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Discussion Paper 7

**THE CRISIS OF THE 1980s IN AFRICA,
LATIN AMERICA AND THE
CARIBBEAN:
ECONOMIC IMPACT, SOCIAL CHANGE
AND POLITICAL IMPLICATIONS**

**by
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Preface

The following paper was prepared for the conference on **Economic Crisis and Third World Countries: Impact and Response**, sponsored jointly by UNRISD and the Institute of Social and Economic Research of the University of the West Indies and held in Kingston, Jamaica, from 3 to 6 April 1989. The conference constituted the first phase of UNRISD work on the socio-economic and political implications of recession and adjustment, within the framework of a programme entitled *Adjustment, Livelihood and Power: The Social Impact of Economic Crisis*.

The purpose of the paper was to set the stage for dialogue among roughly 50 participants drawn from the Caribbean, Latin America, sub-Saharan Africa, Europe and North America, as well as specialists from various international organizations. Discussion was to be oriented in new directions, less around consideration of the macro-economic and welfare dimensions of adjustment than around the relationship between economic crisis and social change.

On the basis of existing information, gathered from official statistical sources, the paper first traces the economic dimensions of the crisis. It points out that real per capita GDP may have fallen by as much as 20 per cent in Africa, and 7 per cent in Latin America, between 1980 and 1985/1986. Average per capita income has undergone an even more drastic decline, approaching 30 per cent for all inhabitants of African countries, taken as a group, and 15 per cent for all residents of Latin America and the Caribbean.

Weighing the relative importance of various factors which have contributed to the economic crisis in Latin America, the Caribbean and Africa, the paper goes on to note that adverse terms of trade have inflicted particularly heavy loss in African countries, while changes in external net resource flows were of much greater consequence for Latin America. During the concomitant adjustment process, both imports and exports declined markedly in Africa, creating a situation which might be characterized as "import strangulation", while in Latin America per capita exports were in contrast able to grow. Because of the debt burden, however, even this vigorous expansion of exports was insufficient to prevent a fall in imports, and thus in the capacity of the economy to provide goods and services which are heavily dependent upon imported components.

The fall in gross domestic investment per capita between 1980 and 1985/1986 in both regions was severe, but it declined particularly sharply in Africa, where the drop is estimated to have reached some 75 per cent, compared to a figure of around 40 per cent for Latin America. The relative contraction in government expenditure was also greater in Africa than in Latin America and the Caribbean. In both cases, however, formal sector employment continued to expand slightly (by 1.0 per cent per annum in Africa and 1.9 per cent per annum in Latin America). Such

a situation was made possible only by simultaneous and substantial declines in real minimum wages, which apparently fell by approximately 20 per cent in Africa between 1980 and 1986, and by 11 per cent in Latin America between 1980 and 1985. At the same time, urban unemployment rose rapidly in both regions and urban informal sectors expanded apace.

Trends like these imply profound modification of the structure of opportunity within which individuals and households must attempt to ensure their livelihood: the closure of numerous well-established routes of survival or upward mobility and the concomitant opening of others. The paper therefore goes on to consider how various groups within African, Latin American and Caribbean societies experience the crisis and, as they do so, how social structures and politics are likely to change.

Turning first to an examination of the changing life chances of upper income groups, it is suggested that opportunity presents itself during the crisis either to the strongest and most internationally linked within the upper classes of Africa or Latin America or to the most flexible and daring of entrepreneurs emerging within the informal sector. Recession and adjustment clearly do not favour the survival of relatively more dependent and import-vulnerable entrepreneurs doing business within a structure of fixed obligations.

A process of polarization would seem to be visible not only within the upper classes of Latin America and Africa, but also within the middle classes and on a more general level within the society at large. While the crisis provides extraordinarily profitable opportunities for a few, the level of living and status formerly associated with technical, professional or bureaucratic pursuits, as well as with skilled labour, have been profoundly undermined. The bargaining power of the industrial working class has in most cases been fundamentally weakened by the shrinking job market and consequent threat of unemployment; and the position of small commercial farmers producing fundamentally for the internal market may well also have worsened.

There is a tendency for informalization to advance at virtually all levels of society, as the crisis diversifies the survival strategies of all wage earners, whether skilled or unskilled, and as the ability of most states to provide the necessary institutional framework for ensuring compliance with established regulations is weakened by fiscal retrenchment. There is simultaneously a trend in many countries toward increased physical mobility in search of income and toward the unregulated flow of capital, goods and people across international borders. Migration, remittances and capital flight are elements of the latter phenomenon, as are a host of subterranean and illegal activities, including the drug trade, which have in some cases assumed central importance in the livelihood strategies of large numbers of people.

Within this context, people react both individually and collectively to emerging opportunities and threats, to protect their standard of living as well as their way of life. In part 4 of the paper, a number of these

strategies are examined, not simply as efforts to survive the recession but also as patterns of behaviour which contribute to changing the overall structure of society.

The paper closes with a brief consideration of the implications of the crisis for politics, the state and civil society. Recession and adjustment are seriously affecting the capacity of the great majority of African, Latin American and Caribbean states to establish stable parameters for economic activity, to tax and to invest. The situation is made more difficult by the dynamics of the crisis itself: capital flight and the creation of remittance economies obstruct efforts to tax and regulate the economy, as does the decline or collapse of much formal sector economic activity and the massive turn to informal arrangements.

The bases of support for the state are in turn inevitably affected by these processes, first because the ability of governments to protect and promote the interests of major sectors of society is constantly challenged as people devise new livelihood strategies. Although some states are managing strains among support groups with relative success, there is a tendency for broader patterns of alliances to give way to narrower ones and in some cases one witnesses the virtual disintegration of national societies.

A critical issue which must be confronted then becomes that of "governability". How are the wide range of conflicting interests associated with the crisis to be channelled and expressed within a stable political environment at time when the legitimacy and efficacy of many states are being so thoroughly undermined? How can sufficient sense of co-operation and purpose be developed to permit an adequate collective response to the crisis? And what are the implications of the current situation for democracy or for repression?

Throughout the paper, questions arise concerning the adequacy with which standard analytical concepts in use within the social sciences can portray the kinds of changes occurring within African and Latin American societies and economies under the impact of the crisis. It is also increasingly clear that socio-economic change has surpassed the boundaries of many traditional categories of statistical reporting. Future UNRISD work on livelihood and crisis will be oriented toward closing these conceptual and statistical gaps.

July 1989

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Director

Note: This paper has been revised to incorporate comments received following its initial presentation. The authors would particularly like to acknowledge suggestions made by participants in the research seminar of the Rural Development Studies Programme at the Institute of Social Studies, The Hague, where the paper was discussed on 31 January 1990. It will be published in a book entitled **Social Impact of Economic Crisis and Adjustment** (Zed Books, London) available at the end of 1990.

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