goods. Much has been said and written about exchange rates. Devaluation may boost exports and make imports costlier. But under certain circumstances devaluation may cause domestic prices to rise when resources are channelled to export areas make domestic supply scarce. Pegging the exchange rate at levels where imports become cheap may drain foreign exchange resources and force external borrowing which too has its own limits. When external sources of funds dry up, the resulting foreign exchange crisis may lead to a massive devaluation. When the dominant strategy is import-substitution, devaluation may have adverse impact on domestic manufacturers. Also, as we will discuss later, exchange rates are influenced often by external factors as well. But that is not an excuse for a country not to do what is in its best interests. Mistakes in exchange rate policy can be costly. The policy should aim at sustained efforts to secure competitive and stable real exchange rate. Whether, when and how much should a country devaluate? What are the effects of devaluation on different sectors of an economy? There is no one answer to this question. It should be examined based on a detailed analysis of the country situation and range of options at the time of decision.

What should be the approach in the management of a sound exchange rate policy? It can be fixed or floating. It can be linked to a foreign currency. Usually when a smaller country has a dominant trading partner, the tendency to peg the currency of the smaller country with that of its major or dominant trading partner. Some Latin American countries peg their currency with the US dollar and several French speaking African countries to French franc. As of now, interestingly no Asian developing country pegged its currency with the Japanese yen.

Exchange rate fluctuations affect capital flows, trade and domestic inflation. Therefore, all countries, both developed and developing, intervene in exchange rate management. The Bretton Woods system of fixed exchange rates died in early 1970s, the European countries have set up the European Monetary System (EMS) to minimise exchange rate fluctuations. Developing countries have fewer options to immunise their currencies from external shocks. The least they can do is to see that internal shocks do not add to their woes.

The following provide warning signals on the state of a country's exchange rate: (a) Large current account balance; (b) falling foreign exchange reserves; and, (c) increase in domestic cost relative to foreign cost. Under these circumstances, devaluation becomes imminent to induce a reduction in imports and increase in exports. The alternatives to devaluation include : (a) import quotas; (b) exchange controls; and, (c) export subsidies. But in the context of today's managed free trade, such policies - particularly quotas and subsidies - from developing countries will be viewed as restrictive and unacceptable by the industrial countries.

Usually, the political pressure is higher for overvaluation of currency, particularly in import-substitution countries. Rarely does a country undervalue deliberately and that too in the event it relies heavily on export led domestic growth.

Capital markets. Savings and investment hold the key to growth. The policies should be conducive to encourage savings and investment. Well functioning capital markets facilitate mobilization and allocation of savings for productive and competing uses.

Developing countries should have appropriate institutions, including stock markets. In addition to commercial banks, other financial institutions should also be well developed. Property rights, prudent regulatory framework, transparent transactions and proper systems of accountability and monitoring of financial institutions are necessary for the proper and efficient functioning of capital markets.

Indicators of capital markets: Size of capital flows. If the rate of private capital flows is abnormal, it may signal that the economy is getting overheated. When there are external economic and internal political and economic shocks, capital market trends require close monitoring.

THE THREE PILLARS OF STABILIZATION: The stabilization measures through macroeconomic policy reforms focus on the following three measures: internal balance, current account balance and external balance.

Internal balance and fiscal restraint. The prescription in such cases is fiscal tightening which calls for reducing government spending in order to cut the budget deficit and reduce the rate of inflation. Reducing government spending is politically unpopular and may result in contraction of economic activity, reduction in employment, increase in poverty cascading inequity and mounting social unrest. Sometimes fiscal restraint may cause supply shocks and increase prices and thus push the rate of inflation instead of bringing it down.

Resource balance and the exchange rate. Exchange rates are sought to be adjusted to secure current account balance. This is normally done through devaluation. Countries which rely on essential imports may suffer due to devaluation if the value of foreign exchange flows from increase exports is less than proportionate to the value of imports. Also, in many cases, exports pick up in terms of volume, but fall, in relative terms, in terms of value. The reverse may happen in regard to imports. Volumes may fall, but value may increase. Over all, if terms of trade are unfavourable, as it has been generally the case in most developing countries, except in the case of east and south-east Asia, the net result resembles the case of remedy being worse than the disease.

Monetary policy and external balance. External balance or foreign exchange reserves are assets - gold, SDRs and foreign exchange holdings - that the central bank of a country possess to absorb deficit in balance of payments. The central bank accumulates reserves when its receipts of foreign exchange exceed payments and uses them when the situation is reversed. The level of reserves a country must have depends on a variety of factors including prices of country's exports and other determinants of terms of trade, capital flows, normal level of domestic output, etc. External reserves provide a cushion against possible recession of temporary decline in the export prices of major products/commodities, and ensure uninterrupted supply of essential imports even if there are temporary shortfalls in export earnings.

The external balance targets for a country depend on the degree of vulnerability to exchange shocks, the consequences of depleted reserves (such as for uninterrupted import of, say, fuel or food items), cost of holding reserves, and the scope and potential for quick and reliable adjustment.

Stabilization must precede adjustment. It can, to an extent parallel, but not follow adjustment.

MICROECONOMIC ASPECTS OF FISCAL REFORMS

Both the IMF and the World Bank consider that reduction of the budget deficit to a sustainable level is the crucial first step any government should take towards macroeconomic stability. With this objective, they offer a set of fiscal reform prescriptions for revenue and expenditure. Governments are told to raise revenue and reduce expenditure.

Raise revenue: Intensify tax effort, improve tax administration and diversify the sources of revenue. Rely more on indirect taxation such as value added tax. A World Bank study admits that its advice on sectoral tax was, in some cases at variance with its general advice. Also there was a general lack of consensus among tax specialists on certain matters like incentives to promote investment and exports. Instead of quotas, tariff liberalization is generally advocated.

Simultaneous changes in taxes on income and consumption and tariff duties often require conceptual, legal and regulatory efforts to undertake which many governments usually lack administrative capacity and political willingness. Also, the time targets for designing and implementing tax reforms and the assumptions about anticipated improvements in tax revenue are generally found to be a little too optimistic. The impact of tax reforms in low-income and middle-income developing countries may not be the same because the nature of the problem may not be similar.

Reduce/modify expenditure Invariably SAP seeks cuts in government expenditure. Cuts in subsidies are recommended inevitably. Ultimately, however, in several countries, some subsidies are allowed to be retained, after considerable restructuring and refocusing for sharper targeting of the intended beneficiaries. Reduction of subsidies, where desirable, may have to be phased over a period, rather than introduced in one stroke suddenly. Civil service pay and employment reductions were introduced with some speed in Africa, but in recent years, the pace of such reforms seems to have slackened.

The adjustment experience of the World Bank on microeconomic aspects of fiscal reforms brought into sharp focus the following critical questions that need to be addressed at the design stage itself (World Bank, 1995b; p.138-139):

Whether reduction in the fiscal deficit is predominantly a revenue or an expenditure problem?
What , if any, are the implications of alternative revenue sources or expenditure cuts, or both, on the revenue losses deriving from the net effect of eliminating quantitative restrictions and lowering tariff duties?

Can equity be built into tax through ad hoc rates of VAT on "luxury" consumer goods?

What can be the expected pace of tax reforms?

Exercise caution in dealing with operating and maintenance expenditure across sectors and in considering social expenditures critical to long-term human capital formation and for low-income groups?

The implementation of the conditions relating to expenditure reforms were rated by the World Bank (1995b; 139-140) a poor in 50 per cent and fair to poor in another 20 per cent cases. It noted that, "In particular, the problem arises in connection with the agreed expenditure policy, in terms of both levels and consumption. One main factor explaining recurrent slippages with respect to the above is that the Letter of Development Policy committing the government to, among other things, a given expenditure program, is a point of arrival for the Bank, but for the government it remains a point of departure in terms of negotiating the specific components of the program with the various technical ministers, and other pressure groups for such areas as subsidies. These negotiations are often very difficult and offer great resistance in accepting the program. Therefore, the Bank should, to the extent possible, make sure that the Letter of Development Policy reflects the agreement of the government, not just of the signing minister. Alternatively, the Bank will have to take a tough stance at the time of tranche releases, at the cost of their suspension if the situation warrants it."

LIBERALIZATION

It is doubtful whether there is any truly open or completely liberal economy in the world. Free trade may still be managed and not so free or fair. Be that as it may, SAP calls for liberalization and privatization. If we consider privatization separately, liberalization under SAP has three important components: trade, financial and infrastructure sectors.

Trade liberalization. "The removal of quantitative restrictions on imports, the unification of import tariffs and export subsidies, and the gradual or speedy elimination of tariffs constitute the opening up of the "real" side of the economy. The opening up raises the efficiency with which labor and physical capital are allocated among productive sectors (Bruno, 1992; 224).

A country's debt and exchange problems are inherited from the past, and acquired by the omissions and commissions of the current regimes. But, to an extent they may well have been imposed by other countries, wily-nilly. A country's actions in economic and other spheres may have both intended and unintended consequences for others. The more powerful a country is economically, the greater its impact on other countries. Today, three countries - the USA, Japan and Germany account for greater share in world output and world trade than the cumulative share of over 140 developing countries (World Bank, 1996a). 54 per cent of total official holdings of international reserves were, on average, denominated in dollars, with another 15 per cent and 8 per cent respectively in deutsche mark and Japanese yen. 23 countries peg their currencies to the US dollar and 14 African countries to French franc (IMF, 1996b). Little wonder then that the volatile exchange rates of the dollar in particular and that of a few other industrial country currencies in general have had tremendous impact on the exchange rates and external balances a host of developing countries. What has been and what can be done to contain such imbalance, volatility and vulnerability? Since the fall and the decline of the fixed exchange rate mechanism of the Bretton Woods system in the 1970s, the exchange rate mechanism (ERM) of the European Monetary System (EMS) was initiated to reduce the volatility among the European currencies and eventually become an integral part of the strategy towards the Economic and Monetary Union (EMU) within Europe. But this takes care of the interests of Europe, not so much the rest of the world. Given the dominance of dollar and the resurgence of yen, the developing world still remains extremely vulnerable.

Borrower ownership of the program design supported by political consensus among social partners in civil society. The interests of employers, unions and workers, and the public at large should be taken into account.

Able and willing political and administrative leadership committed to good governance in the larger cause of the nation than for parochial sectional and selfish considerations.
Humanitarian approach of the multi- and bi-lateral lending and other institutions which avowedly support the cause of adjustment in developing countries.

CHAPTER 4
SOCIO-ECONOMIC IMPACT OF STRUCTURAL ADJUSTMENT

This chapter seeks to explain and illustrate the social and economic impact due to the implementation of structural adjustment measures. It reviews some of the significant findings of the UNDP, ILO and World Bank and draws on the published and unpublished empirical studies to highlight some of the main measures and their impact. It also discusses the ILO initiatives at strengthening tripartite participation and recent policy modifications of global institutions to include the social dimensions of structural adjustment.

Structural adjustment has both economic and social impacts. It should focus on economic growth as a means to human and social development. "Human development is the end - economic growth is a means. So, the purpose of growth should be to enrich people's lives. But far too often it does not. The recent decades show all too clearly that there is no automatic link between growth and human development" (UNDP, 1996; 1).

The champions of adjustment and growth focus on long-term gains to justify short-term pains. "Since we all are dead in the long-run," it is imperative to evolve strategies for adjustment which focus on a net reduction of unemployment and poverty not only after the period of adjustment, but also during the period of adjustment. It is equally important to consider who suffers the pains and who enjoys the gains to avoid exacerbation of the existing social and economic inequities.

THE WORLD BANK VIEW

The World Bank surprised many by devoting its world development report for the year 1995 to discuss about "workers in an integrating world" (World Bank, 1995). It recognized that, "Labour does tend to suffer during the initial period of adjustment, and possibly more than capital. But often it is not because the design of the adjustment policies is flawed, but because adjustment occurs simultaneously with - or is triggered by - a macroeconomic crisis, followed by a sharp drop in aggregate demand (World Bank, 1995; 104). We have seen in the previous chapters that the situation in different countries at the time of adjustment was diverse and so were their industrialization strategies. Yet, the components and underlying strategy of stabilization and adjustment were broadly similar in most developing countries. Therefore, it is difficult to accept the World Bank defense that the design of adjustment policies is not flawed.

The World Bank considers that recession, unemployment, and falling wages all hit the poor very hard in the early phase of transition, but the structural reforms that constitute the real transformation are good for poor workers, even in the short run. But the irony of such an argument is clear from the following statements made in successive paras (World Bank, 1995; 104-5):

> "Trade liberalization and real depreciation of the currency together promote exports, which tend in developing countries to be intensive in less skilled labor. And private sector development often means the growth of new businesses in labor-intensive sectors. Because tradable goods account for a smaller part of the consumption baskets of most poor people than of the well-off, the rising relative prices of imports affect them less.....With trade liberalization, exchange rate of adjustment, and cuts in subsidies, imported goods become less expensive or available for the first time, while prices of utilities, food and housing increase."

The following findings of the World Bank which are, however, arguably less contentious (World Bank, 1995) :

> Labour is less internationally mobile than capital and thus less able to leave when the domestic economy declines.

Let us now look at the evidence on how the developing countries, most of which willy-nilly pursued SAP at different points of time fared since the 1980s to date with regard to the three broad purposes for which they were formulated in the first instance:

1. Resolving the debt and exchange crises. Have the developing countries been able to resolve these twin crises?

2. To put the countries back on the path to recovery and growth. Did the developing economies grow and have they have been able to attract increased investments?

3. Promoting economic growth consistent with human development. How have the developing countries fared with regard to human development?

4. Promoting equitable growth where poverty and unemployment are reduced and living standards of its people, including the working class, are improved? Have the rates of poverty and unemployment come down? Have the real wages improved?

HAVE THE DEBT AND EXCHANGE CRISES BEEN RESOLVED?

The components of debt stock are shown in Chart 1.Total external debt comprises short-term, long-term and the use of IMF credits. The sources are official (multilateral and bilateral) or non-official (banks, bonds, others such as portfolio investments, etc.). External debt is used by any one of the three:: public (government), publicly guaranteed (for example government departments or autonomous corporations) and private nonguaranteed (private corporations) debt. The World Banks lends only to the national government but to state/provisional governments or individuals.

The *World Debt Tables* published annually by the World Bank provide detailed information. The 1996 edition of the report indicates that:

1. The total debt of developing countries rose from US$ 1,365 billion in 1988 to US$ 2,068 billion in 1995. The Mexico crisis inflated official flows (Table...).

2. Net flow of debt (disbursement minus interest payment) declined in 1994, but rose in 1995.

3. As seen from Table... foreign exchange rate fluctuations (cross-currency valuation effect) have substantial impact. Depreciation of the US dollar increased the dollar value of debt denominated in other currencies by US$ 51 billion in 1994 and US$13.3 billion in 1995. Capitalization of interest due (borrowing to pay interest) caused the debt to rise by US$40 billion between 1993-95.

4. The steady decline in official flows is resulting in greater availability of debt to economies which are performing well, thus increasing pressure on low-income countries to accelerate their SAP if they need external funding which is increasingly becoming available more from bilateral and private sources rather than multilateral sources.

Table ....Developing countries ‘ stock of external debt, 1988-95

US$ billion

Debt	1988	1990	1994	1995
Total	1,365	1,510	1,921	2,068
Long-term	1,118	1,206	1,523	1,622
Official	507	607	791	837
Private	602	599	731	786
Short-term	212	269	335	385
Use of IMF credit	35	35	44	61

Source: World Bank (1996a; 31).

Table...Change in external debt for all developing countries, 1993-95

US$ billions

Category	1993	1994	1995
Net flows on debt	96.8	86.0	133.1
Cross-currency valuation effect	1.2	51.5	13.3
Voluntary debt reduction	-8.6	-18.4	-8.5
Net increase in interest arrears	-3.7	- 2.9	-0.6
Capitalized interest	16.0	15.0	9.0
Unidentified changes	7.1	14.6	0
Net change in debt stock	108.8	145.8	146.6

Source: World Bank (1996;31)

DEBT REDUCTION, RESCHEDULING AND RESTRUCTURING

The total debt of developing countries at the end of 1995 was $2,068 billion, up by $147 billion from 1994. Net debt flows amounted to 90 per cent of the increase in debt in 1995. Depreciation of the US dollar increased the dollar value of debt denominated in other currencies by $13 billion in 1995 (World Bank, 1996;30-31).

If a country is not able to repay debt, it may borrow from same or other sources and repay. Alternatively it can make adjustments to conserve resources and pay. When both these options are difficult, default is imminent. The Paris club decided in late 1980s to provide debt relief for a limited period to avoid such contingency through debt reduction or debt service reduction.

In June 1988 the Paris Club authorized one-third debt reduction or below-market moratorium interest rates (3.5 percentage points below the market rate or one-half the market rate, whichever was the lesser reduction). These are known as the "Toronto" terms. In December 1991 these were replaced with London terms (also called, "enhanced Toronto terms) which permitted 50 per cent debt reduction or reduce interest rates to reduce future debt service obligations by 50 per cent on a net present value basis. The options were provided to equalize the burden among the creditors. The London terms entail obligations on debtor country to implement the IMF program, honor Paris club agreements and strengthen balance of payments position to avoid future rescheduling. Under the Toronto terms, 28 agreements were signed with 20 countries, rescheduling $5.9 billion debt; under London terms, 25 agreements were signed with 23 countries, rescheduling $9.1billion debt.

In December 1994, Naples terms replaced London terms. Under the Naples terms, countries are eligible for 67 per cent debt reduction (on a net present value basis if per capita GNP is less than $500 or if their debt to export ratio exceeds 350 percent. Other severely indebted low-income countries would be eligible for 50 per cent debt cancellation or equivalent debt service reduction. 18 countries, including 13 low income and 5 middle income severely indebted countries were provided debt relief.

DID DEVELOPING COUNTRIES GROW DUE TO ADJUSTMENT?

What happened to the economies of developing countries which adjusted and which did not adjust in the past? It takes time to discern the for the full impact of structural adjustment measures. The World Bank has been assisting adjustment since the late 1940s and started adjustment lending in response to pressures in the wake of the second oil price hike in the 1970s.

Serven and Solimnano (1992) studied the major linkages between macroeconomic stabilization and investment in 78 developing countries during 1965-88. They found that the average share of investment in GDP in constant prices increased from about 22 per cent in 1970 to 25 percent in 1981, and for most of this period investment rates were historically high. Since 1982, in the wake of the onset of the debt crisis, most developing countries, with the exception of Asia, witnessed a slowdown in growth accompanied by decline in investment:

Growth and Investment

Region	Real GDP growth		Investment ratio	
	1965-88	1980-88	1965-88	1980-88
Sub-Saharan Africa	3.3	0.5	17.6	15.9
Asia	6.3	7.4	27.7	31.1
Europe/Middle East/ North America	4.6	2.8	28.4	27.3
Latin America and Caribbean	4.5	1.6	19.7	17.9

Source: Reproduced from Serven and Solimano (International Monetary Fund, 1989, Table 15)

Macroeconomic stability and policy credibility are considered crucial to achieve strong investment response. Uncertainty and inconsistency serve as disincentives for investment. Inadequate, weak or unreliable infrastructure (energy, roads, transport and communication facilities) also makes investment unattractive. What investors are looking for most, in recent times is not cheap labour, but quality infrastructure. When investment response is slow and low, rate of growth may slower to put an economy on the path to recovery and transitional problems persist and compound. Growth and investment should be high enough in areas where fresh employment generation exceeds job losses due to adjustment during the period of transition itself. Otherwise, more people begin to suffer due to adjustment and political support for adjustment will be weakened. When economic difficulties mount, social tensions escalate and together they increase political risks and affect consistency and certainty in the policies a country pursues. It thus becomes a vicious circle.

RISE IN POVERTY

The received wisdom about the adverse social effects of stabilization measures is well documented (for instance, see: Cornia, et. al. 1987 and 1992; Hoeven, 1991 and 1996; Khan, 1993; Rao and Liennman, 1996 and UNDP, 1996). Hoeven 's(1996) study emphatically corroborated the findings of Khan (1993) indicating that:

> "The claim that an average official adjustment programme under the auspices of the World Bank and the IMF has performed well, not only by the conventional standards of promoting adjustment and preserving growth but also in terms of protecting the poor is very hard to substantiate convincingly."

Even the World Bank (1990; 103) admitted it:

> "Many countries experienced macroeconomic difficulties in the 1980s as the debt crisis and international recession brought structural weaknesses into the open. But when structural adjustment issues came to the fore, little attention was paid to the effects on the poor. Microeconomic issues seemed more pressing and many expected that there would be a rapid transition to the new growth paths. As the decade continued, it became clear that macroeconomic recovery and structural change were slow in coming. Evidence of declines in incomes and cutbacks in social services began to mount. Many observers called attention to the situation, but it was the UNICEF that first brought the issues into the centre of the debate on the design and effects of adjustment. By the end of the decade, the issue had become important for all agencies, and it is now reviewed in all adjustment programs financed by the World Bank. As UNICEF advocated, attention is focused both on how adjustment policies affect the poor and on the specific measures that can be taken to cushion the short-term costs."

UNEMPLOYMENT AND REAL WAGES?

SAP favors wage flexibility in the belief that a fall in real wages boosts employment. This is in line with the neoclassical economist's argument that real wages and employment are inversely related. But the experience of developing countries during the 15 years disproves such assumptions. As Singh (1993; 34) argues, in sub-Saharan Africa and Latin America there have been large reductions in real wages (upto 50 per cent or more in the 1980s in countries like Mexico or United Republic of Tanzania) but no increase and actually falls in employment. In striking contrast, in Asia (particularly in the East Asian NICs) both real wages and employment have continued to increase significantly during this decade. The situation in different countries within a region (for instance, sub-Saharan Africa) being so diverse, whatever one says about the link between wages and employment in one country, the opposite can be equally true in another country in the same region. There is a need to be careful when people with different persuasions bring out selectively data to suit their arguments.

Freeman (1993) found little evidence to support the "distortionist" view that labour market interventions represent major impediments to resource allocation, structural adjustment or stabilization program. He also observed that there is no convincing evidence to support the view of the "institutionalists" who consider wage bargaining and other related consultative mechanisms lead to better performance. The World Bank is associated with the "distortionist" view and the ILO with the "institutionalists."

WHAT HAPPENED TO HUMAN DEVELOPMENT?

The UNDP (1996) argues that the structure and quality of growth demand more attention - to contribute to human development, poverty reduction and long-term sustainability. It found:

Inequitous growth: During the past 15 years the world has seen spectacular economic advance for some countries and unprecedented decline for others. Widening disparities in economic performance are creating two worlds, ever more paralyzed. Growth has failed for more than a quarter of the world's people in about 100 countries.

Jobless growth: where the overall economy grows but does not expand the opportunities for employment. In the developing countries jobless growth has meant long hours and very low incomes for the hundreds of millions of people in low-productivity work in agriculture and the informal sector. In many developing countries, the poor can not afford to remain unemployed. As such the problem is more of disguised unemployment or underemployment and open unemployment rates can be misleadingly smaller.

Ruthless growth: where the rich become richer, and the poor become poorer. During 1970-=85, global GNP increased by 40%, yet the number of poor increased by 17%. During 1985-90, the per capita incomes of 200 million declined. During 1980-93, the number of people whose per capita incomes declined crossed one billion.

Voiceless growth: where the economy grows without corollary extension of democracy or empowerment. Many of the world's poor are still in the grip of repressive regimes.

Rootless growth: where cultural identity withers. The violence in the former Soviet Union and the Balkan states of former Yugoslavia is a tragic legacy of culturally repressive regimes. It also notes that many of the 10,000 distinct cultures face the risk of being marginalised.

Futureless growth: where the present generation squanders resources needed by future generations. On past trends, global production will triple by about 2030. Can this be sustained, if enough attention is not paid to conservation and pollution control?

Summing up the above trends, the UNDP report (1996; 4) warns: *Development that perpetuates today's inequalities is neither sustainable nor worth sustaining.*

Trade unions have a role cut out for them: Determined efforts are needed to avoid growth that is inequitous, jobless, ruthless, voiceless, rootless and futureless.

SELECT COUNTRY EXPERIENCES

INDONESIA AND CHILE: Comparing the adjustment experience of Indonesia and Chile under radically different circumstances, Toye (1995) asserts: Indonesia enjoyed both political stability and political support for economic reform, and after the initial oil price shock, freedom from adverse international economic trends while the economy was adjusted. Its reform was purposive and faster. The 1985 Plaza Accord doubled the value of Japanese yen against the U.S. dollar by 1988 which spurred Japanese foreign direct investment (FDI).

In contrast, the political and economic circumstances in Chile were different when the country undertook SAP in 1973 and 1981. Its macroeconomic instability was essentially triggered by internal factors and therefore, unlike Indonesia, it tried to contain nominal wage increases that fuel domestic inflation. Toye (1995;52) lists three policy errors in respect of Chilean reform: "The first was the immediate and total replacement of the existing institutions of wage-bargaining by a government-imposed system of wage indexation to past levels of inflation. This method of "disciplining labour" in order to reduce inflation introduced an unnecessary rigidity into the labour market, and left the government to look to exchange rate management to control the inflation rate to which wage levels automatically adjusted *ex post.* The freezing of the exchange rate in 1979 to eliminate inflation via the working of expectations and the "law of one price" was the second mistake. This permitted a 30 per cent real revaluation of the peso which went unnoticed by the authorities, the effect of which was a widening trade deficit financed by volatile foreign private capital inflows. An import-led boom in the non-tradables' sector generated fast economic growth, but this was unsustainable. The third mistake was failure to regulate a stock market boom that was engineered by large conglomerate firms getting preferential credit from banks which they owned in order to bid up their own share prices. This boom also inevitably came to bust.

MEXICO (World Bank, 1996a): Mexico's stabilization and structural reform program was considered very successful in early 1990s since it could bring down inflation from 165% in 1987 and an average of 65% during 1987-90 to single digit in early 1990s. The "reforms" also boosted the investment climate in Mexico and led to the conclusion of a Brady deal (1990) and the North American Free Trade Agreement (NAFTA). Capital inflows during 1990-93 was of the order of US$91 billion. But the bubble burst: During 1990-93, while productivity grew at 20%, exchange rate appreciated by 30%. This made imports cheaper and rendered exports less competitive. Rate of savings and investment declined. Output grew at an average rate of 2%. There was a flight of capital. By 1994 Mexico had serious liquidity crisis as it could not generate earnings to match the increase in the external liabilities.

The response to the crisis deepened the crisis. The government had to eventually float the exchange rate and to accept large adjustments in interest rates and the exchange rate. A rescue package, mainly from the US and the IMF aided slow recovery from 1995, though fragile banking system and fluid political situation continue to mar the prospects of a steady recovery.

The IMF offers three possible explanations, which, in its opinion, are not mutually competitive (IMF, 1995; 90-87):

Adverse shocks: Mexico suffered adverse shocks due to domestic political (assassination of two prominent political leaders), and external economic (persistent rise in foreign interest rates, etc.) shocks.

Unsustainable external position (current account deficit).

Policy slippages such as dollar indexation of short-term debt, liberalisation of financial markets, without institutional reform that promotes public accountability and transparency.

Each of these aspects may generate points and counterpoints for purposes of arguments. The fact, nevertheless, is that either the depth of the crisis was not anticipated inspite of warnings by the IMF in mid-1994 or that when there is a confidence crisis to due to a combination of internal political and external economic factors, it is beyond a sovereign nation to deal with it adequately. When the demand for investment picked up in industrial countries, the private, foreign portfolio investors in Mexico reassessed their investments and withdraw investments from Mexico for investments abroad. It is a case of failure of success in that the apparently successful adjustment programme brought huge inflows of money which the country was ill-equipped to handle, particularly in situations when it goes as rapidly as it came. The Mexico crisis sent, rightly, alarm bells, across the world, both in developing and industrial countries. It also serves as a pointer to the spill over effects of developments in one part over the other parts of the world.

ECONOMIC ADJUSTMENT AND SOCIAL PROTECTION

The link between economic adjustment and social protection can be summarized as following (ILO, 1993c; 61-64):

SAPs have often resulted in great hardship, through unemployment, lower wages and the reduction of government expenditure on social services. In Senegal, it was feared that up to one-third of all manufacturing positions would eventually be lost. In addition, official wage restraint policies have reduced the average workers' purchasing power by about 30 percent during 1985-90.

Adjustment programs have also caused hardship by reducing public services. In Latin America and the Caribbean, for example, per capita public health expenditure by the central government (excluding social insurance) fell between 1978 and 1984 in 22 out of 24 countries.

The effects of adjustment, however, vary from country to country as well as within a country. In Cote d'Ivoire, Morocco and Ghana unemployment rose in towns, but not in rural areas. Poverty, however, rose in several countries as a result of structural adjustment.

The ILO report (1993c; 62-64) also notes that : in many countries the loss of many formal sector jobs and the increase in unemployment has resulted in a future proliferation of the informal sector. In many cases, women, who often find it easier to find jobs in the informal sector, have been going out to work to fill the gaps left by unemployed partners.

About one-third of SAPs in the mid-1980s involved reducing food subsidies. This often produced a strong public reaction. In countries as diverse as Argentina, Bangladesh, Egypt, Tunisia and Zambia, the removal of food subsidies had elicited violent responses which caused governments either to reverse policy or to offer alternative means of social provision. Of late, both the World Bank and the IMF have begun to appreciate the role of food subsidies and seeking proper targeting rather than the elimination of food subsidies. While the longer-term aim might be to reduce them, it may be better to postpone such cuts until the effects of other parts of the adjustment package, such as retrenchments, can be fully assessed. Their goal is not to delay adjustment, but sustain its momentum and reduce the possibility that popular protest could have in blocking the process altogether.

To mitigate some of the adverse effects of adjustment, some governments have launched programs to offer permanent alternative employment opportunities. Generally financed through international aid coordinated by the World Bank, these have been variously known as "Emergency Social Funds" or "Social Development Funds." Such funds have been used to finance public works programs such as constructing roads and bridges, as well as strengthening the social infrastructure by building schools and hospitals. These funds have also been used often to fund public sector workforce reductions through voluntary separation compensation, counseling affected workers, and retraining and redeployment. In Ghana and Bolivia, where such funds were launched first with generous funding the key problem was targeting and perhaps, the desire to benefit those with greater political influence. In Ghana the program may have reached only a fraction of those in serious poverty, while in Bolivia a significant proportion of the jobs created went to better-off households.

SAP did not result in putting in place formal security mechanisms such as unemployment assistance. Even where they exist, the numbers covered had been very small. In Latin America - Costa Rica, for instance - the adjustment process has affected social security in two main ways: First, governments tried to cut administrative costs by reducing wages and benefits. Secondly, social security benefits themselves were cut. Uruguay in 1987-88 eliminated various privileged programs and set a pension ceiling. Between 1980 and 1986, the real value of benefits had dropped by 20 per cent in Mexico, 38 per cent in Argentina, 45 per cent in Colombia and 67 per cent in Peru.

Social protection for all: Everyone needs adequate level of social protection. Weak tax base, limited resources for social expenditures, small size of the formal sector are among the problems which persist for many years to come and make it difficult to achieve adequate level of social protection for all.

In many countries, as a result of adjustment, the level of guarantees and security in employment related matters is on the decline. One development which trade unions need to pay attention concerns the shifting emphasis from job security to income security. Labour laws in several countries are being revised to take away mandatory administrative clearances of the government. At the same time, the quantum of retrenchment compensation is being increased. In some cases retrenchment compensation is not paid as lumpsum, but arrangements exist for depositing the entitlements in an interest yielding account and pay monthly annuities as substitute income for the earnings from the job that the person loses, voluntarily or otherwise.

According to a Chinese proverb, if you give a person a fish, he/she will have food for a day. If you teach the person how to fish, he/she can have food for life. Therefore, many countries are trying to focus attention on education and skills development so that technological obsolescence does not automatically lead to human obsolescence and in the belief that life-time employability can be sustained better even if life-time employment systems are crumbling. Education and skills are among the best forms of social protection. Some South-east Asian countries, notably Singapore and Malaysia, have levied human development cess as a percentage of wage bill and using it to augment and upgrade skills through training and retraining. Employers who invest in skills development can recover more than what they contribute to the fund.

To provide for unemployment assistance for short-periods, governments, employers and workers in some countries are asked to make contributions as a form of insurance against the risk of unemployment. Those who do not face the risk do not get back anything. But those who do, get assistance from the fund on a tapering off basis: In the first year after the loss of job, a person may get 75 per cent of the salary last drawn, in the second year, 50 per cent and in the third year 25 per cent. By the end of the third year, the person should be self-dependent. The Textile Workers Rehabilitation Fund (TWRF) in India is one such example.

The immediate need is to improve the efficiency and equity of the existing social security systems. In the years to come developing countries will need to strive creatively for innovative social security systems that provide basic cover for the population as whole, taking into account their special circumstances and needs. Collective bargaining at enterprise level on aspects like skills development, pension, post-retirement health care, etc., is likely to play a major role in complementing the macro level initiatives in social security provisions.

UNMET COMMITMENTS TO THE LEAST DEVELOPED COUNTRIES (LDCS)

In 1990 the Second United Nations Conference on the LDCs adopted a program of action to generate accelerated and sustained economic growth for the LDCs for the 1990s and also to speed up efforts to improve education, training, health and sanitation, to allocate more donor GNP to aid, to enhance access for exports from LDCs and to

Debt: Debt relief measures improved after 1990. Yet, total debt of the LDCs increased from $114 in 1990 to $127 in 1997.

LINKS BETWEEN ECONOMIC GROWTH AND HUMAN RESOURCE DEVELOPMENT

The UNDP (1996; 113-4) carried out a cross-country econometric exercise to examine the strength of the link between human development and economic growth. It established "that a 1 percentage point increase in the average growth rate of GDP per capita is estimated to reduce the life expectancy shortfall by 2.2 percentage points and the child mortality rate by 16 percentage points. This means, for example, that a 2 percentage point increase in the GDP per capita growth of a country with an average life expectancy by an additional 1.5 years. And a 1 percentage point increase in the GDP per capita growth rate of a country with a child mortality rate of 115 per thousand live births in 1980 would reduce child mortality by an additional 18 deaths per thousand live births.

The share of GDP invested in health and education also has a significant and positive effect on the rates of improvement in human development indicators. A 1 percentage point increase in the average share of GDP invested n health and education is estimated to reduce the life expectancy shortfall by 1 percentage point and the child mortality rate by 24 percentage points. Thus, if a country with the average life expectancy and child mortality rate in 1970 increases social expenditure by 3 percentage points, its life expectancy would increase by one additional year and its child mortality rate would decrease by 83 deaths per thousand live births."

The UNDP study (1996;114) also confirms that a more equal income distribution would have a positive and significant effect on the rate of improvement in the child mortality rate. " A 1 percentage point increase in the income share of the poorest quintile is associated with a 13 percentage point reduction in the child mortality rate. "

Thus the UNDP's empirical study shows that growth in income per capita, social expenditure and income distribution are all important determinants of human resource development. It is also important to note that human resource development contributes to and determines the rate of income growth.

ILO-WORLD BANK-IMF DIALOGUE

The ultimate goal of structural adjustment is both economic growth and social progress. The latter is possible when living standards of all strata of people improves. It is a paradox if structural adjustment policies advocate downward harmonization of standards and the erosion of workers' rights even as economic liberalization and free trade regime gives the clarion call for linking social clause in international trade agreements.

The United Nations Social Summit at Copenhagen in 1995 marks the watershed in the growing consensus among the world community towards promoting "people-centered sustainable development." The Summit's Declaration and Program of Action show the commitment of the international community to recognizing and promoting the core ILO labour standards as a basic social framework for sustainable development.

As the ICFTU (1995;4) recognizes, "In recent years, the IMF and the World Bank have begun to incorporate social objectives into stabilization/adjustment programmes, including social safety nets to target the poor and vulnerable groups, as well as severance benefits and retraining in the context of retrenchment of workers. There is a need for a far more vigorous and consistent approach in this direction to include targeted employment-generating measures, active labour market policies and the involvement of stakeholders in the planning process and in project implementation."

The World Bank and the IMF have been having, in recent, a series of consultations not only with the ILO but also with trade unions, non-government organizations and other important organs of civil society. The IMF appreciates the right and the duty of trade unions to advocate their views on labour and social issues and called for an effective tripartite dialogue between the central government, business and labour. The World Bank devoted its 1995 World Development Report to discuss the challenges facing workers' in an integrating world. The 1995 World Bank report, however, argues the case for restricting the role of trade unions to enterprise level. This negates the spirit in which the Managing Director the IMF argued the case for trade unions role in macroeconomic issues. The UN

Summit on Social Development also advocated the need to enable and encourage trade unions to participate in the planning and implementation of social development programs.

The pious sentiments and noble thoughts concerning social development should translate themselves into action. Towards this end, the IMF and the World should begin to remind the national governments on the need to involve social partners in the design and implementation of adjustment programs. The trade unions and employers' organizations should be given necessary information in advance. Social partners should be included policy making in key social sectors like health, education, environment, labour and welfare. The impact of some components of structural adjustment package such as inflation control measures on employment and earnings should be measured and monitored to mitigate or avert possible negative consequences. Adherence to core ILO conventions should be made a condition while awarding public contracts in line with the aims of ILO Convention No. 94 covering Labour Clauses in Public Contracts. Such a step should mark the beginning of an active labour market policy component in the development lending approach of the IMF and the World Bank. More so since the World Bank (1995) acknowledged the threat to the international trading system posed by persistent abuse of workers' rights in some countries. Such concern should be reflected in the policies and work plans of both the IMF and the World Bank. It may be argued that the charters of IMF and the World Bank and their articles of agreement with borrowers do not provide for withdrawal of assistance in case of violation of human rights or workers' rights. The ICFTU (1995; 7) observes that, "The Social Charter of the European Union, the Generalized System of Preferences trade agreements of the United States and of the European Union and the NAFTA side agreements of the U.S.A. all provide examples of instruments which try to address - albeit in a sometimes limited way - the issue of worker rights in cooperation and trade agreements."

The World Employment Report (ILO, 1995) suggested the need for a twin-track policy of improved coordination at national and international levels between governments, trade unions and employers involving the financial institutions and the ILO. This idea needs to be pursued earnestly.

CHAPTER 4

ROLE OF TRADE UNIONS IN STRUCTURAL ADJUSTMENT

This chapter examines the role and modalities for the participation of trade unions in discussions with social partners. While briefly tracing relevant past experience, the importance of the role which economic and social interest groups, particularly trade unions, should undertake in the adjustment process is underscored.

"Traditionally, and largely as a result of the long history of state involvement in the economy, governments sought to centralize industrial relations through extensive legal codes which, in theory, obliged employers to offer decent wages and conditions. Although often ignored or only implemented with the discretion of the government, the codes were in effect a form of centrally negotiated contract of employment for most formal-sector workers. With the progressive withdrawal of government intervention in the economy through privatization and deregulation, there is growing pressure to weaken the content and coverage of labour codes."

Trade unions must create a forum for debate with governments and international agencies the direction of national development strategy and the need for stronger social policies. Unions should articulate the widespread popular concern about the effects of national and international policies and the need for new policies to address the social consequences of change. What and how trade unions can accomplish this can be learned from the experience of Zimbabwe Trade Union Congress (See Box.on the following page).

TRIPARTITE CONSULTATIONS

In the context of Adjustment is a continuous process. If it is gradual, incremental and continuous the stakes are low and the consequences marginal. If it is sudden, radical and discontinuous the stakes are higher and the consequences profound. Trade unions should have a say in the design of structural adjustment programs. In the context of structural adjustment, governments are usually taking decisions first and consulting trade unions later in the matter of implementation.

Trade unions have several options: oppose the program, be neutral, or support with or without bargaining for changes in the program. Often the need for adjustment can be regardless of an externally triggered structural adjustment program. Therefore, it is appropriate for trade unions to participate in the design and implementation of structural adjustment program and ensure that the interests of all constituents and stakeholders, particularly the workers and the community are safeguarded.

Economic adjustment takes place in a given political and social context. Economic adjustment can not take place in isolation and the political processes and social linkages must also adjust to the new circumstances. There is a need for a re-evaluation of the entire institutional structure - political and social as well as economic - imposed, inherited or acquired from the colonial masters and subsequent regimes (Martens, 1994; 321).

Box:

Beyond ESAP: Zimbabwe Congress of Trade Union Seizes the Initiative

As the first phase of the economic structural adjustment program (ESAP) drew to a close, the General council of the Zimbabwe Congress of Trade Unions (ZCTU) decided to set up a team of experts to work in conjunction with the unions and other civil society groups, to influence the second phase of ESAP. It conducted a pilot study and published a report in 1995. An interim report was prepared suggesting the need to design and implement an alternative development model to ESAP. While acknowledging that SAPs are necessary, the study showed that they are insufficient in fostering growth with equity. Zimbabwe's economy is characterized by a number of structural rigidities such as unequal access to land and finance whilst a large proportion of its population is engaged in the informal sector. The study noted that reliance on market forces in such an economy may only serve to perpetuate such distortions. Therefore, instead of SAPs, the ZCTU report tried to redefine the role of the state in the agriculture, industry, trade, and financial sectors as well as on social and labour matters. Since market failures are rampant in Zimbabwe, as in several other developing countries, instead of rolling back the state sector the ZCTU reports calls for state intervention in factor markets, the in the development of industrial and technological capabilities in order to foster competitiveness, etc. and deal with market failures. The state highlights the mechanisms through which the state can effectively intervene in the different sectors and put the economy on a sustainable economic development path.

ZCTU took the initiative in liaising with other social partners, the government and the employers and carried on intensive interactions with ILO, IMF, World Bank, UNDP, several prominent multi- and bi-later lenders as well as other interest groups in civil society such as non-governmental organizations. The report is widely circulated and discussed at a well attended conference before an alternative agenda was firmed up and presented to the nation.

This experience of ZCTU is a unique one among developing countries where the national federation of a trade union seized the initiative, engaged other social partners into dialogue and provided an alternative agenda for action.

The components of SAP - trade liberalization, tax reform, public sector reform, elimination of price controls, wage restraints and employment flexibility, reduction in government spending, etc. - have a direct impact on the social partners. In many developing countries tripartism has long been atrophied due to one reason or the other. During the past one decade and over the world has witnessed serious economic disorder and major political upheavals. The SAP resulted in many countries loss of jobs, deterioration in living standards and increase in the incidence of poverty. Trade unions in the formal sector in several countries began to challenge the SAP and won concessions. To contain popular unrest that can potentially block the SAP, governments in several countries began to revive or take fresh initiatives to rope trade unions into a dialogue over SAP. The inadequacies of tripartite structures in Asia (APPOT, 1995; Venkata Ratnam, 1996), Francophone Africa (Martens, 1994), Latin America (Alvarez) and in different developed and developing countries (Trebilcock, et. al. 1994) is well documented.

The role of trade unions in SAP is advisory, and not, usually, management. It is the obligation of the Government to create conditions for meaningful trade union participation. It is the responsibility of the trade unions to make effective use of such opportunities and challenges.

To effectively participate in the design and implementation of SAP, trade unions need to have relevant information and skills. Often the data base in developing countries is dated, inadequate and unreliable. Given the general absence of information rights, often trade unions are denied access to even existing information. Trade unions can use the network of local and international organizations to gather, analyze and interpret the data and information as also to vet the data and information available from other sources, including government, employers and their organizations and academic/research institutions and the media. Federations of trade unions at national and sectoral levels should have research capacity and information and data bases to both influence proactively and also to respond to initiatives on social, labour and economic policies at different levels. Trade unions need training to develop broad understanding of the new knowledge and developments due to interaction of various forces and institutions. Such training should also provided broad perspectives on new advances in technologies, computer literacy and presentation skills.

Apart from the human dimension which should receive due consideration, trade unions should also pay attention to issues concerning democracy and accountability. Fresh thinking and reorientation from custodial behavior on the part of government to a participatory approach are needed in the process of transition and transformation. This calls for open policies, universal education, respect for freedom of association and trade union rights, free press, and an independent judiciary. Trade union action should cover these spheres too.

NEED TO GET OVER FIXED STEREOTYPES

Deep distrust of market forces has been the hallmark of public policy as well as trade union policy in several developing countries. Trade unions should realize the pros and cons of integrating with the world economy and understand the power and influence of not just the management, but also of competitors, substitute goods and services, suppliers and customers before they formulate their own thought processes, plans and options.

In a market driven, global, competitive economy, the demand for labour does not depend on its supply. In several developing countries, the supply of labour exceeds the demand for it. The situation is exacerbated by shrinking jobs due to the advent of modern technologies on the one hand and growing incidence of sickness and industrial decline on the other......

In many developing countries, the general attitude of trade unions in the public sector has been that, "the public sector should be defended at all costs." But, now there is a need for a realization that such a stance is counterproductive. Trade unions defense of the public sector should transcend the narrow sectional interests of the public sector employees as such. Otherwise, the entire movement to save the public sector may be dubbed by those opposed to public sector as a self seeking pursuit of organized workers and their unions. As it is in several developing countries the public has a poor image and low degree of sympathy towards the employees in public utilities and public services. If the trade unions do not have the public, particularly the consumers, majority of whom they usually serve at below cost, as their ally, they are unlikely to get across with their objectives in dealing with the three social partners, both the government and the employers. In a protected environment of self reliance or ..import-substitution based industrialization strategy, trade unions could gloss over or make up for their weaknesses by influencing the third social partner, viz., the government. But not any longer.

PRIVATIZATION

Trade unions should pay attention to the following in the context of adjustment programs which contemplate privatization:

1. Assessing the privatization decision. Privatization refers not merely to transfer of ownership of public assets into private hands, but also means private provision of goods and services which were hitherto provided by the state/public sector. Would public interest be better served with private provision of public goods and services? What checks and balances are retained or created to ensure that public goods and services are provided adequately and without interruption at a cost that is reasonable and quality that is desirable.

2. What changes occur in work organization? Any adjustment and changes in work organization may require retraining and redeployment? How are these organized?

3. How will the rights of employees be protected with regard to, particularly, job and income security and continuation of benefits and guarantees?

4. If retrenchment is inevitable to improve competitiveness and viability of privatized enterprises, what steps are taken to mitigate or avert them? Whether and how compensation for retrenchment or voluntary separation be improved?

5. Changes in ownership may bring not only changes in work organization and employment, but also changes in trade union organization and trade union dynamics. How will the changes affect them and what options do trade unions have to deal with them?

6. Privatization may worsen existing pension provisions and other retirement benefits? What safeguards need to be worked out to avert or minimize such negative consequences?

7. There have been various types of new, innovative or model arrangements to deal with several aspects of privatization. These include:

   making workers owners as in Egypt, for instance, through employee stock option schemes. There have been several cases where workers are granted shares or issued vouchers with which they can own shares in privatized companies.

   negotiating higher compensation for voluntary separations as in Pakistan where such compensation is five months pay for every year of service as against fifteen days. wages retrenchment compensation for each year of completed service.

   safeguarding accrued interests of employees. In Malaysia, for instance, employees can remain in government service, even after the organization where they were working was privatized. This was, however, possible in Malaysia because the public sector was any way expanding.

   enacting minimum protective legislative measures to ensure that transferred public sector employees receive similar protection as is provided in public sector or for private sector employees in large enterprises.

   setting up further employment-generating programs and assistance to provide income relief, job search, counseling and retraining facilities for relocation.

   developing proposals and facilitating the setting up of new safety nets or improving the existing ones to mitigate or avert adverse affects on jobs and incomes, in line with the provisions in ILO Convention No. 162 dealing with termination of employer at the initiative of employer.

STRATEGIC CHOICES

Trade unions can be reactive or proactive in their approaches. If they chose to be reactive they can block, be neutral, passively support or even yield to people, issues, events and circumstances, both internal and external. In such a situation, they would not set the agenda, but follow it.

Instead, if trade unions wish to be proactive, they can set the agenda and influence the direction of change. For this, they need to constantly evaluate and selectively support the challenges and opportunities thrown up by the environment, and where appropriate, even extend full cooperation. To proactively influence changes through planned interventions trade unions need to study and evaluate the strengths, weaknesses, opportunities and threats. They should not merely oppose what is proposed by other social partners, but effectively present a set of alternatives and pursue them vigorously. There is a lot to learn in this regard from the German, Scandinavian and the Japanese auto workers unions (Ozaki, et. all. 1992).

There are several approaches such as the following to formulate strategies and develop strategic alternatives (Weil, 1994):

1. *Environmentally driven priorities:* priorities that arise from the opportunities and obstacles presented by the environment.

2. *Member-driven priorities:* priorities directly related to current and prospective membership needs and expectations.

3. *Institutionally driven priorities:* priorities arising from a union's institutional history and present ideology.

4. *Politically driven priorities:* priorities arising from the democratic basis of unions, and linked to the effort of leadership to retain or attain elected office.

Trade unions would do well to combine environmentally driven priorities with member-driven priorities. In order that they adapt themselves to changing environment, institutional priorities may need to be reviewed from time to time to check whether they should reformulate goals and adjust themselves to meet their members' expectations. Politically driven priorities need to be recast in view of cataclysmic changes that occurred in the world economy since late 1980s.

Trade unions should transform themselves into learning organizations (Weil, 1994). Towards this end, strategic planning within unions should take them from:

1. A focus on one's position in an organization to taking *responsibility for achieving results.*

2. Thinking the enemy is out there to seeing the whole system; that the inside of the organization and the outside of the organization are related.

3. Reactiveness to seeing how we contribute to our own problems.

4. Reacting to crisis to understanding that most threats come from slow, gradual, almost invisible process.

5. Thinking that they need to bargaining only with employers to understanding the difference that competitors, substitute products/services, suppliers, and customers can make influence the balance of power between unions and management.

6. Taking experience as one's guide to recognizing that often the consequences of important decisions are never directly experienced by those who make them.

CHAPTER 5

CONCLUSION

This concluding chapter attempts to sum up the nature of challenges confronting social partners in adopting and implementing SAP for long term development objectives. It also aims to infuse unions with a new lease of life towards tripartism and discuss relevant issues such as relative strength of social partners, representative nature of workers organizations, their local structures, leadership and their capacity for effective participation in tripartite discussions.

Structural adjustment per se is not bad. The idea that a nation should live within its means and find resources for the things it buys from other countries is something that can not be disputed. Structural adjustment is desirable. Trade unions must support structural adjustment. Try to understand the costs of non-adjustment and see whether they overweigh the costs of adjustment. A stitch in time saves nine.

What matters is not structural adjustment program, but the content of the program. Unfortunately, hitherto structural adjustment packages tended to be substantially uniform, notwithstanding the phases, stages and circumstances of development and development strategies. Unbundle the package. Look at elements which are positive and need reinforcement. Look at elements which are most likely to have negative and disintegrative social impact.

The six areas identified by the South Centre, which is an inter-governmental organisation that has the support of the Non Aligned Movement and the Group of 77, in reviewing the policies and practice of the Bretton Woods institutions (South Centre, 1996; 178-197):

> 1. *The supply of international liquidity.* The present rate of supply of international liquidity comprising gold, foreign exchange reserves (currencies and government securities) and allocations of SDRs is somewhat haphazard. In 1994, SDRs account for less than 3 per cent of the reserves, gold sales fluctuate and therefore international liquidity is determined mainly by a limited number reserve currency countries, particularly the dollar. Today 18 developing countries hold 90 per cent of the total international liquidity. The remaining 10 per cent reserves are held by some 138 countries. These low-income countries have little access to international financial markets for secondary sources of finance (Buira, 1994; 37). When reserves are scarce and external sources of funds dry up, low-income countries have to limit the level of imports and suffer adverse impact on the economy and employment.

The volume of SDRs as a percentage of international reserves declined from over 8 per cent in 1972 to less than 3 per cent in 1994. The SDRs were established by the IMF in the early 1970s to remedy the short of international liquidity. When the size of SDRs is being reviewed, developing countries special needs should be taken into account.

In the wake of the Mexico crisis, the G-7 countries agreed to establish a new IMF 'emergency finance mechanism to assist countries experiencing unusual capital outflow.

The economic instability of developing countries and capital outflows from them are not necessarily due to their own shortcomings, but "also, and quite significantly, by conditions prevailing in the industrialized world (Calvo, 1994; 70). Therefore, such a facility to assist developing countries should be free from political and economic conditionalities.

The IMF Compensatory Financing facility for export short falls should be restored, widened and made available to countries which experience such shortfalls due to factors beyond their control such as increases in real interest rates or cost of imports due to exchange rate fluctuations of industrial countries.

Initially the World Bank and the IMF were expected to provide long-term stabilization loans to poor countries or countries under reconstruction. At the inaugural meeting of the IMF and the World Bank, the latter was authorized to this effect. But this authority was never used.

Presently, the IMF provides short-term loans for stabilization and balance of payments equilibrium while the World Bank and other multilateral development banks provide long-term loans to finance growth. Both of these do not provide for a country's foreign exchange needs. This problem needs to be addressed.

2. *The supply of development finance.* Multilateral concessional assistance and low cost of finance is declining. In recent years, the net transfers from the World Bank to the developing countries has been negative. The net transfer in favour of developing countries dropped from about US$ 3 billion in 1984 to a negative of US$ 8.4 billion in 1994. The net transfers from the IDA has been raising and stood at US$ 4.6 billion in 1994. But with changing attitudes and difficulties of industrial countries, there is a great deal of uncertainty in mobilising replenishments for IDA funds. Official assistance is declining. Dependence on private flows - foreign direct investment, portfolio investment in stocks and shares and funds raised by sale of government in Euromoney markets, etc. - is increasing. But private flows have been usually moving into a few - about 30 out of 180 countries - countries, which are in the middle income range. Also, private capital flows, as we have seen in the case of Mexico can not be a substitute to concessional assistance and excessive dependence on private flows brings greater uncertainty due to perceptions about political and economic shocks. There is a need for stepping up IDA /SDR link to step up development finance.

3. *The debt problem.* Debt levels of some developing countries have reached unsustainable levels. The present arrangements for debt forgiveness and other related policies seem inadequate to mitigate the debt burden. There is a need to consider ways and means to deal with multilateral debt with a sense of urgency.

4. *Conditionality.* The Articles of Agreement of the IMF and the World Bank mention the need for prudent use of borrowed funds, but not to conditionalities. To ensure prudent use, conditionalities came to be imposed which go beyond the financial matters strictly related to loan repayments and surveillance mechanisms are pressed into service.

The conditionalities not only compromise sovereign decision-making but also reflect a lack of sensitivity to appropriateness of various restraints, tightness, timing, extent, speed and sequencing in terms of ground realities concerned elements of policy.

NEW OPPORTUNITIES

In most developing countries the formal sector is very small and unionization has covered, largely only a fraction of the formal sector. During the period of SAP, the already thin formal sector shrunk further in several countries. Unions will have a bright future, it they choose to tap the vast untapped potential that exists in the informal sector even as they renew their efforts to build up their base in the organized sector.

NEW WORKFORCE

Times are changing and trade unions, like other social institutions, have to find ways and means of coping with the demands such changes make. Changes affect trade union dynamics, but not make trade unions and their role redundant as such. Structural shifts in employment patterns and changing workforce demographics may cause changes in union movement. Three major shifts are discernible: Within the organized sector, structural shifts in employment may cause union growth will move away from blue collarisation to white collarisation. In the initial stages of a shift towards service economy unionization rates in the formal sector may fall, particularly in high-tech, service firms which are usually small sized resulting in a usual lack of critical mass in most enterprises. The new human resources policies such firms may initially adopt reduce incentives for unionization. But, the absence of a countervailing power is likely to make employers complacent which makes conditions for unionization in such enterprises ripe. The third shift concerns the changing demographics at the work place. The new educated workforce comprises an increasing proportion of women. The aspirations of the new generation of workers and the special needs of women workers, particularly workers with family responsibilities, etc., deserve attention. The new workforce also may include those in atypical employment terms such as part-time workers, home-workers, etc., whose needs and requirements could be different and organizing whom could be difficult. Trade unions should not neglect these sections of workforce (Veneziana, 1993).

NEED TO REDEFINE GOALS AND PRIORITIES

What is the role of trade unions? Does it change with changes in environment? Traditionally trade unions role, let us argue, has been to protect jobs and real earnings, secure better conditions of work and life and fight against exploitation and arbitrariness to ensure fairness and equity in employment contexts. Some unions, particularly the left ones, articulated, for long, their role as influencing the type of economic system a society in which they function should have. In that sense, trade union roles and goals have been multiple, covering not only the immediate interests of their members but also entailing larger ideological and political questions.

To the extent there is divergence in the economic systems, the ideological and political roles mattered most and guided the trade union actions and activities. But when the economic systems the world over are converging towards market economy as at present, that role, if any, does ideology have now? For those who see the current trend towards market economy orientation as being based on a negative vote of disaffection with other systems, the current developments are not trends, but mere passing fad. Does one see, then, the relevance of not just ideology but idealism too to provide the necessary checks and balances that could prevent extreme swings to strive towards the "middle path?"

In many developing countries trade unions have played a major and significant role in the freedom movement. Their contribution to the liberation of the country from the colonial rule is well known. Can the same thing be said about their contribution to the economic emancipation of the society in the past half a century?

The effects of rapid and myriad changes in the economy on the trade union movement are not uniform within a

Severely indebted countries: where present value of debt service to GNP (PV/GNP) is higher than 80 percent or present value of debt service to exports (of goods and services) (PV/XGS) is higher than 220.

GLOSSARY

This glossary comprises, in most cases, verbatim reproduction of selected definitions of terms used in the following publications: ILO's workers education manuals (particular the one on Economics) and various reports of the IMF, UNDP and World Bank. Some of the complex technical terms are explained in simplified manner.

BALANCE OF PAYMENTS. The income or expenditure of a country, in respect of its dealings with other countries. If the country earns less through trade and services than it pays to other countries, it has a deficit.

BUDGET. In the context of a country, budget refers to plans for national income and expenditure over a customary period such as one year.

DEBT SERVICE. The sum of principal repayments and interest payments on total external debt.

DEBT STOCK (also, total debt stocks). The sum of public and publicly guaranteed long-term debt, private non-guaranteed long-term debt, the use of IMF credit, and short-term debt.

DEFLATION. A fall in the level of prices.

DISBURSEMENT. The release of funds to, or the purchase of goods or services for, a recipient; by extension, the amount thus spent. Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost to the donor.

DOLLAR. Refers to US dollar, unless otherwise specified.

FISCAL POLICY. Government policies that deal with taxation and government revenue.

GINI COEFFICIENTS. They are a standard measure of inequality of income distribution, calculated with reference to the departure of an actual distribution from a state of perfect income equality.

GOVERNMENT CONSUMPTION. Includes all current expenditure for purchases of goods and services by all levels of government. Capital expenditure on national defense and security is regarded as consumption expenditure.

GROSS DOMESTIC PRODUCT (GDP). The total output of goods and services for final use produced by an economy, by both residents and non-residents, regardless of the allocation to domestic and foreign claims. It does not include deductions for depreciation of physical capital or depletion and degradation of natural resources

GROSS NATIONAL PRODUCT (GNP). Comprises GDP plus net factor income from abroad, which is the income residents receive from abroad for factor services (labour and capital), less similar payments made to non-residents who contribute to the domestic economy.

INCOMEs POLICY. Government policy designed to align increases in income with productivity, control inflation and/or prevent widening disparities.
INFLATION. Rise in prices, reflecting fall in the value of money.

INTERNATIONAL RESERVES (gross). Holdings of monetary gold, Special Drawing Rights (SDRs), the reserve positions of members in the IMF and holdings of foreign exchange under the control of monetary authorities expressed in terms of the number of months of imports of goods and services these could pay for at the current level of imports.

LIBERALIZATION. It refers, except where stated otherwise, to economic liberalization. It denotes the loosening or elimination of government restrictions on domestic transactions, prices, and markets; on external transactions and the free exchange of domestic currency for foreign and vice versa (*convertibility*); or on free entry of firms into domestic markets.

MARKET ECONOMY. A situation where the government owns and controls only a small part of the means of production and trade and where prices are determined by supply and demand.

MARKET FAILURE. It refers to any situation in which the presence of insurance or the expectation of compensating policy weakness or distorts incentives to prudent behavior.

NET TRANSFERS ON DEBT. Net flows minus interest payments (or disbursements minus total debt service payments).

PRIVATIZATION. In the strict sense it refers to divestiture by state of enterprises, land, or other assets.

PUBLIC DEBT. It is an external obligation of a public debtor, including the national government and its agencies/subdivisions including autonomous public bodies.

PUBLICLY GUARANTEED DEBT. External obligation of a private debtor that is guaranteed for repayment by a public entity.

PURCHASE POWER PARITY (PPP$). The purchasing power of a country's currency: the number of units of that currency required to purchase the same (or similar) representative basket of goods and services that a US dollar (the reference currency) would buy in the USA.

REAL WAGES. Money wages deflated by cost of living index and reflect the purchasing power of money.

STABILIZATION. It refers to macroeconomic stabilization, or the control and reduction of inflation and the containing of economy-wide imbalances, such as fiscal deficits, and of external imbalances, such as fiscal deficits, and of external imbalances, such as current account deficits.

TERMS OF TRADE. The ratio of a country's index of average export prices to its index of average import prices.

TOTAL EXTERNAL DEBT. The sum of public, publicly guaranteed and private non-guaranteed long-term external obligations, short-term debt and use of IMF credit.

USE OF IMF CREDIT. It denotes repurchase obligations to the IMF with respect to all uses of IMF resources. These include purchases outstanding under the credit tranches, trust fund loans, and operations under SAP and ESAF.

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ABBREVIATIONS AND ACRONYMS

DFI	Development Finance Institutions
ERM	Exchange Rate Mechanism
EMS	European Monetary System
EPZs	Export Processing Zones
ESAF	Enhanced Structural Adjustment Facility
FDI	Foreign Direct Investment
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GNP	Gross national product
HDI	Human Development Index
HRD	Human Resource Development
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Organization
IMF	International Monetary Fund
LDC	Less (some times also referred to as least) Developed Country
LIBOR	London Inter Bank Offer Rate
NAFTA	North America Free Trade Agreement
NIC	Newly Industrialized Country
OECD	Organization for Economic Cooperation and Development
PV	Present Value
SAP	Structural Adjustment Program
SAL	Structural Adjustment Loans
SDRs	Special Drawing Right (from the International Monetary Fund)
SECAL	Sectoral Adjustment Loans
SDF	Social Development Fund
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USA	United States of America
WTO	World Trade Organization
XGS	Export Value of Goods and Services
ZCTU	Zimbabwe Congress of Trade Unions