Safety Nets, Politics, and the Poor: Transitions to Market Economies
Carol Graham

In the wake of the debt crisis of the early 1980s many countries, especially in Latin America, had to adopt adjustment policies, including liberalization of trade and domestic prices, exchange rate adjustment, reduction of public sector deficits and placement of state-owned enterprises on an autonomous footing. Adjustment had salutary effects in Latin America, but worked less well in Africa because of institutional weakness and lack of supply response. In many countries the measures had the short-term effect of increasing unemployment and poverty, and by 1987 pressures arose to give adjustment a human face and meet these adverse short-term consequences by a “safety net” of job creation and targeted subsidies. Carol Graham describes in detail the nature and administration of these safety nets, and analyzes their consequences, principal beneficiaries and the political forces that shaped them in a fairly representative sample of three Latin American countries (Bolivia, Chile and Peru), two African countries (Senegal and Zambia), and Poland (plus less detailed notes on some other countries).

For both policy makers and academic analysts she draws valuable conclusions on how to shape anti-poverty policies in the context of economic reform. In an open political system government leaders are more likely to explain the causes of the problems faced, the nature of the adjustment measures, and to encourage participation by local communities and non-governmental organizations, factors enhancing the sustainability of reform. Safety nets should be an integral part of macro-economic reform, and free from political pressure. Often they need to be implemented outside the existing government structure, using market principles, possibly with an administrative role for the private sector. They should of course be directed to the poorest groups at greatest risk, although in some countries middle class friends of the party in power and those who had suffered from layoffs in the public sector (as in Senegal).
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were the main beneficiaries. Under Bolivia’s otherwise exemplary system the poorest communities were often unable to present the mini-projects used for job creation. In several countries the measures became part of more comprehensive and lasting anti-poverty action.

Graham describes poverty conditions in some of the countries covered, giving ample explanation of the political circumstances rather than obscuring the reality with excessive statistical abstraction (as is often done in World Bank studies). She does not, however, try to explain the root causes of poverty and how they can be overcome over the long-term. Any observer of Latin America over many years cannot help being depressed at the lack of progress after more than fifty years of development activity. True, the turn toward market friendly policies under democratic regimes has strengthened the depth and spread of growth, but poverty remains unduly high, social conditions depressive, institutions weak (with some notable exceptions), and physical infrastructure in poor shape.

Economists will miss in this book an analysis of the causes and consequences of adjustment. Although the author recognizes that safety systems must be an integral part of macro-economic reform, she does not assess whether the economic measures were adequate to cope with the problems countries faced. No amount of transition, regardless of administration, can correct for the inadequacies of adjustment policy. Thus Senegal could not compensate for the mistake of keeping (until recently) its exchange rate fixed on the French Franc, and depending on excessive and largely unconditional French aid. Nor could transition in Zambia make up for the fundamental error, committed by both government and external agencies, not to pursue more vigorously diversification of the economy and make it less dependent on copper, both before and after the downturn in the price of copper. Zambia’s standard of living declined substantially despite high copper prices and later generous external assistance. Though the author presents available data on the cost of jobs provided, she does not analyze the relation between the transitional measures and more lasting comprehensive anti-poverty programs.

Despite the economic omissions the book is a thoroughly researched addition to the literature on adjustment. The author’s advice to policymakers, especially on the choices faced in Poland, and her country summaries in the final chapter are especially useful. Teachers and researchers in international economics and development are well advised to consult this excellent study.