ECONOMIC REFORM POLICY AND LONG -TERM REAL TARGETS

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ABSTRACT: *Economic policies play an important role in influencing the path of long-term economic performance of nations. Policy reforms involve identifying the set of policies that should be changed and designing the new set of alternative policies. The reform measures could take macro or sectoral forms or follow a certain sequence. Ultimately, what set of policies would be put in place and get implemented depends on the political economy of the domestic system. Designing and implementing reform policies which suit the realities of the domestic economic, political and social conditions is indeed a challenging task and takes diverse forms. Country experiences exhibit mixed pictures. International financial institutions have come to play a crucial role in the process and countries that seek financial assistance have to undertake reform measures. The contention of conditionalities seems to ensure the smooth flow of international finance and the protection of global finance from a repeat of the debt crisis. The policy package, though important to ensure the financial stability of the reforming nations, could not be sustainable in the longer term since it fails to address the real targets in reforming nations. Those countries which adopted premature liberalization policies suffered from deterioration in economic performance or in some cases short-term stabilization was achieved at the cost of long-term real targets. This paper addresses the interaction of reform policy measures and long-term real targets and argues that a vibrant market economy takes more than declaring a free market policy. It warns that a premature liberalization policy is as harmful as rampant government intervention.*

Key Concepts: Economic policy reform, Structural Adjustment Program, human capital, human development, sustainable economic growth.

INTRODUCTION

The observation of economic policy design dynamics and prescriptions by the international financial institutions provides interesting insights into the art of policy making. International financial institutions have come to play an

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influential role in the process of policy design in individual countries seeking financial assistance. These institutions base their policy advice on a set of underlying theoretical assumptions. Though not contradictory in essence, there are two main strands of thought in reform policy design, namely the Orthodox and Heterodox views. The Orthodox approach claims that reform policies pay in terms of rapid growth in all countries. The Heterodox view, in contrast argues that, since instabilities are symptoms of deeper structural problems, it is necessary to address first the structural bottlenecks to make reform measures effective. The latter view, being articulated in United Nations circles, found it difficult to be influential in policy design. The Orthodox approach, sponsored by the World Bank and the IMF, has held sway in the recent reform policy packages of developing countries. Despite occasional digression, the main focus of our discussion will be on the driven economic reform measures driven by the Orthodox view and their impacts on the reforming countries.

Since the collapse of the socialist bloc in the late 1980s, the World Bank and the IMF have been called to play jointly crucial advisory and financial roles in the reforming economies. This is despite the objective of IMF to finance short-term liquidity to countries with balance of payments deficits and that of the World Bank to play a development oriented role. Stabilization is a demand-side management with the purpose of achieving external and internal balance in the short-to-medium term. Structural Adjustment, on the other hand, is more of a supply-side approach whose objective is growth with a gradual removal of severe market distortions. The specialization in policy advice and funding was such that the IMF used to finance stabilization programs whereas the World Bank funded structural adjustment programs to foster growth of the reforming nations. The division of responsibilities has recently become increasingly blurred and both institutions have redirected their efforts to demand-side focused, deflationary short-termism (Mosley et al. 1995:1460). This has been more evident after the oil-shock and the debt crisis. A recent case in point is the collaborative role of these sister institutions in helping reforming countries to stabilize their economies and initiate a market-oriented economic policy. These institutions impose a package of conditionalities on the reforming nations and their implementation

is monitored meticulously. The loans for structural adjustment are contingent on the fulfillment of these policy conditionalities. The content of the policy package, while somewhat different between countries, is based on the same economic orthodoxy which is applied to all reforming countries. To highlight the main features of these policy packages, the following may be noted:

- tight fiscal and monetary policies;
- trade liberalization and revision of government-controlled prices;
- tight budget constraints of Public Enterprise and privatization;
- devaluation and unification of foreign exchange market;
- positive real, or market-determined, interest rates;
- labor market reform; and
- financial sector reform.

The reform policies have been undertaken with different sequences, speeds and degrees of implementation across reforming nations. The components of reform policy package are meant to be implemented simultaneously and as soon as possible. The shock therapy is said to be essential because the measures are interdependent and failure to address even one of them would lead to sub-optimal outcome. The reform policy has also evolved over time and increasingly the financial institutions have abandoned the usual rhetoric. Nonetheless, the essentials of the policy package remain practically the same.

The main reform policy approach can be characterized in the following manner:

- emphasis on the financial aspect of the reform;
- concern mostly with short-term outcomes; and
- strong belief in the power of the free market.

The time framework of transition for this approach is short-term, normally within three to five years or so, and it is supposed to be achieved despite the initial shock and deterioration in performance indicators in the immediate term. A plausible point of concern here is the extent to which the reform policies, as they stand now, are compatible with the promotion of long-term

real targets of an economy. This should, in principle, influence whether an economy should adopt the prescribed reform policies.

Extreme views are abundant and widespread. The proponents of the Orthodox view believe in the tremendous power of the market in wealth creation and urge for unqualified adoption of reform policies within as short time span as possible. The critics are also vocal. They assert that economic growth is not likely to be induced by an IMF-style stabilization policy combined with dogmatic market liberalization and privatization policies (Taylor 1996:219; Amsden, 1994). The content of reform measures in most developing countries and countries in transition emanates not from within, but rather from ideological factors, the influence of domestic interest groups, international economic and political pressures, a predatory state, factor endowments, clientelism or their combinations (Kurer 1996:646). This relates to the political economy of policy-making in designing development strategy.

The acceptance of reform policies, of course, is not enough to obtain the Structural Adjustment Lending. The recipient nations should be in compliance with the strict Bank and/or the IMF criteria. The adjustment loan fund is released in stages upon the satisfaction of the lending institutions. The Bank and the Fund endeavor to ensure the repayment of their lending by placing conditionalities to their lending operations. Since the reform program essentially touches the main macro economic policy variables and various micro-level economic elements, accepting the World Bank/IMF-style SAP significantly limits the policy-making independence of the reforming nations. A number of critical domestic policy priorities, like income distribution and structural transformation, may be compromised in the process. One has to admit the widespread abuse of policy-making independence across both the developed and the developing nations. This does not, however, justify prescribing the same medicine for all illnesses. Unless taken after proper diagnosis, some prescriptions carry the risk of exacerbating the very problems they seek to address. Constructive discussion, therefore, should be directed in an effort to shape a sound policy alternative from the perspective of the long-term economic and social objectives and preferences.

- the Bank's lending was redirected from Project Lending to Structural Adjustment Lending; and

- reduction in the contribution of donors, led by the USA and the other contributors, to the International Development Association fund which is a window for soft loan facilities of the Bank to poor developing countries. Instead of needs, eligibility to soft loans has come to be determined by reform policy;

The onset of the global recession and the debt crisis in the 1980s hampered the growth endeavors of the developing countries, most of which faced major macroeconomic crises. This left few options for financing of projects in poor countries and it became inevitable to capitulate to the SAP in exchange for financial assistance. This policy might have rewarded early reformers. Ironically, with the severity of additional conditionality in the package, the reward in terms of the volume of financial assistance fell short of expectations. The disbursement of financial resources to individual borrowing countries is based on more of an ad-hoc approach instead of a clear set of principles.

The World Bank and IMF have increasingly assumed a central role in the international flow of financial resources. Under the current international financial system, complying with the demands of these international financial institutions is the only means of securing a substantial amount of external finance for poor countries. In addition to their direct loans, the IMF and, to a certain degree, the World Bank play catalytic roles in arranging financial aid by giving a seal of approval to and subsequently monitoring the policy package of reforming governments. The endorsement of policy measures of the reforming nations by the IMF serves as a green light to other financial flows and concessional loans to the reforming nations.

Policy Initiatives

Economic reform policy should in principle base itself on a thorough examination of the potentials and limitations of the domestic economy. This

The paper is organized as follows. The first section reviews the main contention of the economic reform programs sponsored by the international financial institutions and their main shareholders. Section Two highlights the main elements of the processes and their interaction in dictating the patterns of policy implementation. The critical limitations of the economic reform package, as they stand now, and in relation to the promotion of long-term real targets is the focus of discussion in the third section. The paper finally summarizes its observations and forwards concluding remarks.

THE RULE OF THE GAME IN POLICY REFORM

The idea of structural adjustment is intricately rooted in a deliberate policy of crisis management aiming to discipline the borrowing nations in an attempt to avoid debt default possibilities by the main share-holders of the international financial institutions (Bello 1994). The inception of the policy could be traced back to the Baker Plan whose contention was to trade-off financial assistance to debt ridden economies in exchange for adopting thoroughgoing economic reform programs. Since its inception in the early 1980s, the reform policy has undergone little change in its essential characteristics. It has rather remained the core instrument of foreign economic policy of the developed and creditor nations towards the Third World.

Foreign aid became a key policy instrument to bolster the interest of international donors. The World Bank sought to execute the policy which was apparently contrary to its official policy of providing development projects and basic-needs financing. One may note the interesting background developments in the early 1980s to replace the top management of the Bank with pro-free market reformists. Thus, a series of policies were put in place. To mention but the most prominent ones:

- the criteria of eligibility to be a recipient of International Development Association soft-loans changed from being poor [with income per capita of $400 or below] to making the greatest efforts to restructure their economies;

provides a clear policy target and improves policy implementation. When this crucial step is omitted or overlooked, long-term targets can hardly be promoted and the reform policies would be less relevant to address domestic priorities. The reform policy may instead be used to secure badly-needed financial assistance rather than to achieve a real transformation of the domestic economy.

The implementation rate in most developing countries is very low. Poor implementation is indeed a critical problem and most developing countries have an implementation rate of around 68 per cent project and an even weaker expected rate of sustainability. Africa registers the least satisfactory performance rate of about 49 percent (World Bank 1995). Governments in the developing countries were criticized for not giving the policy measures the chance to achieve economic recovery. A recent study of reforming African economies by the World Bank (1994) concluded that those countries which have adopted sound macro policies had improved economic growth, and that the greater the degree of implementation, the better the result. The study asserts that simultaneous policy implementation is effective since policies are mutually interdependent. From this perspective, it is indeed hard to blame or credit the policy measures as reasons for failure or success of the reforming economies. Moreover, on the basis of a partial assessment of the underlying forces of change, it would be hard to make compelling judgments about overall outcomes. What is more productive in this context is the search for policies which promote stability as well as shared growth, subject to the short-term constraints.

Promises of the New Alternative

The establishment of a new market system is not as easy as the abolition of the old system as is vividly observed in most reforming countries. Creating a vibrant market economy requires a favorable business environment, encouraging human resource development and technological adaptations, developing market infrastructure, creating social consensus and market values. These elements should be put in place and pursued over time.

Taking premature reform measures before the development of market institutions, a sound legal system, market values and infrastructure would exacerbate an economic tragedy rather than help economic recovery. It is therefore important to use reforms to strengthen the enabling environment rather than replacing the existing inefficient system. What course of policy reform measures countries would take and how far they would implement them depends on the initial conditions of the reforming country before jumping on the wagon of reform measures.

Most of the recent reforming developing countries have undertaken the package of economic reforms from a perspective of crisis management. This is the case in most of the developing countries which were faced with external payments crises, domestic unemployment, poverty, budget deficits, inflation, overvalued exchange rates, or their combination. Most of the reform programs were initiated by balance of payments problems with a few exceptions, like New Zealand, whose reform measures were taken to reverse the stagnation of economic growth. This makes the reforming governments operate from a weak position due to domestic and international pressure to undertake reform measures. Most of the reform measures are undertaken for stabilization and to prevent an outright collapse of the domestic economy. It is at this stage that most reforming nations compromise their long-term regarding economic targets. Investment rates plummet and recovery becomes an exception rather than a rule. The proponents of the reform package forward a claim that, if it were not for the reform policies and the accompanying financial assistance, these economies would have-been worse-off. This is indeed a valid claim. However, it is important to note that the financial assistance, not the reform measures as such, helped reforming nations to become more stable while remaining as vulnerable as ever.

One of the common features of the recent reform programs is that they are undertaken by a new political leadership. The main feature of the new government policy is to seek financial and political support from the international community and domestic investors. They put forward the agenda of economic reform and democratization. The reforming governments are usually composed of new political groups and can benefit from the grace

period during which they can blame the old regime for people's hardships and the need for tough reforms. The population grants the benefit of the doubt and accepts further hardship. Several new regimes have taken advantage of such a window of opportunity (De Wale, 1995). However, the grace period has a reasonable time limit, and protest against reform policies eventually becomes frequent and more powerful. This threatens the overall reform packages which left the majority on the sidelines in terms of gathering the fruits of the new opportunities.

Interesting enough, the SAP usually comes with political preconditions. The adoption of a democratic political system is one of the conditionalities. Democracy involves the empowerment of people in the decision-making process and increasing their participation in the political system. In other words, individuals would participate in the election of officials who forward their vested interest and the election relies on the rule of the majority. The majority would support reform measures only if they create more opportunities. The workings of democracy may not necessarily be compatible with smooth and speedy economic reform measures. However, democracy and its genuine implementation seem to serve as a means rather than an obstacle to accelerated and equitable economic growth. Apparently, there is some evidence in support of democracy, transparency and accountability in facilitating rapid and sustainable economic growth (UNDP 1996:58). If reform policies are not meant to promote the interests of the majority, are they worth pursuing at all? Should survival of the fittest capitalism be allowed to take root in developing countries? This issue require a critical observation of the role of the market and the government in the setting of reforming nations. The discussion in the subsequent paragraphs deals with this issue.

THE ROLE OF THE GOVERNMENT AND THE MARKET

The central contention of the economic reform policies is the need to change the respective roles of the government and market forces. Free-market oriented reform policy measures emphasize the benefits of reliance on the power of the market. Even in the most underdeveloped countries, market forces are assumed to emerge automatically and spontaneously, provided that

the government refrains from deleterious interventions. The thrust of the argument is that the market would perform acceptably well and foster growth if rampant intervention is avoided. In other words, if the political obstacles to economic performance are cleared away so that private enterprise can be unleashed, then development will proceed satisfactorily. This view of the market, highly mechanical and a historical, is based on strong and unrealistic assumptions.

Markets do indeed have a tremendous potential to achieve allocative efficiency provided that efficient institutional arrangements are put in place. The realization of this potential is a formidable task for all economic agents. However, the market needs to be created and fostered for a long time before it can provide a viable means of efficient resource allocation. The development of a sound market in turn requires a set of institutional arrangements and non-prohibitive transaction costs to carry out its functions. The government has an important role in the development of markets and their institutions when there are clear indications of information asymmetries and enforcement problems. A market economy cannot be established by declaring a free market policy as an economic, or at times, a political program. A free market requires the existence of an institutional and social environment that is conducive to its operation. Naturally, these preconditions need to be cultivated before the adoption of a full-fledged and meaningful market-oriented economy.

The recent discussions of economic reform programs and the adoption of market-oriented policies seem to focus on the benefits of the market without due appreciation of its power and underlying rules. Free market forces are the best instruments in bringing about allocative efficiency and in picking up winners of the game. At the same time, markets have a powerful, and yet less appreciated force in concentrating economic, and hence political, power in the hands of the winners. Survival of the fittest is the rule of the game in free markets. Hence, free markets are highly incompatible with economic democracy and eventually with political democracy. It is indeed prudent to appreciate both the power and the potential of free market principles in designing economic policies, especially in the context of poor economies,

where the majority of the population is already marginalized by a distorted distribution of economic resources.

One of the common features of the economic reform package is its emphasis on the limited intervention of the government in economic affairs and allowing instead an active role for the private sector to operate in a market-driven economic setting. The crux of the argument is based on the potential power of a free market policy in bringing about economic efficiency and prosperity. Before the private sector thrives and assumes a leading role in economic growth, however, the government needs to create a sound business and regulatory environment. Moreover, it has to play a complementary role in a number of areas where private sector initiative is relatively weak. This breaks the dichotomy of market versus government. What is more important is the extent to which government intervention should be pursued so as to make private initiatives grow strong and take a center stage.

Private sector initiatives need to be protected by and against government actions and regulations. This requires strong, accountable and transparent government. The nature of interventions that have been witnessed so far has been more concerned with supplementing the role of the private sector rather than complementing private sector endeavors. Even the main proponents of the free market doctrine eventually admit the role that could be played by the government in underdeveloped countries. The policy position of the World Bank, for instance, has evolved over time. Unlike its previous "market friendly approach" (World Bank 1991), the World Bank developed a "functional approach to growth" which admitted the importance of selective government intervention rather than rejecting it outright as market-distorting (World Bank 1993). On the basis of its analysis of the fast-growing East Asian economies, the Bank acknowledged the role of institutional factors in the effectiveness of these selective interventions, including an export-push strategy. The Bank provided a seal of selective approval to government interventions in successful countries. And yet, the policy conclusion warns other developing countries against the risk of adopting an interventionist policy stance. A recent attempt to address institutional factors in growth (World Bank 1997), incorporated more qualitative indicators of successful

intervention in economic affairs. And yet, the international financial institutions are very reluctant to admit the crucial role governments can and should play in developing nations. The abused power of government intervention in both developing and developed nations need not be used as an excuse to ignore the critical role of the government in promoting sustainable growth.

The World Bank, for instance, attributes economic stagnation in Africa to poor governance. A recent study reported that poor policies were responsible for about 15 percent of the fall in Africa's GDP per capita between 1977 and 1985 (World Bank 1994:3). The limited capacity of the state and the deliberate abuse of political power to pursue illegitimate gains to benefit rent-seekers were the main factors behind the failure of African economies. The task then boils down to encouraging sound policy interventions and eliminating the distorting policy stances. At an early stage of their development, countries need sound interventions since they lack strong market institutions and competitive assets. Moreover, lack of market institutions such as a sufficient degree of division of labor in production; infrastructure for merchandise distribution; and social acceptance of market rules and values are important to the growth of market-based economic systems. Under this circumstances, a government should take measures to help improve and even create the market and institutional frameworks. Hence, the role of government policy, depending on the stage of development, should go far beyond maintaining a stable macroeconomic environment, providing a social and physical infrastructure, and correcting market failures. In addition, this requires putting into operation medium to long-term development plans, creating a business-friendly environment and taking initiatives in areas where the country has dynamic comparative advantages. It is therefore evident that a pragmatic approach which can take advantage of the strength of both market and government policy factors is essential to promote growth in developing countries.

The Structural Adjustment Program is motivated by macro economic and balance of payments problems which may ultimately be translated into expenditure surpassing output. This gap is also reflected in the current

accounts of the country with the rest of the world. A deficit implies a system that spends beyond its means. If this persists over time, the system would be faced with a balance of payments crisis. The expenditure component of the accounts could be split into the aggregation of consumption and investment expenditure by the private and the public sectors. To overcome this problem of persistent payments deficit, there are evidently two options: expenditure reduction or output expansion measures. This in turn requires putting into place a set of policy measures which can help achieve the intended objectives.

Instead of addressing both sides of the coin, the recent adjustment policy packages give emphasis to the expenditure reduction demand-side management of the economy. This was partly due to the fact that output expansion requires a long period. A short-cut alternative would be to reduce expenditure. The reduction in public expenditure also provides a way to reduce the involvement of the government in economic affairs. However, the adjustment period is almost inevitably a period of public investment cuts and heightened uncertainty of private investment leading to an apparent pause in domestic investment. This indeed adversely affects the long-term economic growth objectives of the system. Effectively, structural adjustment was reformulated as stabilization and economic growth objectives were left out as long-term objectives.

Expenditure reduction on tradable commodities could reduce the balance of payments deficit especially in economies which operate on their Pareto-Optimum production frontier. Since the expenditure on non-tradable leads to a contraction in demand it usually has an employment–reduction effect. The common course of action is to change the relative price of tradable and non-tradable outputs. This could be achieved either by making the prices of non-tradable item fairly flexible or changing the exchange rate of the domestic currency.

The other and most common scenario is where the economies operate inside their production possibility frontier. This demands a formidable task of addressing unemployment of resources and efficiency plus the achievement of

economic growth. This involves both micro and macro problems. The micro aspect needs to address the following:

1. Trade Liberalization: This measure of opening the economy to international trade exposes inefficient local enterprises to competition and hence forces them to improve their productivity;

2. Public Enterprises Reform and/or Privatization: This measure limits the operation of public enterprises to activities based on commercial principles taking away the privilege of soft budget terms. Financial autonomy and accountability replace the central management of enterprises. If enterprises proved to be better managed in the hands of the private sector, privatization would be inevitable. Privatization may start with enterprises producing private goods while those with features of natural monopolies are privatized last if at all. Privatization is indeed an ideologically charged initiative and, unless undertaken cautiously, may lead to abuse of social property instead of creating a vibrant and competitive economic system;

3. Labor Market Reform: Labor laws and regulations would be put in place which are business-friendly and rewards would be reflective of the contribution of the labor force. Moreover, the short-term burden of adjustment could be shared with the labor force by adjusting the real wage downwards. This in turn helps to stabilize the economy by keeping the domestic absorption within manageable bounds;

4. Deregulation of Domestic Markets: Most governments sought to regulate the domestic market as a means to regulate prices and the flow of resources. Domestic markets would no longer be protected and also regulated. This had inflationary consequences in most reforming countries unveiling the suppressed domestic prices with output rationing;

5. Financial Sector Liberalization: Most countries used credit rationing, interest rate regulation, and other forms of financial sector repression

measures. The financial repression made the demand for credit very high since the real interest rate is very low or even negative. This discouraged domestic saving efforts and created an artificially high demand for financial resources which were used for speculative purposes and opened the door for rent-seeking behavior among financial authorities.

In the case of macro and micro economic problems for reforming countries, different modalities and sequence of reform measures were suggested (World Bank, 1991). The main ones are:

- Getting macro stability first is suggested on the ground that it would give credibility to micro-economic reform measures. If the micro-reforms precede macro reforms, this would jeopardize the possibility of attaining macro stability. A simultaneous adoption of policies in as short a period of time as possible would help higher implementation of policies and would be reflective of the commitment of the government. However, the sequencing of reform measures is necessary in developing countries where policy design and analysis capacity is in its infancy. Shock therapy may force the government to reverse some of its measures later on during implementation which may erode the credibility of the entire reform measures;

- A simultaneous macro-sectoral reform package: This approach has the advantage of partial welfare compensation for the cost of reform measures. People may not feel the cost/benefits of the measures if the reform policies are mixed. Since this is a second-best scenario, it would not depict a clear picture of the outcome of the reform measures.

The recent policy conclusion from a study of the reforming African economies (World Bank, 1994) asserts that adjustment, more precisely as reformulated stabilization packages, helped economic recovery in Africa. The critics of this conclusion claim that the methods of measurement and aggregation are so arbitrary that no firm evidence could be found in support

of the Bank's hypothesis that "policies matter" (Mosley, 1995:1463; Schatz, 1996). It is indeed important to note the severe distortions brought about by rampant government interventions. Prudent policies do indeed play a critical role in accelerating long-term and shared growth. Nonetheless, policies should be understood as an endogenous outcome of social, political and economic interactions between government, private and market forces. The experience in the reforming economies warns against the temptations of excessive generalizations in policy design and implementation. Every reforming economy requires a suitable policy package in terms of the speed, sequencing and constituents of the reform policy package.

THE HARSH COMPROMISE ON GROWTH TARGETS

In the aforementioned discussion, the main features of reform measures forwarded by the international financial institutions to achieve financial stability in the reforming countries were discussed. However, this approach makes the growth objective a long-term policy target. The real objectives are transforming the economy so that output grows, employment expands, poverty is eliminated, income fairly is distributed and basic social services are improved. The traditional position of the World Bank towards structural transformation has been reformulated and its policy of structural adjustment was redefined as stabilization (Mosley et al. 1995:1461). This was a harsh compromise with the objective of fostering economic growth.

The Bank has shifted its adjustment loans to support essentially stabilization programs. Its support was confined to programs of policy and institutional change to modify the structure of an economy so that it can maintain its growth rate and the viability of its balance of payments. The primary policy concern was no longer was economic growth but stabilization. In economies already in economic stagnation and deterioration, which was the common scenarios in the reforming countries, the reform package would hardly promote the growth objective. The investment rate in reforming countries has declined. The fall in the public investment rate has not been compensated by increases in domestic, private or foreign investment. The empirical evidence suggests that the adjustment program has a negative growth effect at least in

the short term (World Bank, 1991:114). Growth is rather put aside as a long-term objective to be achieved in the post-adjustment period.

Reforming economies need to address their long-term economic policies to achieve real targets of output expansion, equitable distribution, and improvement in the standard of living of their citizens. This, in turn, requires identifying and designing policies which would, in the long-term, realize the potential of certain sectors in the economy with high capacity to generate employment, expand output and lead the economy to internationally competitive positions. This needs to be accompanied by appropriate policy measures which attract resources towards the sector under consideration and accelerate human capital accumulation at least in the strategic areas of activities. In this context, the industrial policy becomes crucial to stimulate industries which have feasible potential in terms of promoting growth.

Financial stabilization might be established by expenditure reduction and switching measures. This would have an unavoidable cost of welfare reductions that hit the low income groups of the population hard. In the developing countries, a significant share of the population is living in abject poverty. Policy measures that ignore them could not be sustainable since growth demands expanding the capacity of the economy to address the main economic and social development indicators. The expenditure switching measures may have considerable importance in economies that used to abuse their resources in unproductive activities like waging civil war. In this respect, expenditure switching to areas of capacity development and human resource accumulation would be of considerable importance.

However, the issue that needs to be explained properly is that, given a certain level of resource utilization, what ensures the achievement of output expansion with aggregate expenditure reduction policies of reforming economies? The measures of stabilization pursued via expenditure switching have adverse welfare consequences in terms of reducing the expenditure of the public and private sector on consumption and investment. Both private and public investment decline, but private investment seems to fall faster than public investment. The contraction in investment leads to a reduction in the

growth of output and employment in the economy. Those activities whose relative attraction to the private sector is lower would suffer the most.

The expected economic recovery and its sustainable operation after the tough period of reform policy implementation have not yet occurred in most of the reforming countries. Even those countries which achieved a faster economic growth rate could hardly sustain it. The economies were put in a very vulnerable positions instead of getting on a sustainable growth path. Aggregate output stagnated, even contracted in some cases, employment opportunities declined, the indicators of human development worsened, and the pattern of income distribution further deteriorated.

This outcome is an obvious consequence of a reform measure whose intention is to reduce expenditure without putting into place measures which expand output. Short-term financial stability could be achieved with the use of austerity measures but the ultimate sustainability is dependent on the adoption of policy measures which address the real targets of the economy. If necessary, the temporary financial instability could be acceptable to achieve the real targets of economic growth, employment and human development objectives.

What policies would promote a sustainable output growth with higher rate of resource utilization? These include among other factors policies which provide at least the following measures and their combination:

- Physical Capital Investment: It has long been established in development economics how important physical investment is in improving the productivity of labor and to achieve economic growth. The investment in capital inter-temporal allocation of resources for the purpose of consumption and saving (accumulation). This objective could be achieved if economic agents, private as well as public, are motivated to make decisions of resource allocation which would be used to increase the capital stock. In the longer-term context, capital formation is financed by domestic savings and requires allocating resources for savings instead of consumption;

- **Human Resource Development**: The role of human capital investment in economic growth has been formally recognized quite recently in growth models. However, recent developments in the growth models assigned important role for human capital accumulation in explaining variation in the growth performance of economies. It has an appealing explanatory power in accounting for the long-run growth rate of nations (Lucas 1988; UNDP 1996). In an attempt to clarify the main components of the human capital accumulation, Lucas (1993) developed a model of human capital technology which asserts that human capital accumulation in the form of on the job training is the most powerful explanatory factor for the economic growth performance of nations.

The learning process of on-the-job-training and the manner in which the skills would be spread among the work force would determine how human capital is accumulated and is in turn used for the improvement of productivity. From the perspectives of developing countries, human capital helps the learning process of economies in technological adaptation. Human resources hence hold the potential for the "advantages of backwardness" to industrialization. Moreover, the lack of human capital may lead to the puzzling phenomena of capital flowing from where it is scare to where it is relatively abundant.

Human development could be considered as an end whereas economic growth may be seen as a means to attain it. They are supportive of each other in the sense that sustainable economic growth can hardly be attained without reliable human capital and human capital investment can be unaffordable when there is widespread stagnation. Economic growth which does not put human development at its center would ultimately fail because its sustainability depends on the existence and growth of human capital. The observation or of most economies reveals, however, that economic growth may not necessarily be accompanied with human development.

Is economic growth an end on its own right? No! Growth without jobs, growths without equity, growth with abject poverty, growth without human development is not sustainable or not worth sustaining (UNDP, 1996)

Recently, a consensus is emerging among researchers and policy makers that there should no longer be a trade-off between growth and distribution of output. They are rather highly complementary, at least from the long-run perspective.

Economic growth can be jobless, voiceless, future-less, ruthless, and rootless. The recent economic and social performance of the world reveals that the world is becoming more and more polarized in the sense that a small elite are claiming the highest share of world output while the majority of the population live in abject poverty (UNDP, 1996). This trend of polarization, unless changed somewhat and somehow, would be not only inhumane but also unsustainable leading to social unrest and desperation. Growth is rather used to perpetuate inequality and ends up creating to a more polarized economic world across regions and within regions and countries.

CONCLUDING REMARKS

Structural adjustment programs could be successful only if they address real targets. If growth is not meant to address real targets, then it may not, after all, be worth pursuing. It is the quality of growth that matters in the long-run, even if the quantity of growth is important in the short-term context. It is important to note that reform measures should encourage and reward economic agents for their efforts, to accumulate skills and experience, to innovate new ideas and disseminate them in the system. Reforming rather than rejecting selective interventions to assist the infant market would favor development. Putting a meritocratic system, a sound legal system, accountability, and a business-friendly environment and monitoring development should be among the priorities of government policy agendas. Recognizing the failure of rampant intervention of government in poor countries should admit the crucial role played by selective interventions in the newly industrializing nations. Government intervention should not be abused and, needless to say, infant markets should not be left alone to perish.

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