The Political Economy of Stabilization in Small, Low-Income, Trade-Dependent Nations

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ii

Abstract

Political pressures are generally recognized as important in determining success or failure of economic stabilization and adjustment programs. But there has been little comparative analysis of the politics of stabilization. This study examines the factors affecting (i) political leaders' commitment to stabilization measures (often called "political will"); (ii) governmental ability to implement stabilization measures; and (iii) the responses of key interest groups and the public at large to those measures. The study also discusses political implications of the design of programs and the attempted speed of stabilization, and sketches the tactics available to governments to manage political risk, including partial compensation, persuasion, diversion or obfuscation, and containment of protest.

The discussion is based on case studies of stabilization efforts in five fairly poor, small, highly trade-dependent countries: Ghana in the late 1960s and early 1970s, and Zambia, Kenya, Sri Lanka, and Jamaica in the late 1970s and early 1980s. A subsidiary theme within the broader discussion is the ways in which the political economy of stabilization may differ in such countries, as compared to larger, semi-industrialized economies.

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The Political Economy of Stabilization

Since 1979, the second oil price rise, the world-wide recession and related trends have brought a surge in the number of developing nations facing acute financial difficulties and forced to make painful adjustments. Readers of this report are familiar with the crisis, and with the nature of efforts to address it. This paper focusses on political factors affecting the success or failure of economic stabilization programs. It provides an explicit conceptual framework for analyzing the politics of stabilization, and suggests some implications for the design of programs.

The study starts from the assumption that despite the painful nature of stabilization programs, the alternative to planned and guided adjustment is chaotic ad hoc adjustment, entailing even higher costs in terms of debt, controls, scarcities, inflation, unemployment, and atrophied output and growth. But the batting average of planned stabilization programs, especially in the poorer countries, has not been particularly good. A high proportion of such programs are abandoned in mid-stream. Others are technically completed (in the sense that performance targets are met and all tranches drawn) but the countries once again are in serious difficulties within a matter of months or a year after the conclusion of such a program. There are many explanations for such a record, including completely exogenous events (like adverse weather or shifts in the terms of trade), occasional failure of expected supplementary external finance or support (for instance, private capital inflows or rescheduling, or aid from bilateral sources) and possibly shortcomings inherent in the approach to stabilization itself. The most common of all the reasons for failure are internal political pressures and politicians' fears of such pressures, which lead governments to postpone corrective action until the economic crisis is acute, and/or to dilute or abandon programs before the necessary economic adjustments are accomplished.

Theorists and practitioners involved in stabilization efforts are well aware of the importance of politics to the success or failure of those efforts. References to political constraints crop up repeatedly in studies of specific countries' experiences and to some extent in broader theoretical analyses. But it is fair to say that there has been little systematic or comparative analysis of the politics of stabilization efforts, and, until recently, surprisingly little attention as well to administrative capacity required for sustained stabilization and adjustment efforts.[1]

It is often argued that as international organizations and bilateral aid agencies ought not to become involved in recipient nations' political affairs, they have no business explicitly considering political dimensions of the programs they assist. But the argument is both illogical and impractical. There are sound moral and practical reasons why neither international organizations nor other nations should deliberately intervene in internal politics (though in fact, of course, governments regularly do try to intervene in other nations' affairs). But anticipating political reactions and adjusting one's own action accordingly is not tantamount to intervention. In the case of stabilization programs, an attempt to anticipate political and administrative obstacles and to so design the program to cope with those obstacles, is no more than prac-

[1]Finch, in Williamson, ed., offers an excellent general discussion by a senior Fund official that repeatedly and explicitly refers to political pressures and considerations. An early effort at a systematic, though narrow-gauged assessment of the political risks associated with devaluation (not with stabilization more generally) uses the criterion of whether or not the govern-

tical. Failure to do so, in fact, is irresponsible, both vis-a-vis the government concerned, and with respect to effective use of the resources of the external agency. In practice, experienced analysts and advisors do try to anticipate political constraints informally, although the main responsiblity properly falls on the government concerned.

Sometimes, too, political issues are conveniently dismissed as a matter of sufficient political "will" on the part of the government concerned. Either the government has sufficient will or it does not. If it does, political analysis is unnecessary; if it does not, there is not much to be done about it. But this is a simplistic attitude. Commitment to stabilization on the part of the top political leaders of a country is indeed crucial. But that commitment itself is a variable on which outside agencies can have some influence. Commitment is also a matter of degrees, and different degrees of commitment may call for differently designed programs. Still more important, even strong commitment may not be sufficient to overcome political obstacles unless programs are also designed in a manner that addresses those obstacles.

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ment or the finance minister fell within the year following a devaluation. (Cooper, 1971, pp. 500-503.) More recently, Donald Keesing includes in his study of trade policy for developing countries a substantial discussion of political factors supporting or inhibiting trade liberalization. (Keesing, 1979, p. 143 ff.) John Sheahan offers an more extensive analysis of political obstacles to market oriented policies in general--e.g., devaluation, decontrol of the economy, trade liberalization, etc.--in Latin America, focussed on the hypothesis that effective pursuit of such policies often requires authoritarian methods. (Sheahan, pp. 267-292.) Thomas Skidmore examined the politics of stabilization efforts focused on inflation in Argentina, Brazil, and Mexico, during the 1950s and 1960s. David Denoon has prepared a study of the politics of devaluation in India, Indonesia, and Ghana in the late 1960s. The most extensive analysis of the politics of stabilization utilizing comparative case studies is the series organized by Alejandro Foxley and Laurence Whitehead, published as a special issue of World Development, 8:11 (November 1980). That series focusses exclusively on Latin American experience.

The importance of considering political sustainability is buttressed by the high costs of failed programs. Failures are costly in terms of resources expended, and in terms of sacrifices suffered for little or no lasting gain. Failures may also create a legacy of cynicism and bitterness that seriously complicates future efforts. Disappointing experience with stabilization efforts has prompted an intense debate regarding program design, and considerable experimentation both within developing countries and on the part of multilateral and bilateral agencies seeking to assist (and often to guide) them. In general, policy and (perhaps in lesser degree) practice have moved toward programs that are longer in duration, rely less on monetary instruments, and give more explicit attention to structural adjustment on the supply side. Such changes increase both the need and the scope for more explicit attention to political sustainability. Over a period of several years, opposition can coalesce. The costs and risks of relying on coercive suppression of opposition are correspondingly heightened. But the longer time horizon also provides more opportunity for phasing, for gradual application of measures, for manipulation of the sequence in which measures are introduced, and for mid-course adjustments to respond to both technical and political signals. Thus the mixed record of past efforts, the pressing nature of current problems, and the evolving nature of stabilization and adjustment programs all point toward the need for more systematic political analysis.

One important reason for the comparative neglect of political analysis within the on-going reassessment of stabilization policies is the absence of a useful framework for such analysis, and the absence of information for specific countries needed to make reliable assessments. There are no neat and realistic "models" available to predict and analyze the interactions of politics and alternative stabilization packages for a specific country. Even if such theoretical models existed, most of the country-specific data needed for such a model would not be available. Indeed, some of the crucial information is closely held, especially information on goals and perceptions of key factions and individuals in the highly personalistic politics of many small, poor countries. Nevertheless, both general knowledge and theory about political behavior, and the wealth of case material now available, permit analysis that moves beyond the back-of-the-envelope (or seat-of-the-pants?) approach to political considerations.

Factors Determining Political Sustainability

Three sets of factors directly affect the political sustainability of a stabilization effort--that is, the odds that it will not be abandoned or seriously diluted in mid-course because of leaders' political concerns or popular political pressure. These factors are:

- the strength of political leaders' commitment to the program;
- the capacity of the government to implement the program and manage political responses;
- the political responses to the program by various groups within the political system.

Of course, each of these factors is strongly affected by the anticipated and actual economic impact of the stabilization program. Each factor also affects the others. The dynamic manner in which they interact over time constitutes "the politics of stabilization." Each major variable is largely determined by a number of more specific variables. The next three sections of this paper consider each in turn. (Appendix A provides a consolidated summary of the analytic framework.) Some policy implications are noted in the course of discussing each of these variables. Some further tentative implications for program design are discussed in a fourth and final section.

The conceptual approach and many of the more specific observations in this discussion are based on a comparative study of five countries undertaken for the U.S. Agency for International Development, and completed in mid-1983. The cases examined included:

--Ghana, 1967-71: from the overthrow of Nkrumah through the military and the civilian regimes that followed, to the coup of January 1972.

--Zambia, 1978-82: from the adoption of a two-year Stand-By Agreement with the IMF in April 1978 to January 1983.

--Kenya, 1978-82: from the death of Kenyatta and Moi's succession to the Presidency through 1982.

--Sri Lanka, 1977-82: from the landslide election of the Jayawardene government committed to far-reaching economic re-orientation through the re-election of the President in autumn 1982.

--Jamaica, 1977-82: from the initial adoption of a stabilization package by the Manley government in early 1977 through several unsuccessful efforts; the electoral victory of the Seaga government, and its initial reforms.

With the exception of Jamaica, these are all quite poor nations. In 1980, GNP per capita was \$270 in Sri Lanka, and ranged up to \$560 in Zambia (where distribution, however, leaves the bulk of the population extremely poor); Jamaican per capita GNP was \$1,040. Kenya, with just under 16 million people in 1980, is the largest of the five; Jamaica, with 2.2 million, the smallest. All case studies covered at least five years; they were not confined to a single "stabilization episode" (usually defined as the duration of a Fund standby agreement.) One of the most interesting aspects of the cases is the ways in which experience during earlier periods affected later decisions and political responses. Appendix B provides very brief sketches of the cases; fuller discussions are available in the AID study.

The decision to focus on small, poor, highly trade-dependent countries reflected the fact that disagreement and uncertainty as to the effectiveness of conventional approaches to stabilization are particularly acute with respect to such countries.[2] Structural and institutional rigidities, it is argued, delay supply responses longer than in more advanced and flexible economies, while the welfare implications of demand constraint measures are particularly disturbing for populations living very close to the margin of survival. Neither the AID report nor this paper seeks to enter the economic aspects of the on-going debate on effective stabilization strategies. But the examination of political factors in both papers is intended to contribute to that debate. In many ways the politics of stabilization is similar in any country--advanced, semi-industrialized, or poor; small or large; heavily or only moderately trade-dependent. But just as the more detailed economic issues of stabilization differ in these different settings, so do political and administrative constraints and opportunities. This paper thus pursues two themes simultaneously. It suggests a conceptual framework for analyzing political sustainability of economic stabilization programs in any setting. It also gives special attention to one category of cases: small, poor, highly trade dependent economies.

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[2]A less important reason for this focus is the fact that while there have been some comparative studies of the political economy of stabilization in Latin America, especially in the larger semi-developed economies of that region, there has been almost no comparative analysis of the smaller, poorer countries.

Before turning to the substantive discussion, two caveats should be noted regarding scope. First, this study is concerned with factors affecting the political sustainability of stabilization efforts, and with ways to improve political sustainability. Political sustainability overlaps, but is by no means the same as distributional equity. Improved design of stabilization with respect to equity requires reducing the losses suffered by the poorest groups. Improved design of stabilization programs with respect to political sustainability may require reducing the losses (or increasing the gains) to the most politically relevant groups. The two goals may, and often do, conflict because the most economically vulnerable groups are frequently not relevant politically.

The second caveat: the study focusses on the effects of politics on stabilization, rather than the impact of stabilization on politics. A number of analysts have argued that stabilization measures, because they impose hardships on many groups within society and challenge the position of vested interests, are most readily carried out by authoritarian regimes. More disturbing, they suggest that advocating stabilization measures, and more generally urging market-oriented policies of decontrol and liberalization in nations characterized by extensive "populist" state intervention, implicitly encourages and endorses authoritarian political tendencies. These issues are extremely important, but they are not systematically considered in this study.

A final caveat concerns the general nature of the study, rather than its scope. Five cases are a fragile basis for generalization. The study makes no claim to be more than exploratory. Nonetheless, the importance of the topic warrants the attempt. Moreover, an initial effort may help identify promising lines for further analysis.

I. Leaders' Commitment to Stabilization

The country cases on which this discussion is based certainly-confirm the importance of committed leadership for effective stabilization. "Will" alone is not sufficient, but it is clearly necessary. Stabilization measures are always difficult politically, the more so to the degree that not only demand-shifting but also demand-compressing is necessary. "Commitment" is usually born of duress -- the painful recognition that the economic and political costs of failure to act are probably greater than the costs of action. The strength of leaders' commitment is determined by the perceived margin of advantage -- the degree to which the expected results of stabilization are preferred to available alternatives. "Commitment" that grows out of desperation will fade if any aspect of the situation becomes less binding, for example, improved prices for a major export good. Occasionally the stabilization package may include features that are positively preferred by political leaders, particularly if the package includes structural adjustment components consistent with leaders' own goals or ideological leanings (as in Sri Lanka after the 1977 elections, or perhaps in Jamaica after the 1980 elections). Positive commitment of this kind is more durable, but much less common.

It is useful to distinguish two main causes for leaders' reluctance to adopt firm stabilization measures. Fear of political repercussions is one reason. Lack of confidence that stabilization measures will in fact improve their country's situation is the other.

1. Obstacles to commitment: leaders' political fears

Politicians are damned if they do and damned if they don't, with respect to political consequences of stabilization decisions. A firm stabilization program will predictably provoke protest. But so will continued economic deterioration. Leaders' decisions may be influenced by a less obvious consideration. The public will evaluate government policies on the basis of events that follow adoption of a program (a before/after comparison) rather than trying to gauge what would have happened had the program not been adopted (a with/without comparison). Once the government adopts stabilization measures, the public is likely to attribute to the government responsibility for economic hardship which would have occurred (perhaps more acutely) in the absence of those policies. Therefore, politicians are likely to view adoption of stabilization measures as accelerating or accentuating public reactions to economic hardship, and focusing those reactions on the government itself instead of exogenous forces such as rapacious foreign creditors. Moreover, to the extent that stabilization measures shift the incidence of economic hardship to the detriment of groups capable of concerted protest (for instance, civil servants), adopting a program may intensify the political risks inherent in the tight economic situation. Finally, adopting a stabilization program may sometimes ignite political opposition because elements of the public or opposition parties can seize on IMF involvement and government "capitulation." In other cases, however, IMF involvement may be politically convenient to the government, as a scapegoat and/or as reassurance to some elements of the public.

Political leaders must balance their fear of intensified protest, more sharply focused on the government itself, against the possible political benefits of increased foreign exchange available through a standby agreement (and possibly from other public and private sources whose support is contingent on the IMF seal of approval). Obviously the volume, timing, and conditions attached to foreign financial support affects its political value. Assistance that can be used only to pay down arrears, for example, is considerably less attractive than assistance that can be used to increase imports (assuming the foreign exchange situation is so limited that little fungibility is possible).

Leaders' assessments of their own political security or lack thereof affects the weight they attach to anticipated risks. Leaders may feel secure because they believe (rightly or wrongly) that they are popular and legitimate, or because they can rely on well-organized political support bases and face little organized opposition, or because they count on loyal and effective police and military. New regimes, elected or not, often can count on a brief "honeymoon" during which much of the public will suspend judgment and adopt a wait-and-see stance towards policy changes. The UNP government in Sri Lanka capitalized on that advantage in the 1977-79 period; the JLP government in Jamaica from late 1980 forward used its "grace period" to less effect. Long-established governments whose popularity and legitimacy have gradually eroded may rely heavily on a fairly narrow political support base of high level bureaucrats and party officials and their circles of clients. Measures that threaten these relationships can be highly risky. Sometimes, of course, leaders badly misjudge their security: among the cases examined as background for this study, the Busia administration in Ghana may not have realized the extent of public alienation when it decided on drastic devaluation in December 1971.

Leaders' aspirations for the future also bear on their risk-aversion, hence their willingness to make a firm commitment to stabilization. A military leader (or council) that plans to return the government to civilian rule fairly soon (as in Ghana under the National Liberation Council in the mid 1960s, or in Bangladesh currently) can afford measures that governments with longer time horizons would avoid. Similarly, a last-term elected leader may be able to take political risks, especially if the division of powers between executive and legislative branches of government is not such as to make that leader a "lame duck."

2. Obstacles to commitment: leaders' economic doubts

It is often assumed that fear of political risk is the most important deterrent to strong commitment from political leaders. Evidence from the five cases examined in the study for AID challenges this assumption. In all these cases, doubts about the economic benefits of stabilization measures played a major role in delaying adoption of measures, or in vacillating or half-hearted implementation of measures. This evidence is all the more striking because (with the exception of the Manley era in Jamaica) none of these were countries with strong ideological obstacles to stabilization measures. Indeed Ghana at the end of the 1960s, Kenya, Sri Lanka since 1977, and Jamaica since late 1980 are all situations where fairly free market activity is favored, in principle. Skepticism about the economic benefits of stabilization in these cases can fairly be taken to represent much more widespread and intense skepticism in many other countries. Therefore it is worth examining the roots of leaders' economic skepticism.

In the poorest countries, a recurring theme is the absence of economic background and understanding on the part of many high-level politicians. The concept of an economy as an interrelated set of institutions, processes, incentives, and tendencies is inherently both complex and extremely abstract. For the great majority of ministers and top political leaders in the poorer countries, neither education nor specific experience and responsibilities equips them to think in terms of effects of alternative macro-economic policies. This was clearly true of most of the Ghanaian cabinet in 1971, and probably has applied in Zambia and Kenya in the late 1970s and early 1980s.

Moreover, aspects of conventional stabilization and adjustment programs are counter-intuitive. This is perhaps particularly true of devaluation. All but a handful of the most economically sophisticated officials and members of the public find it hard to understand why a shortage of foreign exchange (expressed as a balance of payments deficit and import restrictions) will be relieved by lowering the value of their currency vis-a-vis those of others. Prices in general are widely viewed as normative, a value to be politically determined, not a variable with a unique market-clearing magnitude which it is important to approximate. (The same attitude, incidentally, prevailed in earlier centuries in Western Europe, and is widely encountered today in Eastern Europe: prices of grain, for instance, were often set in terms of what urban consumers were thought to be able to afford.) The exchange rate in particular is not viewed as an economist views prices; it is implicitly assumed that the supply of and demand for foreign exchange are inelastic to price, that is, the exchange rate. Hence the widespread public conviction, shared by many politicians and officials, that devaluation is a formula forced on developing nations by the IMF, for obscure theoretical reasons that have little application to their own circumstances or, worse, to protect the interests of rich international financeers.

The benefits of freeing internal prices are also not immediately apparent. As Killick observes, with reference to public opinion in Ghana, "Who except an unholy alliance of trading houses and a few academic economists could be in favour of removing price controls?" (Killick, 1978, p. 348.) Interest rate reform is also widely misperceived. Sheahan's comments, based on observations in Latin America, apply also elsewhere:

> The fact that the main group which gains from selective credit allocation at below-market interest rates is the business sector [and especially the larger firms], for which investment is effectively subsidized, is not emphasized either by equalitarian reformers or by the business sector itself. It is more directly evident that small borrowers without special influence are badly hurt by excessively high interest rates than it is that controls in regulated financial markets are in part responsible for the exaggerated rates elsewhere. (Sheahan, p. 275-76. Bracket added.)

Even where the economic rationale of stabilization is well understood, as is true in many NICs and some poorer countries, political leaders often lack confidence in that rationale. Skepticism flows in part from the linkage of stabilization with economic liberalization. Many IMF-supported programs and all World Bank Structural Adjustment Loans stress reduced direct government intervention in the economy and greater reliance on market incentives in the parastatal sector. These prescriptions run counter to deep-rooted statist, anti-market biases. Throughout the developing world, as was true historically in Western Europe, most officials and intellectuals and much of the public tend to doubt that the profit motive can be socially constructive, view middlemen as unproductive and exploitative, and place considerable confidence in the efficacy of state economic controls to pursue national goals.

These attitudes bear on leaders' receptivity to stabilization and structural adjustment prescriptions in two ways. First, to the extent that stabilization is viewed as a stalking horse for privatization of the economy, and to the extent that is perceived as conflicting with social goals and needs, stabilization will be resisted. Second, statist biases inhibit acceptance of stabilization and adjustment prescriptions, through what might be labelled "the illusion of control." These prescriptions imply reduced direct government control of economic forces--at precisely the moment when those forces are most overwhelming and frightening. Even though governmental regulations and controls are often not effective, or are even harmful, sharply reducing them is a difficult step. Killick observes that Ghana's Minister of Finance J.H. Mensah opposed the 1971 devaluation partly because "it would remove the discretion of economic management from the government." (Killick, 1978, p. 320.)

Disappointing experience with past stabilization efforts frequently reinforces politicians' tendency toward statist, anti-market biases. This is particularly clearly illustrated, among the cases in this study, by the interpretation within Ghana of the 1967 devaluation as a failure, and the resulting strong resistance to any further devaluations. Jamaica's painful experience in 1978-79 similarly inhibited the successor Seaga regime until late 1983. India's 1966 experience with devaluation has colored public attitudes to the present time. As noted earlier, interpretations of past experiences are often based on a "before/after" comparison.[3] But some past efforts were indeed

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[3]Leith's analysis of the 1967 devaluation and liberalization efforts in

inadequate in design or execution, even in terms of the appropriate "with/without" evaluation. Remedial measures have sometimes failed to take sufficient account of structural or institutional rigidities in supply response, or have been unduly optimistic (or, perhaps, reasonable but proved wrong by events) in their assumptions about international prices, weather, or other exogenous factors. Such experiences undermine confidence in the whole approach.

An additional factor contributing to lack of commitment is the overriding importance attributed to forces beyond the individual country's control. In Zambia, for example, both the public at large and political leaders were convinced that the fall in copper prices and the war in Zimbabwe were the main causes of the acute economic pressures in the late 1970s. When the war ended and copper prices briefly recovered, neither politicians nor the public were at all prepared for continuing difficulties. In Ghana, the conviction that Nkrumah's debts were the root cause of the nation's problems made devaluation and stabilization measures still more distasteful than they would have been in any case. Where politicians and publics are convinced that the main causes of their difficulties lie beyond their control, it seems fruitless to adopt painful policies to try to correct the situation. If political leaders adopt corrective policies that go beyond short-run, essential reactions (such as rationing foreign exchange as reserves fall), they will have assumed a larger degree of responsibility for what happens to the country--and therefore they will be correspondingly held liable if the effort fails.[4]

Ghana explicitly notes that the later assessments of those efforts were based on before/after comparison. (Leith, p. 112.)

[4]Keesing notes also that "teetering from crisis to crisis" may have political advantages (p. 149.), demonstrating apparent skill in maneuver--and also muting criticism, since attacking management in the midst of externally imposed

Sharply divergent lines of advice on how to interpret and cope with economic crises has consitututed still another obstacle to commitment. Experiences in Zambia, Ghana, and Jamaica illustrate the point: in Ghana, as late as autumn 1971 Finance Minister Mensah was still arguing that cocoa prices would rise soon and that drastic measures were not needed. In Zambia early in 1980 Kaunda was confronted with totally different assessments from the conservative team that had guided the stabilization program of 1978-80, on the one hand, and the new head of the National Planning office and those around him, on the other. And in Jamaica in 1978-79, high level economic officials were divided between moderates and radicals, with sharply divergent interpretations of trends and prospects, hence appropriate policy.

Conversely, in most cases of effective adjustment programs, one or a few highly committed technocrat-politicians with strong (though sometimes temporary or contingent) backing from top political leaders have played a crucial role. Among clearcut instances are Indonesia in the late 1960s with Widjojo Nitisastro leading a group of highly competent advisors, and Turkey from 1980 to 1982, where Turgut Ozal played the central role.

3. Factors encouraging commitment

This list of reasons why so many decision-makers in poorer countries have little faith in stabilization measures (not to mention their concerns about political risks) includes little that is new or startling. But the list is for-

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crisis is unpatriotic.

midable. It points toward a further question: In view of all these obstacles to commitment, what corrective or countervailing forces may be at work to improve the prospects for the necessary commitment from leaders over the difficult years of the mid-1980s?

Clearly economic sophistication can be expected to increase with growing numbers of well-educated and technically trained people, though in some countries substantial improvement at the political level (as distinct from staff) may have to wait until a new generation takes power. Changes in international currents of opinion and the experience of other countries may also alter perspectives within a nation, depending in part on how open that nation is to outside ideas and experiences. In discussing the factors that made possible Sri Lanka's reorientation since 1977, two Sri Lankan observers commented that the leftist opposition parties were not only disorganized and disheartened by the UNP's sweeping victory, but also disoriented and put on the defensive by changes in the wider global scene. Specifically, they cited the disarray among the Euro-communist movements; the major shifts in theory and practice in the People's Republic of China and in some of the East European nations; and the shift in perspective that changed Singapore from a "bad" to a "good" model. For groups with somewhat different points of reference, the changing policy emphasis within Western professional development circles probably is having an impact. Those shifts in emphasis of course reflect the world economic crisis, but they also flow from a growing recognition of the cumulative costs of two decades of statist intervention. Even if there had not been so severe an international recession, it seems likely that the World Bank, for instance, would be placing more emphasis on realistic pricing policies and improved efficiency of parastatals than it did in the 1970s. In short, changes in international intellectual currents affect attitudes in developing countries--even if slowly and somewhat indirectly.

A more direct impact might be expected from learning from the country's own experiences. John Odling-Smee notes in a recent review of adjustment experience in seven countries assisted by the IMF,

> The first attempts at stabilization and adjustment were not always successful (as Korea in 1979, Peru in 1976-77, and Portugal in 1977), mainly because the extent of the problem was underestimated. After some success in adjusting was achieved, further problems came close to reversing it in these cases. (Odling-Smee, p. 30.)

Christine Bindert, analyzing successful stabilization programs in Portugal, Peru, and Turkey, notes that in all three countries effective programs were preceded by two or three abortive attempts. (Bogdanowicz-Bindert, p. 65.) Osman Okyar's account of Turkish experience spells out the successive policy attempts under three different administrations, under Ecevit in 1978 and again in 1979; under Demirel in early 1980, and under the new military regime in late 1980. (Okyar in Williamson, ed.)

In this study, in both Sri Lanka and Jamaica, the new policies introduced in 1977 and 1980 respectively were directly related to past policy failures. Several Sri Lankan officials prefaced discussions of specific reforms (trade liberalization, food subsidy reductions) by recounting the past history of failed reform efforts. Evidence of growing sophistication and determination was also emerging in Kenya and in Zambia by early and late 1982, respectively.

But as noted just a few pages earlier, past failures can also be interpreted as ruling out, or making highly undesirable, measures such as devaluation which may in fact be essential components of a fresh reform effort.

It is hard to weigh the importance to the learning process of Sri Lanka's longer post-independence history. But it is worth noting that in Jamaica, and in many sub-Saharan African countries, the first decade after independence saw brisk growth. Both exogenous shocks and the cumulative effects of domestic policies have been concentrated in the past decade--not a very long time to gain experience with the implications of complex and difficult policies. It is also hard to weigh the longer-term contribution to the learning process of analyses that seem to have little practical impact initially. The much praised but little implemented Kenyan Sessional Papers of 1975 and 1980, and the more recent Ndegwa Report, and the two major studies of basic needs and employment in Zambia undertaken by the ILO's Jobs and Skills Programme for Africa (JASPA) in 1975 and 1980 may produce their main results indirectly and after some years' lag--by influencing the outlook of younger Kenyan and Zambian officials, academics, and politicians. In short, the sifting and interpreting of experience takes time.

Strong commitment from political leadership is more likely for a program that includes not only stabilization but longer run structural adjustment elements which leaders are convinced will be constructive for their nations. The cases of Sri Lanka and Jamaica are the obvious examples in this study. The logic is obvious: stabilization is mainly a negative set of prescriptions designed to correct certain key imbalances in an economy. While leaders may sometimes be convinced that the medicine is necessary, it is hard to be enthusiastic. A more fundamental readjustment program, although also painful, enlists more creative and constructive energies and corresponding-psychological involvement. It also can be presented to the public in a more positive and persuasive manner than a straight austerity program.

Most of the instances of ambitious readjustment programs have occurred when a new regime takes office, and is in a position to repudiate or depart sharply from the policies and orientation of its predecessor. It is obviously easier for Jayawardene or Seaga to announce a bold new program than for Kaunda to declare, in effect, that many of his government's earlier decisions had unanticipated and adverse results. There are moments in the political history of a nation that are advantageous for a fresh departure. Such moments can be seized or let pass.

4. Some policy implications

Since commitment is a crucial condition for effective stabilization, it is well worth considering ways to strengthen it. Over-all program design, including the attempted speed of adjustment and the level, content, and conditions of assistance, affect commitment jointly with other aspects of political sustainability (governmental capacities, and actual political responses). These issues are discussed in Section IV. The discussion here focusses on possible ways to reduce leaders' doubts about the economic rationale for stabilization.

One channel for improved understanding is the negotiating process itself. Negotiations to arrange a stabilization program with IMF (or other external) assistance are usually conducted under intense time pressure, and virtually always involve only a small circle of top-level economic ministers and officials, plus the highest political authorities. Agreements are expressed in technical language. Those outside this small circle (and sometimes those within it) may not understand aspects of the program; they are likely to be surprised, angry, and resistant. Secrecy is imperative before announcement of some measures (although devaluation often has been anticipated for some months and many of the defensive actions secrecy is designed to avoid have already occurred). But fuller briefing of a wider circle is likely to be helpful, if possible in advance of announcing a program or at any rate immediately after announcement. The rationale for the measures taken should be spelled out in written form, in simple, non-technical language. The rationale should make crystal clear the applicability of the measures to the country's own circumstances, and should explain how these measures are expected to bring the desired results. The case for devaluation probably needs particularly careful explication. The best advocates and instructors for a wider circle within and outside of the government, including major interest groups and the media, are well-informed and convinced political leaders and ministers of finance. But it might be a productive modification of conventional procedures if negotiating teams viewed as part of their responsibilities the preparation of background materials suitable for wider explanations. In some cases outsiders, at the invitation of the government, might even play a direct role in discussing and explaining the program. The (perhaps unique?) experience of the IMF team in Jamaica in 1978, which met at the government's request with leaders of various interest groups, offers a precedent, though such a high-profile role may only seldom be desirable. The main point is that in order to improve the prospects for commitment and political sustainability, the efforts of the negotiating team in many cases should not end with the formulation of an appropriate program (in the judgment of the team and, hopefully, of key economic officials in the government), but should extend to paving the way for fuller understanding on the part of political leadership, a broader governmental elite, and even the public.

To pursue the theme a step further: in many countries there is a deep-rooted conviction that the IMF and to some extent the World Bank tend to automatically apply standard remedies without a close consideration of country-specific conditions and constraints. Where areas of persistent skepticism can be identified, for example, with respect to exchange rate management or rigidities in export expansion, this should be a signal for seeking to arrange some kind of joint analysis in which the country's own staff could participate, to address the perceived lack of country-specific analysis. Such efforts are time-consuming. Often, they would have to be undertaken after measures to cope with the current crisis were already agreed and underway. Since those measures must be implemented over several years, and probably should be followed by still further steps, the unavoidable lag in the results of joint analysis does not wipe out its possible benefits.

Another possible course to reduce economic skepticism focusses on accelerating the process through which political leaders learn from their own and others' experiences, and encouraging constructive rather than damaging interpretations of that experience. The World Bank, the IMF, and bilateral donors all offer training and technical assistance for staff level officials ranging from specific techniques (national accounts, project analysis) to broad education in development economics and planning. Such programs have a crucial role to play. But decisions are ultimately taken at higher levels. It might be worth considering channels and arrangements for working directly with other high-level political leaders--not solely Ministers of Finance and Planning and Central Bank officials--to improve understanding of the basic rationale of stabilization and adjustment measures, and perhaps provide concrete illustrations of countries where such programs have had the desired effects. This would be an extension of recent shifts in the approach taken by the Economic Development Institute. There are sophisticated and articulate African economists, for example, who--perhaps under the auspices of the African Development Bank--could guide a weekend discussion for a small groups of leaders from three or four nations with comparable problems. Such a session, with appropriate status trimmings, might gain a more attentive hearing from political leaders than they have been willing to give their own economic staff. The precise channels and approach would have to be flexibly and imaginatively determined; the basic suggestion is to supplement more orthodox training and technical assistance efforts at staff levels with direct attempts to reach the highest political authorities--an unorthodox tactic made appropriate by the urgency of the times.

These suggestions for addressing widespread skepticism about the economic rationale for stabilization are offered with no illusion that they would produce dramatic changes. In many cases there may be no avoiding the "school of hard knocks"--the pressure of events and perhaps of several failed efforts to focus leaders' attention on economic realities, perhaps to disprove unrealistic hopes, and to demonstrate the inadequacy of half-way measures. The result of such experiences in many countries has been the appointment of a new economic team in the government, and greater receptivity to needed measures. (Peru's experience in the late 1970s offers one example of this process.) But the school of hard knocks causes hardship for the public (and especially its most vulnerable strata), and may also erode the legitimacy of fragile governments in the course of teaching unpleasant economic truths. Any ways to shorten the course should be pursued.

II. Government Capabilities

Commitment is crucial, but it is no guarantee of ability to implement a program. Even committed leaders face an array of constraints, including, in many instances, divisions and challenges within their own elite circles, inadequate central financial control mechanisms, and other problems of bureaucratic management and efficiency, as well as resistance from specific interest groups or the public at large.

1. Elite Unity

The degree of unity and discipline within elite political circles is one crucial component of governmental capacity. The term "government" implies a coherent entity capable of taking decisions and acting on them. But of course there are usually divisions and rivalries within a government. These may be contained and subdued by firm leadership and a shared sense of purpose, or they may be open and highly disruptive.

Among the cases providing background for this study, Sri Lanka offers the clearest example of a cabinet in part pre-selected for consensus on many issues backed by deference to the President. But the other four cases all lacked such high-level unity and discipline. In Kenya and in Zambia, cabinet and party executive or central committee members represent geographic and ethnic interests primarily. Many lack clear or coherent views on macroeconomic policy, but may not hesitate to protest effects of those policies on their constituents or on their own personal economic or political interests. They may also seize on controversial policies to maneuver for advantage in inner-circle politics. In

Ghana, while the cabinet operated somewhat more as a collegial body, economic policy was almost wholly determined by Minister of Finance Mensah-for the first year and a half of the Busia administration. Thereafter there was a growing split between Mensah and other senior economic officials in and out of the Cabinet, but Prime Minister Busia did not step in decisively until so late that draconian measures were almost inevitable. Jamaica under Prime Minister Manley and the PNP was a still more striking case of bitter divisions and outright power struggles between two ideological factions within the Cabinet and the party's National Executive Council. The result was to repeatedly abort decisions about to be made or reverse those already taken.

2. Managing the Bureaucracy

A second key component of governmental capacity is the adequacy of management of the bureaucratic and parastatal machinery itself. Paradoxically, although the public sector in theory should be more responsive to political guidance and broad public policy (this is one of the main rationales for expanding the public sector), parastatals and even central government agencies may be more difficult to control or influence than parts of the private sector. Price and incentive mechanisms that may change private behavior (that is, devaluation, interest rate adjustment, changes in taxes and tariffs) have much less leverage on the public sector. And direct controls via budgetting, expenditure controls, personnel action, and policy guidance are often much less effective in practice than in principle.

Budget discipline has proved perhaps the most difficult aspect of stabilization programs for governments to observe. This was surely true of the cases on which this study is based, but it applies much more generally. A survey of 70 IMF standby arrangements during the period of 1963-1972, and a second review covering 105 standbys between 1969 and 1978, concurred that "most unsuccessful financial programs failed because of fiscal problems." By 1977 and 1978, expenditures were contained as planned in less than a fifth of the programs. (Reichmann and Stillson, p. 293-309; Beveridge and Kelly, p. 213-216.) Public pressure to maintain or even expand benefits contributes to the difficulty of containing government expenditures, but the quasi-autonomy of parastatals and even ministries (in fact if not in law) is also a major factor, perhaps still more important in some cases.

Why, then, is there apparently so little interest at top levels in substantially strengthening financial and budgetting control mechanisms? In part the explanation may be that such matters are both arcane and dull. But after the experiences of the past few years the need should be apparent. In some cases, titular leaders may lack real power to control powerful ministers. Or leaders may have adequate power but are not particularly eager to establish powerful, institutionalized procedures and staffs for advance coordination and on-going vetting of expenditures. They prefer to keep most of that authority in their own hands. Among the cases in this study, this pattern has been evident in Kenya and Zambia. It is a direct result of the reliance on patronage politics discussed a few pages later in this report. Where top political leaders depend on their control over allocation of resources to maintain the loyalty of faction-ridden or personally ambitious lieutenants, they cannot lightly relinquish such control to an anonymous group of technical bureaucrats. Thus even where the benefits in terms of greater fiscal discipline are evident, political leaders may not be willing or able to move toward such a system.

3. Political Support Bases.

The third and broadest set of factors determining governmental capacity to implement a stabilization program is the scope and nature of its political support base. The concept of a support base is not identical with popularity, which usually fluctuates, and predictably falls if stabilization is pursued--and also if it is not pursued. Rather, the term refers to groups bound to the regime by more durable ties of ethnic identity, ideological compatibility, ingrained party loyalties, and/or patron-client networks (to name the major kinds of links). Among the cases on which this discussion is based, both the scope and nature of support bases varied substantially; in several of the cases, the bases were seriously eroded over time; in all of the cases patron-client links played a substantial (in some cases dominant) role, with implications for stabilization policy.

It seems clear that the absence of broad and varied bases of support constrained both Moi and Kaunda with respect to economic policy in the periods reviewed. Moi lacks a large ethnic base (and was early viewed as a stalking horse for Kikuyu domination). During his first year in office after Kenyatta's death, Moi generated an initial popularity that surprised observers, using a triple stategy of ethnic conciliation and national unity appeals, populist gestures, and "new broom" anti-corruption proclamations. This first flush, however, faded (due in good part to the grain scandal of 1978-79), and for several years Moi's popular support shrank, leaving him increasingly dependent on the elite political and administrative circles surrounding him. However, he continued to build a patron-client network, operating substantially through the party. His victory in the September 1983 elections is attributed to these tactics in large part, but turnout was low.

In Zambia, Kaunda was immensely popular for years, reflecting his anti-colonial role, his ability to appeal to various tribes while not being solely identified with any, and his skill in manipulating ethnic representation in the party and government. But by the mid 1970s, much of that popularity had eroded. The grassroots organization within the party, active in the pre- and early-post independence era, withered. Efforts to mobilize ideological enthusiasm through the espousal of Humanism never made much headway. Much of the political history of the late 1970s and early 1980s suggests increasingly dependence on a narrow circle of retainers from the highest levels of the party, the army, and the civil service. The stabilization program of 1978-80 was tolerated (despite many outbursts, mainly by unions) as a war-time sacrifice, but when that situation changed in 1980 Kaunda could count on little support if he persisted in austerity policies.

In Ghana, Busia and his administration had fairly broad support among the electorate in 1969, though there was a readily identifiable regional/ethnic core within the Ashanti cocoa-growing area. Many looked hopefully to the new government to inaugurate a better era after the fiasco of the final Nkrumah years and the economic austerity and political moratorium of the military National Liberation Council's three years in office. But, during its twenty-seven-month rule, the Busia regime alienated almost all major political groups in the population except, perhaps, its core support base. In good part this occurred through measures unconnected to economic policy: for example, appointments, promotions and dismissals in the civil service and military that were widely viewed as ethnically biased, and were made more offensive by an apparent challenge to the autonomy of the courts; the flouting of a constitutional requirement to declare assets on entering office; heavy-handed treatment of students protesting this behavior; and poor handling of relations with the large and independent unions. The loss of legitimacy and support also reflected economic policies: tight urban wage restraint (applying to minimum-wage as well as better-paid workers, and defended as necessary to narrow the urban-rural gap, but probably excessive in view of the serious erosion of real wages over the past decade); the attempted introduction of a National Development Levy in 1971; substantial cuts in the military budget and in military and civilian officials' perquisites in each of the two budgets. Thus the devaluation of December 1971 was the crowning blow to many groups in the population already alienated from the Busia regime.

In both Jamaica and Sri Lanka, long established political parties and a proliferation of highly organized and vocal interest groups permit broad-gauged political support but also facilitate opposition activity. Both the UNP in Sri Lanka after 1977, and the JLP regime in Jamaica after late 1980 have enjoyed considerable popular support, in part a reaction to economic stagnation or (in Jamaica's case) decline under previous administrations. Both governments also have benefitted from disarray within the opposition parties, though that disarray is much more thorough and has lasted longer in the Sri Lankan case, giving Jayawardene correspondingly greater freedom. Both regimes have also had the advantage of extensive foreign aid; the Jayawardene administration further benefitted from good weather and high export prices in its first years. As a result, both governments have been able to offer some prompt economic benefits to many groups within the population (again, to a greater extent in Sri Lanka). Thus the question of the durability of broad support has been less pressing than it would have been if more severe austerity measures had been necessary.[5]

One of the general implications flowing from the brief survey of political support bases in these cases, and from evidence from other countries is the importance of patron-client ties in the informal political structures of many developing countries. In a broad sense, the popularity of any government depends on its ability to maintain conditions in which most of the population can prosper. But patron-client parties rely much more explicitly and directly on the ability to distribute a continuing stream of favors and benefits, flowing directly from the patron to his designated client, rather than reaching parts of the population as a result of the impersonal operations of institutions and policies. In countries where the government relies heavily on patron-client ties, stabilization (and most particularly stringent budget discipline) therefore cuts not merely at a government's general popularity but at the resources needed for it to maintain its support base. To the extent that parties atrophy (as, for example, in Zambia), leadership finds itself increasingly dependent on fairly narrow circles of retainers, who may also openly or implicitly make their continued support contingent on a flow of benefits.

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[5] Sri Lanka's tragic communal riots of summer 1983 and their aftermath have clouded both political and economic prospects. But this analysis focuses on the

The point sounds academic, but it is not. In Kenya, support for rival candidates for party and national office, at both local district and higher levels, is generated by distribution of concrete benefits--for communities (e.g., school buildings, small public works) and individuals (jobs, land, contracts). Command over such resources translates directly into political support. The point has recently been underscored in analyses of the elections held this September, (Washington Post, Sept. 29, 1983, pp. 1, 26). The short-lived parties in Ghana in the late 1960s relied heavily on links between political candidates and hometown or local "improvement associations," youth associations, and the like: "There was a pervading feeling in the country that a close, functional relationship existed between the origin of a parliamentary candidate and local economic development." (Twumasi, p. 151.) The decline of Zambia's main party, UNIP, at local levels in the late 1960s and early 1970s was partly a result of the refusal to expand patronage opportunities, including paid jobs for local party workers. (Scott, 143-148.) Even in Jamaica, where other factors enter into support for both of the two major parties, massive turnover in jobs at low as well as high levels is expected with each change in party government. (Lewin, p. 51; see also Stone, 1973, p. 80 for data on the high proportions of small businessmen, white collar, working class, and especially lower class people who seek personal aid and favors from politicians.)

The extent to which political leaders depend on patron-client networks thus bears directly on their ability to implement stabilization measures. The same

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political factors that permitted economic reorientation after 1977, and partial stabilization in 1981, not on the causes or consequen ces of the riots.

considerations affect their willingness and capacity to adopt adjustment measures that move away from direct controls and toward greater reliance on market mechanisms, including more realistic pricing within the public and parastatal sectors. If a politician's main means of building and maintaining political support is the direction of the jobs, contracts, licenses, foreign exchange, subsidized goods and services, and other benefits to his political friends, and away from his political enemies, he cannot lightly relinquish such control to price mechanisms that do not distinguish supporter from opponent.[6] If alternative channels and methods of generating and holding political support are poorly developed, as in many of the poorer and less politically experienced nations, then even far-sighted and personally honest leaders must rely substantially on patronage to maintain their positions. Thus, not only vested economic interests and, in some cases, ideological leanings, but also the very structure of political support mechanisms become an obstacle to economic reforms involving decontrol.

4. Some Policy Implications

Outsiders can do little to influence elite unity or the scope and nature of a government's support base. However, outside assistance clearly can improve government management of the bureaucracy. Training and technical assistance in budgeting, expenditure control, and related functions are, of course, long-established areas of donor activity. Much more recently, a number of Structural

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[6]For a detailed discussion of this theme, see Bates, 1981; also Ilchman and Uphoff, 1969.

Adjustment Loans have incorporated improvements in central financial and budget control mechanisms, and other specific administrative reforms, as conditions of aid.[7] Two of the five countries on which this study is based have SALs under way, but the study did not explore their early results. It does seem clear that some means must be found to make such improvements a high level priority and gain backing and attention from top political leaders. Otherwise, in the highly personalized bureaucratic politics of many small countries, there will be little progress. One danger of such conditioning, of course, is the seductive temptation to include all or many of the most important reforms needed, thereby encouraging or even pressing the government to overstretch its administrative and political resources.

One supplementary tactic might sometimes be appropriate, essentially applying the principle of persuasion to the civil service and the management of parastatals. Over time, capable central control institutions (for budgetting, expenditure control, etc.) generate respect if not affection. But organizations and officials accustomed to lax controls initially will view tightening as an invasion of institutional autonomy and program integrity, as well as possibly a threat to their own personal vested interests. Therefore the strengthened "police function" of central staffs over line agencies could usefully be accompanied by active efforts to educate the line agencies on the need for tightened control and to elicit their cooperation. More serious efforts to brief and discuss economic issues with at least the big-spending agencies (including parastatals) might help defuse the inherent antagonisms between operating agencies and central controllers.

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[7]Killick, 1981, discusses the desirability of substituting specific procedural, legal, or institutional reforms for macro-economic targets, with

In view of the urgency of better expenditures control, and the known administrative and political difficulties of gaining such control, some unorthodox approaches might be considered in addition to the more conventional technical assistance and institutional development lines. One possibility would be an incentives system for agencies, ministries, and/or parastatals that show the greatest improvement in data reporting and observance of budget and expenditure control guidelines, perhaps linked to the following year's budget. The point is to recognize and directly address the fact that budget control offers benefits in terms of national economic stability (and often in terms of qualifying for continued IMF assistance), but provides only disincentives for specific agencies.

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reference to IMF practice.

III. Assessing and Managing Political Risk

1. Determinants of public reactions to stabilization

The discussion thus far has focused on one side of the political equation determining political sustainability: governmental commitment and capacity. The political responses of interest groups and the general public constitute the other side.

A fundamental determinant of public reaction is, obviously, who gains, who loses, and when. To be useful for political analysis or prediction, winners and losers must be identified in terms of socially meaningful groups, not quartiles or other statistical aggregates. It is often a complex task to assess the impact of stabilization on particular groups, since different aspects of the package bear differently on the same group (effects may cumulate, or may partly offset each other). A further complication is the fact that for some groups, gains and/or losses may not be solely or primarily material, but also involve power and authority, security, autonomy, or relative status. Despite these caveats, even a rough assessment of major winning and losing groups is an essential starting point for understanding political reactions to stabilization programs.

However, there is no neat one-to-one correspondence between economic impact and political response. Several additional sets of factors shape responses, including:

-- subjective perceptions and interpretations of government measures

-- varying capacities of different groups for political action

-- the broader political context which encourages or discourages particular kinds of political reaction.

Subjective interpretations that are crucial for political reactions include:

- attribution of responsibility: the perception (or lack thereof) that the government is responsible for losses (or gains)
- expected duration of losses
- degree of confidence that policies will help solve economic problems
- Perceived equity of impact, among classes and, in many countries, among ethnic groups and/or regions.

Because these interpretations are so important, the government's presentation and explanation of stabilization measures can have an important impact on sustainability — a point to which we will return.

Actual effects and interpretations of effects determine how people feel about stabilization. What they do about how they feel depends on their political capabilities.

Not all categories of people affected similarly by stabilization measures constitute "groups" in the sense that they are capable of politically effective joint or co-ordinated action. Although affected similarly by specific economic policies, some categories of people are divided among themselves by regional, ethnic, religious, factional, or party allegiances. Or they may lack organization and leadership. Even groups conscious of their shared interests and organized to some degree may lack political resources (information and contacts, control over economic or other assets, numbers and/or discipline, sympathy or support from a wider public) adequate to exercise significant influence.

The term "interest group" often connotes private sector groups. But in many developing nations, especially the poorest, few private sector groups are organized or influential enough to exert much pressure. However, civil servants, parastatal officials, and the military all constitute potentially crucial political interest groups, partly because of their organization, awareness, and control over important assets, and partly because of the absence of powerful private groups.

Political responses to stabilization are partly the reactions of specific interest groups, and of organized opposition parties in countries where these operate. But there is also a more elusive yet important element that might be labeled the public mood with respect to economic policies. There are times when a broad swathe of public opinion is convinced that basic changes are unavoidable. That conviction often grows out of years of economic stagnation or decline, perhaps punctuated by repeated but limited and ineffective stabilization efforts. Among the clearer examples are Peru in the late 1970s and Turkey in the years just before and after 1980. Sri Lanka in 1977 and Jamaica in 1980 demonstrated at the polls the public sense that a change of direction was imperative. A public mood prepared for economic reform improves the prospects for temporary toleration of austerity, a "grace period" during which the government has a contingent grant of confidence. Such a mood is also likely to inhibit protests by specific groups which otherwise might create serious problems.

Reactions to stabilization are also muted or heightened by the security or precariousness of the government, and the nature and strength of opposition. Regardless of the source of security or lack therof, protest directed to a secure government is presented differently than to a precarious one. Thus unions in Sri Lanka, for example, behaved quite differently before and after the 1977 elections.

In addition to these very general factors shaping the public response to stabilization, one specific issue should be highlighted--the burden of external debt. Where payments due on foreign debt are widely viewed as a major source, or the primary source, of the need for austerity, and particularly where the burden is attributed to a profligate earlier regime (as in Ghana in the late 1960s and early 1970s) or to soaring interest rates (as in Brazil currently), it is easy to view the debt payments as literally starving the poor in order to fatten the accounts of distant and extraordinarily wealthy creditors. Political leaders may themselves share the perception of a massive violation of basic equity. Even if they take a different view, they cannot readily alter the public perception. Thus the debt issue has played, and is playing, a special role in shaping the public mood and the political prospects for stabilization--a fact perhaps not adequately appreciated by creditors and their governments in their attitudes toward rescheduling.

2. Special features of the politics of stabilization in poorer countries

Leaders' commitment, governmental capabilities, and public responses determine the political sustainability of stabilization and adjustment measures in any country, be it France, Brazil, or Zambia. But certain characteristics of the poorer (and especially the small poor) nations' economic structure and institutions have implications for the politics of stabilization.

First, in quite poor countries, a high proportion of urban wage and salary workers are employed by the government or parastatals, and will be directly harmed by fiscal stringency. In small poor countries, even basic staples for urban consumers often are imported, making those consumers particularly vulnerable to losses through devaluation. And urban industrial workers are more likely than their counterparts in semi-industrialized countries to be employed in firms dependent on imported intermediate goods. Thus urban populations are particularly vulnerable to the immediate impact of stabilization measures. Conversely, in at least some of the poorer countries, the more remote segments of the rural population are comparatively loosely linked into national and international institutions and markets. They pay little or no taxes, receive few government services or benefits, sell little of what they produce, and buy few imported items. While they do not entirely escape the impact of stabilization, many rural dwellers may be less deeply affected than their counterparts in rural areas of more advanced countries.

Another, related characteristic of most poorer countries operates through the relative importance of various interest groups. Devaluation and other measures to encourage exports and discourage imports most directly benefit producers of exportables, and also, in principle, producers of import-substituting products. Many poorer countries rely on agricultural products as their major exports. Producers of key export crops may or may not be well-organized politically; growers of import-substituting foods often are not vocal in politics. Often, also, the government monopolizes or dominates the purchase and export of key export crops, thereby controlling a major or main revenue source.

It may or may not be willing to pass on to producers most of the gains from devaluation. Firms producing import-substituting manufactures also benefit from devaluation in theory, but in the poorer countries these firms are usually both heavily protected already by high quantitative or tariff barriers, and highly dependent on imported in-puts. Thus the major groups that theoretically benefit from devaluation are often either weak politically, or do not in fact benefit much; indeed, some may lose in the short run. In contrast, in the NICs, more diversified export and import competing sectors are likely to benefit, and are also more likely to be politically influential.

Still a third feature of the poorer countries bears on the politics of stabilization. Such countries generally lack well-developed financial intermediary institutions. But many stabilization programs entail restricting credit, often to both the public and the private sectors. The absence of "arms length" or anonymous mechanisms for altering and containing credit flows and the reliance on direct loans means that the victims of the credit squeeze directly confront those implementing the squeeze. As a result, both administrative and political aspects of implementation are likely to be more difficult.[8]

Finally, it is broadly true that the less developed an economy, the less its ability to adjust rapidly to altered international economic conditions. Exports are usually concentrated in one or a few products, and there are also no or few products that are tradeable but not in fact traded, hence available to increase exports quickly if relative prices (including the exchange rate) are

[8] I am indebted to Alan Gelb for this point.

changed. Increased production and diversification of exports, and larger and more efficient import substitution may require five or more years of investment, re-organization, and training. Both public and private sectors are thin in sophisticated and experienced managers and entrepreneurs to guide and direct such transformations. Therefore the timetable for stabilization and adjustment must be longer in the poorer countries, if "stabilization" is to mean more than the narrowest (and most brutal) shrinking of imports and public and private consumption to fit sharply diminished earning capabilities and to accommodate heavy debt burdens.

In sum, in the poorer countries as compared to NICs and advanced nations, stabilization may affect a smaller part of the population more intensely. There are fewer groups--often, none--that believe they might gain from stabilization, and might therefore serve as counterweights to losers. Reflecting the more direct and obvious channels through which credit flows, manufacturing, construction and commercial firms are more likely to seek relief from the squeeze by special exceptions, and less likely to direct their efforts to changes in general policy; the outcome may be no less a threat to sustained and effective stabilization policies. Finally, the longer timetable essential for meaningful adjustment puts an immense strain on public patience and leaders' commitment. The political problems of stabilization and adjustment are not necessarily more difficult than those in, say, Brazil and Argentina. But they are different in certain systematic ways, which should in turn affect program design and implementation.

The perceived gains and losses and therefore the political responses to stabilization measures may be different in one special subset of cases:

countries in extreme states of economic disintegration (often accompanied by social and political unraveling that has been going on for years). In such extreme cases the consumption levels of most of the population are already very depressed, and most large and medium (usually parastatal) manufacturing and business establishments have already virtually halted operations, though small-scale parallel market activity may be considerable. Legal exports have largely ceased. Imports are being sold at black market exchange rates and/or have been smuggled into the country, so that even drastic nominal price changes resulting from devaluation will not greatly affect the actual prices paid by most people and enterprises. Where there are official subsidies for consumer goods, either the goods themselves are virtually unavailable, or the limited supplies are resold by those few individuals or firms receiving them at prices many times above the subsidized level; thus again the removal of the subsidies harms only a small group. If the opposition of the small circle that benefits inordinately from the existing arrangements can be overcome, then rapid strides may be possible. "It may well be that it is when the most disorderly conditions prevail that the recovery [or, more conservatively, improvement?] can be most rapid." (Finch, p. 19. Bracket added.)

3. <u>Techniques for managing political risk</u>.

Despite the usual array of hostile interests, some governments have been quite effective in generating public tolerance of difficult measures. Basically, governments have four broad techniques at their disposal to reduce resistance to and win support for stabilization measures, both in advance of implementation and once the measures are in effect. The techniques are partial compensation, persuasion, diversion or obfuscation and containment. The potential of the several techniques varies according to a country's circumstances, and therefore the mix of techniques that is likely best to promote political sustainability will differ in different countries.

Partial comenpensation

Partial compensation is the technique for reducing opposition to stabilization that occurs most naturally to economists accustomed to thinking in terms of costs and benefits. The technique is widely used, mainly in the form of wage adjustments, and in concessions and exceptions of various kinds for specific businesses and firms. While the background cases for this study are too few to permit generalization, two contrasting experiences suggest the limits of compensation, and offers clues on how to maximize its political benefits.

In Ghana under the Busia administration the devaluation of December 1971 was announced simultaneously with several sweeteners, including abolition of the import surcharges imposed over the past few years, elimination of the recently imposed and much resented National Development Levy, a 33% increase in the minimum wage, and a 25% increase in the producer price of cocoa. The minimum wage hike was more than twice as large as the predicted impact of the devaluation on the urban cost of living. Since unions in particular had been pressing for an increase in the minimum wage, and had been particularly bitter over the National Development Levy, these concessions might have been expected to win labor acquiesence. However, the devaluation took the public by surprise, and

[9] Leith states (p. 152) that the actual provision for an increased minimum wage applied only to the public sector, and called for a progresssive increase ranging from 33 1/3% for the lowest paid workers to zero for those earning over NC 1000 a year. But the public generally thought that there had been an

was poorly explained and defended. It also came at a moment of widespread political alienation. Any softening of political reactions resulting from the sweeteners was short-lived, and evaporated in the face of the doubling of prices for imported goods.

It is interesting to contrast this experience with that in Jamaica in the second half of 1978. In July the Manley government announced a sizeable devaluation (plus unification of the exchange rate; the weighted over-all devaluation was 15%) and associated stabilization measures. This package was not accompanied by significant sweeteners, and its net effect was to reduce real wages by about 25%. But its announcement was promptly followed by a vigorous and extensive program of explanation in which the Prime Minister and members of his cabinet took the lead. The stabilization program was beset by broader economic and political pressures and collapsed inside of a year. But it is noteworthy that for seven or eight months labor unions confined their reactions to public grumbling, and restrained their members from more active protest. By spring of 1979 the earlier economic decline had been virtually halted. Arguably, had the government been able to point to positive economic gains, the unions and other segments of the public might have accepted continued austerity. One is led to speculate that a vigorous and clear campaign to explain stabilization measures may be more helpful in avoiding initial outbursts than are sweeteners. Conversely, partial compensation may be most useful later in the process, used selectively to dampen cumulating opposition and extend the period of reluctant acquiescence until economic benefits begin to become evident.

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increase in the minimum wage for all workers.

Sometimes it may be possible to offer partial compensation of a non-economic nature for the public or some part of it. Peru in the late 1970s offers an illustration. From a halting and tentative beginning in late 1976, President Morales Bermudez gradually established a link between successful economic stabilization and the restoration of civilian political rule. A three year schedule was established for the political transition, coinciding with the expected period of economic recovery. Initial stabilization efforts foundered; when new and stringent measures were announced in May 1978, a threatened general strike was averted in part through the postponement of the scheduled Constituent Assembly elections -- a veiled threat that confrontation over economic policy would end the political transition. Favorable export prices contributed to the subsequent economic recovery, and this and other factors permitted some easing of austerity by 1979. In this case the sense of political progress reinforced the feeling that the economic program, for all its unpopularity, was producing some results and offered hope for broader benefits later. (Preeg, 1981) Increased physical security is another benefit that governments can offer concommitantly with economic stabilization. In Jamaica after 1980, and in Turkey at the same time, new governments cracked down on widespread political violence to the relief of large parts of the population.

Persuasion

While compensation or sweeteners are often mentioned as a means to soften opposition to stabilization, many economists and technicians are more skeptical about the utility of persuasion. Yet the cases used as background to this study, as well as clues from elsewhere, suggest that frank and vigorous campaigns of explanation and persuasion can be quite effective in winning temporary public acquiesence, and gaining union acceptance of wage restraint. The scope for effective persuasion obviously varies with trust or mistrust of the government and perceptions of its honesty and efficiency. A new government's "honeymoon" period is precisely a period during which much of the public is willing to suspend adverse judgments. A broad consensus that basic changes are needed, as in 1977 in Sri Lanka and in 1980 in Jamaica, increases receptivity to persuasion.

Among the clearcut examples of cases where unions were persuaded to accept major cuts in real wages are Jamaica in 1978, Portugal in the same year (de Silva Lopez in Williamson, 1983), and Venezuela in the 1960s; union co-operation was also successfully elicited in Italy in 1977 (Spaventa in Williamson, 1983). All four cases are ones where government had strong ties with but did not control major segments of organized labor.

As the last observation suggests, governments with open channels of communication to the groups most likely to be vocal and opposed to stabilization are in a better position to utilize persuasion. The conventional wisdom that argues the advantages of authoritarian government in imposing difficult reforms fails to take into account this asset of more open political systems.

But persuasion clearly also has its limits even for governments with good communication channels. It may well be that persuasion is generally less effective in eliciting desired cooperation from the business community than in gaining union or public acceptance of wage restraint and/or price increases. This is partly because different responses are sought from labor and the public, compared to business. The former groups are basically asked to tighten their belts and continue their work, while investors and entrepreneurs are asked to consider new options, take new risks, write off (at least in part) old investments, and generally change their ways of doing business. Large and medium-scale businessmen may also have good connections in the government, especially in smaller countries where political and economic elites often constitute small and overlapping circles. It is tempting for businessmen to use these connections to try to win exceptions, delays, and modifications in the application of reforms to their own interest, rather than accepting the changes and considering how best to adjust their own activities. In short, somewhat paradoxically the very fact that business circles are often close to political circles may make persuasion less effective in altering their behavior than it is with respect to groups somewhat more distanced from the government.

It is interesting to note that in the accounts of internal discussion and maneuvers associated with stabilization in this study, the military are almost never mentioned as participants. In Ghana in late 1971, government advisors tried to estimate the impact of the planned devaluation on various groups, but no one thought to include the military. (Roemer, 1983, p. 26.) More generally there seem to have been remarkably few efforts to keep military leaders briefed on the evolving economic situations, to the end that policy adjustment would come less as a surprise and be better understood. The omission may be a serious mistake.

Diversion or obfuscation

As with any unpopular measure, politicians often try to mute opposition to stabilization by pointing to scapegoats or diverting attention to other issues.

The IMF is, of course, a frequent scapegoat, sometimes (as in Colombia in the mid-1960s) vigorously lambasted by the same government that is highly cooperative behind the scenes. Recent Moroccan reductions in food subsidies prompted riots, which the government promptly blamed on "communists, Iranian and Zionist agitators". (The Washington Post, Jan. 23, 1984, p. A-12. In this case, however, the government rescinded the price increases.) The increasingly beleaguered Busia government in Ghana in autumn 1971 began to accuse its trade unionist opposition of foreign and Nkrumahist links. And in Zambia during the severe austerity of 1978-80, the government pointed (with a great deal of justification) to the transport cut-off and direct attacks resulting from the civil war in Southern Rhodesia/Zimbabwe.

Governments may also try to camouflage their actual measures. Egypt and Sudan have both reduced the standard size of bread loaves in preference to raising the price. In Sri Lanka, at the time of the UNP electoral victory in 1977, the rice ration (partly free, partly at a low subsidized price) was available to almost the entire population. The ration was a serious economic drain, and had been an explosive political issue for twenty-five years. Early in 1978 the government confined the ration to the poorer half of the population. The step was accompanied by extensive explanation; it was accepted with remarkably little protest partly because of the government's still-fresh mandate and the decimated opposition, partly because general economic conditions were improving, and partly because the action was regarded as equitable. Twenty-one months later, the subsidized ration was converted to a food stamp system, again carefully explained and administered. The initial value of the stamps was set slightly higher than the current value of the rice ration. But the stamps were denominated in nominal values and therefore were subjct to erosion by inflation. Whether this effect was premeditated or not, the effect has been to greatly reduce the subsidy, as it were by stealth. Seaga's handling of Jamaican exchange rates provides another example of camouflage or obfuscation. Reluctant to devalue, he instead gave de facto recognition to and later legalized the existing parallel market in foreign exchange, thus establishing a dual exchange rate with fully admitting the fact.

Containment

Even with skillful use of compensation, persuasion, and diversion or obfuscation, stabilization will almost certainly prompt strong opposition. The opposition may or may not break into violence. How the government handles initial protest will strongly affect its future course. Clear boundaries of acceptable protest, backed by prompt and firm action against those overstepping the boundaries, is probably an essential component of effective implementation, even though such containment is in some sense a measure of the failure of alternative techniques of risk management.

Containment is most effective in a broader context of a clear and firm program commitment which has won or is winning acceptance from a good part of the population. In Sri Lanka, for instance, unions had a long history of political activity punctuated with sporatic violence, and had played a major role in the crumbling of the Bandaranaike regime in the mid 1970s. The UNP government elected in 1977 promptly initiated a series of statements and White Papers that made it clear that union pressure, especially from public sector unions, would not be tolerated. When leftist unions did attempt to organize a general strike in July 1980, the government's response was swift and unexpectedly firm. Strikers were promptly fired and (contrary to previous patterns) not rehired except with long delays. There were no further significant labor protests, despite the austerity of 1981. Contrasting experience with containing opposition in Ghana in 1971 suggests the importance of the broader political context and public perceptions of the government's management. A major rail and port workers' strike in July 1971 was handled similarly to the Sri Lankan strike, with detention of leaders and large-scale firings (thought not so large-scale as in Sri Lanka). The action merely fed growing tensions between government and labor, leading within a few months to the banning of the powerful and largely autonomous labor federation, and to labor's support for the coup of early 1972. The contrasting results reflected much more serious economic grievances than in Sri Lanka, much more widespread public alienation from the government, and the absence of an economic program perceived as credible.

4. The dynamics of public response

The skillful use of all these techniques can have a substantial effect on public reactions to stabilization, perhaps especially on responses to initial announcement of painful measures. But more sustained sacrifice by the public at large, and a positive response from private sector entrepreneurs, depend on perceptions that the program is working. This raises two key questions: What do people view as indicators of success? And how long are people willing to tolerate severe deprivation? If clear answers were available, they would be highly relevant to the design of stabilization programs.

Economic indicators that are significant to one group are not necessarily significant to others. Central Bank and Ministry of Finance officials focus on cuts in public sector and trade deficits, reduced arrears, and/or increased international reserves. Large and medium-size businesses and the private financial community probably watch the same indicators, and in some countries sophisticated trade union leaders may accept such evidence of progress. Small firms are likely to focus on more immediately tangible concerns, such as availability of credit and foreign exchange for imported inputs. Workers and consumers are also likely to gauge progress by improvements that affect their daily lives. The most important of these fall into four categories:

- Improved availability, first and foremost of preferred staples (that is, rice or wheat or maize rather than yams or millet or barley). One step beyond preferred staples is greater availability of items which are neither staples nor luxuries, but affect the quality of daily life -- textiles, perhaps, or soap or batteries.
- Slowed inflation.
- Reduced unemployment, including not only jobs in the formal sector but quickened activity hence more earning opportunities in the informal sector.
- More adequate, or less often interrupted basic national and municipal services: fewer brownouts or power stoppages; reasonably regular bus service, simple medicines and supplies in stock in clinics.

In Sri Lanka, much of the popular support and sense of optimism in the first years after the 1977 elections reflected the first and third items; in Jamaica, the first and second greatly eased political tensions. But in both cases, the prompt improvements largely resulted from very generous levels of external support. In the absence of such support, and depending also on the severity of the crisis when the measures were adopted, there may be little progress of this "tangible" kind for a year of more.

It would be useful to have some sense of priorities and tradeoffs among the various criteria of tangible improvements. Availability of staples is almost surely the highest priority. Beyond this, one can hypothesize that where unemployment is widespread and rising, not only those without work but those with jobs are frightened. If unemployment can be capped or slightly reduced, there may be a significant shift in mood, as employed workers no longer fear layoffs. If this is true, a strategy for inspiring public confidence would place very high initial priority on turning the corner on unemployment. But once unemployment is longer rising, further reductions may be less important than slowed inflation or expanded availability of widely used consumer goods (above the basic staples level), since both these measures affect the living standards of the entire population. The case studies do not offer enough evidence to confirm or deny such a specific hypothesis. But it might be useful to consider such trade-offs explicitly, in the context of specific country circumstances.

IV. The Speed of Adjustment, Optimal Assistance Levels, and Political Sustainability

In designing stabilization programs, questions such as the optimal speed of adjustment and appropriate levels of assistance bear on all three aspects of political sustainability: leaders' commitment, implementing capacity, and public political reactions. Political considerations must be taken jointly with economic considerations: where the two perspectives conflict, their relative importance must be weighed. This final section considers several well-recognized issues with respect to program design and political sustainability. There are no easy answers to these issues. But it is possible to sharpen some of the political assumptions, consider the conditions under which the various political assumptions may or may not hold, and suggest lines of analysis and tentative policy adjustments that may be helpful in some cases.

1. Levels and terms of assistance and political sustainability

One set of issues is often posed as a dilemna for donors regarding the level of stabilization assistance. If external assistance is generous enough to ease the imminent threat of serious financial crisis, by that very fact it will also remove the main incentive for reluctant politicians to agree and follow through on needed but painful reforms, at least in the short run. But if external assistance is not generous enough, the same leaders will conclude that the game is not worth the candle: the meager and short-lived foreign exchange relief being offered is not sufficient to counterbalance the political risks incurred by undertaking a formal stabiliation program, including entering into conditioned agreements with the IMF, the World Bank, or other sources of external finance. A second dilemna regarding the level and terms of assistance focusses on implementation capabilities rather than commitment: minimum levels and a short leash (frequent performance tests) may buttress the authority of central financial and economic officials vis-a-vis the spending agencies, but the same tactics ensure that the handful of key officials with authority and competence in such matters spend all their time coping with short-term targets and negotiating with external agencies, rather than strengthening their government's institutional and procedural capabilities and designing responsible medium-term policies.

The two dilemmas are least troublesome at the two extreme ends of the commitment spectrum. Where political leaders are clearly uncommitted -- refuse to focus on the issues of stabilization, or to face their real options -- there is little alternative in the short run to maintaining pressure through restricted aid and frequent performance tests. At the other extreme, where leaders are convinced that stabilization measures are needed and useful, reduced assistance and tight conditions will not increase their resolve. Rather, to the degree that aid can ease political opposition and free key economic officials from chronic crisis pressures, increased aid can facilitate implementation. In such a setting, the key issues concern the design of measures and the uses of financial aid, in order to avoid uses that reduce political obstacles but also undercut the purposes of the reform. Among the cases providing background for this study, both the UNP government in Sri Lanka in 1977 and the JLP government in Jamaica in late 1980 were judged highly committed, and donors provided substantial assistance to support reforms and bridge the transition to improved economic performance. In both cases the assistance did indeed relieve economic pressure, permitting a jump in imports and, in the case of Sri Lanka, sharp rises in investment and employment. In Sri Lanka, aid combined with other favorable economic conditions through 1979 permitted the government to roll back food subsidies and implement other reforms without strong adverse reactions. In Jamaica, however, despite the aid and the apparent commitment of Prime Minister Seaga, thus far progress on adjustment has been more limited. Seaga initially seemed to be promising the Jamaicans that adjustment could take place without much sacrifice; he explicitly ruled out devaluation and reductions in the civil service. One could plausibly argue that the generosity and speed of international support for his new administration permitted, or even caused, his government to underestimate the difficulty of the needed measures.

As the Jamaica case suggests, even apparently committed leaders may need continuing pressure to prompt difficult decisions and actions. The problem is to determine a level of aid (or, more precisely , a combination of level, content, and conditons) that maintains pressure, but also allows the government room for manuever vis-a-vis internal political opposition. Conceptually, there is an optimal level of aid for maintaining commitment. At that level, the perceived economic and political gains from pursuing an appropriate stabilization program just outweigh the costs and risks in leaders' minds. Above that level, there is a temptation to postpone or evade the most painful aspects of the program: the costs of failing to act have been lowered too much. Below that optimal level, political risks look too high or economic gains too low to warrant a serious stabilization attempt. Since the full effects of stabilization and liberalization attempts are usually hard to predict, assistance also serves an insurance function, and therefore the optimal level will depend in part on leaders' degrees of risk aversion.

Because there are political, administrative, and economic costs associated with highly restrictive levels and conditions of aid, alternative means to encourage leaders' commitment and public acquiescence are desirable. In some circumstances it may be possible to separate out the "insurance function" of aid. Contingency clauses which specify conditions under which additional support becomes automatic (or at least would be given prompt and favorable attention) might serve this purpose. Such an approach might make sense where leaders are reasonably convinced of the need to stabilize and liberalize, but are deeply concerned about particular kinds of economic effects which are difficult to predict. Closely related to this is the need for donors to remain flexible regarding supplementary funding in response to changed exogenous conditions. Especially where rigidities slow adjustment, bad weather or a further adverse shift in terms of trade may sabotage the program before it has had time to take effect. Public opinion understandably does not draw fine distinctions as to the sources of its misery. The upshot may be to discredit sound governmnent policies and complicate future attempts by the same or successor governments to stabilize the economy.

In such circumstances, there is a strong rationale in terms of political sustainability for adjusting external finance promptly and adequately to take account of new difficulties beyond the government's control. The Compensatory

Financing Facility serves this purpose to some degree, and the IMF is also sometimes willing to waive performance requirements if there is a compelling case. But often the Fund response to new problems is to insist on more austerity. Particularly in highly vulnerable economies, where relatively small changes in external conditions can have major repercussions, it would be politically as well as economically helpful if standby agreements explicitly stated the assumptions about major econmic variables on which the agreed levels of assistance were based. Appropriate adjustments should then be considered if factors beyond the country's control caused significant departures from the assumed values.[10] The understanding might extend to downward revisions in assistance if events should provide an unexpected windfall. Such a device could simultaneously provide insurance against bad luck and increase the credibility of the effort in the public view, while emphasizing the need for sustained adjustment efforts and countering false hopes that external events may obviate the need for adjustment.

In addition to lowering risks by addressing the "insurance" need more adequately, external agencies may be able to ease specific kinds of political risks with specific kinds of support, or by the phasing and timing of assistance. Bilateral donors, for instance, have used food aid to ease the impact of austerity on the poorest groups (as in Peru in the late 1970s). It might also make sense in some cases to tailor the size of different tranches in multitranche commitments in part to meet the anticipated waning of public patience.

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[10]This follows John Williamson's suggestion for contingency conditions. See Williamson, ed., IMF Conditionality, 1983, p. 638.

The fact that external agencies often feel they must use restrictive levels and conditions of assistance to maintain commitment, even when such restrictiveness entails clear costs, underscores the need for more attention to means for bolstering understanding and commitment discussed earlier in this paper. (See pages 21 to 25.) To state the same point differently, in addition to seeking means to reduce the risks of stabilization as perceived by leaders, it is also important to increase the perceived benefits and the confidence with which leaders (and the public) expect those benefits, especially if the gains will emerge only gradually.

2. The speed of adjustment and political sustainability

A second debate regarding the design of stabilization, with implications for political sustainability, focusses on the optimal speed of adjustment. The debate is often capsuled in the phrase, "shock treatment versus gradualism." The debate includes several distinct though inter-related strands: the relationship between speed of adjustment and burden of adjustment (aggregate economic loss, its incidence, its timing); the relationship between attempted speed and credibility of reforms among groups whose behavior must be altered (especially the private business community); and the political implications of the alternative approaches to stabilization.

The political assumptions of advocates of the two approaches can be summarized concisely. Proponents of the "shock" approach believe that public tolerance for sacrifice is brief and politicians' capacity for pursuing stringent policies is correspondingly limited. If the adjustment process is too gradual, political opposition will cumulate. Groups that initially do not have a united position, or are not organized to protest, will get organized, and may form alliances with other aggrieved groups. Cumulating political pressure may finally produce a massive outburst or, before that point is reached, politicians will dilute or abandon key aspects of the program. Those advocating gradualism make the opposite assessment. They believe the greatest risks lie with sudden cuts in consumption, employment, and sometimes output. Such shock treatment is likely to prompt massive protests and/or a coup. A more gradual approach may avoid putting enough pressure on any important group to goad it into action, or at least will permit phasing aspects of the program to avoid pressuring too many important groups at one time. If one or a few groups do offer vigorous resistance, the government can then attempt to persuade, partially compensate, or restrain the group in whatever ways seem most effective.

These contrasting sets of assumptions cannot be proved right or wrong *a priori*. But one can ask under what conditions each is likely to apply. The political logic of the shock approach depends on the ability of the economy to respond rapidly to drastically altered signals and resource availabilities (that is, reduced consumption). A rapid economic turnaround permits some loosening of austerity, while generating hope; once the initial "hump" is past, the program can be expected to generate considerable support. Thus where economic conditions include sizeable excess capacity, especially in export sectors, and/or significant production of tradeables that are consumed domestically but could be shifted into export trade, or where substantial potential remittances from abroad are being withheld due to lack of confidence (as in Portugal in 1978-79), a rapid timetable for stabilization may produce rapid progress. But where economic structure and institutional rigidities preclude a rapid economic response, the political logic of the "shock" approach obviously does not hold.

Different political structures and circumstance also bear on which of the alternative political assessments sketched above is more likely to be valid. Urban wage earners and consumers are likely to be hard hit by a "shock" approach. The near term political capabilities of these groups (their ability to mount and sustain protest) vary widely, not only from one country to another but also at different times in the same country. The probability of violent outbreaks will be influenced by the general trust or distrust of the government; the degree to which public opinion is prepared (perhaps by earlier unsuccessful programs) for fairly drastic measures; the strength and orientation of organized opposition groups; the tradition or absence of tradition of large-scale demonstrations in the cities. If there is some significant chance of early large-scale or violent reactions, the ability of the government to contain such protests is a crucial consideration for the prospects for a "shock" strategy. Even if the economy in theory could respond positively to the strategy, it may not make sense for a weak government to attempt it.

Poorer and less flexible economies, especially in sub-Saharan Africa, confront a cruel dilemma with respect to the attempted speed of adjustment. In many cases their economies are not capable of rapid adjustment. A shock approach can indeed "balance" the budget and the trade account, but only by reducing consumption, government services, production and employment far below any level that could facilitate real adjustment, that is, altered composition and expanded capacity for production. Indeed, a draconian approach in such economies can impair capacity for real adjustment. But some of these same countries lack the resources--internal and external--to pursue the more gradual yet purposeful course which offers the best promise. Available resources are so badly out of line with needs that there is no avoiding drastic cuts in imports and domestic spending, whatever the costs to progress towards sustainable adjustment and resumed development. Without more adequate financial assistance, debates about the optimal speed of adjustment have a bitter theoretical flavor for such governments.

Having recognized this fact, it is still useful to consider political dimensions of more gradulist approaches, since some countries do have room for choice, and the pressure on others may ease somewhat with economic recovery in the industrialized nations.

The gradual approach to stabilization is often portrayed as a political "soft option"--or at any rate softer than the shock approach. Gradualism in principle dilutes political risks, partly by permitting more flexibility in timing and phasing of measures to minimize political backlash, and partly by allowing time for real economic adjustments to begin to take hold, thereby reducing real costs. For instance, if higher prices for imported foods (as a result of devaluation and/or reduced direct subsidies) are introduced in stages, the impact can be partly cushioned by increased supply and (hopefully) only moderate increases in the prices of domestic substitutes. But a gradual approach has clear risks. It depends crucially on international financing adequate to cover the continuing trade deficit over several years. It allows more opportunity for producers (including parastatals as well as private firms) to seek to evade rather than adjust to new disincentives. Gradualism permits opponents of adjustment measures to become organized and articulate, and to join forces with each other. And it calls on politicians to maintain their commitment in the face of cumulating pressures. Far from being a soft option, successful management of a sustained stabilization and adjustment effort over several years requires political leadership and skill of a high order. It is probably more difficult than the challenge of maintaining transitional order and acceptance during a "shock" program in countries where a rapid economic turnaround is feasible.

Since a gradulist approach (which might include rapid action on one or a few specific measures) is the only course which makes economic sense in many countries, it is important to seek means to cope with the political risks of that course.

As noted earlier, the combination of adjustment measures with more immediate stabilization steps may win stronger positive commitment from political leaders, and such a program can be presented to the public in a more positive and persuasive manner. However, many specific adjustment measures hurt some groups (often in a prompt and highly visible manner) while benefitting others (often only after a delay, and sometimes in an indirect or dispersed manner). Therefore the selection of initial adjustment steps, their timing and phasing, must bear in mind the political strains added to those already imposed by austerity. Combined stabilization/adjustment efforts also put a greater burden on bureaucratic capabilities to plan and implement reforms, even when some of these reforms are intended to reduce governmental intervention in the economy. The combined approach, in short, can generate stronger commitment and public acceptance, but is more likely than a narrower stabilization package to strain the limits of managerial capacity.

The core political problem with a stabilization and adjustment program that must be sustained over several years is usually that middle and upper middle strata--including civil servants, military officers, organized labor, teachers, professionals, university students--must bear substantial losses. These are the groups whose living standards have moved most seriously out of line with what the country can afford. Unless some fortunate combination of aid, weather, and international prices permit an expansionary adjustment (as in Sri Lanka in 1978 and 1979) their standards must drop. But they are also the most politically potent groups. While persuasion clearly has its limits, these groups should nonetheless be the targets of the most vigorous and full attempts at explanation and patriotic appeals. Such appeals are likely to carry more weight if politicians themselves adjust their life styles to some significant degree: despite some tendency to belittle such symbolic gestures, at the very least they remove a target of opposition and cynicism.

While real or apparent equity is no guarantee of acceptance of austerity, obvious inequity has fueled public bitterness in many countries. In poorer countries, where all but the highest-income urban households spend the bulk of their incomes on food, management of food prices is probably crucial. Reductions in subsidies should almost certainly be phased, and the impact of large devaluations on food staples should be cushioned. Selective targeting, as in the Sri Lankan case, is desirable in principle but usually difficult to administer.

Any initial "grace period" of public acquiescence is limited, and it is important to be able to point to evidence of progress as patience begins to wear thin. It may be feasible to design programs to tolerate some loosening after several months -- in terms both of the vigor of initial government measures, and the timing and quantity of assistance. Some lifting of austerity may not always be optimal from the standpoint of technical economic considerations, but it is certainly preferable to what often happens: the government feels constrained to relax the stringency of measures even at the price of abrogating commitments to the IMF or other donors, the program is abandoned, and a new start is launched after some months or even years of confusion and continued economic deterioration.

Beyond these general observations, there are a series of more specific issues concerning the design and phasing of the many policies which comprise a stabilization and adjustment package. The handling of each of these component policies raises political as well as economic issues. Unfortunately, there is almost no systematic comparative analysis available on political implications of various options. For example, over-valued exchange rates are almost always part of a financial crisis. What are the probable political repercussions of a large one-time devaluation versus several smaller steps? Of various flexible exchange rate mechanisms, following devaluation, to guard against further erosion of international competitiveness? Conventional wisdom argues that dual exchange rates are usually inadequate economically and awkward administratively, yet political leaders often prefer dual rates to devaluation. Under what conditions does a split rate have real political advantages? There has been remarkably little effort to address such questions.

Similarly, we know very little about the conditions under which a government can successfully reduce costly, unsustainable food subsidies -- another common theme in stabilization and adjustment programs recently, and a topic that universally gives politicians nightmares. Such efforts have produced massive riots (for example, in Cairo in 1979 and in Tunisia very recently) and coups (as in Liberia in 1980) yet elsewhere (as in Sri Lanka in 1978 and 1979; Senegal in 1982 and 1983) major cuts provoked no serious threat. It is common sense to argue that government-mandated price increases ought not be timed when domestic food supplies are low (thus Senegal resisted external pressure to cut its subsidies on imported rice in 1981, when drought had shrunken domestic substitutes; Sri Lankan subsidies and rations were successfully slashed during a period when domestic rice supplies and the economy generally were expanding rapidly). In the field of trade liberalization, an initial emphasis on export expansion may (to the degree that it is successful) ease the political repercussions of a broader trade liberalization effort. But we lack even semi-systematic comparative empirical knowledge to support such plausible suggestions. Despite the recognized importance of politics to the success of stabilization and adjustment efforts, the more specific policy issues and options remain to be explored from a political economy perspective.

Stabilization is inherently risky politically, and no combination of strategy, tactics and support measures by governments and outside agencies can do more than somewhat reduce the risks. Clearly, too, approaches must be tailored to the conditions of each case: there are no standard formulas. But the disappointing record of most stabilization efforts is a powerful argument for more attention to political sustainability. More explicit and systematic consideration of the political dimensions of proposed programs might permit some improvements. As and if more systematic comparative analysis of past experiences become available, it should be possible to identify the conditions under which particular policy options or combinations are likely to survive politically. Even a modest increase in our grasp of such issues would be a contribution in a largely uncharted field.

Appendix A

A Summary Framework for Assessing Political Sustainability

I. Determinants of leaders' commitment to stabilization efforts

- A. Perceived economic costs and benefits, as distributed among groups and over time. Influenced by:
  1. Leaders' economic sophistication, biases, and ideology
  2. Prior experience and interpretations thereof
  3. Nature of economic advice, and relations between leaders and advisors
- B. Perceived political costs and benefits, including the sources, nature, and timing of potential opposition and support
- C. The weights attached to A and B, influenced by:
  1. Certainty or uncertainty of expected results
  2. Leaders' sense of security or insecurity
  3. Leaders' aspirations for the future

II. Major determinants of governmental capabilities to implement stabilization

- A. Elite unity or disunity, as influenced by:
  1. Homogeneity or heterogenity of the governing political elite: degree of ideological, factional, ethnic or other divisions
  2. Top political leaders' position and control over other members of the elite, reflecting institutional and legal arrangements and informal power bases
- B. Management of the bureaucracy
  1. Authority and competence of central budget and expenditure control staffs vis-a-vis ministries and parastatals
  2. Broader morale and discipline within the bureaucracy
- C. Government's political support base
  1. Major support groups and their expectations from the government

III. Determinants of political responses from specific groups and the public

- A. Perceived impact of economic and non-economic costs and benefits, as distributed among groups and over time
- B. Subjective interpretations of impact by major groups, including
  1. Attribution of responsibility for costs or benefits
  2. Expectations as to duration of costs and probability and timing of benefits for group and for nation
  3. Perceived equity of distribution of costs and benefits
- C. Political resources and propensities of important groups, including leadership, cohesiveness, organization and discipline, contacts and information, ties with other groups (or lack thereof); ties and channels of communication (or lack thereof) between each group and the government
- D. The broader political context for stabilization, including:
  1. Widespread public attitudes:
     - a. degree of recognition that basic changes are needed
     - b. degree of confidence that the government's program can work (in anticipation) or is working (in process)
  2. The security or insecurity of the government; the nature and strength of opposition.

Appendix B

Brief Case Sketches

Thumbnail sketches may be useful for those unfamiliar with one or more of the cases, despite the simplification and distortion such brief accounts imply. One might start by comparing economic contexts. Ghana, Zambia, and Jamaica all undertook stabilization efforts only after four to seven years of severe economic decline. Sri Lanka had had seven years of semi-stagnation before the election of a new government with a dramatically different economic orientation. In contrast, Kenya had been growing briskly up until the late 1970s, save for a brief and mild crisis in the mid-1970s and despite the growing signals of more fundamental problems. Neither Kenya nor Sri Lanka had heavy debt burdens at the beginning of the periods examined, but external debt was already a serious problem in the other three countries.

Turning to the individual situations: Ghana's economy had declined precipitously in the final years of Nkrumah's rule from the late 1950s to the mid-1960s, reflecting both a steady drop in cocoa prices and the cumulating effects of ambitious and increasingly statist economic programs. The military government which ousted Nkrumah in February 1966 took vigorous stabilization steps, including a 30% devaluation and cuts cumulating to 60% in the capital budget by 1969. It succeeded in sharply narrowing both trade and fiscal deficits (indeed, in 1969 there was a brief trade surplus), but at the price of a sharp recession and urban unemployment estimated at about 30% in 1969. That autumn, the military turned power over to a newly elected civilian regime headed by Prime Minister Busia. The new government was eager to resume growth after nine years of decline, but confronted falling cocoa prices and a tight repayment schedule for inherited debts. Guided in its economic policy for eighteen months by the forceful and capable but stubborn and highhanded Minister of Finance and Planning, the government refused to take the actions needed to avoid a clear impending financial crisis. Mensah was reluctant to curtail investment and growth, and was hopeful that cocoa prices would recover in time to avoid disaster. The 1970 budget was trimmed sufficiently to alienate civil servants and the military, but not enough to significantly narrow the large fiscal deficit. Efforts to persuade bilateral donors and private creditors to provide assistance and roll over debt bogged down; the donors increasingly urged the government to enter into a standby agreement first, after which they would consider relief. Meanwhile, the government had alienated most of its initially broad public support, partly because of its economic difficulties and partly because of unrelated actions bearing on ethnic politics, military staffing, and the like. Late in 1970 Prime Minister Busia finally accepted the need for vigorous corrective action. A 44% devaluation (close to 80% in terms of the cedi cost of other currencies) was more or less sprung on a befuddled cabinet and announced to an unprepared public. Despite the addition of sweeteners for labor and other groups, the political reaction was intense, and provided an opportune moment for a military coup (which had almost surely been planned much earlier). The new military government promptly abandoned the stabilization effort and abrogated much of the widely resented debts. Nor were new stabilization efforts undertaken until almost a decade later, despite the continued and grave deterioration of the economy.

Zambia's pre-independence status as the more remote and backward province of the two Rhodesias left a legacy of extremely heavy dependence on expatriates and an economy skewed dramatically toward the copper mines and tied to Southern Rhodesia. The mines provided generous foreign exchange earnings and revenues until the early 1970s, supporting very rapid expansion of the government and public sector and steep wage increases in all urban sectors. But copper prices plummeted in 1973 and have stayed down, save for a temporary upswing late in the decade. The oil price rises, and the war in Southern Rhodesia, which disrupted transport in landlocked Zambia and later posed a serious security threat, plus the effects of the government's own pricing and parastatal policies, converted growth and surpluses to economic decline, deficits and mushrooming arrears. Between 1978 and 1980 a severely contractionary stabilization program was implemented under IMF guidance. The program succeeded in reducing arrears and narrowing trade and fiscal deficits, but at the cost of steep declines in real incomes. The program was clearly viewed by President Kaunda and all but a handful of economic technicians as an extraordinary measure reflecting desperate but temporary conditions. By early 1980, with copper prices rising (temporarily, as it turned out) and the Zimbabwe settlement removing security pressures, Kaunda was receptive to advice from much of his own government and to widespread political pressures to seek rapid expansion instead of continuing a conservative course. Events of 1980 through 1982 can be fairly described as consistent avoidance of stabilization, including the use of the first two tranches of a new EFF to finance imports rather than reduce arrears as agreed with the IMF. Only by late 1982, as the economic and political situation again became critical, did the government indicate recognition of the need for devaluation and other stabilization measures. Contributing to this history was the long-term waning of political support for President Kaunda, and poor relations between the crucial copper unions and the government, partly reflecting ethnic divisions.

In Kenya, Daniel Arap Moi became the designated successor to Kenyatta when the venerable independence leader died in August 1978. Moi lacked a sizeable ethnic support base and was not regarded as a strong leader when he took office. It was widely speculated that he would serve at best one term as a token non-Kikuyu head of state. His two chief lieutenants, representing different sub-regional groups within the dominant Kikuyu tribe, were instrumental in protecting him against initial threats to his position but thereafter became increasingly preoccupied with their own rivalry for the presumed post-Moi era. Moi, however, surprised even his friends during his first year in office, building considerable support through a triple strategy of national conciliation, a "new broom" drive against corruption, and a series of populist policy measures. By the end of 1979, Kenya's political atmosphere was upbeat, but economic difficulties were already gathering. Coffee and tea prices had peaked and started falling before Moi took office. From the end of 1978 forward, external prices and markets, plus the effects of internal structure and policies led to chronic foreign exchange shortages, soaring debt, scarce inputs, and reduced output and employment in the heavily import-dependent manufacturing sector. The deteriorating economy prompted political discontent; serious and probably corrupt mishandling of maize supplies leading to acute shortages by mid-1980 particularly undermined support. As dissent spread, the government became increasingly heavy-handed. Meanwhile there were three successive Standby Agreements with the IMF through 1982, each agreement foundering largely on the

91

issue of budget discipline. The record is the more depressing in view of Kenya's pragmatic and market-oriented economic philosophy, its general history of responsible economic management, and the availability of excellent economic analyses and advice. Economic difficulties and political alienation provided the background to a coup attempt in August 1982. Yet by that time there were also signs of improved fiscal discipline, interest rate and agricultural pricing reforms, and first steps toward trade liberalization. The tale is not all told, and the elections of September 1983 provided Moi with a mandate of sorts, although the low turnout clouds his victory. Five years of economic difficulties and disappointing results from partial and half-hearted measures may have educated some politicians and segments of the public on the need for more vigorous and consistent efforts.

In Sri Lanka, a process of public education of this kind evolved during the long period of economic stagnation and increasing political instability from 1970 to 1977. Elections in 1977 resulted in a landslide victory for the United National Party (UNP) led by J. R. Jayawardene, who became Prime Minister and later, after constitutional changes, President. The prior government had been socialist and populist in its orientation; the UNP government came into office on a platform stressing extensive decontrol of the economy plus a vigorous export-oriented growth campaign. Public opinion recognized the need for changed approaches, although there was vigorous criticism of specific reforms. Public acceptance of changes was also eased by economic buoyancy. For the first two and a half years of the UNP administration, Sri Lanka received the triple bonus of good weather, strong prices for her principal exports, and generous donor support. As a result, until 1980 Sri Lanka in no sense underwent an austerity program. There was indeed a devaluation, and the rice ration and subsidies previously available to almost all the population was confined to the poorer half and transformed into a food stamp program. But imports, investment, employment, and government expenditures all increased substantially, and real incomes almost surely increased for much of the population. By 1980, shifts in the terms of trade plus internal inflationary and other pressures were building towards a financial crisis, and retrenchment became unavoidable. In 1981 there was a modest (4% against the SDR) devaluation, 25% slashes in government expenditures, and a wage freeze. Save for the drastic budget cuts, however, austerity measures then and since were mild compared to the other cases reviewed in this study. The continued complete disarray of the major opposition party (reflecting both internal problems and shrewd maneuvering by the government), coupled with popular support generated by the economic progress of the initial years, also contributed to the absence of serious political challenges to government economic policy after retrenchment became necessary.[1]

Jamaica's stabilization efforts since the mid-1970s comprise a double tale, since serious programs were undertaken under two different governments with contrasting orientations. Experience under Prime Minister Manley's PNP government in the late 1970s influenced the later (current) effort under Manley's successor, Edward Seaga, and his JLP government. While Jamaica's economic troubles were rooted in the structure developed before and after independence in 1962,

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[1]This account does not addres the criticisms many economic analysts have made, in retrospect, of the pattern and pace of government investments and other policies in the period since 1977, nor the eruption of the ethnic strife

the policies adopted by the statist and populist PNP government first elected in 1972 triggered falling reserves and accelerated inflation even before the impact of the first oil price rise. The combined effects of internal policies and external pressures had produced a serious crisis by the time Manley was elected to a second term in 1976. The party and the government were bitterly divided between moderate and radical wings over the necessity for retrenchment and economic reorientation. After an unsuccessful standby agreement in 1977, the moderates temporarily gained the upper hand. A very stringent program was adopted including a major devaluation followed by mini-devaluations, severe wage restraints, and sharp cuts in government expenditures. Real income for most workers fell by a quarter between April and October 1978. The program was launched with an impressive effort to gain public understanding. By the spring of 1979 there had been progress in halting Jamaica's economic slide, but the program collapsed under the triple assault of adverse exogenous economic events, virulent opposition criticism, and a strong counter-offensive from the radical wing within the party. Manley, initially active in defending the program, distanced himself from it. When Seaga and the JLP were elected in late 1980, on a platform calling for economic reorientation, they inherited a seriously deteriorated economy. The Seaga regime is much less divided, and its philosophy much more compatible with measures needed for stabilization and adjustment. There has been considerable decontrol of the economy, inflation has been cut sharply, and investment tentatively revived. But devaluation was avoided in favor of an initially informal dual rate until mid-1983. Trade liberalization has lagged, and efforts to contain government expenditures have been less vigorous than promised.

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in mid-1983. What is relevant for this discussion are the factors shaping political acceptance of the fairly extensive liberalization and the retreat from massive food subsidies.

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95