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Economic Restructuring, Coping Strategies and Social Change: Implications for Institutional Development in Africa

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Preface

The Institute has been conducting research on Crisis, Adjustment and Social Change in a number of African and Latin American countries since 1990. This research, which is being carried out by national multi-disciplinary teams, aims to explore the impact of economic crisis and adjustment on livelihood, coping strategies, social institutions and power relations among different social groups. This paper, drawing upon the research underway in Africa, attempts to relate economic restructuring and emerging livelihood strategies to problems of institutional development.

The first part of the paper reviews discussions on structural adjustment and institutional perspectives, highlighting why a focus on institutions and social relations is important in the study of African economies in distress. The next two sections discuss coping strategies and issues of social change, and attempt to develop a framework that relates the crisis in social relations with problems of institutionalization. The last section takes up the analytical and policy questions of institutional reform, and outlines issues that would need to be addressed in mapping out alternative strategies of development.

Two key contradictions would seem to explain why institutions have been relatively ineffective in managing the economic and social crisis in Africa. First, there is a growing contradiction between the interests of bureaucratic actors and the goals they are supposed to defend. The second contradiction is between the institutional set-up itself and the wider society. To understand the working of these contradictions, it is necessary to look more closely at the sets of values and relationships that anchor institutions in social systems. The paper explores these issues through an analysis of the coping or survival strategies of different social groups. The characteristic response to economic crisis and insecurity by most groups has been to pursue multiple survival strategies. Farmers, workers, state employees, informal sector operators — even some professional and academic personnel — have sought to counter declining and insecure incomes through diversification of their economic activities.

The economic crisis and the livelihood strategies adopted by different groups have had four consequences which are relevant for this inquiry: economic polarization, multiple social identities, truncated modernization and stalemate in the configuration of political power. These in turn have contributed to social tensions; divided loyalties; erosion of work place identities; loss of legitimacy for the state; search for security in religious, traditional and ethnic movements; and lack of a broad alliance of political forces behind economic reform.

The institutional reforms that have been attempted — retrenchment of state activities, privatization of enterprises and encouragement of NGOs — have had limited success in restoring growth, arresting social conflicts and promoting political stability. The paper argues that strategies aimed at supporting a process of institutionalization that would lead to effective rules, predictable transactions and viable incentives for institutional actors would need to address three main issues. The first concerns questions of livelihood, social polarization and multiple identities. The second relates to the role of culture in social development and institution-building. The third issue concerns the role of social forces in disciplining institutions. The paper sets out policy implications of required changes in each of these three areas.

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Introduction

Prospects for sustainable growth and improved levels of living appear slim in most African countries as they advance into their second decade of structural adjustment. Much of the optimism that accompanied the introduction of the reforms in the 1980s has given way to profound scepticism about the correctness of the approach that has been adopted for dealing with economies like Africa's, which have weak institutional foundations, and which face increasing marginalization in the world market. Recent estimates of weighted average GDP growth rates for 44 African countries suggest that, at best, only a modest growth of about 2.5 per cent — less than the average rate of population growth — occurred between 1980 and 1991; and that no significant differences exist between the growth rates of 1980-1985, when the programmes were in their infancy, and 1985-1991, the period when the reforms were expected to yield greater positive results. Furthermore, countries which were believed to have applied the reform measures much more comprehensively — "the strong adjusters" — have not performed better than those which have experienced considerable slippage, the so-called "weak adjusters" (Mosley and Weeks, 1993).

The economic crisis is, of course, very complex, as it has affected all strata and sectors of society and has been compounded, in some cases, by civil strife and environmental pressures. Despite the influence of several inter-locking factors in shaping the dynamics of the crisis, concerted attempts were made in the 1980s to tackle it from a single market-oriented policy framework. During this period, African governments lost effective control over economic policy-making to the international financial institutions, after having enjoyed relative autonomy in this area for only about two decades since independence from colonial rule. Estimates indicate that a total of 241 World Bank/International Monetary Fund structural adjustment programmes were initiated by African governments between 1980 and 1989 (Jespersen, 1992). By the end of the 1980s, only 8 African countries had not reached an agreement with these institutions, despite the relatively strong influence of Bank/Fund ideas in their development strategies. What is responsible for the poor economic record and how can it be remedied?

When confronted with evidence of negative economic performance in countries undergoing liberalization and restructuring, the international financial institutions often blame governments for not taking the reforms seriously enough or point to the lack of political will in regulating the activities of corrupt or inefficient bureaucrats and vested interests. Once issues of "lack of seriousness", "political will", "bureaucratic corruption" and "vested interests" are raised, it means that institutional issues are at work and need to be explained if we are to understand the problems of adjustment and economic development. This paper seeks to focus the discussion on the social and political dimensions of the economic reforms and their implications for institutional development, drawing substantially from research work on adjustment and social change sponsored by the United Nations Research Institute for Social Development (UNRISD). The institutional issues we are concerned with relate to the capacity of state systems and interest group organizations to regulate social behaviour. Institutions are important for strategies of economic development, and knowledge of changes in social relations is a prerequisite for understanding institutional reforms. We define institutions as a bundle of rules in social relations which structure behaviour in fairly predictable ways. As systems of rules and regulations, institutions are a sub-set of social relations. Rules are necessary for predictable transactions, but profound changes in social relations may affect ultimately the way the rules operate.

Public institutions seek to project universal rules and regulations, establish clearly defined and predictable roles for actors to facilitate routine implementation of tasks, and develop a rational structure of incentives and sanctions to ensure institutional loyalty. The main problem is that these institutional goals have been largely ineffective in most African countries since the 1980s. A standard response by policy advisers has been to exhort leaders to get tough with bureaucrats and social actors who undermine public policies: more discipline, more probes, more policing. They recommend policies aimed at restructuring the public institutions themselves through privatization, decentralization, public expenditure cuts, retrenchment and new structures of incentives to make the state leaner and fitter.

Despite efforts at implementing these draconian measures in a number of countries, the problems of low institutional capacity remain. Two key contradictions would seem to explain why institutions have been largely ineffective in crisis economies in Africa: the first is the growing contradiction between the interests of bureaucratic actors and the goals they are supposed to defend, and the second is the contradiction between the institutional set-up itself and what goes on in the wider society. To understand the way these contradictions work, there is need to look more closely at the sets of values and relationships that anchor institutions on social systems. These are concerned with issues of social cohesion and compromise, institutional socialization and loyalties, over-arching sets of values, and political authority to enforce rules and regulations. The crises in these four areas of social relations, which are, in turn, linked to the ways households and groups have coped with recession and restructuring, have altered Africa's state institutions in ways that make it difficult to carry out meaningful development programmes and public sector reforms without addressing the social relations themselves.

The first part of the paper reviews discussions on structural adjustment and institutional perspectives, highlighting why a focus on institutions and social relations is important in the study of African economies in distress. The next two sections discuss coping strategies and issues of social change, and attempt to develop a framework that links issues relating to the crisis in social relations with those associated with problems of institutionalization. The last section returns to the analytical and policy questions of institutional reform, and outlines issues that would need to be addressed in mapping out alternative strategies of development.

Structural Adjustment, Social Relations and Institutions

The major assumptions of neo-classical theory have been criticized from three main perspectives: their perception of individuals as self-interested utility maximizers; their under-socialized conceptions of individual behaviour in which social relations are insignificant in making choices; and their belief in the power of the market to provide individuals with accurate information to enable them make rational decisions (Etzioni, 1990; Granovetter, 1992). Institutions play a subordinate or invisible role in these assumptions. In the context of adjustment, it was assumed by neo-classical economic theorists that trade-based beneficiaries, such as export-oriented farmers and manufacturers, would positively respond to market signals and defend the reforms without any special institutional support from the state.

Subsequent experiences with reforms in a number of countries were to cast doubt on these under-institutionalized assumptions, leading to a host of political science studies on ways of making the reforms politically sustainable, largely through coalition-building techniques and administratively designed resource support schemes (Nelson, 1989). These approaches took the institutional context as given in analysing the social and political strategies necessary for supporting economic change. They showed how reforms could be blocked by powerful "rent-losing" élites, including low income urban populations, and why spatially dispersed peasant farmers could not be expected to offer effective support to the reforms, despite their situational positions as potential winners. However, the studies did not take into account ways in which livelihood responses and changes in structures of opportunities affected the institutional contexts in which strategies of resistance and pro-reform alliance politics were being pursued.

In the field of economics itself, significant efforts were underway at the same time to correct the weak institutional foundations of the neo-classical paradigm through work that focused specifically on how institutions develop as a response to solving efficiency problems (Williamson, 1985; North, 1990). The assumption that information is perfect — and that individuals not only have equal access to it but that they can make rational decisions that are unaffected by social and cultural influences — was questioned. It was pointed out that unregulated market transactions may produce chaotic outcomes because individuals have a propensity to cheat or engage in acts of wrongdoing as they struggle to secure advantages. The market, in other words, is devoid of trust and solidarity. In this new institutional economics perspective, institutions, acting through their governance structures or regulations, are seen as specifically oriented towards solving problems of opportunism and malfeasance by reducing the potentially huge costs of quality control, reliability of employees and contract enforcement that are likely to confront economic agents if they are to be engaged in repetitive open market transactions. This approach did not challenge the neo-classical assumption of rational utility maximization and its focus on the individual in explaining economic behaviour. But the emphasis it placed upon transaction costs and imperfect information, and the low efficiency scores it accorded to collective endeavours (Williamson, 1985:229), with their assumed "free-rider" problems, kindled a new wave of research on institutional constraints in economic reform. For instance, the perspective of information constraints informs some of the theoretical work on why African peasant women have been less responsive to market incentives to relocate from relatively low paying food crop activities to high income export crop sectors (Lockwood, 1992). Also, the generally unimpressive record of agricultural production, despite consistent efforts in raising farm prices, has encouraged fresh research initiatives on rural institutions and possibilities of promoting an NGO sector that may overcome the institutional problems of states and markets (Brett, 1993; Uphoff, 1993).

Significantly, the insights of transaction costs are also being felt in areas concerned with the reform of African state systems (Leonard, 1993; Eggartsson, 1990). The high costs of entry into national markets associated with rent seeking activities, and the erosion of authority relations in state bureaucracies as a result of their massive penetration by private interests, could be said to have raised the costs of economic transactions in such countries and complicated the prospects for successful adjustment. Although the new institutional approach is useful in understanding how private enterprises create new organizational arrangements to overcome costs and uncertainties, it seems doubtful whether it can be applied with the same level of rigour to state sectors that are driven by a multiplicity of interests in which key decision-making actors are not always interested in promoting efficiency (Williamson, 1985; Granovetter, 1992; Bardhan, 1989). In this regard, one could interpret recent institutional reform efforts by the World Bank as an attempt to substitute Bank staff for the perceived lack of committed individuals or social groups in pushing for efficiency in African state systems.