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Managing Adjustment, Political Authority, and the Implementation of Adjustment Programs in Africa

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Summary

The degree to which a program is implemented, given political will and no disruptive factors (e.g., drought, world recession, drastic adverse terms of trade shocks), depends on two factors: viz., the political authority of the government to carry out the program and the degree to which the management aspects of the program were satisfactorily dealt with at the design stage.

Political authority is an asset which gives the government the right to rule, lead, control and take certain decisions. It enables the political leader to obtain obedience without coercion or even persuasion. To promote implementation of a reform program, the program designers should advise the government and its program managers to obtain the authority to implement the program.

A program should include, at the design stage, detailed processes and procedures for program implementation in the main policy areas, notably fiscal policy, monetary and credit policy, labor market reform, trade liberalization, privatization and state enterprise reform, and exchange system reform. Program designers must also ensure that there is an adequate legal, institutional and analytical framework within which program managers can deal with contraction of economic activity by certain firms (exit) before expansion by others (entry); protect consumers and the integrity of the market process; and address certain aspects of the distributional impact of an adjustment program as well as take account of nationalistic concerns of political leaders and various pressure groups. It is argued that a properly designed program should include specific measures to speed up entry, prevent inefficient exit, and minimize unemployment and under-utilization of capacity, without slowing down the desired structural adjustment; include specific policies to help abate or even eliminate social pressures for modifying a program during its implementation; have an explicit framework for ensuring that markets are competitive and open; and arm the program manager with appropriate and well-defined tools (policies and measures) to prevent certain distributional consequences--or to alleviate social tensions--and to respond to predictable nationalistic preferences, *without threatening the key objectives of the program.*

When program designers fail to fulfill adequately their tasks, they will also incur a cost: namely, the need to make constant revisions to the program. For program managers will be faced with real world situations as a result of the above factors that will impel them to delay certain actions, substitute other--usually less efficient--policies, or simply introduce measures that mitigate or neutralize the impact of steps that are contained in the program.

I. Introduction

Many African countries are poised to make serious efforts to reverse many years of economic decline by implementing wide-ranging reforms of both a microeconomic and a macroeconomic nature. It is important that such programs be well designed and implemented as resolutely as possible. This is widely appreciated by both those who design programs (program designers) and those who must manage them (program managers). It is important for our purpose to emphasize that we are, in this paper, not confining our discussion to programs designed in the context of use of resources from the International Monetary Fund and/or the World Bank. The programs we are discussing could be designed solely by national experts (e.g., from local universities) or by independent foreign advisors (e.g., foreign consultants from universities, institutes and foundations). 1/

It is popular to blame the failure to implement adjustment programs as designed on lack of political will, absence of adequate political support, and adverse exogenous forces (domestic and external factors beyond the control of the local authorities). Experience of African countries would seem to indicate that it is not enough that the political will be there to assure implementation of many of the programs that the authorities' program designers formulate; additional guidance and institution building relating to implementation is often required as well. In other words, greater attention needs to be paid, at the design stage, to the management aspects of adjustment programs. This paper will attempt to elaborate and give meaning to this assertion.

The role of political authority in the implementation of programs is also often misunderstood. Not too infrequently the view is heard that authoritarian regimes may be beneficial and good for ensuring full implementation of adjustment programs. In this paper, it is argued that legitimate political authority is important to ensure effective implementation; the paper discusses the meaning of political authority and the ways to obtain it. At the same time it is argued that the need to use force to obtain obedience is evidence of a failure of political authority.

The paper is organized as follows. Section II identifies eight pillars that are at the core of traditional adjustment programs. Section III indicates the nature of the policy design that emanates from this orthodoxy. Then Section IV sets out the essentials of the basic thesis of the paper.

1/ In the context of the IMF, the Guidelines on Conditionality specify that "the Managing Director will recommend that the Executive Board approve a member's request for use of the Fund's general resources in the credit tranches when it is his judgment that the program is consistent with the Fund's provisions and policies and *that it will be carried out*" [italics added]. See IMF (1991), pp. 60-63. Hence, the Fund has a keen interest in understanding the conditions under which programs supported by its resources have an excellent chance of being implemented.

The basic hypothesis is advanced regarding the dependence of the degree of implementation of structural adjustment programs on political authority and adequate incorporation of the management aspects of the program at the design stage, given political will and no disruptive exogenous factors. Section V is a short criticism of alternative arguments that have been adduced to explain failure to implement programs fully: namely, rent-seeking/corrupt government and/or the view that local politicians and reform managers do not really believe that the programs can work and that the programs, in any event, impose hardships on the majority of the population and hence are politically unpopular. Section VI discusses the difficult notion of political authority and pursues the argument that when such authority is absent, program designers should encourage the political leaders and program managers to obtain it. Section VII then discusses the challenging task of managing adjustment costs and argues that program designers must make sure that program managers have the institutions, tools, and analytical methods to tackle the costs which are often predictable during adjustment. Finally, Section VIII contains concluding remarks.

II. The Pillars of Orthodoxy in Economic Reform Programs: Microeconomics, Welfare Economics and Macroeconomics

We shall identify as "orthodoxy" a brand of economic analysis which in the context of (macroeconomic and structural) adjustment (namely, adjustment programs) espouses the following eight hypothesis and/or propositions.

First, resource allocation (both human and nonhuman) should generally be left to market forces operating under open competition. 1/

Second, in order to create appropriate incentives for efficient use of resources, internalization of costs and rewards should be promoted. That

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1/ The underlying point here is that social allocation of resources that results from independent private decisions coordinated through the market is Pareto efficient and economizes on information through the use of price signals. Apart from the fact that markets do not exist for all goods and bads in any economy--especially forward markets, for many goods and services to be delivered in the future, which are made virtually impossible because of uncertainty--orthodoxy has always been aware that it cannot stop here if the goal is social optimality. Hence, in certain circumstances, it may be necessary to replace the market by other forms of social decision-making because of indivisibility, inappropriability, and uncertainty. In addition, it is necessary to address the question of how to intervene in the market to modify distribution of wealth (initial endowments) and to take account of factors such as nationalism, power, and status that motivate individuals and societies but may not be easily incorporated in the coordination processes of the market. See e.g., Arrow (1985) for an introduction to some of these issues. See also Hey (1981) especially on the issue of uncertainty.

is, all goods and services must be appropriately priced (in terms of opportunity cost) and users and producers charged and paid accordingly. 1/

Third, inflation is inimical to growth. The argument, in general, does not deny that a certain rate of inflation may be inescapable in a small developing country because of structural rigidities and imported inflation. Rather, the point is that, after a very low inflation--a rate probably only one or two percentage points greater than the underlying average inflation rate of the major industrial countries--changes in inflation are negatively correlated with changes in economic growth; namely, increases in inflation hurt savings and investment (both quantity and quality) and aggravate social tensions between income groups (with adverse effects on real output) as various groups endeavor to avoid the inflation tax (through indexation, adjustable interest rate contracts, etc.). 2/

Fourth, positive real interest rates encourage saving (and hence investment resources), and, at least up to a certain level, there is a positive correlation between the real interest rate and the real savings rate. 3/ This proposition in no way denies that real income per capita is a much more important factor in the determination of savings than is real interest rate. In addition, the proposition is most often invoked in discussions of the deposit rates of financial institutions with the implication that what is being alluded to is, strictly speaking, financial savings. The power of the proposition, therefore, comes from the importance (i.e., comparative advantage) of financial institutions in the intermediation process between savers (surplus units) and investors (deficit units). Moreover, from growth theory one could probably argue that the optimal level of the real interest rate would be no higher than the

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1/ At least since the paper of Coase (1960), a preoccupation of the theory of property rights has been the internalization of costs and benefits which requires that property rights be appropriately defined, allocated and enforced and that transactions costs involved in such processes be kept very low. The existence of positive transactions costs can, of course, mean that it is not optimal to define, allocate and enforce property rights over certain goods, services or bads thereby ensuring that externalities will continue to exist at the competitive equilibrium. Economic policymaking must, therefore, constantly strive to find ways to reduce transactions costs and to improve the property rights environment over time; see, e.g., Barzel (1989) for a discussion of the issues. An application of these principles can be found in Johnson (1972).

2/ For a review of issues involved in the relationship between growth and inflation in developing countries, see H.G. Johnson (1966) and O.E.G. Johnson (1984).

3/ The writings of McKinnon (see e.g., 1973) and Shaw (e.g., 1973) were very instrumental in placing this thesis firmly within the arsenal of what we are here describing as orthodoxy.

potential growth rate of the economy under full employment competitive equilibrium. 1/

Fifth, after a certain low threshold, increases in the effective rate of taxation (taxes paid as a ratio of net income before taxation) adversely affect economic growth. The proposition is consistent with the view that, starting from a zero rate, increases in the effective rate of taxation of income up to a critical level can be positively correlated with growth, first and foremost because the government expenditure financed at such low levels of taxation tend to be on infrastructure and other services (maintenance of law and order, basic administration, etc.) that contribute substantially toward economic growth. In addition, low levels of taxation can induce income earners to put in more work/effort in order to raise their real after-tax earnings; hence, at such low rates distortionary effects of taxation are not serious enough to neutralize the positive effects on economic growth. But beyond a critical (and probably low) level of effective rate of taxation the disincentive and distortionary effects of taxation engender a negative correlation between changes in the effective rate of taxation and the rate of economic growth. In particular, taxation encourages activities and transactions that are not taxed (leisure, subsistence, barter) or hard to tax (e.g., self-employment, production of crops destined for the domestic market other than for exports); discourages additional work/effort in the face of diminishing satisfaction (utility) of additional income, and increasing pain (disutility) and reduced net after-tax income from additional work/effort; encourages actions (hirings of lawyers and tax accountants, etc.) that would lower effective tax rates given the structure of taxation; and discourages private savings (by lowering after-tax incomes of higher income groups). 2/

Sixth, government should seek socio-political objectives--namely certain wealth-distributional and various other nonpecuniary social and political ends (e.g., nationalistic goals, aesthetic and artistic values)--at the lowest possible cost to real output and economic growth. For orthodoxy this has meant that the policies must enable the costs of intervention to be explicit, transparent and measurable; not distort relative prices and rentals; not contribute to inflationary pressures in the economy; and not directly dampen the incentives for production.

Since the role of government, both during and after adjustment, is a central concern of orthodoxy, the policy prescriptions emanating from the optimal intervention proposition have been an important focus of economic policymaking. Hence, among supporters of orthodoxy, one tends to find arguments in favor of lump-sum transfers and explicit tax-cum-subsidy

1/ This would seem to be an implication of the "golden rule" of growth theory. For a clear exposition of this golden rule, see Burmeister and Dobell (1970) Chapters 1-3.

2/ For an introduction to some of the issues, see Atkinson and Stiglitz (1980) esp. pp. 23-95, and Goode (1984) esp. pp. 75-194, and pp. 243-258.

policies; a disdain for controls on commodity prices, rentals, interest rates and credit allocation; a preference for subsidization of output rather than inputs; the principle that subsidies, even where explicit and measurable, should be affordable and hence not aggravate government budget deficits; and a constant struggle to come up with an optimal structure of taxation in the face of reality that lump-sum taxes to ensure a full optimum are generally not possible. 1/

Seventh, the real exchange rate plays an important role in external adjustment; in particular, appreciation of the rate, other things being equal, reduces the competitiveness of the country while the opposite is true for depreciation of the real exchange rate. Real exchange rate changes can, of course, occur through nominal exchange rate movements or through monetary and fiscal measures that alter the rate of domestic inflation relative to foreign inflation. This proposition is so important that it is quite easy to draw the conclusion that macroeconomic stabilization is often virtually and solely about the real exchange rate. 2/ In this vein, the ultimate goal is to obtain full convertibility of the currency.

Eighth, there must be equality of incentives to produce for exports and for the domestic market (including import substitution). This fundamental principle allows the commodity production structure of the country to be that which minimizes the use of domestic resources per unit of output. Alternatively put, the principle allows resources to be used where (namely, in the production of exportables, importables and/or nontradables) they are most efficient thereby promoting an optimal growth path of output. It is useful to note that this orthodox principle cannot be branded as export-promotion (export-biased or outward-looking) or import-substitution (import-biased or inward-looking). It is simply efficiency-augmenting and neutral. 3/

1/ See e.g., Diamond and Mirrlees (1971), Hammond (1985) and Heady (1987).

2/ The reason is that a depreciation of the real exchange rate is expected to induce a decline in real absorption (real consumption plus real investment) in relation to real output. It also helps growth by boosting real exports and capital inflows. In consequence, real exchange rate depreciation is expected to help the growth of foreign exchange reserves and help attain current account (of the balance of payments) sustainability.

3/ See, e.g., Krueger (1978, 1982).

III. Policy Design: Core Traditional Policies

What we have outlined above as constituting the pillars of orthodoxy in economic reform programs generally induce, in the African context, certain core policies 1/ which could be mentioned without any significance attached to the order in which they are listed. In addition, since the policies are by now quite familiar a lengthy discussion of them will not be made here.

First, is price liberalization. There are usually at least two reasons for this: to permit adjustments in relative prices to take place realigning them with world prices and/or domestic production costs; and to help remove any monetary overhang (excess liquidity) due to the fact that prices would have been previously controlled and there would have been a "shortage" of goods at the official prices. Price liberalization does not necessarily mean that all prices are suddenly left to be determined by the market. For instance, the liberalization could be phased in, with some prices being regulated for some time (e.g., prices of certain "essential" consumer goods).

Second, privatization 2/ has been pursued, to raise the level of productivity, through the incentive effects of a high degree of internalization in the cost-reward structure, as well as to stimulate savings and investment. Moreover, the government budget tends to be overburdened with the subsidies and capital expenditures that state enterprises often necessitate; relieving the government of such expenditures contributes to dampening inflationary pressures. When not fully privatized, attempts are made to restructure state enterprises to improve incentives for efficiency and innovation.

Third, increased user charges to reflect more fully opportunity costs of the resources used on goods and services that continue to be supplied by the state sector (including social services such as education and health) are often proposed not only for budgetary reasons but also to promote efficiency and avoid waste. 3/

1/ See e.g., Zulu and Nsouli (1985), Berg (1986), Green and Allison (1986), Chand and van Til (1988), World Bank and UNDP (1989), Commander (1989), and Kapur et al (1991).

2/ One complication that is unfortunately glossed over in most discussions of privatization is that privatization is one of degree and that, rather than focusing on ownership structure, it often makes much more sense, from the viewpoint of economic efficiency, to focus on the nature of the arrangement for the provision of a good (commodity or service). For instance, diverse arrangements for providing a service can be identified [see Savas (1987)]: market, voluntary, self-service, franchise, voucher, grant, contract, government vending (government competing with private firms to supply the service to private consumers), and governmental.

3/ See the interesting survey of issues by Jimenez (1989).

Fourth, domestic credit expansion is usually slowed down to contain inflation, and credit allocation between the public and private sectors reexamined and adjusted as deemed desirable to prevent crowding out of the private sector by the public sector. Another goal has been to move from direct controls on credit to use of indirect (market-based) instruments.

Fifth, nominal deposit and loan interest rates of financial intermediaries are either liberalized--left to market forces--or they are made flexible and adjusted in line with inflation to allow them to become positive in real terms even though they remain regulated by the authorities at least for some time.

Sixth, various other policies are taken to develop, to open and to liberalize factor markets (labor and capital) and to permit resource allocation and rentals to be determined by market forces. For instance, wage rates may become less regulated, including, sometimes, the abolition of minimum wages; selective credit controls may be lifted or gradually phased out; and policies toward foreign direct investment may be relaxed to allow, for instance, greater freedom to transfer dividends and profits while increasing the areas of activity open to foreign investors.

Seventh, the nominal exchange rate may be adjusted to some level considered more appropriate and then either be allowed to float or be fixed to serve as a nominal anchor; in the latter case particular emphasis is placed on fiscal and monetary policies and on price flexibility in domestic markets to support the fixed exchange rate. 1/ The objective here, of course, is to make progress toward convertibility of the domestic currency.

Eighth, tax reform policies are instituted usually with various objectives in mind: to encourage investment, to reduce inequities between different activities and income groups, to increase tax effort for purposes of reducing the budget deficit, and to reduce the distortionary effects of too great a dependence on certain types (so-called tax handles) of taxation. To facilitate the implementation and effectiveness of the tax reforms, proposals are generally made to improve tax administration.

Ninth, budgetary expenditure reforms are usually designed, again with several objectives in mind: growth, equity, and reducing the fiscal deficit.

Tenth, trade liberalization is generally pursued to open the economy to international competition (and, therefore, raise efficiency), encourage foreign capital inflow (foreign direct investment) and support the efforts toward currency convertibility. Most notably here, reducing import tariff

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1/ It should, perhaps, be noted that, even in a floating rate regime, strong fiscal and monetary policies are essential to exchange rate stability which is a desirable property.

and quotas as well as export subsidies are measures that are usually contemplated in this context.

IV. Implementation of Adjustment Programs: The Basic Argument

It is one thing to design a program; it is another to manage it. The ideal procedure would be for the program designers to consult with and take seriously the views of the program managers at the design stage to ensure that the latter can do what is required. At that point program designers will know if the institutional capacity exists for managing the program and if any technical assistance is required. Both the program designers and program managers should also assess, in cooperation with the political rulers, if at the political level the political will exists to pursue (i.e., design and manage) the program and if the government in power has the political authority from the people.

In the African context, for example, it is unfortunate that, in examining the success of adjustment in Ghana, many writings have focused only on the ultimate achievements in real exchange rate adjustment, fiscal adjustment and reform, liberalization of trade, exchange system, prices and interest rates, and, of course, the enormous improvements in the balance of payments area (mostly elimination of arrears and some build-up of foreign reserves), as well as in divestiture, state enterprises restructuring and civil service reforms. As a result, the important question of what lessons does the Ghana experience hold for adjustment programs in Africa still remains unanswered.

The basic point to stress is that, when one examines adjustment programs in Africa (and probably in other continents as well, although this is not the focus of the paper), one observes that adjustment programs are rarely fully implemented (both in scope and in speed) as initially designed and hardly any program has been a complete failure in the sense that in scope and speed no element of it was implemented. What one normally observes is partial implementation of a program. If one can understand this and then ask what determines the degree to which programs are implemented one can begin to develop the tools for abstracting real lessons from different programs whether one considers them successful or not.

It is the underlying thesis of this paper that the degree to which a program is implemented and targets attained on schedule, given political will and no disruptive factors (e.g., drought, world recession, drastic adverse terms of trade shocks), depends crucially on two factors: viz., the political authority of the government to carry out the program and the degree to which the management aspects of the program were satisfactorily dealt with at the design stage. 1/

We shall argue that there appears to be a great need for an understanding of the meaning and significance of the notion of political authority by persons who design programs. As regards management aspects what we are alluding to is the degree to which the detailed processes and procedures of program implementation were well-understood and worked out at the design stage, adequate institutional preparation assured before a policy measure or instrument was introduced, and effective arrangements made for managing fairly predictable adjustment costs.

It is important to note that taking account of the management aspects does not mean slowing down adjustment although it means paying greater attention to the pacing and sequencing of measures. Rather, we would argue that the faster the adjustment required the more intense must be certain kinds of technical assistance and certain types of institution building, and the greater the need for properly designed measures to deal with adjustment costs that are fairly well known in economic theory.

As regards failure to fully implement, the methods are quite obvious. One direct way is to delay the action: that is, to take the measure later than initially intended (or agreed to). Such delays can reduce the positive impact and effectiveness of the measures and invariably delay the achievement of certain final or intermediate objectives or targets (e.g., output growth, change in net foreign assets, inflation, etc.).

Another direct approach to failure to fully implement is simply never to take the action (during the adjustment period) by continuous postponement. Instead, proxy actions--usually less efficient and suboptimal--are ultimately taken with the argument that they somehow achieve the same objectives and yet are more palatable. The typical argument here is that certain real world factors had not been adequately taken into account when the program was being designed and that program managers being responsible people cannot ignore such real world factors from which program designers seem to have the luxury of abstracting.

A third way in which countries often fail to fully implement a program as designed is simply to introduce measures that mitigate or neutralize the impact of actions that are contained in the program. A typical example would be to take steps (additional to those contained in the program) to support real consumption (e.g., raising real remuneration through various in-kind supplements to wages) in the face of price liberalization or floating of the currency. Given tight overall budget constraints a major consequence is that the whole structure of government expenditure gets

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1/ Naturally, we are assuming here that the economic analytical aspects of program design are correct and appropriate given the information available to the program designers.

altered; if the analytical economic aspects of the program had been rigorously worked out, the relationship between government expenditure and economic growth will then be thrown off.

V. The Failure to Fully Implement: Some Familiar Arguments

Other arguments have been adduced to explain any failure to fully implement adjustment programs by both those who favor the orthodox prescriptions and those who oppose them.

One of these explanations is an application of rent-seeking/corrupt government models. Namely, that there are certain privileged groups who lose some of the incomes that they were deriving from privileged and preferential access to particularly scarce resources; that such groups should be expected to try to sabotage any attempts to change things; and that they could succeed in preventing many of the adjustment measures from being implemented.

Indeed, adjustment programs with their aims being restoring financial discipline in the public sector, reducing macroeconomic imbalances of the country and shifting the allocation of resources on to market forces, generally include measures that are bound to hurt--in the short term--certain privileged groups in the society. These groups comprise individuals that, in the disequilibrium situation, before the adjustment program was put in place, would have had preferential access to resources particularly foreign exchange and bank credit. Many among those individuals also are in positions of power and responsible for implementing administrative controls, quantitative restrictions and price regulations; these positions create the opportunity for extracting bribes and corruption revenue from the rest of the population. 1/

The privileged individuals will also tend to be recipients of subsidized services and products (public utilities, petroleum, imported foodstuffs). The most wealthy or politically powerful among the privileged groups are often able, with impunity, to avoid paying various kinds of taxes--especially on income and imports. Finally, many of the members of the privileged groups hold positions in state enterprises and government departments with substantial perquisites (cars, housing, paid utility bills, vacation trips abroad, publicly-paid domestics, etc.) that weigh heavily on the budgets of the institutions and departments concerned.

For those individuals for whom the revenue from bribery and corruption plus the income equivalent of subsidies and perquisites add up to a sizable fraction of their salaries, many elements of traditional adjustment programs

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1/ See Krueger (1974), O. E. G. Johnson (1975), Johnson and Salop (1980), and Tollison (1982).

pose an obvious threat to their welfare. Such individuals are likely to oppose a program in a particularly vociferous manner.

The list of measures to which the truly privileged will be opposed can be quite long. Such a list would tend to include currency depreciation; raising of interest rates to make them less negative in real terms; lifting of selective credit controls favoring certain transactions; more economic pricing of public utilities and petroleum, designed to cut down on waste and to lower budgetary subsidies; the reduction of food subsidies; the lifting of price controls over certain consumer goods; the privatization of some state enterprises; and reducing allowances and in-kind subsidies to senior officials in the public sector.

The above argument has been put in its full force because it is realistic and has empirical validity in many situations. But our position is very simple: a privileged group of the sort described above may be able to subvert the adjustment process when the government lacks the political will to carry out the adjustment program (probably because members of the government oppose the actions); and when the government lacks the political strength and support to enforce the measures (which means it does not have the political authority to implement the measures).

A second argument that is often heard--particularly in popular discourse in Africa--is that programs are not implemented because local politicians and program managers do not really believe that the programs can work in Africa; that the underlying economics is faulty; that the programs impose economic hardships on the majority of the population, particularly on low-income groups; and that programs are usually adopted in a half-hearted way without any enthusiasm because they are often supported by the IMF, the World Bank and the governments of countries that are in a position to render financial assistance to the countries. The point here is that countries cannot enthusiastically implement something that they do not wholeheartedly support. This kind of reason is, of course, put forward by those who see great merit in the arguments advanced in the Lagos Plan of Action and the ECA African alternatives to structural adjustment. 1/

Those skeptics question both the objectives of the traditional adjustment programs and the policy measures used to achieve the objectives. Briefly, as regards the objectives, the argument is that adjustment programs have been traditionally preoccupied with the balance of payments, with exports and with static comparative advantage. As a result, it is implied, they do not pay adequate attention to real output growth; they underestimate the benefits of import-substituting strategy for industrialization; and they are likely to doom Africa to primary production and exports for a long time, or at least for the foreseeable future. While the force of such arguments may have been responsible for widespread skepticism, especially toward those

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1/ See, e.g., Robert S. Browne and Robert J. Cummings, (1984), and United Nations Economic Commission for Africa (1989).

adjustment programs supported by the IMF and the World Bank, it is our view that African political leaders and program managers are now aware that adjustment programs can be growth-oriented, that the emphasis is on equal (unbiased) incentives for production and not export-biased production, and that the whole thrust of market-oriented reforms is to permit dynamic comparative advantage to play its full role in the restructuring of domestic production and the evolution of the trade structure of a country. Hence, support for traditional adjustment programs has certainly grown in these countries as evidenced by the increasing willingness and, indeed anxiety, of many of the countries of the region to adopt adjustment programs that are supported by the IMF and the World Bank. 1/

As regards policy choices, the basic objection is that adjustment programs tend to be designed to move the countries too rapidly toward reliance on market forces. The fear is that there are too many rigidities that tend to dampen seriously supply response; that income inequalities tend to emerge with potentially disruptive social and political responses; and that trade liberalization, currency depreciation, tolerance of free capital mobility, and privatization tend to subject the economy to price instability and foreign domination, in the absence of well-functioning capital markets and a large pool of local entrepreneurs.

Three points can be made in response. First, the alternatives usually proposed in light of these arguments are policies involving controls, direct bureaucratic allocation of resources, and closing of markets that have all been tried and failed, with considerable evidence that those alternative policies not only lead to inefficiencies in production, but also dampen incentives to innovate and engender monetary and fiscal indiscipline in the economy. Second, it is widely recognized that the speed and sequencing issues in adjustment are serious and that in designing a program careful thought should be given to the optimal policy mixes and the pace of introduction of different packages. Rather than return to inappropriate policies, the attitude should be to seek to introduce appropriate policies in a timely manner. Third, it is recognized that social safety nets (e.g., unemployment benefits/insurance, job training/relocation programs, consumption-maintenance programs well-targeted to certain low-income and vulnerable groups) should all be elements in the design and management of adjustment programs. In brief, support for adjustment has increased as adjustment program design has become more sensitive to issues of appropriate policy mix, speed and sequencing of policy packages, as well as the need for social safety nets. 2/

1/ It is also probably fair to argue that, in some cases, the putative enthusiasm for adjustment programs supported by the IMF and the World Bank may be due to the external financial assistance that such programs tend to attract.

2/ For the issues involved in this general area, see Cornia, Jolly and Stewart (1987), Fischer and Gelb (1991) and Murrell (1991).

VI. Political Authority and Credibility

We have already intimated that political will is extremely important for the full implementation of adjustment programs. We will argue here that for such implementation it is also necessary for the government to have the political authority to implement the programs. Without such authority, the government will not be able to galvanize the support, and hence cooperation, of the people and will be forced to make compromises to obtain support. The lack of cooperation and the ensuing compromises of the government impair implementation and are reflected typically in delays in taking certain actions; continuous postponement and eventually never taking certain actions but instead replacing these by proxy (and less effective) measures; and the introduction of measures that mitigate or neutralize the adjustment impact of actions already taken before the populace has time to react. Our point is that these compromises are rational choices of the government in an attempt to buy, or obtain, political support.

We have so far used the expression "political authority" loosely. Yet its importance in our thesis makes it deserve explanation. Our view of authority is similar to that of Hannah Arendt (1968): authority is whatever makes people obey "freely." Hence authority always entails obedience--not by coercion or persuasion--in a situation in which people basically retain their freedom. Most tellingly, where a government has to use force in order to obtain general obedience, authority is either nonexistent or has failed. For it implies that the populace at large does not trust the government--its integrity and its judgment--does not believe that the government's actions are for the common good, and/or remains unconvinced that the path of reform that the government has chosen is a product of its free will after adequate reflection and analysis. 1/

Let us be more precise. Political authority, in our view, is an asset which gives the government the right to rule, lead, control and take certain decisions. This right may be endowed or earned. However obtained or acquired, the right is acknowledged by those who are ruled, led, controlled or must obey the decisions taken. This acknowledgement makes the right legitimate and hence makes people obey freely. For the "right" (i.e., political authority) to be acknowledged, and hence considered legitimate, it must have been obtained by methods that, in the light of history or tradition, are accepted by the populace at large as legitimate methods for its acquisition.

Legitimate methods for acquiring the right which we here call political authority could differ from place to place and from one period to another. Such methods have included inheritance, coup d'état, and elections. As long as these methods are acknowledged by the populace at large as legitimate,

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1/ For another author also--Heinz Arndt (1984)--authority is what permits the state (i.e., government) to maintain law and order, defend against external threat, and ensure a minimum degree of social discipline.

political authority obtained by using the methods has been kept. If the methods are not considered legitimate means of obtaining the right then the right (political authority) will not be acknowledged as being due the person(s) who pretend(s) to have it.

One can lose political authority. For instance, the term of office of a government could run out. Or the populace at large may acknowledge the right to rule by a leader of a coup d'état only for a while after which the leader is expected to call elections. As another example, the populace at large might want a complete change in the political order; for instance, a system based on inheritance may no longer be acceptable but instead a system based on free and open elections preferred.

Political authority is a *sine qua non* for political support and trust by the populace. Hence political authority becomes akin to other kinds of authority as found in science or religion. If one is recognized as an authority (i.e., having authority) one is simply obeyed by others on trust and on faith. Hence not to have authority is to lack credibility. In the absence of credibility, support is not automatic and could, in fact, be difficult to obtain.

Thus, we argue that when a government does not have political authority, it will also lack credibility and, with it, political support as well. In such a situation use of force will not suffice to assure implementation of the program. In fact, the government will find that dependence on force will enable it to attain only a rather modest degree of implementation in the face of sabotage, indifference, nonparticipation, and minimum effort and compliance from the general populace. To increase voluntary obedience the government will then find that it is optimal for it to make certain compromises--effectively to try to "bribe" those in the population who are in position to obtain additional support for the government.

To guarantee virtually full implementation of a reform program, the program designer must ensure that the government and its program managers have the authority to implement the program. When such authority seems absent or when there is sufficient doubt that the government has the authority, the program designer should advise that the government obtain the authority to implement the program; otherwise, the program designer cannot be assured that the program can be carried out. One obvious way to do so is to call elections that are free, open and fair in which a central element of the government's platform would be the details of the program to be implemented; alternatively, a referendum could be held on the government's adjustment program. Another way to obtain authority is to discuss the detailed program with undisputed leaders of all the significant interest groups in the population and obtain their support without coercion.

One important consequence of the process of obtaining authority is that certain details of the program as initially conceived may be altered in ways that are more acceptable to the population and yet not lessen the effectiveness of the program, in any important way, in terms of its ability to engender the needed macroeconomic and structural adjustment. For instance, the minimum income level above which taxes begin to be paid may be raised and the government agrees to postpone certain non-essential repair and maintenance; tax brackets could be altered; price liberalization could be phased somewhat differently; the structure of user charges could be altered without changing the overall budgetary and growth effects; and the government may support partial indexation of wages to inflation that is over and above a certain projected rate. The list of fine tuning to an initial program which could result from discussion with various groups in the population could go on. The integrity of the program can be preserved if this fine tuning is done at the design stage when the total effects of all the fine tuning can be assessed in a coherent way before full-scale implementation starts.

We would posit that anyone who has worked on African countries and interacted with the populace directly or indirectly will agree that it is usually reasonably easy to develop a sense of whether or not the government in power has enough authority to implement a program or whether instead there is a need to take steps to obtain such authority in general or, as a minimum, to implement the adjustment program in question. For example, one could find out how the government came into power; the extent to which it uses force to maintain its power; and the governance record of the government. 1/ Moreover, however repressive a particular regime in Africa has been, it has always been possible to obtain a good sample of the views of different interest groups in the country. 2/

VII. Managing Adjustment Costs

On the basis of economic analysis and the history of a country there will be costs of adjustments--economic, political, social--that are predictable. In this author's view, the program designers should prepare the program managers with a framework or strategy for addressing and minimizing these costs without compromising the main objectives of the program. More specifically, the program designers must ensure that there is adequate legal, institutional and analytical framework within which the program managers can deal, most notably, with issues related to exit before entry, protecting consumers and the integrity of the market process, certain

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1/ As regards the governance record, a regime that is generally seen as being highly corrupt and that has been at the helm of the state during the years of economic decline, with bad management by government being widely considered within the country as being responsible for the economic debacle, is not likely to have the authority that program designers should be demanding to ensure implementation of a program.

2/ We could, in fact, be stronger than this and argue that it is very easy to know the views of different interest groups in the country.

aspects of the distributional impact of the adjustment program, and nationalistic concerns of political leaders and certain pressure groups. In keeping with the fundamental thesis of this paper, we would argue that an important factor that has affected the degree of implementation of adjustment programs in Africa is that program managers often face certain problems and adjustment costs, related to the above factors, that they find difficult to handle, in the absence of the legal, institutional and analytical framework to do so. A consequence is that the degree of implementation of the program gets adversely affected: namely, by program managers taking neutralizing actions, delaying policy measures, and substituting other measures in lieu of some of those included in the design.

1. Exit before entry

One of the difficulties that managers of adjustment programs face is that of contraction of economic activities (production and investment) by firms that are hurt by the adjustment (exit) before firms which benefit from the adjustment begin to expand to replace the declining ones (entry). This problem of exit before entry occurs in several specific forms and can lead to increased unemployment and under-utilization of capacity, with consequent pressures from those persons adversely affected, and a failure to implement the program as designed. A properly designed program must include measures to speed up entry, minimize the unemployment and under-utilization of capacity without slowing down the desired structural adjustment, and have policies that will help abate or even eliminate the social pressures for modifying the program during its implementation. Such an analytical and policy framework is possible because the nature, if not the precise extent, of the exit-before-entry problem is usually predictable. In the absence of a policy framework to deal with the problem, the program managers will find themselves caught by surprise; their reactions can, in such circumstances. often result in a failure to implement fully the program as designed.

Exit before entry arises essentially in connection with three elements that generally flow from the basic measures in the program: relative price changes; changes in explicit subsidies and taxes; and plans for reduction in the relative size of the state in production and employment, through divestiture and shrinking of the government bureaucracy. Depending on how well local labor and capital markets function, the size of the local entrepreneurial class, and the credibility in the sustainability of policies, exit-entry discordance of various forms can occur. For instance, government and state enterprise employees (namely, exiters) could be released before employment opportunities are created by expanding or new private enterprises (entrants); also firms that are adversely hit by falling relative prices could close down or contract production before firms that are favorably affected by rising relative prices are able to set up or expand their productive capacity. Such "adjustment costs" are not unpredictable and are well-known in economic theory. 1/

1/ See, e.g., Neary (1982).

In this author's view, a well-designed program will, therefore, include, as appropriate, at the design stage, policies to improve labor and capital markets; these will include incentives for the private sector to provide some of the training programs and financial assistance for moving costs of employees, as well as some well-targeted adjustment finance through the public sector. In addition, financial assistance programs for the unemployed--again well targeted--will also be incorporated into the program. When the program design falls short in these areas, it is predictable that there will be slippages in implementation, even in dictatorships/ authoritarian regimes.

A special case of the general problem of exit before entry is that of preventing false or inefficient exit. This typically occurs when firms that are efficient (and hence privately profitable in the long run) are unable to survive a liquidity squeeze that follows liberalization in the factor (and commodity) markets that in turn results in a sharp rise in production costs. One of the truly challenging aspects of program design, in the face of capital markets that are not well-functioning, is the development of criteria to separate illiquid firms that should be assisted because they are efficient in the long run from those that should be allowed to fail. Once such criteria are developed the manner in which the "adjustment assistance" should be rendered is also a difficult issue. In the absence of an adequate framework for identifying and assisting efficient but illiquid enterprises, when capital markets are rather underdeveloped, program managers will seek "pragmatic"--but often suboptimal--solutions that will tend to affect adversely the implementation of the adjustment programs. In our view this is one area where there are major shortcomings in the "state of the arts" of program design.

2. Protecting consumers and the integrity of the market process

In managing adjustment programs, particularly when liberalization and privatization are key elements, the observation of this author is that there are typically social pressures for the authorities to take measures to protect consumers and the integrity of the market process by ensuring that markets are truly competitive and open; by preventing excessive risk-taking in financial markets; and by controlling entry of firms that use unsafe and deceptive methods to earn profits, exploiting the fact of asymmetric information. It is this author's view that, in the absence of an effective legal, institutional, and analytical framework for licensing and obtaining permits (where relevant), for regulating activity in private, competitive and open markets, for identifying and dealing with attempts to close markets to potential competitors, and for objectively measuring and implementing a well thought-out policy toward monopoly pricing, program managers become confused when faced with anecdotal evidence that there are real problems in these areas and when social and political pressures build up to "do something" to alleviate the supposedly harmful effects on consumers and the market process. The role of the program designer should be to prepare the program manager to react appropriately and efficiently by having in place an appropriate legal, institutional and analytical framework for protecting consumers and the integrity of the market process without compromising the overall objectives of the program. 1/ When the program designer fails to do so, the implementation of the program (and invariably the objectives as well) is expected to suffer. For in the real world where the program is being implemented the program manager will not ignore the social and political pressures.

3. Distributional aspects

Unfortunately for those who must manage adjustment programs certain distributional aspects of a particular program could aggravate social tensions. The observation of this author is that program implementation then becomes threatened either directly by the social tensions themselves and/or indirectly by the measures that are taken to resolve the social disputes. The nature of important distributional consequences of adjustment programs can be generally predicted by the program designer. 2/ The designer's function should be to include in the program a framework for dealing with the reactions to the most important distributional consequences--again with as much detailed specification as possible of policies and actions to be taken.

The major distributional questions in the "typical" African country crop up in five areas: namely, (1) wages vs. profits, (2) rural vs. urban producers and consumers, (3) government vs. private-sector employees, (4) resident holders of money vs. those who had shifted into convertible foreign currencies ("dollars") through parallel market activity, and (5) "fixed" income earners (pensioners and rentiers) vs. other (more readily-adjustable) income recipients. To address these distributional issues in order to prevent them from adversely affecting--directly or indirectly--the implementation of the program, the designer must arm the program manager with the requisite tools. This usually means, inter alia, providing the legal, institutional and analytical framework for setting up tripartite bodies involving the government and the other two parties likely to be involved in the distributional squabbles; and including in the programs policies similar to those employed in attacking the exit-before-entry problem but with an added dimension to address the distributional issues.

4. Nationalistic concerns

Program designers often shy away from explicitly treating in the programs the optimal responses to nationalistic concerns about the program

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1/ It should, perhaps, be noted that there is no necessity to pay the same attention to all markets. Some markets will be obviously more important then others and attention should be devoted mainly to the most important markets.

2/ See Johnson and Salop (1980).

effects. In the African context, nevertheless, it is highly predictable that program managers will face such concerns, and social and political pressures could build up to "do something" to appease the concerns; after a certain point the program managers will find that they must respond. In this author's view, program designers should prepare them to do so in an efficient way. Briefly, the nationalistic concerns generally arise especially with respect to privatization and to liberalization policies; in the latter case these include measures that will tend to attract foreign direct investment in the economy (for example, improvements in macroeconomic management, liberalization of current account transactions, and freedom of foreign enterprises to borrow in the domestic capital market). The fear is often that foreigners will tend to buy out too large a share of the domestic assets being privatized, will dominate the economy as employers of labor, and will crowd out local entrepreneurs in the capital market.

In the absence of measures to address the nationalistic concerns, program managers will use some or all of the following: sectoral quantitative restrictions on foreign investment; arbitrary closing of certain markets and activities to foreign participation; and dual effective exchange, interest, import tariff and profit tax rates to discriminate against foreigners. The consequence would be to frustrate foreign direct investment which the program designers are seeking to encourage and to reduce the efficiency of the investment that does flow into the economy; the latter will tend to occur because of distortions in the mix of the foreign direct investment that actually takes place and a failure to provide incentives for foreign investment to flow into sectors in which it is most productive in the local economy.

VIII. Concluding Remarks

The argument in this paper would imply a need to broaden the meaning and content of adjustment program design and hence the functions of the program designer. The argument is that program design should include not only a clear statement of targets, instruments and general policies but should also take into account the essential aspects of program implementation. The latter would comprise, first of all, policy operations in order to ensure implementation in areas such as fiscal, monetary and credit policies; foreign exchange operations and markets; liberalization of prices, foreign trade and exchange systems; privatization and state enterprise reform; and reduction of the government bureaucracy. Second, the nature of, and methods of obtaining, political authority to implement the program should be carefully considered and recommendations made as necessary. Third, description of predictable adjustment costs should be made with a view to proposing an appropriate legal, institutional and analytical framework for dealing with these costs. The predictable adjustment costs discussed in the paper were classified into those arising from exit before entry (including the prevention of inefficient exit); the need to protect consumers and the integrity of the market process; dealing with distributional issues that aggravate social tensions; and handling nationalistic concerns.

When they fail to address the implementation issues discussed above, it is the author's view that the program designers will have a cost to bear: namely, the need to make constant revisions to the program. 1/ For program designers will be faced with continuous *ex post* explanations by program managers for failure to implement a particular program. The program designers, in turn, will often not be able to blame the failure to implement on the lack of "political will" unless the latter is defined in a tautological way to mean any failure to implement that cannot be explained away by the intervention of adverse exogenous forces (such as bad weather, decline in world prices for exports or rise in prices of imported raw materials and intermediate goods).

It is important to emphasize that the paper is not saying that lack of political will is an empty concept and that it cannot, in certain cases, be invoked legitimately to explain the failure to implement adjustment programs. What the paper says instead is that the degree of program implementation can be increased if at the stage of program design various operational and managerial details of implementation can be dealt with in a concrete, coherent, and comprehensive way, and if adequate steps are taken to ensure that political authority is obtained to implement the program. In sum, if real insights are to be gained in understanding what makes programs "succeed" or "fail," one cannot ignore the managerial, operational and political aspects of program implementation and how these elements were taken into account at the stage of program design.

1/ It may be worth noting, though, that some revisions of programs may be inevitable because of the conditions under which programs are often designed--notably, poor data, underdeveloped state of some aspects of the underlying theory, and inadequate empirical evidence on which to project quantitative economic relationships. Hence, as new information becomes available, revisions to a program may be found useful. The paper, inevitably, is abstracting from these particular problems obviously to allow the main thesis of the paper to be put forward without unnecessary complication.

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