Disempowering New Democracies and the Persistence of Poverty

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Acronyms

BWI	Bretton Woods institutions
ESAF	Enhanced Structural Adjustment Facility
GDP	gross domestic product
GEAR	Growth, Employment and Redistribution
ICRG	International Country Risk Guide
IFIs	international financial institutions
IMF	International Monetary Fund
LDC	least developed country
MMD	multi-party democracy
NGO	non-governmental organization
NPTR	normal permanent trade relations
NTB	non-tariff trade barriers
OECD	Organisation for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
RICE	relative income conversion efficiency
SAP	structural adjustment policy

Summary/Résumé/Resumen

Summary

In this paper, Thandika Mkandawire considers two processes taking place simultaneously in developing countries: the adoption of orthodox economic policies during a period of growing awareness of the pervasiveness and persistence of poverty, on the one hand, and the growing political empowerment of the majority of the population through processes of democratization, on the other hand.

During the last decade, international conferences, pronouncements by international organizations and bilateral donors, campaigning by non-governmental organizations and the declarations of national governments have brought the issue of poverty back onto international and national agendas, following decades when it had been displaced by excessive focus on adjustment and stabilization. At the same time, significant steps have been made toward democracy in many countries. This wave of democratization has also served to highlight the blight of poverty, partly because of the greater transparency in political and economic affairs, partly because of the political empowerment of the poor themselves, and partly because of the growing recognition that poverty impinges on democracy's own prospects.

Until very recently, it was assumed either that democracy was a luxury poor countries could not afford, or that socioeconomic conditions in these countries were not auspicious for the implantation of democracy. But the emergence of democracies in social and economic conditions that had been ruled out by theories that insisted on a number of economic preconditions for its emergence has led to a new optimism about the prospects for democracy under widely divergent economic and social conditions. Unfortunately, however, this has also led to a view about democratic consolidation that assumes an extremely voluntaristic character, overemphasizing the role of political leadership, strategic choices about basic institutional arrangements or economic policy, and other contingent process variables. This focus on political crafting of democracies has bred complacency about the possibility of consolidating democracies in unfavourable structural contexts. The author argues that it is important to bear in mind both the ideational and the many structural impediments to the consolidation of democracy in the developing countries. One such constraint is the predominance of economic policies that hamper democracies from addressing issues of equity and poverty. Mkandawire focuses on the fact that new democracies have tended to be more orthodox than older democracies.

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Résumé

Dans ce document, Thandika Mkandawire s'intéresse à deux phénomènes qui ont été simultanés dans les pays en développement: d'une part, l'adoption de politiques économiques orthodoxes à un moment où l'on prend conscience du caractère envahissant et tenace de la pauvreté et, de l'autre, l'accès de la majorité de la population à la vie politique par les processus de démocratisation.

Au cours de la dernière décennie, des conférences internationales, des prises de position d'organisations internationales et de donateurs bilatéraux, des campagnes d'organisations non gouvernementales et des déclarations de gouvernements nationaux ont à nouveau inscrit à l'ordre du jour international et national la question de la pauvreté, qui en avait été écartée pendant des décennies par un intérêt excessif porté à l'ajustement et à la stabilisation. En même temps, de nettes avancées démocratiques ont été enregistrées dans de nombreux pays. Cette vague démocratique a eu aussi pour effet de mettre en évidence le fléau de la pauvreté, par une plus grande transparence des affaires politiques et économiques, à cause de l'émancipation

politique des pauvres eux-mêmes et aussi parce qu'il est apparu évident que la pauvreté restreignait les perspectives mêmes de la démocratie.

Tout récemment encore, on partait de l'hypothèse que la démocratie était un luxe que les pays pauvres ne pouvaient pas se permettre ou que la situation socio-économique de ces pays n'était pas favorable à l'instauration de la démocratie. Mais l'émergence de démocraties dans des conditions sociales et économiques que les théories n'avaient pas répertoriées comme conditions préalables possibles a fait naître un nouvel optimisme et laissé à penser que la démocratie pouvait s'implanter dans des situations sociales et économiques extrêmement différentes. Malheureusement, il en est aussi résulté une vision extrêmement volontariste de la consolidation démocratique, qui surestime tant le rôle des dirigeants politiques que l'importance de choix stratégiques relatifs aux mécanismes institutionnels de base ou à la politique économique, et d'autres variables accidentelles. Cette focalisation sur la construction politique des démocraties a fait croire naïvement que l'on pouvait renforcer les institutions démocratiques dans des contextes structurels défavorables. L'auteur fait valoir qu'il est important de se rappeler les nombreux obstacles à la fois structurels et psychologiques à l'affermissement de la démocratie dans les pays en développement, ne serait-ce que la prédominance de politiques économiques qui empêchent les démocraties de s'attaquer aux problèmes des inégalités et de la pauvreté. Thandika Mkandawire s'attarde sur le fait que les démocraties nouvelles ont eu tendance à être plus orthodoxes que les anciennes.

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Resumen

En este documento, Thandika Mkandawire analiza dos procesos que están ocurriendo simultáneamente en los países en desarrollo: por una parte, la adopción de políticas económicas ortodoxas durante un período de concientización cada vez mayor sobre la generalización y persistencia de la pobreza y, por la otra, el creciente empoderamiento político de la mayoría de la población a través de los procesos democráticos.

En los últimos 10 años, las conferencias internacionales, los pronunciamientos de los organismos internacionales y los donantes bilaterales, las campañas de las organizaciones no gubernamentales y las declaraciones de los gobiernos nacionales han reinsertado el tema de la pobreza en las agendas nacionales e internacionales, luego de que el mismo permaneciera desplazado durante décadas por un excesivo énfasis en el ajuste y la estabilización. Al mismo tiempo, se han registrado avances importantes hacia la democracia en muchos países. Esta ola de democratización también ha contribuido a destacar la plaga de la pobreza, en parte debido a una mayor transparencia en los asuntos económicos y políticos, así como al empoderamiento político de las mismas clases pobres y al reconocimiento creciente de que la pobreza repercute sobre las perspectivas mismas de la democracia.

Hasta hace muy poco tiempo, se suponía que la democracia era un lujo que los países pobres no podían permitirse, o bien que las condiciones socioeconómicas de estos países no favorecían la implantación de la democracia. Pero el surgimiento de democracias en condiciones sociales y económicas que habían sido descartadas por las teorías que insistían en una serie de precondiciones económicas para su implantación ha generado un nuevo optimismo sobre las posibilidades de la democracia bajo condiciones económicas y sociales ampliamente divergentes. Sin embargo, por desgracia, esta misma situación ha alimentado una corriente de opinión sobre la consolidación de la democracia que supone un carácter extremadamente "voluntarista", en el cual se enfatiza demasiado la función del liderazgo político, las opciones estratégicas sobre los arreglos institucionales básicos o la política económica, así como otras variables contingentes de proceso. Este énfasis en la concepción política de las democracias ha generado una riesgosa confianza sobre la posibilidad de consolidar las democracias en contextos estructurales desfavorables. El autor sostiene que es importante tener presente tanto

los obstáculos conceptuales como los numerosos impedimentos estructurales a la consolidación de la democracia en los países en desarrollo. Una de tales limitaciones es el predominio de las políticas económicas que impiden a la democracia atender los problemas de equidad y pobreza. Mkandawire se centra en el hecho de que las nuevas democracias han tendido a ser más ortodoxas que las democracias anteriores.

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Introduction

> *A country does not have to be deemed fit for democracy; rather, it has to become fit through democracy. This is indeed a momentous change, extending the potential reach of democracy to cover billions of people, with their varying histories and cultures and disparate levels of affluence.*
>
> *Amartya Sen (1999b:4)*

In this paper I would like to consider two simultaneous processes taking place in developing countries: the adoption of orthodox economic policies during a period of growing awareness of the pervasiveness and persistence of poverty, on the one hand, and the growing political empowerment of the majority of the population through processes of democratization, on the other hand. Over the last decade, international conferences, pronouncements by international organizations and bilateral donors, campaigning by non-governmental organizations (NGOs) and the declarations of national governments have brought the issue of poverty back onto international and national agendas, following decades when it had been displaced by an excessive focus on adjustment and stabilization. At the same time, significant steps have been made toward democracy in many countries. This wave of democratization has also served to highlight the blight of poverty, partly because of the greater transparency in political and economic affairs, partly because of the political empowerment of the poor themselves, and partly because of the growing recognition that poverty impinges on democracy's own prospects.

Until very recently, it was assumed either that democracy was a luxury poor countries could not afford, or that socioeconomic conditions in these countries were not auspicious for the implantation of democracy. The emergence of democracies in social and economic conditions that had been ruled out by theories that insisted on a number of economic preconditions for its emergence has led to a new optimism about the prospects for democracy under widely divergent economic and social conditions. Unfortunately, however, this has also led to a view on democratic consolidation that assumes an extremely voluntaristic character, over-emphasizing the role of political leadership, strategic choices about basic institutional arrangements or economic policy, and other contingent process variables. This focus on political crafting of democracies has bred complacency about the possibility of consolidating democracies in unfavourable structural contexts. I shall argue here that it is important to bear in mind both the ideational and the many structural impediments to the consolidation of democracy in the developing countries. One such constraint is the predominance of economic policies that hamper democracies from addressing issues of equity and poverty. I will focus on the fact that new democracies have tended to be more orthodox than older democracies.

The Centrality of Growth and Equity

Much of the recent discontent with new democracies and the consolidation process has been with respect to their institutional weakness—presidentialism, lack of horizontal accountability, and the persistence of "authoritarian enclaves" that at times hold democracies at ransom. This has led to a flurry of epithets such as "low-intensity democracies", "exclusionary democracies", "*démocracie tropicalisé*", "delegative democracy" and "low-intensity citizenship". The problems that these epithets highlight are often of an essentially procedural nature. However, at times they also point to discontent on the substantive issues of equity and material well-being. Sen has observed that there has never been a famine in a democracy. This observation points to the ability of democracies to respond to extreme cases. It does not, however, tell us much about the persistence of the everyday forms of poverty that persists in many democracies. First, we find that among contemporary developing countries, can be found both good and bad performers in terms of poverty reduction (see table 1). As observed in the 2002 *Human Development Report: Deepening Democracy in a Fragmented World*,

> 10 to 20 years later, democracy has not produced dividends in the lives of ordinary people in too many countries. Income inequality and poverty have risen sharply in Eastern Europe and the former Soviet Union, sometimes at unprecedented rates…Poverty has continued to increase in a more democratic Africa. And many newly democratic regimes in Latin America seem no better equipped to tackle the region's high poverty and inequality than their authoritarian predecessors (UNDP 2002:63).

Democracy per se does not eliminate poverty. It is rather the strategies of development that do, with the result that some of the best performers in the eradication of poverty have been authoritarian countries pursuing developmentalist and socially inclusive policies, while some democracies have been among the worst performers (such as India, Botswana, the Philippines and Venezuela). Among the democracies, the best performers have been Sri Lanka and Jamaica. However, even the best do not compare with the Republic of Korea, Taiwan Province of China and Singapore where the percentage of population below the poverty line is zero. Second, many of the new democracies are pursuing policies that are unlikely to address the problems of poverty. Third, for developing countries where poverty is acute, the legitimacy of democracy cannot rest only on their procedures, but must rest on their performance as well. How the fight against poverty is pursued has enormous implications for democracy. Or as stated by Gordon White (1998:29): "It is our thesis that the capacity of democratic regimes to secure sustained and equitable socioeconomic development depends heavily on the extent to which they can construct effective developmental states". From time to time democracies will have to respond to the challenge of the "full belly thesis", which claims that democracy was a luxury the poor cannot afford and gave precedence to the "right to development" over all other rights.

Table 1: Countries' performance in reducing poverty, according to political regime

Performance	Authoritarian regimes	New democracies	Old democracies	Total
High	9	7	9	25
Medium	15	15	11	41
Low	34	10	5	49
Total	58	32	25	115

Notes: The index developed by Moore and associates (Moore et al. 1999) to measure the efficiency with which national income is converted into longevity, literacy and education has been recalculated (using 2002 data). The Freedom House database has been used for both the degree and longevity of democracy. New democracies are countries that made the shift to democracy in 1982 and have remained democratic.

Political regimes can affect poverty through two major channels: economic growth and redistribution. We know that equity without growth may have one-off benefits for the poor but that the dynamics of demographics and depreciation of physical and social infrastructure will eventually lead to the impoverishment of everyone. There are several cases of countries, which made laudable achievements in poverty reduction with limited resources (see, for instance, the studies in Ghai 2000). However, in many cases the experiments have foundered for lack of sustained growth and balanced development. We know, too, that a process of growth in the context of unchanged income distribution can improve the incomes of all, including the poor. But we also know that growth can be immiserizing as incomes of the poor decline due to the anti-poor bias of the growth process. In any case, more equitable growth would do better than a distribution-neutral or anti-poor growth pattern.

In recent years, the international community has set a number of goals for the reduction of poverty (for example, the United Nations Millennium Development goals). As can be seen in table 2, fairly high levels of growth in per capita incomes are required to meet some of the goals set by the international community to halve poverty by 2015, especially if one assumes no significant changes in income distribution. Obviously economic growth that includes greater equity will benefit the poor more than growth that is equity-neutral. With greater equity, the levels of growth required to halve poverty by 2015 are quite feasible (table 3). For Latin America and the Caribbean, a rate of only 0.6 per cent instead of 7.0 per cent would be required, and for sub-Saharan Africa 2.4 rather than 5.9 per cent would be required. Note however, that even this low rate for Africa would be higher than the forecast by the World Bank for 2001–2010.

Table 2: Growth rates required to halve poverty by 2015 and income shares

	Per capita growth rates			Target minus			
	To meet targets 2001–2015	**Actual 1965–2001**	**Actual 1990–2001**	**Actual 1965–2001**	**Actual 1990–2001**	**World Bank projections 2001–2010**	**Income share, top 20%**
East Asia and the Pacific	3.50	4.68	5.83	–1.18	–2.33	5.1	44.00
Eastern Europe and Central Asia	3.80	2.97	–0.68	0.83	4.48	3.3	44.00
Latin America and the Caribbean	7.00	0.98	1.43	6.02	5.57	2.1	53.00
Middle East and North Africa	2.80	0.63	0.93	2.17	1.87	1.4	n.a.
South Asia	3.90	2.67	3.17	1.23	0.73	3.8	40.00
Sub-Saharan Africa	5.90	0.12	–0.13	5.78	6.03	1.3	52.00

n.a. = not available. **Source:** Calculated from World Bank CD-ROM online, Dagdeviren et al. (2002) and World Bank (2002).

Table 3: Required rates of growth under different policy regimes *(per cent)*

	Forecast growth 2001–2010	Growth required to halve poverty by 2015	
		Broader based	**No change**
Sub-Saharan Africa	1.3	2.4	5.9
High inequality		3.5	10.4
Low inequality		2.1	4.6
Latin America and the Caribbean	2.1	0.6	7.0
High inequality		0.5	7.0
Low inequality		2.1	4.5

Source: Hanmer and Naschold 2001; World Bank 2001.

Significantly, although it is now agreed that equity would improve the efficacy of growth in addressing problems of poverty, the orthodox policy regime basically rules out explicit redistributive policies for several reasons, including basic faith in the efficacy of the market in achieving the desired results, and the fear that such redistributive measures will scare private investors.

The point here is that growth is important for the alleviation of poverty, and different patterns of growth have different effects on poverty, depending on initial levels of inequality and contemporaneous patterns of redistribution of the additional resources generated by growth. The further point is that the challenge for new democracies is the pursuit of policies that are growth enhancing and equitable.

An Elective Affinity?

In earlier literature on adjustment and democracy, a commonly held assumption (by both advocates and opponents of adjustment) was that democracy would hinder adjustment. The arguments advanced were similar to those put forward in the earlier debate on compatibility, which posited a trade-off between democracy and growth. The argument was essentially that democracy would push policy toward short-term gratification of myopic voters by either increasing public consumption or pushing for redistributive policies that could produce disincentives among potential investors. This would reduce savings and investment and, hence, growth. In the longer run moreover, democracies were perceived to be more likely to develop powerful entrenched interest groups that would block flexible adaptation to changing technology or international trends (Nelson 1989). A similar argument was taken up in the 1980s but given a new twist by the "new political economy" in ascendance at the time. It was argued that democracies would capitulate to the pent-up demands of the newly mobilized social forces that had borne them to power and would thus not only be unable to pursue the tough austerity measures necessary to structural adjustment, but would also tend to resort to "macroeconomic populist" strategies, inducing fiscal laxity (of running high deficits and subsidies), insist on price control (for example, food subsidies, minimum wages) and promote nationalization measures (Dornbursch and Edwards 1992).

In contrast, authoritarian governments were more likely than democracies to adopt and enforce unpopular economic stabilization and adjustment measures because such policies required, in the words of Deepak Lal, "a courageous, ruthless and perhaps undemocratic government is required to ride roughshod over these newly-created special interests groups" in developing countries (Lal 1983:33). Such authoritarian regimes are assumed to be better placed to make long-run plans, less influenced by popular pressures and better able to both forestall protest through anticipated repression and to suppress protest if it does occur. Thus Ronald Findlay suggests that while authoritarian rule may not be sufficient, it is most likely necessary for implementing orthodox policies: "It is very difficult to imagine a genuinely democratic regime than can insulate itself from domestic pressures to the extent necessary, even if the outward-looking strategy is to everyone's best interest in the long run" (Findlay 1988:93). Stephen Haggard states the case succinctly when he argues:

> Since authoritarian political arrangements give political elites autonomy from distribution pressures, they increase the government's ability to extract resources, provide public goods, and impose the short term costs associated with efficient economic adjustment. Weak legislatures that limit the representative role of parties, the corporatist organization of interest groups, and recourse to coercion in the face of resistance should all expand government's freedom to manoeuvre on economic policy (Haggard and Webb 1993:262).

However, by the mid-1980s, the adoption of orthodox stabilization and adjustment programmes by such democracies as India and virtually all the new democracies undermined that view. Empirical evidence at that time seemed to suggest that, contrary to earlier views that only authoritarian regimes would implement these policies, democracies could do just as well, if not better. First, it became clear that the association of economic populism with democratic rule was not historically accurate. Karen Remmer's study of 10 South American countries and Mexico showed that democracy had not reduced government's capacity to manage debt crises. Specifically, new democracies outperformed their authoritarian counterparts "in promoting growth, containing the growth of fiscal deficits, and limiting the growth of the debt burden" (Remmer 1990:327). Drawing on the experiences of Latin America and Southern Europe, Bresser

Pereira (1993:10) went further and turned the tables, arguing, "Populism is an endogenous product of technocratic policy styles"[1]. Populist pressures to pursue immediate particularistic interests can be attenuated by the strength of democratic institutions (through representative organizations and institutions participating actively in the formulation and implementation of economic policy) and not exhortations of technocrats. Maravall (1994) noted that for the authoritarian state, the only source of legitimacy is usually high economic growth while the legitimacy of democracy is not as dependent on their economic performance. Consequently, authoritarian regimes are more likely to engage in macroeconomic populism than democracies.

All this raises questions about the "elective affinity" between authoritarianism and effective implementation of neoliberal policies. Indeed, some observers go as far as to suggest that if there is any "elective affinity" at all, it is between democracy and market liberalism. This is due to the fact that democracies are able to pursue the principles of liberalization in a consistent way because they are, at least, not incompatible with their political agenda. For Michel Duquette (1999:221) "Democracies are the only true bearers of a genuine process of structural change". Diamond et al. (1995) forcefully state the case thus:

> Increasingly, it appears that the conditions conducive to successful economic reform are not incompatible with democratic governance. These conditions include political leadership strongly committed to basic structural reform and possessing the political skill necessary to mobilize and craft supporting coalitions; a 'relatively strong consensus' among elites on certain fundamental policy principles.

Economic reform is more likely to be sustainable and effect a fundamental economic restructuring over time, if the governments imposing the transitory pain of adjustment are viewed as legitimate by society, consult major social and interest groups and involve them in the design of policies, and—along with independent media and policy centres—educate the public about the need for reform. Democracies are advantaged in all of these respects.

Some Evidence and Illustrative Examples

The first thing to do is to provide empirical evidence that new democracies are implementing orthodox policies and, more pointedly, that new democracies have tended to be even more orthodox in their policies than the more consolidated democracies. Ideally, the analysis would have been facilitated by set of standard policy indicators for all countries. For Latin America there is, fortunately, the set prepared by Samuel Morley, Roberto Machado and Stefano Pettinato (1999).[2] This index measures the efforts governments have made to implement the

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1 Maravall similarly observes that dramatic fiscal crisis and inflation in Latin America are more attributable to development efforts of dictatorships than to democratic populism (Maravall 1994).

2 The policy indicator for variable I for country j in any given year is given by

$$I_{ij} = \left(\frac{\underset{j}{MaxX_{ij}} - X_{ij}}{\underset{j}{MaxX_{ij}} - \underset{j}{MinX_{ij}}} \right) \qquad 1$$

where

X_{ij} is the actual value of variable i for country j

I_{ij} is the index value of variable i for country j

$Max\ X_{ij}$ is the maximum value of variable i for variable j for all countries.

$Min\ X_{ij}$ is the minimum value of variable i for variable j for all countries.

The policy index is then the average of the n indices.

reform package. First the authors calculate the index for each of the following indicators: tax reform, domestic financial reform, international financial liberalization, trade reform and privatization. I will use this index to compare policies between old and new democracies. Old democracies are countries that were democratic before 1982. The average of the index for the five years before and after democratization are used for the new democracies, and the value of the variable for the five years before 1985 and five years after for the old democracies. This gives us table 4, which demonstrates two things: (i) the new democracies are more "orthodox"; (ii) in a significant number of cases, the regimes before democratic transition were leading in the reform process. Thus greater orthodoxy in the new democracies cannot be attributed to their efforts to catch up to reforms that their predecessor may have failed to implement.

Table 4: Policy reform index for old and new democracies

	Average five years before	Average five years after	Transition year
Old democracies			
Venezuela	0.5382	0.4302	<1983
Dominican Republic	0.5983	0.3876	<1983
Jamaica	0.6405	0.4346	<1983
Ecuador	0.6618	0.5396	<1983
Brazil	0.6720	0.4970	<1983
Honduras	0.6779	0.6434	<1983
Colombia	0.6881	0.6072	<1983
Costa Rica	0.7708	0.5272	<1983
Honduras	0.6779	0.6434	<1983
Bolivia	0.7340	0.5430	<1983
Average	0.6660	0.5253	
New democracies			
Paraguay	0.7056	0.6410	1992
Argentina	0.6844	0.6666	1983
El Salvador	0.5754	0.5276	1985
Uruguay	0.8288	0.7856	1985
Chile	0.8320	0.7380	1990
Guatemala			1996
Mexico			1997
Peru			2000
Average	0.8488	0.7252	

Source: Calculated from Morley et al. (1999).

Old Latin American democracies

Costa Rica

Costa Rica, the oldest democracy in Latin America, belongs to what Adrian Leftwich (1998) refers to "party-alternation non-development democratic states". Party alternance is fairly well established, with the two dominant, multiclass parties, the National Liberation Party and the

$$I_j = \frac{1}{n}\sum_{i=1}^{j} I_{ij} \qquad 2$$

The higher the index, the more orthodox the policies.

Social Christian Unity Party, alternating in power since 1949. The two parties have reached a broad consensus about development policy, and both are committed to a mixed economy.

In 1980, Costa Rica was faced with a critical economic situation. In this context, it made recourse to the International Monetary Fund (IMF) and a letter of intent was considered between the Costa Rican government and the IMF, late in 1981, but it was not signed. The government then suspended its international debt obligations. A new government of Alberto Monge (1982–1986) began in May 1982, with substantial economic support from the United States. This government instituted a "100-day" stabilization plan which included an appreciation of the colon (the Costa Rican currency), together with controls on the outflow of capital and unification of the official and free-market exchange rates, income, sales and consumption tax increases, decreases in subsidies, increases in the prices of some public utilities, a public sector wage freeze and a credit restraint/contraction of the money supply. The stabilization plan resulted in a lowering of the inflation rate, and a consequent rise in real minimum wages (acting as a guide in the setting of private sector wages), which were effectively indexed to the recent past inflation rate. Average real salaries increased by over 40 per cent between 1982 and 1985.

From 1987 on, Costa Rica adopted a structural adjustment programme that continued the standard features with respect to trade, fiscal and monetary policies. The key instruments were positive interest rates, subsidies to exports, reduction of barriers to imports, promotion of investments—especially in duty-free zones—and institutional reforms. However even during this period, the policies were highly contested. This led to José Maria Figueres Olsen of the National Liberation Party becoming president in 1994. He opposed economic suggestions made by the IMF, instead favouring greater government intervention in the economy. The World Bank subsequently withheld $100 million of financing. In 1998, Miguel Angel Rodríguez of the Social Christian Unity Party became president, pledging economic reforms, such as privatization. However, even he did not go far along the orthodox route, implementing little privatization of state-owned utilities and services. At the time of writing, the large government-owned service enterprises continue as public enterprises, including the largest banks, health care, and government monopolies in insurance and utilities.

One contrast with other democracies—both old and new—is with respect to social policy. In contrast with Chile, for instance, where neoliberal transformation of social policy led to privatization, reductions of universalistic benefits, more means-tested programmes and an overall decline in social expenditures by more than a quarter, Costa Rica rejected similar individualization and privatization of social policy. Instead it strengthened the universalistic character of its pension and health policies and sought to put them on a sounder financial basis. In addition, during adjustment Costa Rica maintained its complex and generally well-enforced system of legal minimum wages.

Jamaica

Jamaica is one of the oldest democracies in the Latin American and Caribbean region. Under different regimes, the country has had "a long history of highly selective implementation of reforms determined by political calculation" (Killick 1998:111). And even when it eventually made adjustments, the World Bank and other donors were obliged to adopt a "soft belly" approach which concentrated on supporting measurers that the government supported (Killick 1998). Prior to the 1990s, Jamaica had a long and often troubled history of involvement with the IMF. By the early 1990s, however, Jamaica had met its outstanding commitments to the Fund and decided to avoid further engagement with it. Jamaica provides, therefore, a particularly interesting (and atypical) case study of a developing country that managed the crisis in its financial sector during the 1990s without IMF assistance or involvement (Kirkpatrick and Tennant 2001).

New Latin American democracies

Some of the new democracies tried expansionist heterodox policies. Two well-known examples of this are Raúl Ricardo Alfonsín's Plan Real in Argentina and the Plan Cruzada in Brazil. These policies were pursued in response to the expectations of their supporters. Yet the plans unravelled and were immediately abandoned, further reinforcing the view that there was, indeed, no alternative to orthodoxy. In the case of Argentina, by the time Carlos Menem took over in May 1989, inflation was running at 200 per cent per month and external debt was 338 per cent of total exports for that year. The hardship caused by the ensuing hyperinflation forced Menem to distance himself from the corporatist entities that had backed him and from the populist platform upon which he had campaigned. His administration adopted orthodox policies. The failure of "heterodox policies" was partly the result of polarized and/or fragmented systems that impeded efforts in negotiated agreements. Successful income policies have often involved corporatist arrangements that require highly organized labour, tacit agreement of business and technical coherence of state policies. Attempts at *concertación* were doomed to failure in the context.

The case of Chile provides an interesting case in which a new democracy emerges after one of the most ideologically orthodox regimes and opts, in the name of *continuismo*, to pursue the same orthodoxy as its abhorred predecessor. The Chile case also belongs to the category of countries that Haggard and Kaufman (1995) classify as "non-crisis democracies" where the regime change is not the result of macroeconomic crisis. In such situations the emphasis of the new democratic regime is likely to be around social policy and issues of equity while maintaining the main features of the adopted economic policy.

Old African democracies

Botswana and Mauritius

Botswana and Mauritius are the two oldest democracies in Africa. The two states have the distinction of being among very few countries often cited as "democratic developmental states" (Leftwich 1998; Meisenhelder 1997). Although their economics policies are generally touted as evidence of the benefits of relying on the market, the actual policies pursued by these economies are not orthodox.

Botswana is a democracy whose economic growth rate—averaging 7.3 per cent between 1970 and 1995—has been the highest in the developing world. It is at times cited by the Bretton Woods institutions (BWIs) as an economy managed according to its precepts. But this is patently misleading. A more accurate description of the fiscal policy of the state is that it is a "conservative Keynes-inspired expenditure policy" in the sense that taxation is low and expenditure is distributive or, at least, demand stimulating (Weimar 1989). This is an economy with a large public sector whose parastatal Botswana Development Corporation has 114 holdings, and which has exhibited lacklustre interest in privatization because, with the budget in healthy surplus, there are no compelling financial reasons for it. And because of the soundness of its fiscal condition there has been no effective donor pressure on the country to accelerate the pace of privatization.

Mauritius is considered one of the most successful economies in Africa, with a growth rate of 5.4 per cent between 1980 and 1999. It also cited as a good example of a country whose openness has paid off, and is presented as an example of a country where adjustment has worked. However, much of this has depended on tendentious classification and the desire to claim paternity to what is an obviously successful development experience. The evidence clearly indicates that Mauritius has pursued rather heterodox adjustment policies that have included a protected industry from the import substitution era and export promotion zone, price controls and tightened monetary policy (Bräutigam 1994). Indeed the IMF gave Mauritius its highest (that is, "worst") score on its "policy restrictiveness" index in the early 1990s, and reckoned that the country remained one of the world most protected economies even by the early 1990s (Subramanian 2001; Subramanian and Roy 2001).

A more recent World Bank study (Hinkle et al. 2003) reinforces this point. The study calculates an index of anti-export bias *B*.[3] If the *B* index is equal to one, then on average commercial policies are neutral between import-competing and exporting. And, if *B* should turn out to be less than one, then the trade regime is partial to exporting rather than to import-competing activities. As is clear from the last column of table 5, because Mauritius had the highest nominal protection tax both on domestically produced manufactured goods and on imported inputs, the *B* index for its domestic industries at 1.9 was higher than that of the eight new democracies included in the table. For our purposes, the significant point is that even in this limited case we see that the new democracies, such as Benin, Malawi and Mali, are more "orthodox" in their trade policies than Mauritius.

Table 5: The *B* index of overall anti-export bias measured in terms of output prices

	Year	E_m / E_x	Unweighted average NPTR[a] on domestically produced manufactured goods	Effect of NTBs[b] on average price of import-competing manufacturing sector output	Average tax on export industry output (estimate)	Taxes and duties on tradable inputs to exports	*B* index
South Africa	1996	1.03	32.9	0.0	0.0	8.5	1.5
Ghana	1996	1.01	30.3	0.0	9.0	7.3	1.6
Mali	1997	1.00	31.0	2.0	8.0	8.9	1.6
Senegal	1996	1.00	50.9	0.0	0.0	6.9	1.6
Malawi	1995	1.04	43.3	0.0	0.0	9.4	1.6
Tanzania	1996	1.03	44.6	0.0	0.0	12.1	1.7
Benin	1996	1.00	18.1	4.0	23.0	8.6	1.8
Zimbabwe	1997	1.06	53.4	1.0	0.0	10.4	1.8
Mauritius	1996	1.05	71.3	0.0	0.0	6.1	1.9
Mean for Africa	1.02	40.4	1.5	5.0	9.0	1.7	
Median for Africa	1.01	42.3	0.0	0.0	8.9	1.6	

[a] Normal permanent trade relations. [b] Non-tariff trade barriers. **Source:** Hinkle et al. 2003.

The policies of Mauritius are not only non-orthodox with respect to its trade, but also to social policies. Its development strategies demanded reconciling the obvious need for an export-oriented strategy for such a small island economy and the political requisite of shielding industries that had emerged under the import substitution phase and the social pacts that had been crafted during the period. The solution was to allow the setting up of Export Free Zones while protecting inward-looking industry. It also included the management of potentially explosive ethnic and racial relations by maintaining a fairly sophisticated welfare state. Subramanian and Roy (2001) point out that the economic performance of Mauritius has been sustained by OECD (Organisation for Economic Co-operation and Development)-type social

[3] The paper measures *B* which is the measure of anti-export bias and its formula is:

$$B = \frac{E_m\left(1 + t + n + PR\right)}{E_x\left(1 + s - t_i + r\right)} \qquad (1)$$

where E_m and E_x are nominal exchange rates applied on imports (*m*) or exports (*x*); t is the average import duty, *n* is any additional differential domestic taxation of imports, *PR* is the differential between the domestic and border prices of importable commodities subject to quantitative restrictions or import monopolies, *s* is any export subsidy (s>0) or export tax (s<0), t_i is the taxes and duties on inputs used in production of exportable goods (that is, the tax rate on inputs multiplied by the share of that input in total production costs), and *r* is any import duty. If *B* is higher than one, as is usually the case, the index indicates the degree to which commercial policies favour import-substitution relative to exporting.

protection which has taken several forms: a large and active presence of trade unions with centralized wage bargaining; price controls, especially on a number of socially sensitive items; and generous social security, particularly for the elderly and civil servants. Unlike the OECD countries, however, generous social protection has thus far not necessitated high taxes, reflecting both strong growth and a favourable demographic structure with a high proportion of the population being of working age (Bräutigam 1994).

New African democracies

The 1990s witnessed a dramatic wave of democratization in Africa. Unlike Latin America, none of the new democracies in Africa have experimented with heterodox macroeconomic policies. They went straight to orthodox policies.

Zambia

Few of the new democracies embarked on orthodox policies with as much fanfare and conviction as Zambia (Abrahamsen 2000; Kayizzi-Mugerwa 2001). The second president, Frederick Chiluba, was not only a "born-again Christian" but also a born-again adherent of neoliberalism who could declare, "We will privatise everything from a toothbrush to a car assembly plant" (cited in Abrahamsen 2000:118). And yet in no other sub-Saharan Africa country was the organizational base of the unions stronger and ideological aversion to adjustment better articulated. Zambia, the most urbanized country in sub-Saharan Africa, had had its share of "IMF riots". Its powerful labour unions played an important role in giving Chiluba's Movement for Multi-Party Democracy (MMD) electoral platform a popular appeal and in ensuring the victory of the party. Indeed President Chiluba came from the trade union movement. It was probably in recognition of the centrality of the unions that in the election manifesto released in 1991, MMD, while declaring that it would control inflation in collaboration with international donors, claimed this would be achieved not through an "unbalanced suppression" of workers' earning (Bratton 1994). And yet, on assuming power, the MMD, which blamed past poor performance on "failed socialist policies" embarked on "tough policies" under what was called the New Economic Recovery Programme. The financial sector was rapidly liberalized and the Central Bank was made independent. Food subsidies were eliminated. Trade reform led to sharp falls in tariffs—from 100 per cent to 40 per cent. The government "embarked on one of the fastest rates of privatization in Africa" (Kayizzi-Mugerwa 2001:139).[4]

A year after the elections, the deficit was reduced from 7.7 to 2.4 per cent of the gross domestic product (GDP). It shot up sharply in 1993, but for the years 1996 and 1997 the government showed a surplus. Reforms received initial support from donors, who increased their balance of payments support and rescheduled about $2.5 billion of Zambia's debt, with some of it cancelled altogether. The social consequences of these policies are summarized by Mcculloch, Baulch and Cherel-Robson (2000:1) as follows:

> Our study finds a dramatic increase in poverty and inequality in urban areas between 1991 and 1996 due to stabilization, the removal of maize meal subsidies, and job losses resulting from trade liberalization and the privatization programme. Between 1996 and 1998, despite economic recovery at the national level, the reduction in urban poverty and inequality has been small. In rural areas, drought devastated rural livelihoods in the early 1990s, while maize marketing reforms principally benefited those near the major urban centres, and hurt more remote rural farmers. Consequently there was little change in the overall poverty headcount for rural areas between 1991

[4] To be fair to MMD it did in fact promise a liberal economic policy. In its manifesto release in February 1991, MMD explicitly stated that the state would not be a "central participant" in the economy and that, instead, it would encourage a "wider spectrum of entrepreneurship"' (cited in Bratton 1994:121). As Kayizzi-Mugerwa (2001) noted "While in other Africa countries privatisation was undertaken as part of the conditionality attached to economic reforms, Zambia was one of the few countries where a party with an election Manifesto that included privatisation was elected". The MMD also promised to collaborate with international financial institutions with which the previous president, Kenneth Kaunda, had open quarrels. Although Chiluba warned his followers of hard times ahead, a streak of populist rhetorical was allowed to flourish within the MMD.

> and 1996 although there was a substantial reduction in rural inequality during this period. The rural sector experienced strong growth between 1996 and 1998 and this translated into a substantial reduction in poverty in rural areas between the two years. However, differential access to inputs, transport and marketing services has led to an increase in rural inequality.

Tanzania

When Benjamin Mkapa became president in 1995, he laid to rest Tanzani's Ujamaa, one of the many variants of "African socialism". With the change in policy-making approach, the country's image among donors improved sharply. And as observed by Danileson and Skoog,

> From being the ugly duckling that implemented reforms reluctantly and only when pressed, the country is now being lauded by the entire donor community for meeting ESAF [Enhanced Structural Adjustment Facility] benchmarks, for rapid and consistent implementation, and for showing a willingness to reform and a thorough understanding of the need for drastic change of economic policies. Now Tanzania is no longer looked at as the ugly duckling. Now she has transformed into a beautiful swan, a keen reformer who actively and enthusiastically participates in reform negotiation, suggesting even more drastic measures than donor organizations do (Danielson and Skoog 2001:148–149).

The Mkapa government took on the adjustment programme with an alacrity that surprised donors, often outdoing the international institutions themselves in reform. In its new system of fiscal discipline to be ensured by cash budget, debt servicing ranked first among the list of priorities, followed by payment of salaries and then the rest. Improvements in policy were symbolized by reductions in the current account and budget deficit. The current account deficit fell sharply from 22 per cent of exports to 12 per cent. The budget moved from a deficit of 2.7 per cent of GDP in 1994 to a surplus of 1.1 in 1998. Ominously though, with these improvements came declining investments and savings. The improvement in the current account was in itself a reflection of the decline in imports of producer goods while imports of consumer goods surged following important foreign exchange liberalization. In addition, funds for maintenance, textbooks and medications fell sharply, eroding both the physical and human capital of the country.

South Africa

South Africa is probably the more dramatic illustration of a new democracy adopting orthodoxy in face of widespread demands for a radical shift in the distribution of income and the liberation movement's own stated ideological positions. In no new democracy was a radical shift in macroeconomic policies as widely expected as in South Africa. The new government was confronted with high levels of unemployment and one of the most unequal distributions of income. Its political base, its close ties with the trade union movements and historical ties with the South African Communist Party suggested that the African National Congress would adopt a radical nationalist programme. The view was that the combination of high inequality, pent-up expectations for social change, ideological predisposition and high levels of labour militancy and urbanization would lead to a more heterodox policy agenda. In the words of Jeff Herbst, "a future South African government will face a much more demanding population that is more concentrated, easier to organize, and better armed than was the case in the rest of the continent" (Herbst 1994:37–38). Although South Africa entered the period of transition in the early 1990s with only an impressionistic economic vision (Habib and Padyachee 2000), the initial programme had a state-led, developmentalist thrust directed at alleviating the legacy of poverty and inequality. Eventually, however the actual policy (Growth, Employment and Redistribution, or GEAR) was, in the words of Habib (2000:245), a "fairly orthodox neoliberal one".

After some years of orthodoxy, a number of these new democracies have fallen foul with the BWIs. In the more formulaic accounts of African politics, the problems faced by new democracies simply flow from the assumption that African politics is driven by neopatrimonialism. Democracy has made no difference to the internal factors that have accounted for Africa's poor performance: neopatrimonial institutions that have led to fiscal crisis through neoclientelism, patronage, rent-seeking and corruption (van de Walle 2001). A fairer assessment would be that they, like other African countries, have been subject to the same deflationary policies so typical of such progress. In most cases, the deficits that have emerged have been largely due to increased debt servicing (as a result of high interest rates) rather than increases in the primary deficit. And although they have all voiced discontent with the adjustment programmes,[5] none of them has shifted toward heterodox policies.

Old Asian democracies

India

Because of the high rates of growth enjoyed by India in recent years, there have been attempts to include India among the list of "strong adjusters" or "globalizers" pursuing neoliberal policies (see for instance Dollar and Kraay 2001). For much of the 1980s, India resisted pressures from the BWIs to change its economic policies in the direction of the Washington consensus. However in 1991, India was hit by a serious financial crisis.[6] The current account deficit doubled from an annual average of 1.3 per cent to an annual average or 2.2 per cent of GDP during the second half of the 1980s. In 1990–1991, the gross fiscal deficit of the government (centre and states) reached 10 per cent of GDP, and the annual rate of inflation peaked at nearly 17 per cent in August 1991. An unprecedented balance-of-payments crisis emerged in early 1991. "For the first time in modern history, India was faced with the prospect of defaulting on external commitments since the foreign currency reserves had fallen to a mere $1 billion by mid-1991" (Bajpai 2002:2).

However, even after the reforms, India's overall economic policy diverged significantly from orthodoxy. The share of public expenditure in GDP remained high (33 per cent). The state has continued to pursue a fairly active industrial policy. India's continued protection of its industries, with tariff rate averaging of 27 per cent, vastly exceeds the average tariff rates of the other economies in the region. Government policy also reserves certain items for production in the small-scale sector. While the government has relaxed the law on entry of new firms in various activities, it has maintained constraints on exit by requiring government permission before they can close. India also continued to maintain high barriers to foreign direct investment, in contrast to most of the fast-growing Asian economies. The state continued to play a key role in finance, infrastructure, port facilities and road building. In addition, the agricultural sector was largely excluded from trade liberalization measures. No wonder Dani Rodrik lists India among the "countries that marched to their own drummers and that are hardly poster children for neoliberalism", and that "violated virtually every rule in the neoliberal guidebook even while moving in a more market-oriented direction" (Rodrik 2002). India, like the East Asian countries and China, while espousing trade and investment liberalization, has done so in an unorthodox manner—gradually, sequentially, and only after an initial period of high growth—and as part of a broader package with many unconventional features (Rodrik 2001).

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5 Chilumba's remarks on privatization is typical of the disullsionment: "We were blind when we sold some parastatals, and made mistakes. How can you have a parastatal buying off another parastatal, and calling it privatisation? Government was asleep when it sold Chilanga Cement and Zambia Sugar to CDC [Commonwealth Development Cooperation], which is a British parastatal. We are wondering why some countries are advocating the dismantling of parastatals here while on the other hand keeping their parastals back home" (cited in *Africa Business*, April 2001).

6 The following account draws mainly on Bajpai (2002).

New Asian democracies

Developmental states

The Republic of Korea and Taiwan Province of China provide the rare cases where the success in economic development leads to political pressures for democratization, as was predicted by the "modernization school", which argues that economic development produces middle classes who eventually clamour for political rights. In such cases, the developmental model itself is not in an economic crisis, but it suffers an erosion of political legitimacy. But as I noted in the case of Chile, in such "non-crisis democracies", there has been greater pressure for social equity and welfare than for economic reform. This is not to rule out pressures for orthodox policies. The demand for such policies increased during the financial crisis of 1996–1997 when international pressure was exerted on the new democracy to abandon the polices that had undermined the "Korean miracle". Some political actors, who associate a number of developmental institutions such as the huge industrial conglomerates—the *chaebols*—and the universal banking system with authoritarian rule, are pushing for more market-oriented policies so as to weaken these perceived threats to democracy. And even some of the businesses that were nurtured by the developmental state may now want to cut the umbilical cord and support market-oriented policies.

In cases such as Indonesia, where the economic development model seems to have run out of steam, democratization may be the outcome of the economic crisis. Since the political legitimacy of the regime was largely drawn from high economic performance, the collapse of the economy led to a clamour for democratization. The tendency of the new regime will be toward more orthodox economic policies, partly because of domestic pressures but also partly due to vulnerability to external pressure. In such cases, democratization and gains in political rights may be accompanied by dramatic reversals in social rights as some of the developmental institutions associated with the *ancien régime* are dismantled indiscriminately either because they are inherently incompatible with the new political dispensations or are guilty by association.

The Problematique

Much of the literature on democracy and policy making starts off with the assumption that good policies are those encompassed by the Washington consensus. The question posed, then, is: Can democracies implement such "good policies"? The analysis fails recognize the problem of reconciling the inflation of demands that came with democratization and the fiscal deflation that was *de rigour* under adjustment (Hutchful 1995). It also fails to problematize the adhesion of democracies to these policies and the rather paradoxical proclivity toward orthodox policies by asking whether or not the emergent democracies should implement orthodox policies, especially given the considerable evidence of their negative social effects.

The evidence that democratic states are not necessarily "soft states" and can take tough policy measures when necessary suggests political and institutional capacity on the part of democracies. However, while this is good for the prospects of development, the use of such capacity for the adoption of orthodox policies is not. While orthodox economic policies have been successful in the stabilization of economies, they have usually done poorly on two other aspects of the economy that help new democracies to endure: high growth rates and more equitable distribution of income. There is a fairly widely accepted view that structural adjustment is not pro-poor partly because it is not particularly pro-growth but also partly because it often tends to worsen income distribution (Cornia 2000).

While IMF programmes have reduced deficits and improved countries' balance of payments, their effect on economic growth have been mixed. Several studies found that IMF programmes had negative effects on growth.[7] One of the IMF's background studies for its own international evaluation of the ESAF, reports that that the effects of structural adjustment policies on growth are "barely discernible when full account is taken of macroeconomic policies, human capital accumulation, initial conditions and exogenous shocks" (Kochnar et al. 1999:87). Conway (1994) found that initial negative effects on growth are offset by subsequent positive growth rates. However, Przeworski and Vreeland (2000), using a broadly similar approach, find significantly negative and persistent effects on growth. A recent study by Barro and Lee (2002), which used a different (instrumental variable) approach to take account of the endogeneity problem, concluded that while programmes do not have a significant contemporaneous effect on growth, they do have a lagged effect that is negative.

As for poverty, the United Nations Conference on Trade and Development (UNCTAD 2002) states: "it is clear that even when well implemented, past adjustment programmes have not delivered sustainable growth to make a significant dent in poverty in most LDCs [Least Developed Countries]". Even where growth has been achieved, IMF and World Bank involvement lowers the growth elasticity of poverty (that is, the responsiveness of poverty rates to a given amount of growth) (Easterly 2000). The implication is that, under structural adjustment, the poor benefit less from economic expansion, but also suffer less from economic contraction. Yet the fact that the poor are hurt less during the downturn is no consolation since one of the objectives of Bank and Fund lending is ultimately to restore growth. And so, while growth and equity are good for the poor, the orthodox policies are neither pro-growth nor pro-poor. As was noted above, inequality has increased in the era of adjustment.

There is a growing literature on "pro-poor macroeconomics" (see for instance Cornia forthcoming; Lustig 2000), which clearly suggests that the current orthodoxy is not pro-poor. Even the BWIs have jumped on to the "pro-poor policies bandwagon" as they rather begrudgingly concede that their policies have at best not been pro-poor and, all too often, have actually been anti-poor.[8] On the equity front, the orthodox policies have rarely bothered to explicitly address the issue, often deductively deriving the outcome of the policies through an axiomatic account of the effects of neoliberal economic policies on poverty and equity. This has often obviated the need for social policy. It is simply stated that "getting prices right" would lead to high growth and greater equity through improved competitiveness in labour-intensive goods. The resultant increase in demand for labour would lead to higher wages, thus generating higher incomes for the poor in both rural and urban areas. In addition, competition would reduce the monopoly rents accruing to the well-off rent-seeking elites and free agriculture from the many indirect taxes imposed on it through protected domestic markets for industrial goods and overvalued foreign exchange.

The mechanisms leading to low growth and greater inequality are fairly well known. The excessive and dogma-driven focus on sharp demand compression by orthodox programmes in order to reduce inflation to single digits leads to sharp falls in output and employment. Too rapid deficit reduction is also often a source of deflation. And the reduction of the fiscal deficit has at times been achieved through pro-poor expenditure cuts rather than through higher taxation (Cornia and Court 2001).

If there was any immediate "elective affinity" between neoliberal policies and democracies, it was not obvious to those who militated for democracy or voted in the new government. In Africa, Yusuf Bangura notes that demonstrations for democracy have been organized by opposition groups and parties with traditional sympathies for the aspirations of the poor: "Contrary to neoliberal formulations, democratisation is seen by the majority of dissident groups as an instrument for obstructing structural adjustment and protecting some of the gains

[7] Easterly 2000; Goldstein and Montiel 1986; Khan 1990; Przeworski and Vreeland 2000.

[8] Over the years the BWIs have been at great pains (i) to argue that structural adjustment policies (SAPs) do not hurt the poor and (ii) to insist on the search for a "post-Washington consensus", and pro-poor and pro-growth macroeconomic policies. Indeed the whole idea of the Poverty Reduction Strategy Papers (PRSPs) is an indictment of these policies. A Google search for pro-poor and macroeconomics yielded almost 1,800 hits! Many of these are BWI and the United Nations system documents.

in public welfare and living standards threatened by the reforms" (Bangura 1992:67). Opposition to the negative economic and social effects of structural adjustment and orthodox stabilization process has driven the movements for democracy, especially in the case of Africa. These bread-and-butter issues were at the very heart of the wave of protest that swept the African continent in the late 1980s and early 1990s. And so what began as a protest by urban groups against growing pauperization increasingly led to the linking of economic demands to more explicitly political demands for constitutional change.

And so a number of questions arise. Why are democracies pursuing economic policies that are known to be deflationary, seemingly backed by their supporters? How does one explain "neoliberalism by surprise" (Stokes 2001) which has led to adoption of orthodox policies by movements that were catapulted into power by opposition to these very types of policies? Why are new democracies more orthodox in this respect than older ones? If income distribution remains constant, any growth will benefit everyone. The argument has been used to buttress the view that we really need not worry about equity when thinking about poverty. But if, as we now know, both growth and equity are good for the poor, and if there is no trade-off between growth and equity and we take the elimination of poverty as a matter of extreme urgency, why can't we think of strategies that are pro-poor in their bias? And why have new democracies not pushed for more egalitarian policies in order to reduce poverty? Why have the poor not used their voting power to push for policies that are pro-poor and lead to sustainable improvements in the lives of the poor? Or, as Putterman, Roemer and Silvestre (1998:90) express it:

> if equalization of the distribution of wealth is possible through the electoral process, and if it is in the interest of the large majority of people (as would appear to be the case since median wealth is far below mean wealth in all capitalist democracies) why is it not implemented through political action by rational citizens?

One obvious explanation is that in many countries the movements for democracy were dominated by elites for whom equity and poverty alleviation were not high on the policy agenda. Such elite-dominated democracies may then have proved unwilling to transgress the narrow confines imposed on them by both domestic and foreign elites that may have led or supported the process of democratization. This said, we must consider the fact that a number of elite-dominated democracies such as Costa Rica accommodated an egalitarian ethos which has allowed the state to pursue policies that have advanced the interests of the poor. And even in the African context, there are significant differences between Botswana and Mauritius. This suggests that politics matters.

Thus what needs to be explained is how in all too many cases there was "metamorphosis from heterodox candidate to orthodox candidates", to use Teivainen's (2002:175) apt phrase. Let me venture to provide some possible answers to the paradox. Indeed, in a number of cases the political unrest provoked by adjustment in the form of so-called IMF riots has accelerated the demise of authoritarian regimes.

Some Explanations

Ideological shifts

One of the remarkable transformations of the latter part of the twentieth century were the ideological shifts in the major industrial countries and the international institutions over which they exercised considerable influence, and the collapse of the "actually existing socialism". New democracies were then said be simply partaking in the "new global zeitgeist" (Diamond et al. 1988) or "liberal moment" that not only sanctions individual and human rights but also claims a close affinity of these rights to markets. One feature of this period was the positive attitude taken by the United States toward democracy in the developing countries than was the case during the Cold War era.[9] The "third wave" of democratization was a global systemic and normative integration, which has since led to an understanding that political and economic liberalization are produced in tandem: they are two sides of the same coin (Huntington 1991; Simensen 1999). For Fukuyama (1992) this was not simply a passing "liberal moment" but the final triumph of liberalism against other ideologies, the battles against which had constituted history.

Significantly during the period, egalitarian ideologies were on the defensive and neoliberalism triumphed. First, we had the crisis of the welfare state and the eventual triumph of conservative political movements symbolized by Ronald Reagan and Margaret Thatcher. These ideological shifts were to be imposed on the BWIs, bringing to an end the earlier and short-lived engagement by the World Bank on "growth with equity" strategies. Neoliberal policies became the Washington consensus. In the African case[10] in the immediate post-colonial period, ideologies of nation building, developmentalism and assorted idiosyncratic "socialisms" pushed for policies with considerable pro-poor bias—free education and health services, pan-territorial pricing and food subsidies. In many cases, these social policies were associated with the economic policies that had run into deep trouble at the end of the 1970s. Guilty by association, in the era of adjustment, these "welfare policies" were dismissed as fiscally irresponsible or as "market distortions". Moral and ideological premises of social policies deliberately associated such policies with rent seeking, urban bias and clientalism. In addition, there was a shift in political leadership. Most of those populist nationalist elites have now been replaced by an elite which, while spawned by state policies, has a much more pro-market orientation. As Mafeje predicted in a paper presented in 1992:

> All evidence points to the fact in the so-called 'wave of democratization' sweeping through Africa a new class of compradors will gain ascendancy. The will be largely technocrats who will try their best to ingratiate themselves with the World Bank and to give structural adjustment programmes in Africa longer lease of life. Unlike their predecessors, they will be less nationalistic, more pro-West and will espouse some naïve and anachronistic ideas about liberal democracy. In the hope of achieving the long awaited democracy since independence, the people will vote for them. But disillusionment will come first (Mafeje 1995:25).

Another argument has to do with the domestic ideological interpretation of the recent past and the conflation of interventionism with authoritarianism. In much of Africa, authoritarian rule has been linked to an interventionist state. From this historical experience it has been adduced that democracies must be non-interventionist.[11] Matters are made worse by the personalization of policies in the past so that where there have been regime shifts, there is the tendency to reverse all past policies. Projects and programmes initiated by a dictator are summarily abandoned regardless of their economic merit. Dismantling of the state is part of laying to rest the demons of authoritarianism and the zeal with which this is done often confounds economic sense. At times this dismantling fits in well with the international financial institutions' (IFIs) own demolition job, which may have been stalled by the resistance of the authoritarian regime.

This turnaround is not exclusively African. In Latin America, prior experience or interpretation of the devastating impact of macroeconomic populism experiences also informs how democracies respond. In some cases, it was argued that social movements had learned that linking democracies to substantial demands only leads to macroeconomic populism that has eventually led to military coups d'état. In Latin American literature, there is a widespread view that making substantive demands on democratization had, in the past, rendered societies

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9 To the extent that this matters, the emphasis on security issues by the United States during its anti-terrorism campaign is likely to erode the commitment to democracy not only at home, as has been suggested by many observers, but also abroad. Already a number of authoritarian regimes have jumped onto the anti-terrorism bandwagon, thus easing pressures on them to democratize.

10 I discuss these "shifting commitments" elsewhere (Mkandawire 1999b).

11 This is a non-sequitor. Democracies such as India, the Western European welfare and liberal states, and "developmental states" such as Mauritius and Botswana have been interventionist without undermining their democratic credential.

ungovernable ("crisis of governability") and had "overloaded" the system, leading to macroeconomic populism which only invited military intervention. This time around, so the argument went, the focus should be on the formal aspects of democracy. Montecinos notes that through the 1970s and 1980s, the evaluation that parties and political analysis made of Chile's democratic breakdown led to "self-criticism". "Intellectuals recognized that in the past their dogmatic quest for ideological purity had been a main factor in the polarization that preceded the military coup" (Montecinos 2003:7). Indeed, the new political leadership in democratic movements must avoid raising the expectations of the followers to economic untenable and destabilizing levels.[12]

The new view was that nothing should be done to upset the elite and the military (see, for instance, Di Palma 1990; O'Donnell and Schmitter 1986). In the more manipulative formulation of the new arguments it was even suggested that some screening of participants was necessary so that "parties of the Right-Centre must be 'helped' to do well. And parties of the Left-Centre should not win by an overwhelming majority" (O'Donnell and Schmitter 1986:62). Di Palma goes even further to give this view a classical conservative twist by insisting that "in the interests of democratization, the corporate demands of business and the state may have to take precedence over those of labour" (1990:97). According to this view, democracies must demonstrate their capacity to pursue orthodox policies and must disavow their past populist tendencies or electoral promises.

In some case, such as Argentina, Bolivia and Brazil, the hyperinflation that followed their own experimentation with heterodox policies has taught the new democracies to chose a more cautious approach.[13] This choice may be reinforced by the significant success of the policies of the *ancien régime* with respect to a number of macroeconomic variables including economic growth and economic stability. This shift in the ideologies and composition of the elites needs to be better understood in thinking about possible coalitions for more egalitarian and pro-poor policies.[14]

All these factors—the conditionalities and impositions of the Washington consensus or the BWIs, the collapse of "real existing socialisms" of the East, the tribulations of Third World particularistic and often idiosyncratic socialisms, the weakening of post–Second World War "social pacts", the delegitimation and shredding of the state by corrupt elites—may suggest to some that Thatcher may have been right when she pronounced: "There is no alternative!". Significantly, this state of mind leaves the new democratic movements with no clearly articulated transformative and socially inclusive model on which to build.

Absence of political coalitions

In democracies, numbers matter and one frequently raised question is: what prevents popular majorities from exercising their numerical strength to influence policy in their favour? Or, as

[12] In a sense this view takes us back to Samuel Huntington whose dread of "revolution of rising expectations" seems to have persuaded him that the sustainability of stable democracy depends on "disillusionment and lower expectations" on the part of the general population: "democracies become consolidated when people learn that democracy is a solution to the problem of tyranny but not necessarily to anything else" (Huntington 1991:263). However, Huntington himself recognizes the need for new democracies to be effective in addressing substantive problems of society when he states that new democracies are faced with serious dilemma because "lacking legitimacy, they cannot become effective, lacking effectiveness, they cannot develop legitimacy" (p. 258).

[13] Kurt Wyland (1999) attributes the caution to risk aversion: "Conscious political learning from these dramatic failures provided an important motivation for the Alwyn administration to pre-empt or limit demands of its supporters and followers so as not to endanger an economic stability" (p. 69). This is not to say the new government ignored the "social debt" left behind by the outgoing fascist regime. Rather, the choice of the government was to address a number of social issues within the fiscal parameters of the inherited policy regime.

[14] In a number of cases, the intellectual leaders of the democratization movements have had to make stunning intellectual somersaults. The case of Ferdiando Cardoso of Brazil is probably the most spectacular. One of the key figures in the Latin American critique of *dependencia*, "once Cardoso was in power, the question of dependency and development was turned on its head. As President, Cardoso sought explicitly to make the Brazilian economy as dependent as possible on the multinationals and financial institutions of the core in order to develop the country" (Rocha 2002:10). One should add here that this change is not simply a result of ideological evolution but can partly be explained by the immobilism produced by the violence of authoritarian regimes on the body politic (Parra 1996). One should add here the problems of the inherited political culture. For an interesting set of studies on the post-Banda politics in Malawi, see Englund (2002).

Kenneth Roberts asks with respect to Latin America, "why do institutions that are supposed to embody popular sovereignty, produce elitist and exclusivistic outcomes when subaltern sectors constitute a large majority of the population?" (1998:2). However, in democracies organizational capacities and politics determine the alignment and weight of the numbers.

The newness of democratic government often means a lack of such capacity and therefore does not permit the regulation of interest groups by organic representation of new political interests and coalitions. Ironically, precisely because of the lack of a culture of coalition building, there are often no coalitions to create a sustainable budgetary formula, and the austerity package generally unravels due to lack of such coalitions. Older democracies enjoy neocorporatist institutional arrangements consisting of "social pacts" designed to complement traditional mechanisms that require compromise and greater cooperation and burden sharing—the prerequisites for successful stabilization under a democratic regime. Such arrangements may indeed have been the source of their stability, which has allowed the emergence of political coalitions and whose own stability will, in turn, be the result of the political culture that evolved through coalition building. In such conditions, primacy is more on political coherence than the pursuit of technically coherent economic policies.

An important point that emerges from the resilience of the welfare regimes in the older democracies is that national configurations of democracy directly and indirectly shape the capacity of domestic institution to resist or deflect external pressures (see for instance Swank 2001). Democracy allows groups opposed to a certain set of policies to emerge and, over time, be part of the "social pacts" that sustain the democratic order. Consequently, their views received attention. Negotiation of binding agreements implies that all the actors must be internally cohesive and their representative institutions must speak authoritatively for them and guarantee their compliance—a characteristic that is only achieved with passage of time (Haggard 1997). New democracies, almost by definition, lack such a culture of coalition building and the institutions that go along with it. This is illustrated by the case of Tanzania where compromise and negotiation among domestic actors has not been significant in policy making. Therkildsen notes (2000:66) that

> policy decisions…do not necessarily reflect collectively binding political compromises nor genuine political support for the reform package as a whole. Rather, such decisions are often influenced by larger political aims (which may not be relevant to the reform per se) or by accommodation to perceived or real donor pressures, or to individual ministries' resource-mobilizing strategies vis-à-vis the donors.

One central feature of new democracies undergoing market-oriented reforms is the strengthening of private capital, which wields tremendous veto power over macroeconomic policies—and the consequent weakening of the state's capacity to regulate the economy and to mediate class and sectoral conflicts. In a surprisingly large number of new democracies, businessmen and businesswomen have assumed leading roles. In addition, some of the social groups opposed to orthodox policies will have been weakened by retrenchment and general decline of well-being. The new political dispensation of democracy has opened space for new deliberative mechanisms between the state and business. However, the same cannot be said about the poor, due their lack of institutionalized channels that service their needs. Robinson (1999:167) notes:

> The skewed and exclusionary nature of policy-making that continues to prevail in much of Africa gives reason to believe that policy outcomes will reflect the interests and concerns of business elites with privileged access to the policy process, which was previously identified as a source of blockage of effective reform.

In many cases, the new democratic leaders have lacked the organizational and political skills and the ability to forge coherent multiparty coalitions that enable them to pursue a number of equity and welfare-enhancing policies within an essentially free-market neoliberal economic context. In a comparison of India and Chile, Sharma argues that the ability to introduce number progressive social measures may be partially explained by the political capacity of institutionalized parties to maintain a coalition and to articulate fairly coherent policies and strong links to autonomous civil organizations (Sharma 1999; Weyland 1999). Understandably, new political movements emerging after years of subterranean existence will not have had time to acquire these skills and may lack coherent policy positions on a number of critical issues. Chile seems to be a rare case where, as Montecinos (1993) reports, even before the assumption of power, the opposition movement had developed a fairly coherent model of policy options, partly because of the significant influence of the technocracy upon which it could draw. She further argues that this, combined with deep-rooted political organizational culture, may have accounted for the measured additions to an essentially neoliberal model.

The nature of civil society and the capacities and preoccupation of its key organizations also matter in shaping the post-transition agenda. Weyland (1996) blamed the virtual absence of redistributive reform in Brazil on the inability of actors in civil society to put together an effective pro-redistribution coalition due to social fragmentation, corporativism, clientelism and weak parties. More specifically, there has been an absence of organized and coordinated social movements and universalistic, programmatic political parties. Weyland argues that if civil society has expanded, it has been more in the form of networks of small associations, not national peak organizations. This could well describe the African situation, where the literature suggests that ethnic politics, fluidity of class identities and clientelism have played a significant role in preventing the emergence of cohesive political movements with clear transformative projects.

One should note here the role of NGOs within civil society. The combination of neoliberal ideology, the weakening of the state and New Public Management theories has resulted in a dramatic increase in funding for NGOs. Loss of state legitimacy and capacity necessitated a widespread faith in their capacity. This bred the myth that they would be the substitutes for the state in combating poverty, and both the BWIs and NGOs found themselves on the anti-statist side of the debate on policy. Part of this trend was due to conflation of NGOs and civil society so that supporting them was seen as creating a vibrant civil society and, therefore, as a contribution to democracy. Old social movements were seen as either irrelevant or a spent force. However, as it turns out, in many countries the old movements—labour unions, student movements, professional associations (especially lawyers) and churches—have been central to the struggles for democratization. These movements are membership movements and so tend to carry more political weight nationally than most NGOs. In addition, many of the "new social movements" have tended to eschew linking the struggle for democracy to substantive overarching macro issues through which the fundamental decisions affecting the poor are framed. Their demands have been particularistic (ethnic claims, gender, intellectual freedom, etc.) or confined to what Judith Tendler (2000) refers to as "projectizing and micro-izing". And yet although poverty is lived at the micro-level, its causes are largely macro. With their focus on service delivery at the micro-level, NGOs are, as such, unlikely to constitute a major political force in combating poverty. One should also recall that while poverty reductions may suggest empowerment at the micro-level through "participation", they often entail disempowerment at the macro-level.

Probably the greatest obstacles to the mobilization of democratic institutions for poverty alleviation are the organizational weaknesses of the poor themselves. The role played by the poor, their capacity for self-organization, alliance building and articulation of their interests are often important factors in placing poverty on the national agenda. This is recognized in the new rhetoric about the "empowerment" of the poor. The organizational capacity of the poor is often undermined by a number of factors, including problems of collective action, especially for dispersed rural populations and informalized labour; the cross-cutting nature of rural identities and interests, and the capacity of elites to manipulate these identities in a manner that rarely advances the interests of the poor.[15] It is sometimes argued that the policies that might benefit the poor may be counterintuitive and therefore unlikely to win political support, and also that whatever gains they promise, are of a long-term nature: "Long-run and indirect links do not work well in democratic and mass politics: the effect has to be simple, intuitively graspable, clearly visible, and capable of arousing mass action" (Varsheny 1998:17).

This time discrepancy allows the losers to organize against adjustment while the potential gainers are still not sufficiently organized or even aware that they would benefit in the long-term, given the rather counterintuitive nature of the case in their favour. The irony of this view is that it proposes non-democratic solutions in which a benevolent technocracy can pursue the counterintuitive policies on behalf of the benighted poor. Consequently, early literature on adjustment emphasized the need to find ways that would insulate policy makers from popular pressure while they pursued the social good. And where democracy was conceded as a solution, the strategies proposed to circumvent democratic politics included shock treatments, "insulation" of key policy instruments, "external agents of restraint", and so on. The view is premised on neoliberal populism that assumes that market-friendly policies undermine special interests and rent seekers.

Most of the arguments assume that all the immediately popular, pro-poor policies only lead to consumption, which reduces long-term growth. And whatever gains the poor get from state policies are deemed as short-sighted and, at worst, a kind of "macroeconomic populism" and therefore likely to self-destruct. However, today there is a rediscovery of Gunnar Myrdal's insistence that consumption by the poor is investment. A whole range of pro-poor policies enhance long-term growth through "human capital" effects, such as better education and health and political stability. Pro-poor polices such as land reform or targeted credit may enhance the performance of markets and thus produce both equity and efficiency, which are good for growth.

The "new broom" argument

The argument here is that that new regimes (democratic or otherwise) may enjoy a "honeymoon" period during which they may be able to press forward harsh austerity measures associated with orthodox economic policies (Williamson and Haggard 1994). In many cases, those who have just ascended to power through democracy may be aware that the policies they will introduce are unpopular and unlikely to be implemented under other political conditions. The opportunistic view then is to immediately introduce the policies since one never knows how long the window will stay open. The crisis will then have provided that window of opportunity for the executive to rely on support of the technocracy to carry out reforms, unencumbered by political contestation. Those who hold this view also tend to argue that new democracies should impose shock treatment before the enemies of reform can organize, and long before the next election by which time the fruits of reform will be visible.

One should also point out that new democracies are also more likely to be more beholden to the technocracy. The reliance on technocracy may not be merely the result of imposition from outside but a reflex reaction to the bad governance of the past. In cases where patrimonialism and clientalism were identified with authoritarian rule and crisis, the new democracies may be inclined to rely more on technocracy. In such situations, technocracies inclined toward orthodox economic policies may be in a stronger position in the new democracies. One should add here the instrumentalization of democracy in pursuit of orthodox policies by major donors. Among donors who had feared that democracy might scuttle adjustment programmes, it was both a relief and politically correct to view democracy as the most efficacious instrument for creating a political framework best able to manage orthodox economic policies. In this new understanding, "liberal democracy, social pluralism and market orientation are now the three pillars

[15] Rob Jenkins (2000) argues that in India obfuscating tactics have been used to defuse political resistance to policy shifts. He argues that in India informal institutions have driven economic elites toward negotiation, while allowing governing elites to divide the opponents of reform through a range of political tactics.

of African reform" (Sandbrook 1996:2). Democracy became one aspect of "getting the politics right" for adjustment and orthodox economic policy.

The "new broom" has its downside. First, the new broom can be captured by groups not particularly interested in anti-poverty policies, as seems to have the case in the many new democracies. Second, for effective anti-poverty policies, the state must have a capacity to process popular demands, manage different conflicts over policy and implement policies in a systematic way. New brooms normally do not have such capacity.

Globalization, SAPs and "Choiceless Democracies"

Perhaps one remarkable feature of the current wave of democratization is the strong convergence in economic policies and institutional reforms, despite very different initial conditions and paths traversed. This immediately suggests the overwhelming assertion of strong conditioning factors that have made themselves felt in all these countries. The most obvious one is globalization, both in terms of the preponderance of certain ideological predilections and the impositions and binding nature of certain economic constraints.

The welfare state and much of the post-independence "national development plans" were based on socially or politically "embedded" domestic markets, government responsibility for aggregate demand growth and state control over cross-border economic activity. Policy making was built on the assumption that state policies were "national" not only with respect to objectives but also with respect to instruments. The post–Second World War Bretton Woods international architecture itself was based on a "liberal embeddedness" that combined trade openness with domestic compensation mechanisms to mitigate the social costs of the volatility of trade (Ruggie 1983). This same order permitted certain latitude for the emergence of "developmental states" by allowing developing countries to adopt flexible exchange rates, capital controls and politically controlled central banks "designed" to serve the nationalists' domestic goals of rapid industrial development and nation-building (Helleiner 2003). Pre-globalization, states in developing countries could thus potentially control a wide range of policy instruments, enabling them to pursue national developmental objectives. To be sure there was "dependency" and "neo-colonialism", but the possibility of national policies was never excluded (whether this meant the "new international economic order", renegotiating one's integration into the global system or "delinking").

With globalization, state capacity has been severely eroded; nations must comply with the exigencies of global market forces or be marginalized. This loss of sovereignty is supposed to be compensated for by higher levels of growth. Failure to achieve high rates of growth in the era of neoliberalism is perceived to be evidence of failure of internal economic policies. Thus the marginalization of whole continents and the persistence of such national problems as "unemployment" are blamed on the failure of policy makers to remove domestic market distortions and rigidities. In this way, a whole range of policies that states have pursued in the name of social welfare, national cohesion or development is associated with "distortions" and rigidities.

Most democracies emerged during the era of structural adjustment and thus may also be hampered in their policies by the state of the economy they inherit. In many cases new democracies are largely products of the crisis of the interventionist model, and the collapsing dictatorships will have bequeathed to their successors serious economic problems. Poor economic performance is likely to have been one of the causes of the collapse of the old regime, and the outgoing authoritarian government may have engaged in fiscal profligacy to gain political support, leaving the state bankrupt or highly indebted.[16] In many cases, the new

[16] This seems to have been the case in countries such as Malawi where a hitherto fiscally conservative regime went on a spending spree just before the 1994 elections, dramatically increasing the deficit and causing the national currency to fall.

governments may feign ignorance of the state of the economy before assuming power and may justify their subsequent sharp policy turns away from the electoral promises by claiming that the state coffers were in worse shape than they could ever imagine.[17] The new regime will thus be compelled to seek assistance from the Washington institutions and will be forced to adopt their standard programmes. The conditionalities that come with such aid severely limit the choices of new democracies, tending to push them toward one standard set of policies and producing, in effect, "societies which can vote but cannot chose" (Przeworski et al. 1999:84) or what I have elsewhere labelled "choiceless democracies" (Mkandawire 1999a).[18]

Institutional and pre-emptive policy lockup

One other determinant of policies in new democracies is the institutional constraint imposed on them through new constitutions and institutional arrangements. This is one aspect of what Teivainen (2002) refers to as the "constitutional politics of economism", which establishes "reserved domains" by the insulation of specific concerns of government authority and substantive policy making from elected bodies. Di Palma (1997) calls it "pre-empted democracy", designed to freeze or precommit the initiatives of the government and the government alike. Chile is often cited as the case where the resulting government "lacks *de jure* and *de facto* power to determine policy in many significant areas because the executive, the legislative and judicial powers are still decisively constrained by an interlocking set of 'reserve domains', military 'prerogatives' or 'authoritarian enclaves'" (Linz and Stepan 1998:48).

The furtive search for "insulated" institutions is often intensified on the eve of democratic governance, since in authoritarian regimes no institution can really be independent of the authoritarian leadership. As countries move from authoritarian to democratic rule there ensues a spate of activities, seeking to isolate key policy instruments from democratic oversight. We see this most clearly in significant increase of such central bank independence in the 1990s, the decade of democratization. This is not by mere coincidence. The issue of central bank independence only arises under democratic governments, since, again, in authoritarian regimes no institution can really be independent of the authoritarian leadership.[19] These institutional arrangements—what Maravall (1994) refers to as "authoritarian enclaves"—have mushroomed in the 1990s in tandem with the emergence of new democracies. These constraints severely undermine the ideal of deliberative democracy and tend to strengthen the hand of selected groups.[20]

The "institutional deficits" created by this new order are well illustrated by the programmes on poverty eradication to which a large number of developing countries, including new democracies, now adhere. For all the talk about participation and consultation in PRSPs, there are neither institutional arrangements for, nor political understanding of, the role of democratic institutions. Conventional economic wisdom argues that the general public, including elected

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17 Alberto Fujimori in Peru, who adopted the "shock treatment" policies that had been pushed by his opponent, used this argument to justify his policy switch, although the real reason may actually have been the pressures from the IFIs (Stokes 1997).

18 Thomas Friedman has stated this constraint most graphically and with some exaggeration: "Two things tend to happen: your economy grows and your politics shrinks…The Golden Straightjacket narrows the political and economic choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have put on the Golden Straightjacket. Once your country puts on the Golden Straightjacket, its political choices get reduced to Pepsi or Coke—to slight nuances of tastes, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here or there, but never any major deviation from the core golden rules" (cited in *The Economist* 2001:22).

19 This statement is contradicted by the evidence from Cukierman (Cukierman et al. 1993) which suggests that in non-OECD countries, central bank independence has been highest among authoritarian regimes. However, these results depend on a rather poor measure of such independence (governor turnover relative to change in government leadership), which in a sense endogenizes the length and stability of terms of office. In Kamuzu Banda's Malawi, the head of the Reserve Bank, who served for a long time, was a close relative of the mistress of the head of state. It would be perverse to consider this as evidence of central bank independence. Such independence means little if laws are highly personalized or not respected.

20 In Latin America the new arrangements have often been part of the "pacts" for democratization. Chile illustrates the case where the outgoing authoritarian regime imposes "pacts" or "authoritarian enclaves" that deliberately exclude key elements of policy making from parliamentary oversight. Writing on Mexico, Boylan (2001) argues that the domestic threat of policy change is the primary motivation driving authoritarian elites to insulate their preferences in autonomous agencies. Boylan's argument is that when authoritarian elites fear the populism that may come along with new democracy and expect a regime shift, they may be tempted to create autonomous central banks to lock in a commitment to orthodox policies.

political leaders, cannot understand the counterintuitive nature of good macroeconomic advice. Therefore, there has been a systematic attempt to circumvent elected bodies in the consultative process of drawing up PRSPs. In many cases, the NGOs selected as partners and proxy representatives for the poor in the process have lacked the legitimacy enjoyed by such members' associations as trade unions and professional associations. Even so, when the poor have been consulted, it has been over residual spaces left for them or their putative spokes-institutions. The new model seeks empowerment for the poor at the micro-level while disempowering them at the macro-level. They have set out to address poverty even as the macroeconomic model maintained its deflationary and non-developmental characteristics. PRSPs look uncannily the same everywhere. They are essentially linked to the disbursement of debt relief and pay no attention to the political sustainability and even less to the productive capacity and surplus generation of the poor themselves. The "dialogues" that take place leave untouched the core adjustment model. They simply add on some "soft" ingredients to the hard macroeconomic model, which has remained essentially the same despite the evidence that it is a failed development strategy. And so those aspects of stabilization that have contributed to increased poverty through their deflationary effects on the labour markets and reduced state expenditures on social services and infrastructure remain untouched.[21] Thus, although the poverty eradication is premised on high economic growth rates, it is tethered to a macroeconomic framework whose principle focus is still stabilization and which has thus far produced miserly growth rates even among the "success stories".

"Signalling" capital

The orthodox model of adjustment places great weight on attracting foreign capital. And yet the process of democratization often causes uncertainty among investors, inducing among them a wait-and-see attitude.[22] This behaviour of the private sector may induce a heightened need for "signalling" private capital that a new government is stable and favourable to foreign capital. As Dailmani argues, the higher the degree of democracy, the greater the need to balance the threat of capital flight which is more likely with the opening of capital markets, with political demands which include the need for political incentives for increasing government intervention in cushioning market dislocations (Dailmani 2000). In order to attract foreign capital, new democracies have to go to great pains to conceal any populist inclinations they may have harboured. Democracies must demonstrate their capacity to pursue orthodox policies and must disavow their past populist tendencies, the need to do this being higher among political parties that may have in the past identified themselves with radical ideologies.

South Africa is a poignant case in point. Its new policies (GEAR) rested "on the assumption that restrictive fiscal policies will send such positive signals to investors that growth will leap forward on a wave of confidence-driven investment" (Nattrass and Seekings 1998:32). On monetary policy the government appointed Tito Mboweni, a Leftist, to the post of Governor of the Reserve Bank. He understudied the outgoing governor for a year during which time considerable amount of resources were invested in a public relations campaign to convince the "market" that Mboweni had shed his leftist ideological baggage. In Brazil, Luiz Inacio Lula da Silva has been under enormous pressure to show that he can pursue "responsible" fiscal policies. One should add here that that the measures of "good governance" that go with the current wave of reforms and appeal to private investors could be at odds with poverty eradication.[23]

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[21] This openly acknowledged by the BWIs themselves. Thus the IMF/World Bank's review of PRSP notes: "The macroeconomic policy and structural reform agenda—for example, trade liberalization and privatisation—are, however, sometimes not even on the table for discussion. Even countries like Uganda that have a rich history of macro-level participation do not indicate that civic inputs have substantially shaped the direction of ongoing fiscal and agricultural reform" (IMF and World Bank 2001, cited in Craig 2003:58).

[22] This is an aspect of the "political business cycles" phenomenon which, as Block and Vaaler (2001) point out, may have implications not only for incumbent governments and their electorates but also for foreign actors involved in allocating credit and pricing it. They find that agency sovereign risk ratings decrease and bond spreads increase for developing countries during election periods because both agencies and bondholders appear to view elections in developing countries negatively, and impose additional credit costs.

[23] It is now widely assumed that "good governance" is essential for attracting private investment. A number of measures of such good governance have been developed to rank countries. A widely used one in econometric studies is the International Country Risk Guide (ICRG), which consists of measures based on "expert judgement" of countries. Moore et al. (1999) have regressed this to an index (the

Limited social policy instruments[24]

In the developing countries, the first victim of globalization has been the states' power to intervene in the economy to ensure certain social outcomes, such as equity and poverty alleviation. The rudimentary "welfare states" that post-colonial regimes had instituted became a target of both ideological and fiscal attack. Social expenditures were seen as straining the fiscal budget and as a source of financial instability. On the ideological plane, whatever gains had been accrued to the workers in the formal sector were now seen as "distortions" in labour markets brought about by the activities of rent-seeking urban coalitions. In cases of temporary dislocation, social safety nets might be recommended as a temporary measure but, in such a scheme of things, there was no need for any comprehensive social policy specifically aimed at addressing issues of poverty and equity.

Together with the disappearance of poverty from the policy agenda came the disappearance of "social development" as something that state policies deliberately pursued (beyond simply overseeing the spontaneous market processes). Earlier "developmentalist" arguments for social policy as one of the key instruments of development simply disappeared. Macroeconomics, with all its attention firmly fixed on stabilization and debt servicing, had a jaundiced view of all public expenditures, including social expenditure. This trend in macroeconomic policy has important implications for social policy and therefore outcomes in terms of equity and poverty eradication. In general, under orthodox policies new democracies have tended to opt for targeted policies to address specific pockets of poverty while avoiding redistributive social policies. The two key instruments proposed by both the IMF and the World Bank have been (i) social safety nets, which were introduced to address the adverse effects of SAPs, and (ii) "targeting the poor". Initially, these measures were viewed as temporary, since the need for them would be diminished by the high employment elasticity of growth associated with structural adjustment programmes.

Almost since their inception, critics of SAPs have pointed to their negative effects on poverty. And as I noted earlier, the discontent against these policies has contributed to the mobilization for democratization. With growing evidence that SAPs were having adverse effects on large numbers of people, the BWIs were compelled to shift positions. Poverty was brought back into the adjustment agenda. In the late 1980s and early 1990s, bilateral and multilateral donors set aside significant volumes of funds aimed at "mitigating" the "social dimensions of adjustment". The purpose of such programmes was to act as palliatives that might minimize the more glaring inequalities that their policies had perpetuated. Funds were made available to ensure that a so-called "safety net" of social services would be provided for the "vulnerable"—but this time not by the state (which had after all been forced to "retrench" away from the social sector) but by the ever-willing NGO sector.

Under SAPs, social policy has been limited to targeting, the argument being that, given limited resources, it is important that social policy targets the needy poor and funds are not captured by the well-off, whose needs can be met by the private sector. The preference for targeting in the social policy arena is rather paradoxical in light of the World Bank's aversion to targeting in many economic activities, such as selective industrial policies or credit rationing in the financial sector. Arguments deployed against targeting in the economic field have revolved around the possible distortions it might generate, including: information distortion, incentive distortions, moral hazards and administrative costs, invasive loss and corruption. It was asserted that governments did not have the knowledge to pick winners or to monitor the performance of selected institutions. The solution was "universal" policies—that is, policies that applied equally to all entrepreneurs by creating a level playing field. Lump sum transfers or uniform

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relative income conversion efficiency/RICE) that measures a country's capacity to translate national material resources into human development, that is, life expectancy and education levels. They found a negative correlation between ICRG and RICE. In other words, the higher the government institutions are scored from the perspective of international investors and lenders, the worse the governments perform in converting national income into human development. Moore concludes: "This is strong evidence that 'governance' factors that matter to international investors and lenders are significantly different from those that relate to poverty" (p. 17).

24 This section draws heavily from Mkandawire and Rodríguez (2000).

tariffs that applied to all were strongly recommended. Paradoxically, when it comes to social policy, such "universalism" is rejected on both equity and fiscal grounds. Instead, selectivity and rationing are recommended—apparently in total oblivion of the many arguments against selectivity raised with respect to economic policy. Suddenly, governments lambasted elsewhere for their ineptitude and clientelism are expected to put in place well-crafted institutions and be able to monitor their performance.

And yet there is nothing to exclude the possibility that targeting in the social sector may be as complex and amenable to "capture" as targeting with respect to economic policy. It is definitely the case that the criteria for selection are at least as complicated, as controversial and as ambiguous as those for economic policy. Social indicators are extremely difficult to construct, and poverty itself is multidimensional. Sen (1999a) has raised exactly the same arguments against targeting in the social sphere. Asymmetry of information and the attendant moral hazard would always pose the danger of including the non-needy among the needy, or of not including some of the really needy. Targeting makes difficult demands on the administrative capacities of most developing countries and can easily lead to inefficiencies and corruption, especially where the majority of the population is in fact the poor.

Furthermore, it is necessary to consider the kind of political coalitions that would be expected to make such policies politically sustainable. The World Bank's approach concentrates on the problem of optimally disbursing *given* external resources (aid), and not on generating and disbursing domestic resources. Not surprisingly, such an approach does not deal with the relationship between targeting and the political economy of domestic resource mobilization. The experience in developed and middle-income countries is that universal access is one of the most effective ways to ensure middle-class support of taxes to finance welfare programmes.

The attraction of targeting presumably is that it not only allows for prioritization in the context of budget cuts and dwindling aid, but also it allows earmarking, and thus severely limits the discretionary expenditures of the state. The preference for targeting is probably based on recognition that there is very little room for redistributive measures in a policy package in which the state is reduced to the night watchman. Targeting also allows the state (or rather the donors) to franchise their responsibilities to NGOs. The question that immediately arises here is the one posed by Wood (1997:81): "To what extent do citizens lose basic political rights if the delivery of universal services and entitlements is entrusted to non-state bodies which would at best only be accountable to the state rather than directly to those who service entitlements?" In the process of the "franchising", the state loses control over policy and therefore loses responsibility for upholding the rights of all its citizens, producing what Wood refers to as a "franchise state" whose creation dilutes those dimensions of responsibility and accountability associated with the much-trumpeted "good governance".

Finally, there is the potential danger that the inherent selective and discriminatory nature of targeting may actually polarize societies by accentuating difference. This resultant fragmentation within the state and society can foster clientelism and segmentation over universalism. Universalism has always been associated with notions of citizenship. The new approach has the danger of hollowing out citizenship by severely limiting citizen's rights. Current thinking about poverty heralds a shift in the orientation of development from the promotion of equality as part of the development agenda to the promotion of social order against a backdrop of increased inequality and insecurity.

Conclusion

Eradication of poverty requires high economic growth rates, structural change and redistribution. The great challenge, then, remains: democratically devising strategies that simultaneously ensure high and sustained rates of growth, equitable distribution and rapid reduction of poverty within a highly competitive global environment. Success stories suggest key components include a combination of carefully orchestrated policies on trade, investment and technological mastery, and social policies to promote health, education and social cohesion, in a context of political stability. While most of the well-known success stories have been authoritarian, there is the moral imperative that such strategies be democratically anchored. As has been seen, there is now compelling evidence that nothing would prevent democracies from performing well in these tasks. However, so far democracies, especially the new ones, are compelled by both ideas and structural factors, to pursue polices that are not developmental, under the Washington consensus and second-generation variants of good governance. The policies are definitely not socially inclusive and their relationship to democracy has been problematic, to say the least. In this paper I have reviewed some of reasons why democracies choose these policies.

A useful distinction has been made between democratic institutions and democratic politics. The former is concerned with methods and procedures for legitimizing rules and assuring that political contestation that is free and fair, while the latter emphasizes participation, equality and emancipation. We have learned that concern for democratic politics without due respect for institutions can lead to populist authoritarian regimes. But we also know that democracy is not simply a question of rules and institutions, but also of the content and purpose of these institutions and rules and that the failure by democratic institutions to foster democratic politics has produced lifeless institutions that have done little to address serious issues of poverty and inequality, producing instead "democracy with tears" which has in many cases has rebounded on itself. The hollowing of the democratic process would make it rather pointless to use democratic spaces to compete over state resources. Instead it would encourage extra-parliamentary struggles including personalism, factionalism and use of other means inimical to a democratic order. We currently run into the danger that the emerging political order, while liberal and democratic, may preside over societies that will be strongly elitist and socially quite regressive.

I have argued that the asserted elective affinity between democracy and orthodox neoliberal policies overlooks serious problems that new democracies face in consolidating themselves under the prevailing national and global economic regimes. One implication is the need for giving the fledgling democracies more instruments and more room for manoeuvre, not only for being able to go beyond the Washington consensus, but for making democracy a meaningful institutional arrangement for dealing with serious problems of poverty and inequality, as well as divergent interests.

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