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Market-Oriented Reforms and Social Safety Nets in Developing Economies

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1. Introduction

One of the key features of the international system established after the end of the WWII was the acceptance as common goals for the international community of the recognition of political independence of colonies and the promotion of socio-economic development of underdeveloped countries. With the passage of half a century since then, how could we evaluate the achievement of the latter goal on a global scope? And what kind of prospect could we foresee for the future? This paper is meant to address a small set of questions with a view to identifying a number of issues critically related to these larger questions. The purpose of this paper is to identify and examine the analytical framework that has been brought to bear on the diagnosis of economic problems and the prescriptions for their resolution for developing countries. The focus of this paper is placed on the paradigm of the neoclassical school of economics, and the economic ideology it embodies, that has come to acquire the status of the mainstream doctrine in the field of development since the early 1980s.

Since the early 1980s, economic ideology of what might be called "marketism" (or "market fundamentalism") has come to play a dominant role in policy discourse throughout the world. This applies equally to economic management within a country and to rules governing international economic relations. Developing and transition economies have not been immune to this ideological wave; on the contrary, insofar as economic ideologies and management practices diverged considerably from market principles, the adoption of principles of market economy has marked a historical turning point in those countries.

In this paper, such ideology and practice of economic management as will attempt to achieve economic goals while negating or restricting market principles is called "dirigisme". The central agenda of "structural adjustment", the key concept guiding economic reforms in developing and transition economies since the 1980s, is broadly identified as a change in economic doctrine and management from dirigisme to marketism. In the aspect of international economic relations, it represents a shift from closed to open economy, or from protectionism to liberalism. In other words, structural adjustment of developing and transition economies aim at strengthening

market-based relations with the international economy. The fundamental question to be addressed here is whether socio-economic development of developing and transition countries could be achieved based on the principles of liberalism and marketism.

In Section 2 the process of the resurgence of neoclassical economics as dominant doctrine of international development is traced and its main characteristics are identified. In Section 3 criticisms of the neoclassical doctrine are reviewed with particular focus on those made by Japanese academics and practitioners against the structural adjustment approach of the World Bank. Unlike in those preceding sections where discussion is concentrated on economic development, attention is shifted to broader concern over social dimensions of adjustment and social development in Section 4. Here social aspects of development will be discussed first in relation to structural adjustment and social safety nets, followed by more general discussion on social development.

2. Neoclassical Resurgence in Development Economics

2.1. Negative effects of "dirigiste" economic regimes

After achieving political independence, many of the former colonies adopted "dirigiste" economic doctrines and regimes motivated by the desire to move out of colonial economic structures and to attain "economic independence". This position was based on the understanding that market economy under colonial regimes led to exploitation and distortion of economic structure and on the belief that strong state intervention is needed to realize structural reform and development of the economy. Other developing economies, which had been politically independent since before the WWII, also leaned toward a similar orientation. The dirigiste doctrine served as the guiding principle of development strategy: important sectors of economy ("strategic industries") were placed under direct state control; extensive control was applied to private activities by means of various requirements for regulation and authorization; and, in some countries, attempts at the realization of ideals of welfare state were made, often taking the form of policies protecting the organized labor in the formal sector (and especially in the public sector).

In reality, however, traditional economic activities have remained dominant in a wide range of sectors, and they have continued to be based on (implicit) customary rules governing resource allocation and income distribution. In many cases, security of livelihood and survival in traditional sectors is built into communal practices from early on. Furthermore, these practices were brought into various organizations and institutions of modern sectors, de facto turning them into communal associations and resulting in the loss of discipline and inefficiency in their intended functions. In many countries this malaise was most conspicuous in bloated public sectors, where excesses of dirigist regime were compounded by corruptive influences of traditional practices on discipline and efficiency.

It is undeniable that dirigisme led to economic inefficiencies in many developing countries. Furthermore, dirigiste policies tended to create lucrative opportunities for profiteering for politically powerful groups and crony businesses linked to them. Dirigiste regimes, which became dominant in economic management of developing countries, were in need of reform on both efficiency and equity grounds. They were,

however, well trenched as a political system of rent distribution and no serious attempts at reform were possible unless and until they faced a systemic crisis that threatened the very foundations of their survival. In reaction to long-lasting and extreme manifestations of deficiencies of dirigisme, political forces in favor of decontrol and liberalization demanded complete eradication of dirigiste elements from economic management, and general public came to support it as they saw dirigisme increasingly as a lost cause.

2.2. Structural adjustment approach of the World Bank

The ascent of neoclassical approach to development (the neoclassical counter-revolution against the structuralist mainstream) may be traced back to the early 1970s when systematic examination of international trade and foreign exchange regimes as well as industrialization policies in developing countries was carried out. It was revealed through a series of comparative studies that incentive frameworks in developing countries were highly distorted and that those distortions resulted in inefficient allocation of resources. This body of study came to form the analytical and philosophical backbone of neoclassical development economics preaching the gospel of comparative advantage and market-based resource allocation. This economic perspective was complemented by neoclassical political economy, which focused on additional inefficiencies arising from rent-seeking behavior under dirigiste regimes.

In 1980 the World Bank introduced a new instrument of financial support, Structural Adjustment Lending (SAL), to cope with the worsening balance of payments situations of many developing countries. The Bank's definition of structural adjustment is best understood when it is related to the theoretical underpinning of structural adjustment programs prescribed to developing countries. The World Bank's thinking on structural adjustment has evolved over the past 15 years, but the essential aspects of the initial approach have remained the same to the present.

The term "adjustment" in "structural adjustment" as defined by the World Bank signifies "balance of payments adjustment". The structural adjustment approach to balance of payments adjustment, or the reduction of current account deficits, is distinctly different from the short-term macroeconomic stabilization approach that the International Monetary Fund (IMF) has traditionally espoused. It was reasoned that the time needed for the improvement in the balance of payments position would be longer with the structural adjustment approach compared with the traditional macroeconomic stabilization approach. That reason-ing was based on the assessment of time lags between the adoption of policy and institutional reforms and the supply-side responses that would effect changes in resource allocation and export expansion. It was also recognized that the study of sectoral and economy-wide situations and the design of a comprehensive and detailed program of policy and institutional reforms would require considerable time in itself.

When SAL was first conceived in 1980, it was forecasted that the real price of energy (relative to the general price level in the world) would continue to rise throughout the 1980s. The need to cope with balance of payments difficulties was therefore considered urgent for oil-importing developing economies. The initial idea that motivated the introduction of SAL was to prevent the emergence of balance of payments crises by means of the implementation of structural adjustment policy. In the event, however, ensuing developments brought about a far more rapid and serious

deterioration in the balance of payments position of many developing countries, including petroleum exporters, plunging them into a debt crisis or onto the brink of it. This difficult economic situation further added to the need for structural adjustment, but made the surrounding conditions for its implementation much more hazardous at the same time. Faced with the ongoing or imminent balance of payments crises, the implementation of structural adjustment had to be combined with a short-term macroeconomic stabilization attempt and came to be placed in a package of policy and financing measures formulated to cope with the debt problem (the international debt strategy). This change in the surrounding conditions, however, did not necessitate any modification in the approach to structural adjustment or the design of SAL-supported programs.

It is true, as stated above, that changes in the international economic environment were important background factors that necessitated the implementation of structural adjustment. Those changes were considered to be permanent and irreversible and the kind of adjustment that was proposed to cope with such fundamental changes in the external environment was of structural nature, strengthening the foreign exchange earning and saving capacities on the supply side. Furthermore, it was not only external factors that were responsible for the balance of payments difficulties of developing countries; considerable attention was also paid to deficiencies in economic management with a view to identifying the key elements of a package of policy and institutional reforms required for structural adjustment. The World Bank viewed the rapidly deteriorated balance of payments situation in many developing countries as the result of an interplay of internal and external factors: improper economic management in many developing countries had already created domestic conditions for the deterioration of the balance of payments position when they faced external shocks generated by drastic changes in the international economic environment, which compounded the acuteness of the difficulties they experienced. Under the new circumstances, the Bank argued, it was no longer possible for the distressed developing countries to continue with the old, inadequate mode of economic management. Structural adjustment needed to be carried out by implementing policy and institutional reforms all across the economy. In other words, SAL was expected to play an important role since it was believed that there was ample room for structural reforms and that those reforms would have large positive impacts.

The World Bank has consistently emphasized the ultimate goal of sustainable long-term growth. The initial focus of structural adjustment was placed on balance of payments simply because foreign exchange shortage was judged to be the most critical constraint on growth under the circumstances prevailing then. The relationship between structural adjustment and growth was already the central consideration even before the slogan of "growth-oriented adjustment" came into vogue in 1985 as a new thinking in the international debt strategy (the so-called Baker Plan). In this respect, too, structural adjustment stands in a clear contrast with macroeconomic stabilization which tends to result in stop-and-go cycles. Viewed from a slightly different angle, the targets of structural adjustment as conceived by the World Bank may be identified more broadly as a set of objectives contained in the medium-term policy and institutional reform package designed to establish conditions for sustainable long-term growth, with improvement in the balance of payments position included as one of the objectives. In fact, structural adjustment has over time come to

be understood in this broader and more balanced manner.

The central concern of the World Bank in promoting structural adjustment is to enhance mobilization of domestic resources and improve efficiency in resource allocation and thus to build conditions for sustainable growth. The Bank sees common "distortions" in many developing economies; structural adjustment programs therefore contain common elements in many countries. The "distortions" that need to be corrected through structural adjustment are divided into two broad categories related to the principle of economic management. The first is the excessive size and too extensive involvement of the public sector in the economy thus limiting the scope for private-sector activities. The second relates to the policy environment in which private-sector decisions are taken and operations carried out. The workings of market mechanisms are hampered by administrative interventions and controls, resulting in inefficiencies in resource mobilization and allocation.

Reflecting these considerations structural adjustment programs have two broad objectives: first, recovering and maintaining macroeconomic balance; and secondly, improving microeconomic efficiency. These two objectives are postulated to be the medium-term (3-10 years) policy goals which constitute the prior conditions for the attainment of sustainable long-term development. Elaborating on these broad orientations, structural adjustment programs prescribed by the World Bank typically spell out specific actions over a medium term for policy and institutional reforms in the following four areas:

(1) Trade and exchange rate policy
- —"Free trade environment" for export-oriented producers
- —Correction of overvalued exchange rate
- —Reduction of import barriers and equalization of effective protection

(2) Domestic deregulation
- —Elimination or reduction in price controls, subsidies, and permits and licensing requirements

(3) Efficiency of public sector
- —Divesture through privatization, merger or liquidation
- —Rationalization of expenditure and investment programs
- —Strengthening of technical and managerial capabilities

(4) Mobilization of domestic resources
- —Increase in tax revenues
- —Increase in public-sector prices and charges
- —Increase in real interest rates
- —Development of financial institutions

2.3. Market-friendly approach

The need for and effectiveness of market-oriented reforms have been the dominant theme of research and practice of development economics since the early 1980s. The main actor in this reorientation of development agenda has been the World Bank.

The introduction of Structural Adjustment Lending (SAL) by the World Bank enshrined the neoclassical thinking as the official and authoritative doctrine of the international development community. Since the early 1980s the development discourse was largely dominated by the policy and research agenda of the neoclassical paradigm as propounded by the World Bank.

In 1991 World Development Report (WDR 1991) of the World Bank introduced the concept of "market-friendly" government intervention. This concept relates both to the scope and manner of government intervention into the working of market mechanisms.

First, with regard to the scope of intervention, it advises governments to intervene reluctantly, thus placing the proof of burden squarely on those who advocate more activist government: "Let markets work unless it is demonstrably better to step in." Public goods which the private sector does not adequately provide for—basic education, infrastructure, poverty alleviation, population control, and environmental protection—pass the test. On the other hand, "[C]ertain other actions usually fail the test. For instance, it is usually a mistake for the state to carry out physical production, or to protect the domestic production of a good that can be imported more cheaply and whose local production offers few spillover benefits."

Concerning the manner of intervention, the "market-friendly" approach offers three pieces of advice in its advocacy of market discipline. First, interventions should be designed to maintain domestic and international competition. Second, they should be moderate in the sense of not causing large price distortions. Third, they must be subjected to market discipline and withdrawn when they fail to produce competitive industries.

From this perspective, the success of East Asian economies—Japan and Korea in particular—is not viewed as an exception to the "market-friendly" rule but is attributed to their conformity to precisely that: "First, these governments disciplined their interventions with international and domestic competition. ... Second, these governments, on the whole, were careful to ensure that intervention did not end up distorting relative prices unduly: ... Third, their intervention was more moderate than in most other developing countries." In sum, therefore, "these economies refute the case for thoroughgoing dirigisme as convincingly as they refute the case for laissez-faire."

In WDR 1991 and many other documents the World Bank bases its case for the "market-friendly" rule or its functional equivalents on observed empirical regularities between degrees of intervention and price distortion on the one hand and productivity gain and output growth on the other. These statistical associations are pointed to as empirical support for a theoretical position that not only production decisions but investment and innovation decisions are made in response to market signals and that there are no critical market failures. The development process is essentially envisaged as an outcome of investment and innovation responses of individual economic agents to evolving conditions in goods and factor markets. Dynamic efficiency is realized, so it is claimed, because undistorted markets send right signals for investment and innovation decisions.

3. Criticism of Neoclassical Paradigm

3.1. Neoclassical and opposing paradigms

The World Bank has exerted strong leadership both in the thinking and the practice of structural adjustment since the early 1980s. Many developing countries have undertaken structural adjustment since the 1980s. In most cases, the direct impetus has been the need to rely on SAL from the World Bank in the face of severe balance of payments difficulties. The disbursement of SAL is conditioned upon the implementation of structural adjustment program, i.e., the recipient government's adoption of a package of policy and institutional reforms as prescribed or endorsed by the Bank.

In general terms, the broad objectives of structural adjustment programs are appropriate and non-controversial. Recommended reform measures have received approval and support to the extent that they are intended to redress unsustainable macroeconomic imbalances or highly wasteful use of resources caused by serious distortions in microeconomic incentive frameworks. There are controversies, however, with regard to the target and speed of macroeconomic adjustment and the timing and sequencing of microeconomic measures for policy and institutional reforms aimed at eliminating distortions in incentive frameworks.

In Japan, in particular, there are strong and widely shared criticisms of the World Bank's structural adjustment approach and policy conditionality. Japanese criticisms center on the inadequacy of the market liberalization approach for the promotion of development process. Markets are inherently imperfect or even non-existent in early stages of development, Japanese critics argue, and therefore what is needed is to foster and develop firms and industries under governmental leadership and guidance; premature liberalization is likely to result in undesirable outcomes when viewed from a long-term developmental perspective.

In trying to understand the nature of the controversy between the Bank and Japanese critics, it will be useful to present general discussion on different paradigmatic perspectives each side is (unconsciously) based on.

There are two contrasting ways of understanding and analyzing economic development and structural adjustment. One focuses on the "framework" of economic system and management; the other sees an economy as the sum total of the "ingredients" of which it is composed.

The "framework" represents rules of the game according to which economic agents take decisions and actions in a given economy. In the "framework" thinking, the economy is conceived in terms of functions of institutions and mechanisms (the invisible hand) and its performance is evaluated from that perspective.

The "ingredients", in many cases, refer to tangible organizational units such as enterprises, bureaus and projects and their aggregations such as industries, sectors and regions. They may, however, also relate to factors of production—land, labor, capital and technology—at different levels of aggregation and specificity. In the "ingredients" thinking, the economy is visualized as a collection of these components. Economic development is projected as quantitative expansion and qualitative upgrading of the economy's "ingredients", accompanied by shifts in their com-position.

These contrasting perspectives see development and structural adjustment

policies in distinctively different ways. In the "framework" thinking the central task of policy and institutional reforms is identified as correcting distortions in the incentive scheme defined by policy environments and institutional arrangements. In the "ingredients" thinking, in contrast, policies and institutions are viewed as means to achieve a future vision of the economy typically depicted in terms of a collection of industries or regional economies. In some cases, it is as if they are also viewed as tangible "ingredients", just as conventional factors of production, that shape the process of economic change.

Implicit in the discussion above is another aspect of contrast between the two approaches: The "framework" thinking is principle-oriented, while the "ingredients" thinking is result-oriented. In the "framework" thinking, setting the framework right is considered to be a necessary, if not always sufficient, condition for successful development defined in terms of macroeconomic indicators. Typically, by the very essence of this approach, there is little mention of the picture of the economy which is supposed to result from setting the framework right. In the "ingredients" thinking, it is the result in terms of sectoral composition or industrial organization that occupies the central position, while an overall principle of economic management tends to remain largely undefined. There are certain principles in terms of sectors or activities to be given priorities, but those are derived from, and therefore subordinate to, the goal, or premeditated result, of economic development.

3.2. Japanese criticisms of the World Bank approach

The controversy between the World Bank and Japanese critics may be understood as a manifestation of contrasting mindsets underlying the formal pronouncements of both camps. The World Bank's approach is based on the "framework" thinking of neoclassical economics. The Bank's policy prescriptions to developing countries ("getting the framework right") are essentially identical, both in the macro and the micro domains, with little attention paid to different stages of development. Only in the recent past, the slowness of response to structural adjustment policy in low-income countries and some middle-income countries has come to be recognized by the Bank, with the resultant attention to inadequacies of such "ingredients" of the real sector as infrastructure, human capital, and private enterprises. This increased awareness of the weaknesses of the real sector "ingredients" has resulted in the recognition of the need to adopt supplementary measures to remedy those deficiencies in the economy. This notwithstanding, the Bank's policy prescription continues to place the primary emphasis on eliminating distortions in "frameworks" of market-based incentives. In a nutshell, the Bank's approach remains essentially micro-analytic and its policy stance "market-friendly".

In contrast, the dominant school of thought in Japan is informed by the "ingredients" thinking. The Japanese perspective has been shaped under the influence of the German Historical School and conceptualizes an economy as the sum total of its constituent parts ("ingredients") typically identified with productive sectors or industries. It envisages the process of economic development in terms of changing proportions of productive activities within a national economy. This approach, descriptive and crude as it may be, tries to capture the dynamic process of economic development in its totality and to identify historical sequences observed in the course of development. The Japanese historical school firmly believes that economic policy must be

designed, based on the assessment of existing productive capacities, with a view to helping realize developmental goals set for a certain future date. It argues, from this perspective, that structural adjustment policies must be differentiated according to stages of development. In sum, the Japanese approach is primarily macro-descriptive and its policy stance proactive and interventionist.

Japanese government has engaged in co-financing with the World Bank's structural adjustment loans (SAL) by means of OECF or Export-Import Bank lending since mid-1980s. All along, many Japanese have felt uncomfortable with the Bank's thinking relative to structural adjustment. Of late, Japanese government and its agencies have adopted a more activist stance with regard to the advocacy of alternative perspectives on development and structural adjustment policies based on Japanese and East Asian experiences. The most systematic manifestation to date of such an activist stance is found in an OECF document: "Issues Related to the World Bank's Approach to Structural Adjustment— Proposal from a Major Partner" (OECF Occasional Paper No. 1, October 1991).

This document puts forth criticisms against the lopsided emphasis placed on "efficient resource allocation through the market mechanism" in the Bank's structural adjustment approach. Four questions are addressed:

1) Need for "measures aiming 'directly' at promoting investment" in order to attain sustainable growth;
2) Need for a long-term viewpoint and conscious industrial policy for the promotion of leading industries of the future;
3) Significance of directed and subsidized finance for the promotion of investment and infant industries; and
4) Need to take actual economic, political and social conditions into consideration in making privatization decisions.

The OECF document is a Japanese manifesto based on the "ingredients approach" and interpretations therefrom of Japanese and East Asian development experiences. It criticizes the "framework approach" of the Anglo-American economics that lies beneath the Bank's structural adjustment approach as half-truth and proposes its own set of policy prescriptions as the missing half.

On point 1), a result-oriented approach for the realization of desirable investments ("ingredients") by means of "direct" policy measures is advocated as a necessary complement to the Bank's principle-oriented approach that focuses on correcting distortions in incentive structure ("framework") through policy and institutional reforms. Reference is made to fiscal and financial policies utilized for the promotion of strategic leading industries in the post-war Japan.

On point 2), the Bank's advocacy of indiscriminate trade liberalization ("framework approach") is characterized as predicated on the notion of static comparative advantage and is contrasted with a proactive, promotional approach designed to create desirable industries ("ingredients approach"): "It is too optimistic to expect that industries to sustain the economy of the next generation will come up automatically through the activities of the private sector". Here, reference is made to East Asia-type industrial policies.

On point 3), a frontal attack on the World Bank's thinking on financial sector reforms is made. While the Bank criticizes policy-directed, subsidized credits as causes of distortions in the "framework" of the financial sector, which should be

based on market mechanisms, the alternative viewpoint presented here stresses that the financial sector of the developing country is too underdeveloped for market mechanisms to be able to function as expected, thereby failing to provide a meaningful "framework" for allocation of funds. Furthermore, there are wide-spread market failures. These characteristics of the financial sector of the developing country make it imperative that directed and subsidized credits be utilized for the realization of desired activities ("ingredients").

On point 4), the World Bank's emphasis on the leading role of the private sector and its advocacy of privatization of state-owned enterprises are criticized as being infeasible or undesirable. The Bank is viewed as simple-mindedly and unduly concerned with efficiency criteria ("framework") in total neglect of socio-political conditions and national sentiments with regard to the ownership structure within the economy ("ingredients").

4. "Marketism" and Social Safety Nets

4.1. Market-oriented reforms and social safety nets

In relation to structural adjustment, social safety nets are understood as measures adopted to alleviate the declines in economic welfare engendered as side effects of structural adjustment programs. In reality, however, it is often the case that economic situations already deteriorated prior to the adoption of structural adjustment programs and therefore social safety nets often need to cope with problems arising from such deterioration of economy.

As a matter of general orientation, market-oriented reforms seek the reduction in the size of the public sector and minimization of government interventions into market operations. In specific applications a certain set of policy and institutional reforms are spelled out as reform agenda as indicated in Section 2.2. Among specific measures for structural adjustment, elimination or reduction in price controls and subsidies, as well as reductions in social expenditures as a part of macroeconomic stabilization, seem to have most serious impacts on the well-being of the poor and the vulnerable. Social safety nets have been installed to alleviate the difficulties experienced by the poor and the vulnerable. In accord with the basic philosophy of market-friendly approach, social safety nets were designed to be cost-effective and financially viable. This often entailed effective targeting of the beneficiaries and the availability of technical and financial assistance.

The rationale for social safety nets may be examined from social, economic and political perspectives. From social perspective, providing minimal conditions for livelihood is in and of itself an important policy objective. From economic perspective, attention is directed to the impacts of health and education status of individual workers on their employ-ment opportunities and productivity. From political perspective, the central con-cern is over the possibility that sentiments of anxiety or dissatisfaction caused by economic dislocations might generate social and political disruptions, possibly leading to the abandonment of intended reforms.

Structural adjustment as applied in many developing and transition economies since early 1980s is based on the doctrine of neoclassical economics which embodies the ideology of marketism. Reform agenda is prescribed with the ideal-type market

economy as a goal and yardstick, in total neglect of actual society within which market logic is supposed to operate. Market-oriented reforms are bound to encounter unexpected and unpleasant surprises along the way. Social safety nets are indispensable safety device when market-oriented reforms are applied to human society.

4.2. Social development as a goal

After the WWII, the international community institutionalized complementary measures to market-mediated economic outcomes in the form of developmental and humanitarian aid. Aid represents the recognition and commitment, on the part of the international community as a whole, to the need to improve economic conditions and standards of living in low-income countries. This in turn reflects the existence of a global community in the sense that the international community shares fundamental values, such as welfare and development of human race as a whole, and collective responsibilities for their fulfillment. At the official level, bilateral aid agencies were established by advanced countries, agreements were reached on the founding of special UN agencies concerned with development and of multilateral and regional financial institutions for development, and at OECD the Development Assistance Committee (DAC) was established for the avowed purpose of designing, formulating, evaluating and coordinating aid programs. In the recent past, non-governmental organizations have come to play increasingly important roles in developmental and humanitarian aid, thus representing alternative avenues for the international community to act for the common cause of humanity. There have been increased interactions and collaborations between official agencies and non-governmental organizations as well.

International aid has provided safety nets to the poor and the vulnerable as supplement to market mechanisms that form the key principles of international economic transactions. This role of aid as global safety net applies directly to humanitarian and emergency aids. Developmental aid also plays a similar, albeit often indirect, role if it is focused on poor and vulnerable segments of population.

There has been an on-going debate regarding the main orientation of developmental aid. Traditionally, emphasis of development strategy and assistance was placed on the strengthening of national productive capacities and resulting increases in aggregate growth rates. In the late 1960s, with the recognition that aggregate growth did not necessarily lead to swift reduction in poverty, there emerged a new emphasis on basic human needs (BHN) of the poor people as explicit target of development policy and assistance. In the 1980s emphasis again shifted to the production side of the economy as structural adjustment became dominant concern in the face of acute balance of payments difficulties. From the late 1980s on, however, there has arisen renewed attention on poverty and social sectors as economic depression and structural adjustment has continued over an extended period of time. UNICEF criticized the structural adjustment approach of the IMF and the World Bank for damages it caused to social welfare in developing countries in its influential publication (Adjustment with a Human Face). UNDP introduced a new concept and indicator of human development in its annual publication of Human Development Report and Human Development Indicators started in 1990. On the part of the World Bank, concern over social dimensions of adjustment as manifested in declining standards of living and reduced social expenditures in the prolonged process of structural

adjustment led to the formulation of social emergency programs and financial assistance for their implementation. (More on this below.)

In 1995 the United Nations convened World Summit for Social Development (Social Summit) in Copenhagen. The adopted document of Social Summit (The Copenhagen Declaration and Programme of Action) established social development as the common and ultimate goal of the international community in general and the United Nations in particular. Social Summit was convened with a strong sense of alarm with some of the consequences of market-based economic activities in general and those of increasing trend of globalization in particular. "We are witnessing in countries throughout the world the expansion of prosperity for some, unfortunately accom-panied by an expansion of unspeakable poverty for others. This glaring contradiction is unacceptable and needs to be corrected through urgent actions. ... [T]he rapid process of change and adjustment have been accompanied by intensified poverty, unemployment and social disintegration." (p. 5) In specific reference to structural adjustment programs the document states that they should "include social development goals, in particular eradicating poverty, promoting full and productive employment, and enhancing social integration". (p. 27)

The convening of the Social Summit marked an important turning point in the on-going debate on the goals and priorities of development. At one level it represented emergence of consensus. The World Bank claims that economic growth, employment generation, improved income distribution and poverty alleviation can be achieved simultaneously through the adoption of the market-friendly approach and targeted government actions on poverty and social sector. The market-friendly approach is expected to generate broad-based growth that will create productive employment opportunities for the poor. In this relation the World Bank emphasizes that social sector adjustment programs it supports are focused on setting priorities in social expenditures and instituting effective targeting mechanisms so that benefits will reach the poor in cost-effective manners. These views of the World Bank are practically identical with those of UNDP as encapsulated in their emphasis on human priority and pro-poor growth.

At a deeper level, however, there are schisms between positions. It is indicative that the driving force behind the Social Summit was social-democratic governments in the developing and developed world (Chile and Denmark in particular) and the UN agencies. From this perspective the Social Summit may be interpreted as an attempt by the international community to regulate and mitigate the workings of global market mechanisms. This attempt was prompted by the apparently uncontrollable trend of marketization at national and international levels with its perceived negative consequences on human well-being. The inclusion of social integration as one of the central goals of social development indicates a deep concern over the erosion of societal relationships faced with the pressure of market competition in increasing broader areas of human life. The market-friendly approach espoused by the IMF and the World Bank, as well as governments subscribing to liberal economic doctrine, tends to lack this concern over social integration.

The attention to society is not totally new, however. Since the late 1980s the Development Assistance Committee of OECD has emphasized participatory development as the main thrust of development strategy and assistance. The most immediate focus of that approach has been placed on the empowerment and active participation

of women. Attention has been also directed to such fundamental institutional factors as human rights, political democracy, good governance and civil society. Emphasizing these factors may be viewed by some authorities and observers as amounting to the imposition of "universal values" as defined by the Western nations. These factors, broad and therefore susceptible to ideological manipulation as they might be, need to be taken into consideration in examining the conditions for a market economy to be able to attain the goals of the Social Summit. Such examination would aim at identifying supplementary measures to the market-friendly approach of the IMF and the World Bank. But, if need for supplementary actions turns out be broad and essential, that would indicate fundamental deficiency of the market-friendly approach for the goals of social development.