

Macroeconomic Policies, Poverty and the Environment

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Introduction

The past 15 years correspond to a period during which the Bretton Woods institutions and bilateral development agencies have financed hundreds of structural and sectoral adjustment programs. The liberalized, export-oriented growth strategies promoted by these economic reform programs have succeeded in significantly increasing global economic output and improving the traditional economic indicators of many countries. However, critics point out that these reforms have not generated widely-shared economic benefits, and are unlikely to reduce, and may even exacerbate, poverty. The opening paragraphs of the UNDP's Human Development Report 1996 state: "Growth has been failing over much of the past 15 years in about 100 countries, with almost a third of the world's people. The world has become more polarized, and the gulf between the poor and rich of the world has widened even further. The poorest 20% of the world's people saw their share of global income decline from 2.3% to 1.4% in the past 30 years. Meanwhile, the share of the richest 20% rose from 70% to 85%. That doubled the ratio of the shares of the richest and the poorest - from 30:1 to 61:1."¹

The growing inequities carefully documented in UNDP's report have prompted continued scrutiny into the social and environmental impact of the

Abstract: This paper discusses the relationship between macroeconomic policies, poverty and the environment from a political economy perspective. Viewing poverty as the result of unequal relationships between competing social groups, the article analyzes how structural adjustment programs have reinforced the political economy of poverty, and fueled the poverty-environmental degradation relationship in developing countries. The ensuing concentration of wealth and environmental assets, coupled with the deepening poverty and environmental vulnerability of impoverished groups, has reduced policy options for policymakers, thereby sharpening the trade-offs between economic growth, social equity, and environmental sustainability.

macroeconomic policies which have facilitated the integration and globalization of the world economy. This paper analyzes the relationship between macroeconomic reforms, poverty, and the environment. The purpose of this paper is to provide a clearer understanding how macroeconomic policies affect poverty and shape natural resource use, with the aim of recasting economic policies so that they are more likely to promote sustainable paths of development. This paper draws on the work that the Macroeconomics Program Office (MPO) of WWF has carried out on the environmental and social impact of structural adjustment programs over the past 6 years.² The following discussion is a subset, albeit one of the central parts, of this analytical work whose purpose is to understand the environmental and social impact of the integration and globalization of the world economy.

Macroeconomic Reforms, Poverty and the Environment

Macroeconomic reforms carried out through structural adjustment programs have become an instrument of global economic policy. Key elements of those structural reform programs include:

- correcting fiscal imbalances, largely through reductions in public expenditures;
- reducing the role of the state in economic affairs;
- privatizing major sectors of national economies;
- deregulating the domestic economy;
- removing impediments to the international flow of capital and supporting the formation of domestic capital markets;
- liberalizing currency markets;
- removing restrictive trade policies; and,
- deregulating and reforming domestic labor markets.³

In WWF's two studies analyzing the relationship between structural reforms and the environment we pointed out that:

“many price corrections associated with adjustment programs hold the potential for effective positive economic *and* environmental outcomes. But they often do not realize this potential because price corrections are not accompanied by complementary policy and institutional reforms. The removal of some but not all subsidies, an unwillingness to internalize environmental costs, the failure to correct legal and land tenure problems, and the omission of transitional mitigation programs are among the consistently disregarded policy reforms that would strengthen the positive effects of price corrections.”⁴

Similar conclusions have been echoed in the World Bank's studies on the linkages between structural reforms and the environment. “Removal of price distortions, promotion of market incentives, and relaxation of other constraints generally will contribute to both

economic and environmental gains. Unintended adverse side effects occur, however, when economywide reforms are undertaken while other neglected policy, market or institutional imperfections persist.”⁵ A more recent analysis states, “the expansionary impacts of currency devaluations, tariff liberalization, and reduction of real interest rates may be most directly and adversely felt in natural resource use, especially in the forestry and fishery sectors.”⁶

Debate about the social and distributional impact of adjustment has accompanied economic reform programs almost from their inception. Studies carried out by U.N. agencies, non-governmental organizations, and academics asserted that social issues were downplayed or ignored in the design and implementation of adjustment programs⁷; the perspective proffered by the World Bank argued that social costs resulted from the failure to implement adjustment programs successfully or with adequate conviction.⁸ Regardless of the cause, social problems consistently associated with adjustment programs were serious enough for the World Bank and other donor agencies to include mitigatory social programs as an important facet of their adjustment operations on a consistent basis. Those programs, introduced in 1986 with the World Bank’s support of Bolivia’s Emergency Social Fund, addressed both the economic and political impacts of increasing poverty and economic dislocation in recipient countries.

The problems and limitations of those social mitigation programs aside, maintenance of social safety nets through these and others externally-supported programs have been key to supporting the economic objectives of the reform programs. However, despite these mitigatory and compensatory efforts, adjustment programs and the ensuing growth associated with deeper integration into the global economy, have frequently not resulted in improvement of distributional inequities or the alleviation of poverty. For example, the World Bank’s 1995 study, *The Social Impact of Adjustment Operations*, points out the unfavorable outcomes resulting from changes in fiscal policy included in structural adjustment programs:

The Bank’s country reports indicate that fiscal adjustment has not resulted in more efficient spending in most countries. In many countries, expenditure reductions have worsened existing biases and inefficiencies. The extent of public expenditure restructuring has been very limited during the adjustment era. In most of the countries for which data are available, more resources were allocated to services that benefit the nonpoor.⁹

Moreover, the Bank has also recognized that aggregate growth alone is not adequate to reduce poverty: reduced distributional inequality and broad-based participation of the poor are requisites for ensuring that the benefits of economic growth reach the poor sectors of society.¹⁰

This brief reference helps establish the context and motivation of this paper. Despite the intent and even success of economic reforms, the persistence of poverty and distributional inequities and their link to environmental degradation obliges us to understand these social forces which continue to generate environmental degradation in many countries of the world. The poverty and environmental degradation nexus, examined below, remains a primary proximate cause of ecosystem conversion and thereby one of the poses the most pervasive threats to environmental sustainability in many regions of the world.

The thesis of this paper is that institutions and social structures through which adjustment programs are implemented and filtered often exacerbate social inequities and reinforce what we have called the political economy of poverty. Moreover, this paper asserts that the potential positive effects of structural reforms for both poverty alleviation and the environment are seldom realized largely because of the failure to accompany the economic restructuring programs with complementary institutional and policy reforms which would distribute the benefits of economic restructuring more equitably. This in turn has serious consequences for the environment.

This paper is organized in three sections. Section One, Conceptual and Methodological Foundations, clarifies basic assumptions and definitions used throughout this paper and presents a conceptual model which summarizes how economic reforms influence the political economy of poverty. This includes reviewing basic concepts of political economy, the methodology used in this work, and defining terms of poverty and the poverty-environmental degradation nexus. This section is mainly conceptual in nature. Section Two presents summaries of nine case studies carried out by local research institutes in nine developing countries which had largely agricultural and extractive economies. These summaries are presented in two forms. Section Two presents these summaries in chart form. Not oblivious to the problems of simplification, our intent is to make the conclusions available to the reader in the most direct form possible. These nine case studies are presented in somewhat more expanded version in the Annex 1 of this paper. The reader should refer to the book length publication, *Structural Adjustment, the Environment, and Sustainable Development*, for a more inclusive presentation of the nine studies. Section Three presents conclusions and recommended responses drawn from the cases studies.

1

Section One: Methodological and Conceptual Foundations

There are many factors which intersect to deny broad sectors of the human community the productive, environmental, and cultural requisites for social well-being and stability. This paper uses both neoclassical and political economy approaches to analyze this thesis. The nine case studies presented in Section Two used primarily the neoclassical approach in tracing linkages between macroeconomic instruments and environmental problems in the separate countries. A number of case studies used computable general equilibrium models while others used regression analysis and established time series trends to draw conclusions about the environmental impact of the economic packages. This analytical approach was useful in understanding impacts on the rates and composition of natural resource use, shifts in crop mix, distribution of costs and benefits associated with specific changes in relative prices, and numerous other aspects.

This analytical approach also had limitations, particularly as regards social change and poverty. The social assumption used by neoclassical economics in understanding and addressing poverty is that by allocating resources efficiently, the greatest number of people will receive the highest level of material benefit. Economists recognize that some social groups and sectors will receive the material benefits at different stages in the economic growth process. However, that delayed delivery of economic benefits underscores their basic precept that accelerating growth and unleashing market forces will increase the level of benefits and hasten their availability to the poor. Poverty is, from this point of view, a condition resulting from the limited size of the global or national productive system and the failure to let markets function more freely.¹¹ The remedy, logically, is to intensify the growth process and to remove politically-motivated distortions which may slow the growth process.

While recognizing the complexity of the factors which generate poverty, the following analysis focuses on the relationship between competing social groups as the main causality of poverty and environmental degradation. This analytical lens of political economy gives priority to the understanding of how social groups interact and compete in their search for wealth and political power.¹² It traces the interaction of groups as they compete for influence in the market system and through the mechanisms of the state (which we understand to mean the legitimized exercise of social regulation) as they acquire wealth and

political power. This approach places an understanding of the processes that generate wealth and power, and equally poverty and marginalization, at the center of its analytical and proscriptive concerns.

Where neoclassical economic analysis leaves out the impact of the economic reforms on the functions of the state, class structure, and poverty, political economy places these concerns at the center of its inquiry. One of the most enduring national-level impacts of adjustment is that it has fundamentally changed the functions of the state as an economic agent, as guarantor of social opportunity, and helmsman of national development policy. These complex and encompassing reform processes have influenced the relative ability of various social groups to compete for power and wealth. One accompanying impact of these changes in the relative strength of competing social groups is that they have also altered the relationship between social groups and the environment. The political economy approach links the economic reforms to changes in social structures, and thence, links these changes in society to changes in the rate and composition of natural resources use. These are the relationships which, in addition to the analysis of the impact of relative price changes, need to be analyzed in order to understand the impact of economic reforms on poverty and the environment.

Poverty

The starting point of our analysis of the relationship between macroeconomic reforms, poverty, and environmental degradation is to clarify some basic concepts used in this analysis. Foremost among those concepts is that of poverty itself. This clarification is paramount because the prevailing neoclassical ideology driving the globalization and integration of the world economy uses a concept of poverty which is consistent with its own objectives and criteria. Specifically, in the neoclassical model, poverty is considered a condition, or a state of being. For example, the World Bank defines absolute poverty as, "The position of an individual or household in relation to the poverty line the real value of which is fixed over time." The poverty line then is defined as the standard of living (usually measured in terms of income or consumption) below which people are deemed to be poor."¹³ There are variations on this definition. The United Nations Development Programme, for example, uses the human poverty index based on three primary criteria: the percent of the population expected to die before age 40; the adult literacy rate; health and nutrition criteria, including the percentage of the population with access to health services and water and the percent of the population under age five suffering from malnutrition. This index is used as a supplement to, not a replacement for, the World Bank's definition based on income criteria.¹⁴

Yet there are other ways of defining poverty that contrasts with such quantifiable definitions. When we refer to the political economy of poverty, we mean the interaction

among competing social groups by which specific groups are driven from having access to economic and political power. Poverty is viewed as a historically determined relationship among social groups who compete for and, to significantly differing degrees, are able to gain control of life-supporting assets. In contrast to the neoclassical perspective, poverty is not simply a state of existence; poverty is historically determined and defined. Second, as a historically determined relationship, poverty is the result of competition or conflict over assets, be they productive, environmental, or cultural. People are not simply born into poverty. Poverty is reproduced by on-going social, economic, and political processes that result in the concentration, or deprivation, of power, wealth, and environmental assets which are requisites for social well-being.¹⁵ This lack of access to assets results in the deprivation of certain social groups to the means of social stability and well-being.

This differences in definitions become fundamental when trying to translate these approaches into operational or strategic terms. From the neoclassical approach, increasing incomes are viewed as the solution; that is, individuals can move out of poverty by changing the level of individual or household income. This approach assumes that the right stimulus which accelerates the economic growth process, and which lets market forces work freely, will provide economic benefits that reach and transform the poor. In the political economy perspective, addressing poverty requires changing social relations, that is, it requires altering the means and processes by which groups gain and hold control over productive assets.

The poverty-environmental degradation nexus

The second basic concept we must clarify is what has become known as the poverty-environmental degradation nexus. There is ample literature describing this relationship as a mutually reinforcing process.¹⁶ In general, this literature asserts that poverty fuels environmental degradation because the poor, in lacking access to credit, technology, and information, are forced to mine natural capital in order to survive. The survival tactics of the poor lead them to draw down and degrade environmental resources. This environmental degradation, in turn, deepens and accentuates poverty. The deterioration of the natural resource base, or of the living space of the poor, weakens the productive capacity of their meager assets, which in turn weakens their most basic productive asset, labor power. In rural areas, this means declines in the quality or extent of water, wildlife, soils and forests. In urban areas, the direct and indirect consequences of pollution, particularly of air and water, have strong human health effects which also erode labor power.

While accurate, this description of the poverty-environmental degradation link leaves out the fact that this historically determined relationship is an extension of the very forces which have driven certain social groups into poverty. Moreover, the forces that have driven social groups into poverty remain operative and reinforce the poverty-environmental degradation

nexus. To state this relationship in clear terms, the conflict and relations which have resulted in the impoverishment and marginalization of the poor continue to support the further appropriation of wealth and power by the privileged sectors of society. In many cases the very essence of the poverty relationship is that social groups and communities have been denied access to environmental assets, that is, environmental resources and services from which personal and social well-being can be derived. As Michael Redclift stated, “Poverty is the outcome of specific relations between the natural environment and socioeconomic structures.”¹⁷

Three-tiered political economy

Consistent with the perspective that we have sketched out above, are many factors in the local political economy which create and reinforce the poverty-environmental degradation nexus. For example, over past centuries local landed elites used legal and coercive measures to gain control of productive lands often pushing the poor and more vulnerable onto marginally productive areas. The methods, as well as the political and economic alliances, used by the to achieve their objectives and the success of the vulnerable in resisting encroachment on their lands are determined to a significant degree by the specific situation of each locality. Moreover, the motivations and the resulting inequalities are also influenced by local factors including religious, ethnic, and gender of the individuals and groups involved.

While, the local political economy is, quite often, determinant in defining the character and expression of poverty, there are three levels which ultimately determine the political economy

of poverty in a given area or country. These begin with the local, as referenced above, and then move through the national to the international level.

- local-level influences include lack of access to land and other productions, lack of access to environmental assets, lack of influence over political and juridical systems;
- national influences, including tax laws, budgets, national investments, regulatory regimes, and public credit programs, all of which often favor the privileged over the poor and reinforce local-level relations;
- international level influences which align social classes and groups against the poor include market preferences determined by industrialized societies, trade protectionism in rich countries, deteriorating terms of trade, and capital flight.¹⁸

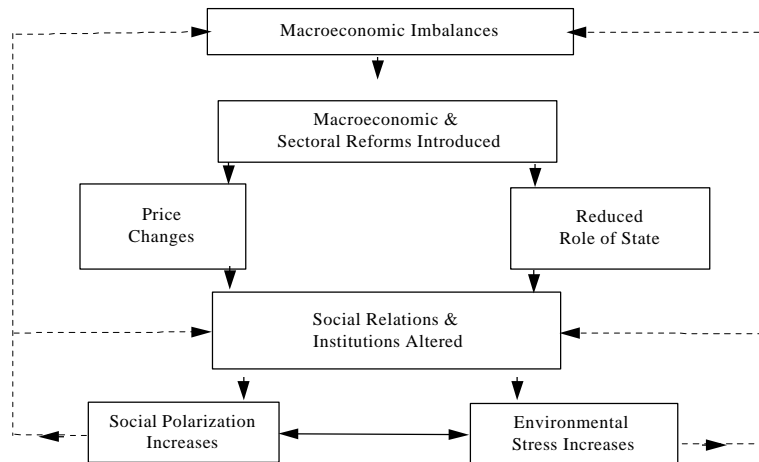
There is a vast, diverse literature which analyzes the genesis of national and international political economies and the processes of generating poverty. That literature covers a wide range of analytical approaches including the underdevelopment and dependency schools, modes of production theories, and world systems analysis, among others.¹⁹ One element these theories share in common is their effort to explain how international and national social forces interact and how the resulting power arrangements influence conditions on the national level. To varying degrees these analytical approaches try to translate their international constructs down to the subnational and local levels, analyzing the impact of these broader forces on the breadth and depth of poverty.

This brief paper cannot address the applicability of these various analytical approaches for poverty or the poverty-environmental degradation nexus. Its scope is more modest in that it tries to explain only how the economic reform packages have changed the economy and social structures in specific countries and how those changes have influenced those countries' respective environments. Moreover, we must state clearly that the conclusions drawn from these nine case studies must be seen as tentative, requiring more extensive verification in coming years when the results of adjustment programs have become clearer. We must also recognize that both the scope and depth of the cases studies were limited by data constraints and existing research methodologies. Nonetheless, the results of the studies were disturbing enough to warrant further theoretical elaboration, presented in the conceptual model and conclusions offered below, which could be submitted to the concerned public for comment and criticism.

A conceptual model

Based on an analysis of case studies which is summarized in Section Two, a conceptual model was developed as a preliminary way to summarize how macroeconomic reforms introduce new variables into the political economy of poverty and to demonstrate how those changes deepen poverty and environmental degradation.

Conceptual Model of the Linkages between
Structural Adjustment, Poverty, and the Environment.



We can understand the dynamics of this model in the following way:

1. Economic imbalances. Structural reforms are implemented when external and internal imbalances reach such proportions as to threaten the economic, social, or political stability of the country.
2. Introduction of macroeconomic and sectoral reforms. These reforms are designed to restore internal and external economic balances, increase economic efficiency, and generate enduring and stable growth.
3. Dual effects of price changes and a reduced role of the state. These reforms alter relative prices throughout the economy and align domestic prices with international markets. They also alter the functions and functioning of governments, for example, in reducing its role as an economic agent, changing its ability to deliver social services (redistribution mechanisms), and reducing its role in ensuring conditions of social equity and opportunity.
4. Social institutions and relations are altered by the reforms. In most cases, the actual implementation and effects of these reform packages on the economy and on social groups are strongly influenced by existing institutions and power relations. Existing institutional arrangements tend to reflect, to one degree or another, broader power relations in the adjusting society. Powerful institutions, and the groups which hold sway over these institutions, use the reforms to protect or reinforce their power. Such consolidation of power is often accompanied by further marginalization and impoverishment of vulnerable social

groups who often are forced to bear the costs of the reform process. Restructuring of labor markets, shifting incentives among rural and urban groups, providing new incentives for different goods and services provided by various groups, changing groups' access to subsidies, are but a few of the examples of how these reforms enhance or weaken the relative positions of social groups in a given country.

5. Social polarization and environmental stresses increase. Social polarization is exacerbated as the costs and benefits of adjustment programs accumulate differentially to social groups, and as the gap between winners and losers widens. One resulting polarization is increased informalization of the economy and declining standard of living for the poor. Environmental pressures intensify due to a combination of forces propelled by both the rich and the poor. Adjustment often results in diminished state control and weakened natural resource management institutions, leading to the potential for unregulated resource exploitation by elites. The poor intensify pressure on the environment for survival; and environmental deterioration further worsens poverty. Furthermore, to reduce the political pressure of poverty, governments sometimes subsidize the poor with natural assets which, in the long-run, further aggravates environmental stress.

6. These social and environmental impacts generate feedback loops to the macroeconomy and social structures. To close the loop, poverty and environmental deterioration can have negative impacts on the achievement of economic objectives over an extended period of time. Social unrest resulting from growing inequities, as experienced in several of the nine countries, can have enduring impact on economic performance (including implementation of the reforms themselves) and on social relations in an adjusting country.

In proposing this model, we are not suggesting that any or all of the countries studied have necessarily experienced this process in such a straightforward or unequivocal manner. However, the recurrence of phenomena regarding social and environmental impact of adjustment programs clearly suggested a pattern of causality that we have tried to capture in this model. We believe that this model also suggests that positive social and environmental outcomes can be generated through economic reforms if the prevailing institutions and social relations through which adjustment measures are filtered can be altered prior to or concurrent with the economic programs.

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Section Two: Summary of the Effects of Adjustment

The conceptual model presented above was developed on the basis of the empirical data and conclusions derived from cases studies in the nine countries presented below in summary chart form. The categories used in constructing this chart correspond to the components of the explanatory model presented above.

SUMMARY OF THE EFFECTS OF ADJUSTMENT

CASE STUDY SITE	YEAR OF ADJUSTMENT	EFFECTS OF PRICE CHANGES AND REDUCED ROLE OF THE STATE	CHANGES IN SOCIAL INSTITUTIONS OR RELATIONS	SOCIAL POLARIZATION & ENVIRONMENTAL STRESSES	FINDINGS ADJUSTMENT HAS:
CAMEROON	1989 & 1994	Fiscal austerity measures targeted agricultural support, credit, and subsidies. Cuts in public services, parastatals, social services. 1994 currency devaluation	Rural bias in first phase of adjustment. Public sector cuts intensified pressure on agriculture as well. Export-oriented production & producers favored. Second phase had urban bias.	Strong differences in winners and losers in different phases, but poverty increased under both. Rural sector deforestation for fuelwood & land expansion. Erosion and biodiversity losses increasing	1) increased poverty, 2) increased gap between rich and poor; 3) increased pressure on rural lands, leading to erosion on existing lands and deforestation for conversion; 4) favored farmers producing for export; 5) diminished social services, including health and education; 6) not led to economic restructuring necessary for long-term, environmentally or socially sustainable growth.
EL SALVADOR	1989 by USAID; 1991 by WB & IMF	case study provides evidence of strong decline in environmental institutions	Adjustment benefited urban areas. No fundamental attention to economic problems, such as land concentration, which led to civil war.	Increased disparity between urban and rural areas; urban areas have outstripped "brown" capacity. Rural areas have significant deforestation, erosion, and loss of water resource capacity.	1) aggravated urban and rural disparities in terms of both income and environmental quality; 2) led to increased rural impoverishment - 90% of rural population is poor. Case examines connections of water in different sectors, -- renewal capacity is lost because of deforestation, soil erosion, sedimentation, contamination for both sink and supply functions. SAPs have gutted environmental monitoring and regulatory capacity.
MALI	1988	international trade, domestic markets and prices were liberalized; removal of agricultural sector subsidies	effects of adjustment buffered for certain producer groups, e.g. export producers such as cotton. changes in ag sector based on crop produced	social polarization in ag. sector increased. Losers were rice farmers. Winners were cotton farmers, livestock producers,. Farmers with access to improved technical packages (e.g. irrigation) did better.	increased pressure on rural lands by removing fertilizer and commercial fuel subsidies. Case study demonstrates for rural sector that: 1) strong and rapid effects of adjustment may be noted depending on crop under production; 2) farmers may not be able to rapidly adjust to adjustment; 3) area in agricultural land use likely to increase with removal of subsidies as more land is needed for production; 4) pressure on forested areas likely to increase with subsidy removal.
JAMAICA	several in 1970s-key one in 1984-85	social services, environmental agencies have dramatically declined; heavy emphasis on production and tourism	Shift from production for consumption to export-emphasis. Tourism favored as a sector, leading to changes in social relations among areas able to capture benefits and expectations of development.	Virtually no environmental regulation of bauxite/alumina industries or coffee production, both of which have high contamination. Tourism, sand mining, and cement also unregulated. Tourism enclaves cause high income differentials and little planning for housing, water, sewerage for Jamaicans who service this sector.	Jamaica remains in an economic trap: highly reliant on tourism and exports. Adjustment has favored these sectors, which are highly susceptible to shocks, over policies which lead to a less volatile economy which is not using up natural capital. Decline of government means that environmental planning or regulatory functions are weak; however, tourism is dependent on clean, attractive, safe environment. Ironically, increasing poverty and lack of attention to urban settlements and waste planning, and diminished environmental quality may undermine tourism, creating a worse situation. Adjustment may have provided short-term stability and growth, but has eroded capacity for lasting economic prosperity

PAKISTAN	1989;1994	The Pakistan case study was essentially an modeling exercise that forecast effects of structural reforms on long-run growth and the agricultural sector. Environmental and social impacts are considered but are not useful for purposes of this paper.			
TANZANIA	1986; 1989	1986 program had little success with inflation or privatization. 1989 SAP increase nontraditional crops, but increased input prices while producer prices fell. State marketing agencies reduced, forestry agencies, etc.	Farmers producing for export favored over those producing domestic food crops. Commercial farmers favored; such as cotton producers. Collapse of state marketing agencies leads to some rural "shake-out."	Expansion of land in agriculture, due to removal of subsidies. This has led to increased deforestation, increased soil erosion. Those with means for purchasing inputs substantially better off, also able to produce for export. Deforestation also increasing for fuelwood; both for domestic consumption (leading to health problems) and for tobacco curing.	increased pressure on rural lands by removing fertilizer and commercial fuel subsidies. Case study demonstrates for rural sector that: 1) strong and rapid effects of adjustment may be noted depending on crop under production; 2) farmers may not be able to rapidly adjust to adjustment; 3) area in agricultural land use likely to increase with removal of subsidies as more land is needed for production; 4) pressure on forested areas likely to increase with subsidy removal.
VENEZUELA	1989	standard adjustment package included compensatory social program (CSP) intended for the short term to alleviate poverty. Huge reduction in many state agencies; environmental agencies lost half of budget and staff.	72% income drop in the first years of the program; CSP became a permanent program. Worsening of most basic needs indicators. Strong differences in urban and rural impact from the program, and on rich and poor. Strong decline in NGOs as funding cuts and economic scarcity have affected staff.	Venezuela is largely urban- thus introduction of CSP. Despite this, huge problem of urban poverty and decrease in urban environmental quality. Rural resource base is extensive, including oil, gold, and diamonds, as well as parks and biodiversity. But the planning , regulatory & management capacity is largely missing - and resource stripping is occurring with no reinvestment for future growth.	1) increasing poverty; 2) strong rural-urban differences; 3) increased pressure on environmental resources in rural areas (parks, forests, wildlife) with diminished regulatory capacity; 4) increased pressure on urban environment, with increased migration - squatter settlements and urban poverty have increased; 5) urban decline in quality of life in terms of water supply, waste collection, sanitation, public safety, and health.
VIETNAM	1986;1989	Doi Moi program in 1986 cut ag. & forestry monopolies, devaluation; opening to tourism, and liberalization of investment. 1989 SAP targeted devaluation, trade liberalization, removal of controls. Large reduction in state labor force.	Despite freeing large labor pool, government has emphasized large-scale capital investments - with environmental damage and few employment benefits. Remaining subsidies/price controls in for fuel, coal, and electricity favor urban and large-scale development Rural subsidy of urban development..	Increasing income inequality as with economic extraction from rural areas and investment into urban. Natural resources are being mined and not reinvested, nor is rapid use regulated, given decline in state sectors. Meanwhile, rural poverty also impels resource consumption for livelihood. Erosion, deforestation, loss of wildlife and biodiversity are common. Lack of attention to water pollution, in both rural and urban areas. Hazardous waste and air pollution are increasing problems.	1) increasing poverty; 2) strong rural-urban differences; 3) increased pressure on environmental resources in rural areas (parks, forests, wildlife) with diminished regulatory capacity; 4) increased pressure on urban environment, with increased migration - squatter settlements and urban poverty have increased; 5) urban decline in quality of life in terms of water supply, waste collection, sanitation, public safety, and health.
ZAMBIA	1983;1991; 1993	intermittent adjustment since 1983. Food subsidies removed in 1991 and ag. markets liberalized in 1993. Increased food prices; domestic inflation, contraction of manufacturing and civil service.	Most environmental consequences of SAP have been borne by rural populations; while urban populations suffer from reduced civil service & manufacturing. Unemployed urban dwellers have moved back to the country-side.	Disparity of effects on rural and urban sectors. Rural poverty has increased as rural areas have been neglected and subsidies have been reduced. Deforestation has increased, poaching of wildlife for consumption and for illegal sale has increased, soil quality is declining. Urban effects of adjustment were largely in deterioration of water quality, and health standards.	1) increasing poverty; 2) strong rural-urban differences; 3) increased pressure on environmental resources in rural areas (parks, forests, wildlife) with diminished regulatory capacity; 4) increased pressure on rural environment, with increased migration and increases in land put into production; 5) urban decline in employment and water quality.

3

Section Three: General Conclusions and Responses

The five conclusions presented below are derived from the analysis and findings of the nine country case studies presented in the preceding section. The conclusions indicate five key effects of structural adjustment policies:

- Widening the gap between rich and poor, rural and urban;
- Reinforcing the political economy of poverty;
- Informalizing the economy;
- Changing the role of state functions;
- Reducing policy options.

Key elements of each of these conclusions, each with environmental components, are summarized below.

• **Widening the gap between rich and poor, rural and urban:**

First, macroeconomic reforms have tended to widen the gap between rich and poor, increasing the number of poor and worsening their economic and social situations relative to the wealthy. The private sector, including multinational corporations, domestic export producers, commercial farmers, and medium and large corporations engaged in extractive industries, have been able to respond to international markets and have benefited from the liberalization of national economic policies. These groups have absorbed changes in relative prices, they have responded to new market incentives, they have benefited from the removal of barriers to the flow of capital and goods and they have benefited from the relaxation of environmental management regimes which have accompanied economic reforms. Particularly in the African case studies (Cameroon, Mali, Tanzania, and Zambia), farmers with access to credit and inputs and producing export-oriented crops fared much better than those lacking access to inputs or markets, who were typically small farmers producing crops for domestic consumption.

In contrast, land-poor and landless peasants have not been able to respond as well to changing prices and incentive structures and have experienced a serious erosion of their

income earning ability. Moreover, the changing relative prices for their products and rising input prices have combined with reductions in social services, extension services, and credit and loss of marketing agencies, thereby generating strong downward pressure on their incomes on numerous fronts. The burdens of macroeconomic reforms have been particularly severe for poor women who, as both producers and the primary workers in maintaining families, have suffered the confluence of these price changes and reductions in social services more directly.

Adjustment has negatively affected the rural sector, contrary to the original intent of adjustment programs, in El Salvador, Venezuela, Cameroon, Zambia, and, comparatively speaking, in Vietnam. Income differentials have grown between urban and rural families in those countries and absolute poverty has grown in all but Vietnam as well. Efforts to shift the burden of adjustment to urban sectors in favor of the rural poor were often met with social unrest in urban centers, leading policy makers to alter their policy prescriptions to avoid protracted political upheaval.

- **Reinforcing the political economy of poverty:**

Second, economic reforms have reinforced the prevailing political economy of poverty in most of the countries studied. The structures and social relations that generated poverty prior to the macroeconomic reforms have not been fundamentally altered as the reforms have been implemented. In fact, the increased disparity between rich and poor in the countries studies provides strong evidence indicating that the social relations generating poverty have not only remained in place but have been deepened and fortified.

It is important to point out that one of the strategies used by the privileged in addressing the growing discontent of the poor sectors is to distribute public environmental assets as a means of appeasing their growing public dissatisfaction. The case studies in Cameroon and Venezuela further illustrate how policy makers have applied this approach to quell social discontent. This distribution of environmental assets has had the positive impact of increasing productivity of the poor in the short term. Experience has demonstrated that the basic problem with this approach is that it is only a temporary response, not an enduring solution, to a more fundamental problem of concentration of wealth and power. Moreover, as these case studies illustrate, high environmental costs are often associated with this strategy. Once the natural resources are depleted or degraded, the cycle of poverty-environmental degradation is rekindled, placing the issue of the country's political economy of poverty back to the center of public attention. And once the issue resurfaces, policy makers usually have few or no public environmental assets which can be distributed to placate social protest. In short, this response does not alter the underlying social relations that have generated poverty and induced environmental degradation.

This is a paradoxical outcome in that one of the underlying promises of adjustment programs was that the reforms would stimulate widespread economic growth and thereby alleviate poverty by generating employment opportunities for the poor. There is widespread recognition that the short-term effects of adjustment would often include higher costs for a variety of basic commodities, energy, water, and imported goods when currencies are devalued, subsidies removed and trade liberalized. Similarly, policy makers recognized that formal employment would decline as well in the short-term. As a result of these short-term effects of reform packages, compensatory social programs have been introduced, as in Venezuela, to provide an immediate safety net for the most vulnerable sectors of adjusting societies. However, over the long-term, the economic growth resulting from adjustment was supposed to be sufficiently high to lead to employment increases throughout the economy and to lead to increased income and better income distribution. Admittedly, the nine case studies took place at varying times during or following the formal adjustment process. However, it is safe to say that there was little evidence that the economic benefits of structural adjustment have or will trickle down to the poor in most of the countries.

In contrast, what has resulted is that the privileged, as indicated above, have consolidated their control over the economy and continue to be the beneficiaries of the accumulation process. There is little doubt that there has been a displacement of some of the wealthy sectors by other rising economic groups. This is a process of shifting power to those economic groups, for instance, within manufacturing or marketing sectors, who are able to respond to the new opportunities provided by the emerging international market system. But this sectoral realignment has not altered in any fundamental way the political economy of poverty.

- **Informalization of the economy:**

Third, one of the results of the expansion of impoverished sectors is the informalization of the national economies. The growing number of poor embark on productive activities not registered in the formal economy and therefore are not subject to national fiscal regimes and regulatory controls.

This resulting informalization of the economy has particular significance for the theme of this article for the following reason. These informal workers frequently move back forth between rural and urban settings, seeking employment wherever possible. For instance, in several African countries, as highlighted in the case study in Zambia, when the urban labor market expands even minimally, the unemployed move into the city seeking work; when the labor market closes, they move back into agrarian communities. In both settings, the poor rely heavily on natural resources in order to survive, whether through small-scale mining, catching lizards for export, producing charcoal, brewing home-made beer, catching rodents for food, and so on.

In this sense the poor are trapped in social relations in which they cannot ensure their means of survival in either the rural or urban context by applying or selling their labor power. Moreover, in their struggle to survive, they intensify pressure on and consume environmental assets at unsustainable rates. Those assets can take the form of marginally productive soils in rural areas, or the ambient environment in which they dwell in urban areas. In effect, they cannot pay the costs of maintaining the environment in which they live.

This social relation is all the more disturbing in that these workers in the informal sector, be it urban or rural, support the formal sector economy from which the privileged are able to derive their wealth and means of social well-being. The informal sector is not disconnected from the formal sector but rather provides a broad continuum of goods and services which enables the formal economic activities to take place. In this sense the informal sector draws down environmental assets, often destroying its means of survival, in the process, so that the formal sector can expand and generate social wealth for the privileged.

- **The changing role of state functions:**

The fourth conclusion regards the functions of the state and its relation to the poverty-environmental degradation nexus. The reduction of the role of the state as an economic agent, a fundamental element of adjustment programs, has generated serious dislocations for many urban and rural workers. However, the state's economic functions were maintained in prior years and decades at high and unsustainable economic cost to individual countries. The transfer of state-owned enterprises should, over time, generate new prospects for employment for those workers.

Of particular concern for this article, however, is the impact of the changing functions of the state for poverty and the poverty-environmental degradation nexus. First, the fiscal retrenchment of the state has also marked a reduction in the ability of the state to redistribute wealth and opportunity. The state has reduced its role as a guarantor of more equitable social relations. This has implied willingness to accept that the state will reduce or cease to play a role in altering the social relations of poverty. Second, the state, in reducing its ability to provide extension services and credit to rural poor, has ceased to be a means by which the rural poor can gain access to productive assets needed to compete in the national market system. Not surprisingly, this shift has been accompanied with a rising influence and economic prowess of the commercial agricultural sector, which is demonstrating its ability to respond to the emerging international market system.

- **Reducing policy options:**

The fifth and final conclusion regards the potential outcomes of this failure to address the underlying causes of poverty. Using traditional measures of economic growth, many of the countries covered in the WWF studies registered improvements in traditional measures of economic growth and in the basic economic equilibria. Thus, using its own criteria, the neoclassical framework can and has declared its prescription for economic reforms to be successful.

Yet, even the most ardent proponents of macroeconomic adjustments have recognized that their expectations of alleviating poverty have not been met in most instances. The analysis presented above attempts to explain why that desired outcome has not been reached. However, from WWF's point of view the net impact is far more serious than failing to reach this one goal. Our conclusion is that the reinforcement of the political economy of poverty has not only diminished the prospects for social stability and well-being of the poor in these societies, but has accelerated the poverty-environmental degradation process. In the short run, this failure has led the most vulnerable groups to pursue survival tactics based on natural resource consumption. In the medium and long terms, it implies that policymakers will have greatly reduced options for addressing the basic development objectives of their societies. Both social equity and environmental integrity are requisites of longer-term economic growth. On both counts the adjustment process has not corrected the underlying structural problems which threatened these two requirements. In fact, it has exacerbated them.

The twin trends of growing populations and growing environmental scarcities experienced by the countries covered in WWF's studies provide strong indications that pressures from civil society to address the underlying issues of social equity and environmental protection will rise significantly in coming years. These two trends will generate increased constraints for policymakers to develop sustainable approaches to development in the future.

Responses

The architects of current adjustment programs argue that correcting fundamental economic disequilibria should remain the focus and priority of adjustment programs. There are many sound reasons to agree with that priority. The fact is, however, that the current approach to macroeconomic restructuring reinforces the political economy of poverty. Integrating adjusting countries more deeply into the rapidly changing international market system reinforces those social forces which have

generated impoverished social groups and poverty-induced environmental degradation. Hence the underlying contradiction.

Unfortunately, there is no easy response or resolution to this underlying dilemma. Unless basic disequilibria are corrected, continued economic crisis is a certainty for many countries. If, however, current reforms continue as programmed, broadened poverty and environmental degradation are guaranteed outcomes. In short, a satisfactory response requires correcting underlying economic imbalances while altering the social relations that generate poverty.

Ultimately, design and implementation of macroeconomic reform programs that address these two issues are the responsibility of national policymakers and planners. Their willingness to alter their current approach to economic reforms depends on the political strength and will of national economic, social and military elites and, equally, on the determination and strength of social movements seeking to alter the current balance of power.

In that context, international development organizations and movements can contribute to altering the political economy of poverty of various countries if they are willing to do so. Their contributions, of course, can only serve as complements to efforts of domestic groups and movements trying to democratize social and political processes. The recommendations listed below are offered as indications of three basic changes that are required to achieve the goals of correcting disequilibria and altering the political economy of poverty.

First, a fundamental change is required in the design and implementation of reform programs to ensure that the economic reforms are designed to increase the productivity and stability of the urban and rural poor. This would require increased access by the poor to assets, including land, extension services, credit, marketing services, transport, information, education, employment opportunities, health, and other social services. Inefficient subsidies and spending essentially benefiting the rich should be reduced or eliminated to yield resources for strengthening the social position of the poor. Subsidies to the poor could be phased out as production rises. Liberalization should be phased in to account for the competitive capacity of domestic producers. This recommendation is not intended to revert to statist paternalism of past years but to systematically redistribute productive assets to the poor. Its intent is to facilitate a restructuring of the current political economy to shift benefits from the privileged to the needy.

Second, a departure with the current anti-statist ideology accompanying structural reforms is urgently required. This recommendation should not be misconstrued to imply a return to the decades of statist authoritarianism or paternalism promoted by many countries in their post-colonial periods. Those decades were marked by economic distortions, political abuses, financial corruption, and resource pillaging which condemned those societies to mismanagement and economic deterioration.

What is urgently required is a development state whose purpose, in addition to establishing a stable macroeconomic framework, is to ensure provision of basic public goods and services, to be the guarantor of basic conditions of equity and opportunity, and to ensure sound management of the natural resource base.

Both of these proposals require a fundamental reorientation of the current political economy of poverty which pervades so many countries. The most basic change needed to alter the current political economy is strengthening the social and political power of those social sectors which have been driven to the margins of society and the economic system. Stated in other terms, it requires strengthening the many organizations and groups of civil society whose origins and genesis reside in the economic system's externalization of social and environmental costs of growth. The acquisition of economic and social power by these social groups will not come through willful transfer of power but through persistent organization and concerted action to influence national decision making processes.

In this context, the third recommendation is to support a strategy of international cooperation which seeks to facilitate the strengthening of those sectors of society which have been pushed to the economic and political margins. The proliferation of community, women's, and civic groups, and non-governmental organizations in recent years is a response to the social and economic marginalization experienced by many sectors. A central element in altering the current political economy of poverty is the reinforcement of the capacity of those organizations and groups. The means and mechanisms for promoting that agenda must be tailored to the requirements and interests of the local groups and requires, in most cases, changing the priorities, accountabilities and partnerships promoted by international institutions, non-governmental organizations, and advocacy groups.

Finally, we cannot close this article without recognizing that altering many of these patterns and relations is ultimately tied to the international political economy. Emerging global economic relations are changing, in fundamental ways, the processes and relations through which wealth and environmental assets accumulate to the privileged and reinforce the social relations of poverty in different forms around the world. Ultimately, obliging the economic system to internalize its social and environmental costs remains the fundamental challenge of the human enterprise as we enter the second millennium.

ENDNOTES

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