

ISBN 92-1-119617-5
ISSN 0255-9250
ST/ESCAP/1266

DEVELOPMENT PAPERS NO. 15

**SOCIAL COSTS OF ECONOMIC RESTRUCTURING
IN ASIA AND THE PACIFIC**



UNITED NATIONS

Economic and Social Commission for

A
X(5-012):338.98
Uni
No.15 C.3

Development Papers is a series of studies issued by the Economic and Social Commission for Asia and the Pacific (ESCAP), which also publishes the annual *Economic and Social Survey of Asia and the Pacific* in March of each year and the *Economic Bulletin for Asia and the Pacific*.

The content of the *Development Papers*, which is intended for the use of both Governments and the general public, has not been submitted to member Governments of the Commission before publication. Opinions expressed are those of the authors and do not necessarily reflect the views of the United Nations or of the Government of any country or territory mentioned in the studies.

The ESCAP secretariat welcomes monograph-length contributions concerning economic development of relevance to countries of the Asia and Pacific region. These should be sent to the Editor, *Development Papers*, Development Research and Policy Analysis Division, ESCAP secretariat, United Nations Building, Rajadamnern Avenue, Bangkok, Thailand. The final decision to publish such contributions rest with the Executive Secretary of ESCAP.

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Mention of any firm of licensed process does not imply endorsement by the United Nations.

The views expressed in signed articles are those of the authors and do not necessarily reflect those of the United Nations, or of the offices or organizations the authors may have been associated with.

This document has been issued without formal editing. However, modifications in the texts, where found necessary, have been made at the discretion of the ESCAP secretariat.

ISBN 92-1-119617-5

ISSN 0255-9250

ST/ESCAP/1266

DEVELOPMENT PAPERS NO. 15

**SOCIAL COSTS OF ECONOMIC RESTRUCTURING
IN ASIA AND THE PACIFIC**



UNITED NATIONS

**Economic and Social Commission for
Asia and the Pacific
Bangkok**

ST/ESCAP/1266

UNITED NATIONS PUBLICATION

Sales No.E.94.II.F.2

ISBN 92-1-119617-5

ISSN 0255-9250

PREFACE

Restructuring the developing ESCAP economies in the 1990s was the Commission's theme topic for its forty-fifth and forty-sixth sessions held in 1989 and 1990 respectively. Although the Commission in deliberating on this important subject, generally endorsed the broad thrust of the theme study prepared by the secretariat, it recommended that an effort should be made to undertake a more detailed investigation and analysis of a number of issues. Among these, particular stress was laid on the need to give consideration to social welfare aspects and distributional impact of the restructuring process.

The project on social costs of economic restructuring was implemented in response to the above recommendation of the Commission, with generous financial assistance from the Government of Japan. Studies on the subject were prepared for the following ten countries: China, India, Malaysia, Pakistan, Papua New Guinea, the Philippines, the Republic of Korea, Singapore, Sri Lanka and Thailand. These studies highlighted the macroeconomic consequences of economic restructuring and sectoral effects, based on indicators such as access to health care and education, literacy, housing, social services, and the impact on employment. The question of "governance" as well as the institutional capability and the manner in which it grew to accommodate the needs of economic restructuring were among the other important issues that were discussed. The country papers and the experiences and issues on the social consequences of economic restructuring were considered at the regional seminar on the subject held in May 1992. Based on the country studies and the main findings of the seminar, a regional overview paper was also prepared which presented a regional perspective on the social dimensions of the restructuring process.

The report of the regional seminar, the regional overview paper, and the country studies are presented in this issue of the *Development Papers*. It is hoped that the country experiences and the key issues highlighted in this volume will assist in evolving more effective policies and strategies in taking account of the social implications of the economic restructuring efforts that are underway in many countries of the Asia and the Pacific region.

CONTENTS

Page

Report of the regional seminar on social costs of economic restructuring

I. Attendance and organization of work.....	1
II. Overall impact of economic adjustment programmes.....	2
III. Review of country studies: sectoral impact.....	6
IV. Regional synthesis study.....	13
V. Adoption of the report.....	14

Social costs of economic restructuring: a regional overview

Tariq Banuri and Martina Jagerhorn

I. Introduction.....	15
II. Macroeconomic experience.....	19
III. The social dimension.....	30
IV. Governance and institutions.....	51

Social dimensions of China's economic reforms

Gang Fan

I. Introduction: economic reforms and social development (1978-1989).....	73
II. Issues with respect to the social dimensions of economic restructuring.....	80
III. Institutional arrangements for social development.....	107
IV. Conclusions.....	116

Connection between economic and social development: an Indian case study

Suresh D. Tendulkar

I. Introduction.....	121
II. Development strategy and record of economic growth.....	122
III. Social development.....	130
IV. Governance and institutions.....	154
V. Concluding observations.....	159

Social costs of economic restructuring: the Malaysian case

Stephen Chee and Cassey Lee

I. Introduction.....	162
II. The development record.....	163

CONTENTS (continued)

	<i>Page</i>
III. The social dimensions of economic restructuring	173
IV. Political arrangements and economic development	210
V. Conclusions and policy recommendations	227
Social costs of economic restructuring in Pakistan	
<i>Aly ErceIawn, Moazam Mahmood and Khalid Nadvi</i>	
I. Introduction	234
II. Structural adjustment and structural change in Pakistan	238
III. Trends in poverty of income	255
IV. Trends in poverty of public access	266
V. Conclusions	285
Social dimensions of economic restructuring: the case of Papua New Guinea	
<i>Nimal A. Fernando and Wari Iamo</i>	
I. Introduction	291
II. Development record	294
III. Social developments	295
IV. Governance and institutions	317
V. Conclusion and policy recommendations	323
The social consequences of economic restructuring in the Philippines	
<i>Norma B. Bernal</i>	
I. Introduction	330
II. Economic development record with emphasis on adjustment policy	331
III. Social development record with emphasis on the impact of adjustment policy on social concerns	337
IV. Governance and decision-making in social development	390
V. Conclusions and recommendations	396
Social costs of economic restructuring in the Republic of Korea	
<i>Sun Il Bark</i>	
I. Introduction	406
II. Economic restructuring in the Republic of Korea	408
III. Social development and social costs	412
IV. Governance and institutions	446
V. Policy recommendations	449

CONTENTS (continued)

Page

The social dimension of Singapore's economic restructuring

John Wong

I. Introduction.....	451
II. Social development.....	453
III. A consistent socio-economic development strategy	472
IV. The challenge of sustaining a balanced strategy	479

Social consequences of economic restructuring: the case of Sri Lanka

Nimal G. Gunatilleke

I. Introduction.....	483
II. Description and analysis of episodes of structural adjustment	486
III. Social outcomes of structural adjustment	498
IV. Problems of governance.....	520
V. Conclusions.....	523

Social consequences of economic restructuring in Thailand

Pasuk Phongpaichit

I. Introduction.....	533
II. The overall macroeconomic picture	536
III. Broad social trends in the 1980s	539
IV. Some indicators of changes in the general quality of life.....	547
V. Government, bureaucracy, military and social policies.....	554
VI. Summary, conclusions and recommendations	565

REPORT OF THE REGIONAL SEMINAR ON SOCIAL COSTS OF ECONOMIC RESTRUCTURING

I. ATTENDANCE AND ORGANIZATION OF WORK

1. The Regional Seminar on Social Costs of Economic Restructuring was held at Bangkok from 12 to 15 May 1992.
2. The Seminar was attended by representatives and experts from the following member countries of ESCAP: China, India, Malaysia, Pakistan, Papua New Guinea, Philippines, Republic of Korea, Singapore, Sri Lanka and Thailand.
3. The Seminar elected Mr Thamarak Karnpisit (Thailand) as Chairperson, Mr S. Madhur (India) as Vice Chairperson, and Mr N. Gunatilleke (Sri Lanka) as Rapporteur.
4. The Seminar adopted the following agenda:
 1. Opening of the Seminar.
 2. Election of officers.
 3. Adoption of the agenda.
 4. Overview and general discussion of main issues.
 5. Presentation and review of country studies.
 6. Consideration of the regional synthesis paper and policy options.
 7. Other matters.
 8. Adoption of the report.
5. The Executive Secretary, in his opening address, stated that the purpose of the Seminar was to examine an important aspect of the poverty problem, namely the impact of current economic reform, adjustment and restructuring measures on society at large, and particularly on the living conditions of the poor and other disadvantaged groups. Restructuring aimed at more efficient allocation of resources and was therefore intended to help reduce poverty in the long run. However, during the transition to a higher growth path, certain economic and social costs were unavoidable.
6. Developing countries in the ESCAP region had been giving increased attention to measures aimed at cushioning the short-term costs of economic

restructuring, and several countries had successfully implemented adjustment measures while taking due account of the adverse impact on the more vulnerable groups of their populations. However, many low-income and least developed economies in the region, already burdened with acute poverty and suffering from severe structural weaknesses, have had to undertake painful adjustment measures that had exacerbated their poverty situation.

7. The Executive Secretary observed that appropriate macroeconomic management could soften the impact of adjustment. He also stressed the need to keep the political factors in view in implementing measures to protect the poor, as short-term political expediency was bound to come into conflict with the long-term requirements of promoting efficiency and the welfare of the poor.

II. OVERALL IMPACT OF ECONOMIC ADJUSTMENT PROGRAMMES

8. The first topic discussed was the concept of clustering. If a country was capable of pursuing one objective, then it was often capable of pursuing other objectives; and conversely, where a country did badly on one count, it did so on most other counts as well. Thus, the rapid economic growth in East Asian economies had been accompanied by good distributional results, high human resources development, a better ability to withstand external shocks, and so forth. On the other hand, South Asian countries had had low economic growth, poor human resources development, high levels of ethnic strife and political instability, greater vulnerability to external shocks, and lesser ability to improve income distribution.

9. There were several reasons for clustering. Among them were infrastructural features that differentiated the experience of different countries. Among such factors was past history. For example, countries with a successful record in human resources development generally started with better base-line conditions than those with less enviable records. Another factor was the existence of ethnic or other divisions in society, which might lead to the emergence of civic conflict and unrest. Another factor might be the difference in the vulnerability of societies to external shocks. Some societies were less dependent than others on outside sources for goods and services or incomes.

10. Yet another feature was the changes in policy fashions. The current trend was towards privatization, deregulation, liberalization and openness. The danger of an ideological fashion was that it could lull policy makers into the belief that they had responded to the difficulties faced by the country, when in fact they might have simply provided a rhetorical answer to real problems.

11. Finally, a major determinant of policy choice was the political will of the ruling élite. However, while that might explain why a government chose the “right” policies, it left open the question of why the particular elites had the requisite political will while others did not.

12. In the discussion of institutional aspects that determined policy effectiveness, the first factor considered was the ability of the governments to access resources. That access depended upon such factors as the effectiveness of the tax-collecting machinery, the wealth of natural resources in the country, and the question of legitimacy (if revenues were perceived as being linked to the provision of services, the willingness to pay might be higher).

13. Second, a factor which directly influenced the efficiency of public services was the level of corruption within the bureaucracy, which in turn was related to the level of the officials’ salaries and benefits, and their relationship to incomes and costs in a country.

14. The third important factor was judicial institutions, as they would help ensure effective and speedy justice, facilitate contract enforcement, and generally influence the efficiency of governmental decision-making. Judicial institutions were essential to the establishment of decentralized political arrangements.

15. Fourth, the information base of governments assumed considerable importance. Thus, appropriate information would be necessary for the governments to focus their programmes on specific target groups.

16. Fifth, the centralization of many government functions in the developing countries had become an obstacle to the pursuit of social objectives. Hence, decentralization had been advocated, but it had to be combined with two other changes in order to be effective: participation and judicial review.

17. Finally, there was the question of collective efficiency. The efficiency of the government could be looked at in terms of the interaction of a number of institutions working together: the government, judiciary, the media, businesses, non-governmental organizations, and others.

18. In the discussion that followed, the nature of the State and the interaction between the civil society and the State were observed to be important factors in determining the social effects of economic restructuring.

19. The concept of clustering of capability factors was examined in detail at the Seminar. The experience of some countries was used to illustrate the reinforcing

effects of development policies and favourable economic conditions as well as situations where overriding obstacles reduced possible economic and social gains.

20. The discussion also highlighted the need for an enabling environment to release the potential of development policies and structural changes. Internal mechanisms, such as the information base for effective decision-making, the rule-setting and enforcement institutions and their effectiveness were considered to be important prerequisites for effective structural adjustments which enabled the articulation of interests and taking action to mitigate harmful effects. Mechanisms for minimizing the adverse social consequences of structural adjustments had to be put in place and developed as part of the total process.

21. The clustering of capability factors, however, had to be viewed in each specific context. The standard structural adjustment package had to be considered in a context with a specific implementation capacity and pre-existing conditions. Some of the elements of a standard package were not as easily implemented in situations where the socio-political concerns dominated, for example, austerity measures imposing hardships when the political leadership was in a relatively weak position. In some countries structural adjustment measures had to be undertaken under difficult domestic as well as external conditions. The timing of the policies was therefore considered to be important. Structural adjustment had in some instances worsened internal structural problems and exacerbated external deficits, as in the Philippines. In Thailand, on the other hand, structural adjustments were successfully implemented and had strengthened some important parts of the economy. After a short period of unemployment the economy had picked up.

22. The manner in which the structural adjustments were undertaken was considered to be important. The need for adjustments and sharing of the burdens and costs had to be understood by various groups within the system. The internal development philosophy and mechanisms to assess the performance and ill effects of the programme were therefore critical. Although it was not likely that burdens would be willingly accepted, especially by already disadvantaged groups, mechanisms to address the issues had to be developed to avoid later hardships and the consequent socio-political problems. Restructuring therefore had to extend beyond the economy. When those who suffered ill effects during economic restructuring were not able to express their needs, other pressures were likely to build up to weaken the adjustment process and bring forth tendencies for reversals.

23. The initial conditions under which structural adjustments had to be undertaken were also seen to be important. It was felt that some types of

adjustment would not therefore be effective or would have high social costs. While the clustering of capabilities was seen as an important organizing concept to explain variations in performance, the simultaneity of development goals and how national elites perceived them was also considered to be an important determinant of successful structural adjustment at relatively low social cost.

24. Moreover, the ability of the State to mobilize resources, for example, under conditions of heavy external debt, resulted in imposing hardships during structural adjustment. Access to social services, especially for the poorer segments of the population tended to worsen under those circumstances. Structural adjustments therefore were considered to be unable to remedy problems caused by entrenched institutional weaknesses and difficulties. In that situation it was considered that international trends, increasing difficulty to access developed country markets for primary goods and even services of the developing countries, were indications of avoiding adjustment by some countries and imposing it on others.

25. Structural adjustments were necessary in many cases to enable better responses to internal and external economic conditions. The conditions that had been created were not those seen to be stable in the conventional sense. Adjustments were needed in order to respond to dynamic situations. Structural adjustments in Thailand, for example, created a better environment for foreign investment. The result was that some structural adjustments could be postponed because a new flexibility was created.

26. Structural reforms were undertaken by countries in a context of global interlinking. Many economic activities had shifted across national boundaries in response to shifting comparative advantage. The sweatshops of Hong Kong had shifted to south China, and heavy industry moved from Japan to the Republic of Korea, Taiwan Province of China and Indonesia, with Japanese assistance. Polluting industries moved across national boundaries when operating costs increased. The international migration of workers continued to grow. Those conditions demanded internal capabilities to manage structural changes and shifts.

27. During the process of structural change, the decision-making institutions and structures were also undergoing change. When conditions were difficult for large groups or organized vocal groups, there was a tendency to question the legitimacy of the reforms. If the restructuring efforts included underlying decision-making structures, the situation was different from one in which there were no changes. That placed demands on the information structure, and compatibility between decision-making and information had an important bearing on the effectiveness of the restructuring measures that were being pursued. It was

noted that in most countries the information system was not geared to the decision-making system, thereby weakening the latter.

III. REVIEW OF COUNTRY STUDIES: SECTORAL IMPACT

Human welfare

28. There were wide differences in performance as well as in the approaches to the question of human welfare among the countries selected for study. The context for structural adjustment was also varied. Political stability, efficient management and organization and the speed of adjustment played an important part in some countries such as Malaysia, the Republic of Korea and Singapore. In Thailand, after an initial period of political unrest, relative stability and continuity in the policy regimes contributed to steady improvement in many aspects of human welfare. Nutrition and health received close attention through well-developed programming efforts. Planning functions had to be modified to improve programme efficiency. That required greater popular participation and decentralization. Countries such as Thailand moved from "hardware" oriented planning to "software" planning. That involved decentralization and moving from project analysis to programming. In the high growth, high social welfare type countries, national planning activities also changed from concentration on developing the machinery for growth and delivery of selected basic services to direct poverty alleviation and developing social security systems.

29. The high-growth and industrializing economies had also begun to identify more disaggregated human development requirements. But it seemed that that was undertaken only after developing a strong base to deal with the general problems of primary health care and nutrition. New problems were emerging, related to urbanization and inadequate access to public services.

30. The capacity to organize and deliver basic services was constrained by many factors. Structural weaknesses played an important part. Serious vulnerabilities were created when the central government was unable to mobilize or allocate adequate resources for programmes related to human development and when alternate systems were absent. At the early stage of national development, as in the case of Papua New Guinea, interventions were considered to be capable of very strong effects.

31. However, the case of Sri Lanka demonstrated that even with good planning and effective resource mobilization and delivery of basic health care, other post-survival problems of well-being could continue. Good survival indicators and

low infant and maternal mortality could be achieved by systems that did not address problems of child malnutrition, high morbidity and impaired human growth and development.

32. Identifying needs and organizing delivery did not seem to be simply matters of changing the centres of decision-making. Decentralization created new problems and introduced new weaknesses to programmes (e.g. Papua New Guinea, with health care). In the transition, organization of service delivery and logistical support was difficult. Managerial and administrative resources were often not available for dispersion.

Education and employment

33. Once again experience was varied. The high growth countries had moved quickly from developing primary education to expanding and developing the secondary and technical educational sectors. Primary education performed vital functions of national integration and identity formation. In some instances education also performed an important role as a political tool. But over the medium term, the more “pragmatic” countries were able to identify the costs of low education, including inability to make the necessary transformations (for example, in agriculture, to undertake high value commercial agriculture, demanding greater flexibility and assessment of market opportunities). The foresight to prepare the workforce to take advantage of regional and global trends was considered to be a very important concern in such countries as the Republic of Korea, Singapore and Thailand. In the latter, education constrained the ability to move quickly to capture the manufacturing activity that was moving out of Japan. In most of the countries, temporary migration played an important economic role. Only a few countries had the foresight to prepare human resources for industrial growth. Therefore, the preparation of the rural workforce for the transformation of agriculture, especially the extension of technical and science education was slow. Education to promote entrepreneurship did not seem to have grown as needed in many of the countries, particularly in South Asia.

34. Education was not driven by economic factors in some of the South Asian countries. In many countries, there was a serious mismatch between the educational products at the tertiary level and the market demand. Demand for tertiary education was also driven by strong political considerations in some of those countries. That could co-exist with a slowly expanding or inadequate primary education system, as in the case of India.

35. Behaviour approximating rent-seeking characterized South Asian tertiary education. However, there were growing shortages in most of the countries in

technical and middle-level occupations, such as middle managers in Sri Lanka, technical managers and financial analysts in Thailand, occupations in the plantations in Malaysia, and technical and professional occupations in Papua New Guinea.

36. Mismatches imposed serious social and economic costs on the economies. Training and skill development were costly and large systems were needed to maintain quality and standards, as observed in the Republic of Korea.

Infrastructure

37. Housing and infrastructure for habitat had been deliberately promoted as an instrument of development in some countries, notably in the Republic of Korea and Singapore. For the latter, it was an important investment and created a very important social capital which not only helped to integrate and build nationhood but served as an important tool of social control. Public-sector driven or organized programmes of very large scale resulted in substantial improvement in housing standards. Sri Lanka also took deliberate public-sector measures to improve housing.

38. Direct public actions helped mitigate shortages by expanding supply or moderating price increases, as in the case of the Republic of Korea. However, the flow of resources to the sector was relatively low and strong demands to slow price escalation were emerging. Quality was a serious concern in most of the countries, except Singapore and perhaps Malaysia. Government policies in the Republic of Korea were designed to regulate urban land speculation through revised property taxes and incentives to generate supply.

39. The quality of the total living environment was deliberately developed and maintained in Singapore. This was seen as a major investment with high returns. More than 90 per cent of the population lived in the public sector housing, with 85 per cent owning their dwellings. There was uniformity and loss of identity as a result and it was causing a measure of stress and strain among the middle-income groups. The state sponsored low-cost housing was able to maintain a satisfied and stable workforce that contributed to social cohesion and led the way to substantial social and economic transformation. Quality had continued to improve as financing was provided directly out of the Central Provident Fund to which employer and employee both contributed. However, it was affecting the incentive structure as young households acquired large apartments at a relatively early stage. Slums and pockets of seriously disadvantaged people no longer existed in Singapore.

40. Urbanization in South Asia was relatively slower. However, some cities were very large and were growing rapidly. They contained large groups of marginalized poorly serviced households. It was noted that the initial step from a rudimentary home to permanent one made a quantum change in the self-identity of poor people. Perceptions and motivations changed. However that was a threshold that vast numbers could not pass with only their own effort and resources.

Quality of life

41. Structural adjustments demanded greater fiscal and monetary discipline. Management and operational efficiencies had to be effected throughout the system. The standard package expected the role of the government to be reduced and foreign capital to be attracted. While the social indicators (in terms of realized outcomes in life expectancy, literacy, access to health care, sanitation and water) indicated important dimensions of the overall quality of life, the costs could also be directly assessed. Environmental degradation, pollution, congestion and health hazards from production systems were costs that were becoming increasingly important.

42. All the countries had made significant progress in many aspects of the quality of life. However, during structural adjustments the pace of change and the related costs changed. New problems and concerns emerged, such as urban poverty, environmental degradation, industrial pollution, and social strains and tensions. The large industrializing countries experienced many environmental problems. Those flowed from different types of adjustment. Forest resources were used faster in all countries and land was needed for expanding agriculture or for exploitation of commercial timber. The safeguards that were possible (in the form of licensing, appropriate costing of the resource use to facilitate regeneration) were not adequately applied or were not easily enforced.

43. Industrial pollution was also a major concern. While for some countries it was a concern stemming from concentration and scale, for others it was the result of dispersion and resulting problems of policing and enforcement.

Poverty and inequality

44. The proportion of households in poverty declined in all countries. However, for some that had had to undergo severe adjustments, the levels of poverty had temporarily increased. New problems and shifts in poverty had occurred following structural change. The initial conditions and mechanisms and resource availability played an important part. The decision-making system, and the role of the elites played a prominent part. During adjustments strains could and were passed on to

more vulnerable groups, with the burden falling more heavily on the unorganized urban sector, rural landless workers, small-holder peasants and the low end of the service sector.

45. In Malaysia, the Republic of Korea and Singapore growth was accompanied by equity. While the distribution indices did not capture all facets of the changes that had taken place or of the hidden rewards and incomes, the general picture indicated improvement. While income distribution improved in those countries, the pressures for quality improvements in services and amenities were increasing.

46. Absolute poverty had been eradicated in Singapore and Malaysia and was largely absent in Papua New Guinea and the Republic of Korea. However, while income disparities were reduced, disparities arising out of wealth and asset distribution might have increased.

47. The public sector played a major role in improving access to income and in reducing disparities. In Singapore, income distribution did not fully measure benefits arising from access to public services such as housing, education and health.

48. In China and India the measured income disparities as well as some aspects of urban and rural differentials in income had been reduced. Direct intervention by the government in times of stress had contributed significantly to a reduction of seasonal poverty. However, regional disparities continued or were exacerbated in some countries as structural reforms were carried out. New layers of vulnerability were added as townships grew as in China (as a result of residency regulations that restricted rural to urban migration) The capabilities of administrative systems to mobilize and direct resources seemed to be an important factor accounting for regional disparities.

Institutions

49. Centralization of administration and decision-making characterized many successful national programmes in the countries that were reviewed. Consolidation and nation-building at the early stage of nationhood was practiced by all. Social welfare programmes were deliberate efforts conceived and delivered by a central authority (e.g. in Sri Lanka). Local servicing capacity had also been created at the same time. Political authority had to be consolidated (Malaysia, Singapore). Decentralization could be a result of political or administrative weakness, and carried serious costs of possible loss of control over important natural resources (e.g. Papua New Guinea).

50. Decentralization through administrative channels and division of decision-making weakened programmes and their management. However, the question of centralization and decentralization did not represent a dichotomy that had any over-arching relevance. It had to be seen in terms of objectives that could be maintained, and in terms of the efficiency of resource availability and the efficiency of use. There were operational considerations such as flexibility as well as issues of participation and information flows and decision-making efficiency. In all countries there were tendencies for decentralization of functions on the basis of efficiency, administration and delivery of services. However, local-level independence in terms of an increase in financial capability was still relatively low.

51. The political systems differed, from one-party systems with a degree of internal democracy to multi-party open systems. The representational forms varied along with the quality and effectiveness of government in setting national goals, generating consensus and effectively carrying them out. Some countries stated that there was a need to reduce the size of government in terms of personnel and share of national expenditure.

52. New concerns were emerging across the board to make government accountable and to address needs to reform the political system. Mechanisms for civic action were not developed or did not function well in all countries. The independence of important institutions such as the judiciary was not clearly maintained in all settings. Redress through the legal system was slow in some countries.

53. Some countries had seen a trade-off between efficiency and democratic freedoms and civic rights. With growth and improved standards of living, demands for these freedoms were growing. In others with more apparent rights, disparities might have grown.

54. Forms of consensus-building forums had been developed in countries threatened by internal divisive forces. While Malaysia had developed strong institutions to deal with ethnic strife in setting national goals, Sri Lanka had as yet been unable to build up the internal cohesion.

55. On the question of availability of and access to information, the Seminar noted that a good information base aided effective implementation of economic and social development policies. The case of Singapore, a small country with a sound education system and effective control of the mass media, presented an interesting example where information was primarily used as a means of educating the people and garnering support for the attainment of social and equity goals.

56. However, it was recognized that information was never perfect, which in turn made targeting of public welfare and other support measures difficult and which also led to corruption. The time required and high costs often associated with acquisition of information resulted in reliance on proxies in targeting relief measures and subsidies. For example, social groups such as agricultural labourers and manual workers were the intended beneficiaries mainly through self selection for the subsidized distribution of low quality grain or public works programmes that stressed cheap manual labour. It was further noted that relevant information might be available, but concerned agencies or authorities might not be willing to make use of it, as it might lead to politically unpalatable consequences.

57. Turning to the question of corruption, the Seminar noted that it was one of the key factors contributing to inequity and political instability. In the case of China, for example, the market-oriented reforms had led to the emergence of the dual-track price system which provided opportunities for rent-seeking on the part of public officials as well as for taking of bribes in issuing licences to private individuals in setting up businesses.

58. Reforms in the political system would be necessary to counter corruption but there were obvious constraints in taking action on that front. Improving the effectiveness of regulatory measures, better inspection and monitoring as well as increasing the pay of government officials were measures that were mentioned to combat corruption. It was further recognized that corruption hindered economic and structural reforms, as it was a major factor in widening disparities in income distribution and political power, and gave rise to vested interests that opposed change.

59. Finally, attention was also devoted to discussing the question of initial conditions. Favourable basic economic conditions helped to reduce the impact of external shocks and in moderating the adverse social consequences of economic restructuring measures. In the case of Singapore, a balanced strategy of economic and social development was adopted. The strategy was broad-based, benefits were widely diffused and over the years a consistent set of policies was pursued. Implementation machinery was also efficient. The administration was generally free of nepotism, graft and corruption, morale was good and salaries of public officials were high.

60. Initial conditions were also favourable in the case of Sri Lanka, despite the ethnic conflict. Several welfare indicators for the country had shown a favourable trend for over two decades. Those trends had their inception in the pre-independence era. In Thailand, the economy had recovered rapidly from the impact of the global shocks, and policies had to be reoriented towards managing

a boom economy. Rapid expansion and growth of the middle class and the business sector had increased pressures for change. At the same time, rapid growth had overstrained the infrastructure and the available resources, and the resulting adverse impacts, such as on the environment, had raised increasing social concerns.

IV. REGIONAL SYNTHESIS STUDY

61. In considering the orientation and content of the regional synthesis study, it was noted that the paper should not be viewed as a summary of the country papers. Rather the objective of the study should be to draw lessons from the experiences highlighted in the country papers, with a focus on analysing the social impact of the restructuring efforts that had been under way in the countries of the region. It should consider the economic constraints and how those impinged on the governments' structural adjustment policies and their social consequences. Furthermore, the regional study should attempt to present some patterns or topologies that emerge from the country papers. It might also give particular emphasis to the question of governance and to policies and strategies to foster further growth and structural transformation in the region, while taking due account of the social impact of restructuring measures.

62. The regional study would be organized broadly into three sections: introduction, sectoral issues and institutional issues. Additional information was therefore requested from the country participants for a more focused presentation of those issues in the regional study. Included was information on:

- (a) Centralization and decentralization, with particular respect to the nature of the decision-making and monitoring authority, the legal and constitutional factors that determined the structure of decision-making, and whether the governmental system of management was conducive to the implementation of the State's objectives;
- (b) State institutions, under which questions related to the incentive structure, the effectiveness of the legal system and the problem of corruption were to be discussed.
- (c) Information base: the issues to be considered included the compatibility of the information base and the decision-making structure, the need to modify the information base or the decision-making structure and the obstacles that were likely to be encountered in the process;
- (d) Economic constraints: whether implementation of decisions had been made difficult by economic constraints (such as a low tax base, high

indebtedness, or vulnerability to external shocks) and how those constraints might be removed through policy intervention.

V. ADOPTION OF THE REPORT

63. The Seminar adopted the report on 15 May 1992.

SOCIAL COSTS OF ECONOMIC RESTRUCTURING: A REGIONAL OVERVIEW

by

Tariq Banuri and Martina Jagerhorn*

I. INTRODUCTION

This paper reviews the social dimension of economic restructuring in ten selected Asian countries during the 1970s and 1980s. The review is based on the results of detailed country studies commissioned by the ESCAP secretariat. The countries selected for analysis are: China, India, the Republic of Korea, Malaysia, Pakistan, Papua New Guinea, the Philippines, Singapore, Sri Lanka and Thailand.

In contrast to earlier theories that hypothesized the existence of a trade-off between economic growth on the one hand, and social or environmental improvements on the other, we find to the contrary – that there is a pattern of clustering of “bads” and “goods” in country performance. We find that countries that grow faster exhibit superior indicators of human resource development; and also seem to find it easier to adjust to economic shocks through effective government policies. As a partial explanation of this phenomena, we show in chapter IV that the former group of countries are also better governed, have more effective institutions of collective decision-making, and have better quality infrastructure.

This is a significant finding. It suggests that the task before Asian (or other Southern) countries is not that of choosing between various social objectives, such as rapid economic growth or social or environmental improvement. Rather, their task is to choose policies and to create arrangements that would place them in the superior cluster. In other words, the problem is not how to determine priorities between conflicting societal objectives, but of establishing conditions that would enable the simultaneous pursuit of all objectives.

Naturally, this creates a puzzle. If it is possible for all societal objectives to be pursued simultaneously, why have most countries failed so miserably at this

* Executive Director, Sustainable Development Policy Institute, Islamabad, Pakistan.

task? As mentioned, the country studies carried out as a background to this project provide a tentative answer to this puzzle. It emerges from the examination of country experience that the critical factor is the very ability to pursue social goals. It also appears that the creation and strengthening of this ability is susceptible to policy. It depends on such things as an honest and efficient state machinery, the existence of non-governmental institutions not only for providing social services but also for monitoring the performance of public agencies, and a basic security of the individual as well as collective rights of the population. All these can be pursued through appropriate governmental action.

In other words, for a country to begin moving towards the achievement of social goals it is essential that government action is directed towards institutional infrastructure and governance. Conversely, to the extent that the pursuit of governance is neglected the country will remain mired in the language of trade-offs, which in the end prove to be nothing more than excuses for poor performance on all fronts.

A. BACKGROUND

The global instability characterizing the 1970s brought to a close a quarter century of high and stable growth. Many countries responded to the instability with both short-term macroeconomic adjustment policies and long-term economic restructuring. Yet, in most regions of the world, these policies succeeded neither in restoring the previous growth path, nor in mitigating the variability of economic performance.

However, the experience of countries in the ESCAP region has diverged from the overall trend. Besides the sustained high economic growth of the region as a whole even after the external shocks, a significant development is the convergence of the growth rates of various countries. While NIEs and neo-NIEs (such as China, Malaysia and Thailand) continued to expand at some of the highest growth rates in the world, their growth declined somewhat from the halcyon days of the 1960s. At the same time, the slower growing countries (India, Papua New Guinea, the Philippines, Pakistan) managed actually to increase their rate of growth in the post-shock period, although still below levels recorded elsewhere in the region.

Notwithstanding the convergence of growth rates, income disparities between countries in the ESCAP region have continued to widen. In 1960, Singapore was three times richer than Pakistan, the poorest country among the group of countries selected for the study. Today, affluent Singapore with a GDP per capita adjusted for purchasing power of \$US 10,450 in 1989 is more than sixteen times

richer than the lowest income country in the group, India. Only thirty years ago, the Republic of Korea and Thailand had the same per capita income as Pakistan today.

More importantly, the social, human and distributional dimensions of ESCAP countries have not improved as drastically as the level of their income. There is still an extensive and persistent prevalence of poverty, unemployment, illiteracy, high mortality and morbidity, and inadequate supply of basic essentials like safe water, health, education, and sanitation services.

The traditional explanation of this disparity was in the form of trade-offs, namely that both ordinary growth policies and adjustment policies aimed at counter-balancing the impact of exogenous shocks, often impose social, human, environmental and distributional costs on the society; and that these costs reduce and occasionally even reverse the net benefits of the improvements in economic conditions brought about by the policies. It is also argued, quite persuasively, that the rapid urbanization and industrialization accompanying economic growth brings about industrial pollution, traffic congestion (leading to environmental degradation as well as accidents), crime, violence and drug abuse, and often uncontrollable pressures on the infrastructure (health, education, housing, sanitation). However, while the logic of this argument is quite compelling, it does not seem to explain well the experience of ESCAP countries.

In the ten countries selected for this study, we find to the contrary a strong correlation between economic growth and social and environmental indicators. A rough idea of this correlation can be found in the UNDP's human development index (HDI). Pakistan and India have the lowest index (0.3) as well as the lowest income per capita; on the other hand, the three richest countries (Singapore, the Republic of Korea and Malaysia) also have the highest HDI (around 0.8) as well as the best indicators of literacy, life expectancy, and the lowest mortality rates in the region.

It is also interesting to note that concomitant with the growing income disparities, the gaps in human development between ESCAP countries have also widened over time. The standard deviation of the HDI for the ten selected countries was 0.025 in 1970 and 0.044 in 1990. In these two decades the Republic of Korea, Malaysia, Thailand, and Singapore experienced the largest improvement in the variables measured by the index, whereas the position of Papua New Guinea, India, the Philippines, and Sri Lanka has declined. In other words, countries with high initial values of HDI and per capita GDP improved the most and vice versa.

B. A PARTIAL EXPLANATION

In general, we find three possible explanations for the phenomenon of clustering described in these pages. The first, and most compelling is the quality and effectiveness of the institutions of collective decision-making in the country, namely the quality of its bureaucrats. If a country has well developed institutions for the pursuit of a particular collective goal, it will not be difficult to pursue other valued objectives. As mentioned earlier, we see the pursuit of governance as susceptible to policy measures, and not in metaphysical terms – such as in some arguments that ascribe the cause of superior performance to such intangibles as political wisdom or political will, or to such irreducible elements as racial or cultural characteristics of the different populations.

A competing explanation locates the basis for superior performance in history. There is considerable resilience in economic performance, particularly when it comes to the social sectors. Countries with enviable social statistics today had equally enviable statistics twenty or thirty years ago. Singapore had better human development statistics in 1960 than some countries do today; the Republic of Korea's literacy rate in 1960 compares favourably with the present literacy rates of all but three countries in the sample; and Sri Lanka's superb performance in the social sectors goes back to pre-independence times. Similarly, low achievers are usually countries with a comparatively low starting point. As observed above, countries with a low HDI value improved the least during the last twenty years. Many of these countries also experienced low rates of growth of real GDP per capita over the same period. It is possible that there is a learning curve in the delivery of social services.

A third explanation would rely on the availability of resources in the hands of the government. Some countries like Malaysia has a relatively high natural resource endowment, which translates not only into a high income level, but also into a strong revenue base for the government. This is clearly a factor in the consistently superior performance of Malaysia in the economic as well as the social sector. Yet, without an effective governmental machinery to translate these resources into concerted civic action, the results would certainly have been far inferior. This can explain the poor performance of Papua New Guinea despite its rich resource base.

We believe that the alternative explanations complement the idea that the key issue is the quality of governance. The historical argument explains why some countries can perform well in selected areas despite the absence of overall institutional strength; thus, Sri Lanka performs surprisingly well in the social sectors because it has learned over almost a century how to deliver social services to the mass of its population. On the other hand, the historical dimension also

suggests that institutions cannot be built up overnight. Countries would have to introduce long term institutional development plans, just as they used to prepare five year economic development plans.

The natural resource explanation also helps in defining the limits of the institutional argument. On the one hand, as the example of Papua New Guinea shows, institutions cannot be created simply by the infusion of resources. On the other hand, the existence of a firm resource base enables the maintenance and improvement of an existing institutional base, as in Malaysia. In South Asian countries, it could be said that the absence of a resource and revenue base has led to the gradual degradation of the institutional base.

II. MACROECONOMIC EXPERIENCE

The broad dimensions of the macroeconomic experience of the countries in the selected group are presented in table 1. These countries fall into four distinct groups: the NIEs, the neo-NIEs, the populous South Asian countries, and the fragile South-East Asian economies. In general, one can observe a convergence of growth rates, but a divergence of income levels and HDI levels in the region.

Table 1. Basic indicators

Country	Real GDP per capita PPP \$	GDP per capita ICP est. \$	GDP growth per capita (per cent)		Average annual rate of inflation (per cent)		Human development index	
	1989	1990	1965- 1980	1980- 1990	1965- 1980	1980- 1990	1970	1990
Singapore	15 198	14 920	8.4	4.2	5.1	1.7	0.730	0.848
Republic of Korea	6 117	7 190	7.9	8.6	18.4	5.1	0.589	0.871
Malaysia	5 649	5 900	4.9	2.6	4.9	1.6	0.538	0.789
Thailand	3 569	4 610	4.4	5.8	6.2	3.4	0.535	0.685
China	2 656	1 950	4.6	8.1	-0.3	5.8	...	0.612
Philippines	2 269	2 320	2.9	-1.5	11.4	14.9	0.542	0.600
Sri Lanka	2 253	2 370	2.2	2.6	9.4	11.1	0.573	0.651
Papua New Guinea	1 834	1 500	1.7	-0.6	8.1	5.3	0.342	0.321
Pakistan	1 789	1 770	2.1	3.2	10.3	6.7	0.226	0.305
India	910	1 150	1.3	3.2	7.5	7.9	0.258	0.297

Sources: *World Development Report 1992*; and *Human Development Report 1992*.

The NIEs, which include Singapore and the Republic of Korea (in addition to Hong Kong and Taiwan Province of China), registered growth rates of per capita GDP of the order of 8 per cent per annum in the 1960s and 1970s; of these, the Republic of Korea maintained its growth momentum even in the 1980s, while Singapore levelled off after reaching income levels comparable to industrialized countries.

China, Malaysia, and Thailand fall into a second category, often called neo-NIEs, which had per capita growth rates of close to 5 per cent per annum in the 1960s and 1970s; many observers view these countries as the next generation NIEs in the sense of being capable of registering growth rates of 8 per cent or more. As can be seen from the table, China has lived up to this expectation, while the other two countries are still struggling.

The South Asian countries form the third group, with very low growth rates per capita in the 1960s and 1970s, but with a noticeable improvement in the 1980s. Finally, Papua New Guinea and the Philippines reveal a consistently poor growth record, and a significant worsening of conditions in the 1980s.

Besides the growth experience, a few other observations are important. The first pertains to the low and declining levels of inflation in the region, and the second to the wide and growing variation in human development as measured by UNDP's HDI. The latter is also brought out in table 2, which gives figures on life expectancy, literacy and schooling. The important point to notice in these figures is the role of historical inertia: countries that do well today were also much better off in relative terms 30 years ago. In this respect, the only true exception is provided by China, which has shown improvements in human development far above what would be indicated by its initial situation.

A. ECONOMIC STRATEGIES

In terms of economic strategies as well, there are considerable variations. In general, the larger countries (China, India, Pakistan) were more prone to emphasizing self sufficiency and autarchy, as well as the social objectives of development. In terms of fiscal and financial policies as well, China and India had a somewhat conservative stance. Of this group of countries, China appears to have been more successful in virtually all areas than the others. The remaining countries adopted a variety of development strategies focusing on international trade. Again, it could be said that the NIEs and neo-NIEs were more successful than the others.

Another point to note in this section is that these countries (with the obvious exception of Singapore) started with a very high share of agriculture in

Table 2. Human development

Country	Life expectancy at birth, years						Adult literacy rate (per cent)				Mean years of schooling, 1990		
	Total		Female		Male		Total		Females as percentage of males		Total	Female	Male
	1960	1990	1965	1990	1965	1990	1970	1990	1970	1990			
Singapore	64.5	74.0	68	77	64	71	...	88	60	...	3.9	3.1	4.7
Republic of Korea	53.9	70.1	58	73	55	67	88	96	86	94	8.8	6.7	11.0
Malaysia	53.9	70.1	60	72	56	68	60	78	68	81	5.3	5.0	5.6
Thailand	52.3	66.1	58	68	54	63	79	93	84	94	3.8	3.3	4.3
China	47.1	70.1	57	71	53	69	...	73	...	73	4.8	3.6	6.0
Philippines	52.8	64.2	57	66	54	62	83	90	96	99	7.4	7.0	7.8
Sri Lanka	62.0	70.9	64	73	63	69	77	88	81	89	6.9	6.1	7.7
Papua New Guinea	40.6	54.9	44	56	44	54	32	52	62	58	0.9	0.6	1.2
Pakistan	43.1	57.7	45	55	47	56	21	35	37	45	1.9	0.7	3.0
India	44.0	59.1	44	58	46	60	34	48	43	55	2.4	1.2	3.5

Source: *World Development Report 1992*; and *Human Development Report 1992*.

value added. The countries that are regarded as successful in economic terms (the Republic of Korea, China, Thailand, and possibly Malaysia) also managed to reduce the share of agriculture to well below that of industry. The more fragile economies still reveal a rough parity between these two sectors. Table 3 brings out these data.

Up to 1979 China kept the door to the outside world tightly closed and the economy was almost totally self-sufficient. The pre 1979 economic system was characterized by high centralized planning, administrative coordination and the absolute dominance of state ownership. The period of reform started in 1979 and restructuring has taken place on two fronts: in economic institutions and in the industrial structure. The theme of the reform has been the decentralization of decision-making with the purpose to become a decentralized socialist country, and the introduction of market forces as an important coordination mechanism, within the framework of public ownership.

Table 3. Structure of production

Country	Distribution of GDP (per cent)						Average annual growth rate (per cent)					
	Agriculture		Industry		Services		Agriculture		Industry		Services	
	1965	1990	1965	1990	1965	1990	1965-1980	1980-1990	1965-1980	1980-1990	1965-1980	1980-1990
Singapore	3	-	24	37	74	63	2.8	-6.2	11.9	5.4	9.1	7.2
Republic of Korea	38	9	25	45	37	46	3.0	2.8	16.4	12.2	9.6	9.2
Malaysia	28	...	25	...	47	...	...	3.8	...	7.1	...	4.2
Thailand	32	12	23	39	45	48	4.6	4.1	9.5	9.0	7.4	7.8
China	38	27	35	42	27	31	2.8	6.1	10.0	12.5	11.9	9.1
Philippines	26	22	27	35	47	43	3.9	1.0	7.7	-0.8	5.0	2.6
Sri Lanka	28	26	21	26	51	48	2.7	2.3	4.7	4.6	4.6	4.7
Papua New Guinea	42	29	18	31	41	40	3.1	1.7	...	2.7	...	1.4
Pakistan	40	26	20	25	40	49	3.3	4.3	6.4	7.3	5.9	6.9
India	44	31	22	29	34	40	2.5	3.1	4.2	6.6	4.4	6.5

Source: *World Development Report 1992*.

India adopted a strategy in the mid-1950s of encouraging heavy industries through import substitution, direct industrial licensing, and an expanded role of the public sector both as a provider of infrastructure and active producer of industrial goods. Simultaneously, the country maintained a conservative monetary policy stance, and a low level of debt exposure. The result was, on the one hand, a low inflation rate and a low level of external and internal debt, and on the other hand, what some writers have called the Hindu rate of growth of per capita GDP of 1-1.5 per cent per annum.

Poverty alleviation has been a major goal of development policies since the 1950s. However, despite political support and legitimacy, the problem of absolute poverty has not been brought under control. Programmes undertaken in 1955-1965 were ineffective partly due to social and political reasons and partly due to a too centralized approach and too uniform solutions to diverse problems. Neglect of literacy and health appears more in the nature of organizational and technological failure than the ones which can be causally related to (favourable or negative) economic development. Beginning in the mid-1970s, new initiatives by the

central as well as state governments helped institutionalize actions aimed at improving economic viability of target-groups mainly in rural areas, and the condition of the rural poor also benefited from improvements in public distribution and buffer-stocking of food grains.

Sri Lanka's socio-economic background at independence was promising. The living conditions were among the best in Asia, and the social welfare system was impressive for that period. Primary health care and educational services were extended to the rural areas as early as the 1930s and 1940s. The nation was relatively small in size and the substantial earnings generated from the export of tea, rubber and coconut provided a large revenue base and supported public expenditure on health, education and infrastructure. These measures contributed significantly to the exceptional performance reflected in the figures on health and education. Today Sri Lanka's welfare system include universal free education up to the tertiary level, a wide health care network of hospitals and treatment facilities, and food subsidies for the entire population. In spite of occasional economic strain, social programmes have continued with only slight changes throughout the last two decades.

Papua New Guinea is the richest country in the region in terms of natural resources. Its known resources of copper and gold are large, oil deposits are substantial, it has a vast, fertile land-area and an enormous forest cover. In 1988 almost 70 per cent of its export earnings came from the mining sector. In human development, Papua New Guinea's initial conditions were not as favourable at the time of independence. Rural infrastructure, particularly roads, was highly inadequate and unevenly distributed, per capita income was low, administrative capacity, skills, and education were extremely low.

Thailand's priority goal has been economic growth without much attention paid to social policies or to possible negative consequences of economic growth. The general assumption has been that the benefits of growth will trickle-down nicely. The only social sector which has received considerable attention is primary education.

Until the early 1970s, when the unemployment problem worsened, growth without equality was the main goal of the Republic of Korea. In the 1960s the policy regime in the Republic of Korea was directed towards import substitution. In 1975 the opening up of the economy started. Industrialization has been the fastest in the region, both in terms of share of GNP value and in terms of share of labour force. The productive sector is fairly centralized consisting of large conglomerates. The rural development movement *Saemaul* increased rural income, improved income distribution, housing and living facilities, roads and land readjustments in rural areas.

B. THE ADJUSTMENT PROCESS

The countries in our sample were affected by a number of external shocks during the last three decades. These included the two oil shocks in 1973 and 1979, the interest rate hike also in 1979, the persistent global recession of the 1970s and 1980s, and a variety of restrictions in external financial flows. Many countries were affected more by such internal problems as droughts or floods (India, Pakistan), political crises (China, Sri Lanka, the Philippines, Pakistan), and other country-specific factors that led to payments problems (Papua New Guinea, Thailand).

A number of generalizations are possible. First, the external shocks had a smaller impact on the closed populous economies (China, India, Pakistan) than on the smaller, more open economies. Second, the adverse impact of the first oil shock was also counter-balanced by a number of favourable developments, the expansion of labour migration to the Gulf countries, the inflow of remittances, the increase in domestic agricultural output and commodity prices. The result was a generally strong economic performance in the 1970s.

However, the second oil shock in 1979 slowed down the economic growth in all countries, but as the figures above demonstrate, this effect did not last very long. This was partly due to adjustment policies and partly due to the continued and heightened inflow of foreign resources into the region. China and India modified their conservative stance on payments management in the 1980s, thus attracting large volumes of foreign resources, and building up their external debt exposure for the very first time. The NIEs and neo-NIEs began to attract discretionary capital flows in the form of foreign investment. Last, remittance inflows continued to sustain payments levels in Asian countries throughout the 1980s.

Another element of the adjustment situation is the vulnerability to external changes. While a more detailed argument cannot be presented here, a few broad trends can be identified. As table 4 shows, China, India and Pakistan had very little trade dependency measured in terms of the ratio of foreign trade (exports plus imports) to GDP. However, the true trade dependency is measured by other indicators, such as elasticity of imports and exports. The former is higher in the case of low importing countries the bulk of whose imports are of such essential items as food or petroleum. Similarly export elasticity depends on the share of commodity exports, whereby Singapore, the Republic of Korea, China and India are the least vulnerable, and Papua New Guinea the most vulnerable. Finally, vulnerability to external shocks depends on exposure to international financial markets through foreign debt. This is high in the case of Papua New Guinea, Sri Lanka, the Philippines, Pakistan, and increasingly India.

Table 4. Economic dependency

Country	Primary exports as a percentage of total merchandise exports			Food imports as a percentage of total merchandise imports			Total external debt as a percentage of GNP			Total debt service as a percentage of exports			ODA as a percentage of GNP
	Trade dependency												
	1990	1965	1990	1965	1990	1970	1980	1990	1970	1980	1990	1990	
Singapore	332	65	27	23	5	...	...	...	...	...	...	0.0
Republic of Korea	58	40	7	15	5	20.3	48.7	14.4	19.5	19.7	10.7	0.0	
Malaysia	127	94	56	25	11	9.5	28.0	48.0	3.8	6.3	11.7	1.1	
Thailand	66	97	36	6	5	4.6	26.0	32.6	3.3	18.9	17.2	1.0	
China	27	35	26	7	8	...	1.5	14.4	...	4.4	10.3	0.6	
Philippines	42	95	38	20	10	8.8	53.8	69.3	7.5	26.6	21.2	2.9	
Sri Lanka	60	99	53	41	16	16.1	46.1	73.2	11.0	12.0	13.8	8.2	
Papua New Guinea	80	90	95	23	17	5.8	29.2	83.9	1.1	13.8	36.0	11.4	
Pakistan	33	64	30	20	19	30.6	42.4	52.1	23.8	17.9	22.8	2.9	
India	15	51	27	22	8	13.7	11.9	25.0	22.2	9.3	28.8	0.6	

Sources: World Development Report 1990 and 1992; and Human Development Report 1992.

The response to the external shocks varied from country to country. Some governments, e.g. Malaysia, the Republic of Korea, and Thailand adopted counter-cyclical adjustment policies financed by local and foreign borrowing and managed to maintain their economic growth.

Since 1987 the Malaysian economy has recovered strongly from the shocks combining growth with price stability (although the level of growth was slightly lower). Due to the adjustment policies Malaysia's government expenditures first expanded (as a counter-cyclical measure to combat recession) and then declined to a level even lower than before the expansion. This oscillation of government expenditures has had a negative effect on the balanced development of sectors dominated by the government (e.g. housing). The fluctuation has also harmed the public sector itself in form of management problems.

In the 1960s India had to adjust to the cessation of foreign aid (due to two wars), and to additional inflationary pressures due to drought. The agricultural failure initiated a transformation in the primary sector. Inflationary pressure was curbed by cutting down public investment in infrastructure and heavy industries. The instabilities starting in the mid-1960s and continuing until the first oil shock reduced the growth rate from 2 to 1 per cent.

The first oil shock was preceded by a severe drought and by another war. All three shocks contributed an increase in the inflation rate, which peaked in September 1974 at 34 per cent. The inflation caused a worsening of the barter terms of trade, and hence an increase in the current account deficit. Standard adjustment policies were adopted: a cut in demand and investments, short term financing, export stimulation and an increase in import control. As a consequence, inflation declined to negative numbers already in 1975 and the current account turned positive a couple of years later.

The second oil shock also coincided with a severe drought in India, but the initial conditions were more favourable: price stability combined with the accumulation of both food and foreign exchange. Adjustment policies included an increase in public investment and a further relaxation of industrial and import regulations. The average annual growth rate in the 1980s rose to more than 5 per cent.

However, the relaxation of the conservative monetary and trade policies in the 1980s led to a swelling of the deficit in the balance of payments and the government budget. The resulting expansion in demand for borrowing has produced a new treat to the stability of the economy. As India's economy was fairly closed since the 1950s the world recession in the early 1980s appeared to have had limited effects on the economy.

External shocks do not appear to be followed by a massive adverse impact on social development in India. However, recent structural adjustment needed to cope with the increasing external and internal imbalances, and restructuring due to the gradual deregulation are likely to involve social costs especially during the transition period.

In terms of adjustments, China has mainly been compelled by its own internal crises. External factors like oil crises and recessions in OECD countries did not really cause a need for economic restructuring since China at that time was dependent on the world economy only to a negligible extent.

China's average annual growth of GNP in the 1980s (except for the recession year 1989/90) was close to 10 per cent. Exports and imports grew

rapidly. Yet, unlike the earlier autarkic period, considerable trade deficits were recorded during 1985-1989, which were combated with a devaluation. Meanwhile, the net capital inflow increased continuously and the total debt as a percentage of GNP increased. The brisk development of the rural industry reduced the share of agriculture in total rural output. The regional economic structure was also transformed and as regional disparities widened the south-east coastal areas developed more rapidly than north-west inland areas. The reform caused an inflation as high as 18 per cent in 1988, which was curbed by the government in three subsequent years.

The most important structural changes caused by the reform were:

- (a) Household-based production replaced collective farming making the rural economy more market-oriented and allowing the farmers to engage in a variety of business activities besides farming. The collective authorities remained the owner of the land.
- (b) The market-oriented rural township and village-owned industrial enterprises became the major contributor to the country's industrial growth. This also eased the problems of unemployment and urban congestion.
- (c) The proportion of industrial production subject to mandatory planning has been gradually reduced. Price controls were relaxed. Fiscal and monetary policy became more influential in macroeconomic management in place of direct planning control.
- (d) The private business sector grew, while the proportion of the industrial state sector declined.
- (e) Reforms in the external sector included decentralization of trade decisions, introduction of a parallel foreign exchange market, use of foreign loans, encouragement of foreign investment, and establishment of special economic zones to promote the use of foreign capital and know-how.

Sri Lanka has gone through two divergent forms of structural adjustments in the past two decades. The first was an unsuccessful attempt to construct a system with a socialist orientation in 1970-1977, through nationalization, land reforms, ceilings on land and housing ownership, price controls and protectionist trade policies. The second "liberalization" regime, still in process, is aimed at creating an open competitive economy with a strong private sector. It started off by undoing past restrictive policies, dismantled regulatory mechanisms, devalued the currency, and established market incentives for investment and improvement of food distribution.

Since independence the country experienced only modest economic growth. By the end of the 1980s even liberalization did not seem to have had a significant positive impact on the well-being of the majority of the population. In fact, when the economic growth in the second half of the 1980s slowed down, it had a strong adverse effect on most of the people. The slump also increased the pressure to reduce subsidies and develop a welfare system which would support targeted poor households comparably more.

The first oil shock had a serious impact on the economy causing inflation, sluggish growth and unemployment. Sri Lanka was then heavily dependent on imports of food, fertilizers and fuel, which put pressure on prices. The adjustment policies included new rationing and an emergency food production programme, at the same time as the government budget was used to protect the domestic economy from the price escalation. At the time of the second oil shock Sri Lanka had opened up its economy to international fluctuations. The external disturbances caused a growing fiscal imbalance, high inflation and an increase in foreign debt. Due to the oil shock induced boom in the Middle East, a significant number of skilled and semi-skilled workers and female household workers left for these countries, and became an important source of foreign earnings.

In Papua New Guinea, growth of per capita GNP has been the lowest in the ESCAP region (0.2 per cent annually during 1965-1989), but the inflation rate has also been lower than in many other countries. In 1990, the government introduced a typical IMF structural adjustment programme (including devaluation and restraints on wage increases, monetary policy and government expenditure) in response to a balance of payment crisis triggered by the closure of the Bougainville Copper Mine in 1989. The devaluation led to an increase in the inflation rate. Real wages dropped. It is estimated that more than 40,000 low wage households have been seriously affected by the adjustment programme. The long term effects (e.g. the probable deterioration in health status) on the poor and other vulnerable groups are still to be seen. Historical evidence suggest that Papua New Guinea (and many other countries) have recorded a significant deterioration in the quality of e.g. health, education, and transport services due to cuts in public expenditure.

In the Philippines, the second oil shock had a profound impact. By 1982/83, the deficits in the current account and the fiscal budget had risen above 8 and 5 per cent of GNP respectively. As a result, the country was forced to adopt an adjustment package including devaluation and demand contraction in 1982. There is clear evidence that this programme had a negative impact on the well-being of the population, in economic as well as in social terms.

The crisis led to a deterioration in all the social sectors in the Philippines. The decay was caused by three major factors. First, there was a fall in the real resources of households brought about by declining growth, less employment opportunities, falling wages and other sources of income in the face of rising inflation. Second, the real government expenditures declined in all sectors in general and in the social sectors in particular as a consequence of the government's response to economic difficulties. Third, the family support systems weakened due to an increasing labour force participation of parents and younger members of the household, in the absence of countervailing rise in community support. The impact was exacerbated by the fact that the economic and social structure of the country was weak and governance and decision-making tended to be monopolized by the rich and powerful.

While the economic damage was most intense during the mid-1980s, the entire decade was one of dismal economic performance. GNP per capita actually declined at a rate of 1.8 per cent per year between 1980 and 1989; and inflation which hit a peak of 50 per cent in 1984, remained at two-digit levels all through the 1980s, higher than in any other country in the region.

The adjustment had both an immediate impact on social indicators, and a possible long-run impact because of the delayed effect of such changes as the deterioration in the quality and spread of education services. Of special concern is the adverse impact on female education; since girls are normally the first to be withdrawn from schools at times of economic austerity, this has a long-run effect on the next generation, and even further, as the health of small children is strongly influenced by the level of female education.

Unemployment peaked in 1985 and affected the educated relatively more. In 1985 the amount of overseas contract workers declined by 14 per cent. However, the labour force participation rate reached new highs in 1983 and 1987/88, and is much higher than the average during a longer period (1983-1989). Women's participation increased specially, although women were also amongst those most adversely affected by the crisis. It is also likely that children's participation in the labour force registered an increase because of economic compulsion and a deterioration in family and child care.

In Thailand, the first oil shock did not have a very strong impact on the economy. Due to the second oil crisis Thailand's economic growth rate dropped a couple of percentage points during the first half of the 1980s and accumulated a current account deficit, which peaked in 1983 as 9.9 per cent of GNP. The adjustment policy adopted culminated in a steep devaluation in 1984. Fiscal and monetary policies were restrained for a longer period. Also trade liberalization was part of the adjustment programme.

During the adjustment process Thailand adopted a policy of export-oriented growth based on manufactured goods and services. Before the policy orientation was import substitution combined with growth based on primary exports. The country's industrial sector has been growing fast in terms of value but not in terms of labour. It has the smallest share of labour force in the region. Urbanization has been relatively slow.

In Pakistan, the economic regime in the 1980s was characterized by structural adjustment policies, in contrast to the populist-Keynesian regime that had prevailed earlier. A number of structural adjustment programmes were put into place. However, the 1980s were also a period of strong economic performance because of a number of exogenous factors. These included a sustained inflow of remittances from the Gulf countries, and a corresponding outflow of workers; these eased the pressure on the balance of payments on the one hand, and on the domestic labour market on the other. The 1980s also witnessed a sustained inflow of official foreign resources.

In the Republic of Korea, the first oil shock was followed by an increasing emphasis on capital-intensive heavy industries. When these selected industries were supported, this gave rise to large industrial conglomerates, which aggravated the distribution of wealth and income. Due to the negative effects of this development, the government later on de-emphasized heavy industries still keeping technology development as a top priority.

III. THE SOCIAL DIMENSION

In this chapter, we review the experiences of the sample countries in addressing social problems, including poverty, income distribution, ethnicity and conflicts, health, education and the environment. The objective is, first, to examine how the economic restructuring affected the social sectors, and second, to determine how some countries succeeded in avoiding or overcoming adverse social consequences.

A. POVERTY AND INCOME DISTRIBUTION

The ESCAP region has the largest segment of absolute poverty in the world. South Asia alone contains over 60 per cent of the world's poor. It is fair to say, however, that the degree of poverty in the region is moderated by the overall equality of incomes. There have been some striking successes as well as abiding failures in addressing the problem of poverty alleviation. The adjustment programme in general have an adverse impact on the poor and thus delay the resolution of the problem.

In Papua New Guinea and the Philippines more than half of the population lived below the poverty line in 1980-1989. In rural areas three out of four Papua New Guineans were absolutely poor, and the share was more than 50 per cent also in the Philippines and India. In Sri Lanka approximately one fourth of the population live in absolute poverty. Simultaneously, only one tenth of the rural population in China were absolutely poor.

There have been a number of successful attacks on the problem of poverty. It is fair to say that virtually all of them have been associated with an overall increase in income. Besides the countries that have witnessed dramatic increases in income levels (Singapore, the Republic of Korea), perhaps the most successful experience is that of China, which has been able to reduce the proportion of absolute poor in its society below 10 per cent, despite a per capita GDP of less than 400 dollars. India and Sri Lanka, with similar levels of income have much higher incidence of poverty. This success is even more striking when viewed in an historical perspective. For example, the percentage of rural people in absolute poverty declined from 83 per cent in 1978 to 7 per cent in 1989.

A major reason for the success of the anti-poverty programme in China was the existence of an effective and decentralized targeting machinery in the form of villages and communes. The central government allocated funds through a poverty relief programme and implemented special direct aid programmes for certain chosen poverty counties. At this stage, the bulk of the remaining poverty is seen to be restricted to certain resource poor areas. This success has not been unqualified; the absolute poverty figures for individual counties may have been distorted through either overstating or understating, and in many cases relief funds were misallocated by county officials.

In Pakistan also, poverty decreased both in the 1970s and 1980s despite a low overall income level. A major cause was the overall increase in real income at rates above those in neighbouring countries. Perhaps of greater importance was the flow of migrant labour to the Persian Gulf and the return flow of worker remittances. These flows helped ease the labour market situation and provided a relief valve for political tensions, in addition to supplementing the earnings of lower and middle income groups. This phenomenon may have outweighed the more direct adverse effect on the poor of the adjustment programme, which by constraining aggregate demand curbed both development and maintenance expenditures on social services. On the other hand, however, the supply side adjustment policies of the 1980s may have helped reduce the urban bias of poverty alleviation programmes, by increasing agricultural prices that had traditionally been maintained at a low level to subsidize the urban poor.

In other countries with similar levels of income, the failure of anti-poverty programmes is demonstrated by the persistence of the problem. The adjustment programmes mentioned earlier did not help in this regard. In Sri Lanka, poverty is likely to have increased soon after the economic reforms started in 1978, and after a brief decline after 1982, increased again in the second half of the 1980s due to civil strife and other disruptions.

In the Philippines, short term adjustment policies delayed improvement in, or at worst, aggravated the poverty situation. The incidence of absolute poverty increased during the crisis years, and peaked in 1985. As a result, the proportion of families below the poverty line was 59 per cent in 1985, 10 percentage points more than in 1971. Adjustment policies hurt the poor through two different channels: through changes in the factor and commodity market, and via government expenditures. Employment declined not only in the formal sector but also in the unorganized sector, and real wages declined. Food prices rose faster than other commodities, which harmed the urban poor more than others.

B. INCOME DISTRIBUTION

As mentioned, income is distributed fairly evenly in virtually all Asian countries. The most even distribution is in China, where the Gini coefficient for the whole country is less than 0.3, and for urban households less than 0.25. However, there are disparities both within and across regions. Some provinces, such as Gansu with a Gini coefficient of 0.41 are far more unequal than others; and income differentials among regions not only persist, but have actually been increasing because of the coastal strategy that has led to more rapid development in the south-east coastal areas, leaving the north and west inland areas behind. The data on income distribution in the region is presented in table 5.

The Republic of Korea and Pakistan rank after China with a Gini coefficient of 0.36. Income is most unevenly distributed in Malaysia and Thailand, with Gini coefficients of 0.45 and 0.47 respectively. Although Malaysia still has a very unequally distributed income compared with other ESCAP countries, it is probably the only country which has been successful in improving its income distribution significantly during the last two decades from 0.51 in 1970 to 0.45 in 1990.

Singapore, the Republic of Korea and China had more than half of their population living in urban areas in 1990. Papua New Guinea, Sri Lanka and Thailand were least urbanized, with an urban population smaller than one fourth of their total population. The growth of urban population was fastest in Papua New Guinea, the Republic of Korea and Thailand during 1965-1980, and in Malaysia, Thailand and Pakistan during 1981-1990. During both period China and Sri Lanka had the slowest rate of urbanization.

Table 5. Wealth and poverty

Country	<i>Income of poorest 40 per cent households as a share of total households</i>	<i>Population below poverty line 1980-1989</i>		<i>Gini coefficient</i>
	1980-1989	Total	Rural	1975-1988
Singapore	15.0	...	...	0.42
Republic of Korea	...	16	11	0.36
Malaysia	13.9	27	38	0.48
Thailand	...	30	34	0.47
China	...	...	10	...
Philippines	15.2	58	64	0.45
Sri Lanka	13.3	...	...	0.45
Papua New Guinea	...	65	75	...
Pakistan	19.0	30	29	0.36
India	20.4	48	51	0.42

Source: Human Development Report 1992.

In general, it could be said that there are few examples of success in reducing income inequalities. Those that have been successful, as in China, Malaysia, and the Republic of Korea, derived from direct intervention of the state in the economy, rather than indirect tax-subsidy arrangements.

Before reforms, China pursued economic equality as a first priority, sometimes at the expense of economic efficiency. The reforms were designed to change the incentive structure, and therefore to enlarge the income disparity in some respect. In other words, China was for some time deliberately widening the differential in income distribution in exchange for greater economic efficiency. As a result, income difference between the public and private sectors increased during the 1980s, as private businesses developed rapidly and the income of entrepreneurs in the private sector rose to two, and five times as high as in the public sector. The actual difference is, however, smaller, if benefits enjoyed by the state employees are taken into account: subsidized housing, pension programmes, free medical care, etc. While the income distribution has become more unequal between public and private workers, differentials in the public sector remained almost the same as before.

An important element of Chinese economic landscape was the strict segregation between rural and urban labour, enforced through a permanent residency registration system that restricts free movement of labour. The social inequality resulting from this policy has not changed along with other economic reform. Those born in the city as an urban resident will be endowed with the privileges of housing, and various other benefits. The only endowed right for rural people is that of using and sharing a piece of land in the home village. All rural labourers were in fact considered to be automatically employed by virtue of being born on their land, regardless of how many people had already crowded onto that piece of land.

Before 1978, the government usually assumed full responsibility for assigning jobs to everybody who could present an urban residence card. When no positions were available in the urban areas, the government would send the people to the rural areas. When the Cultural revolution ended, over five million people who had been sent to the countryside were allowed to return to the cities from where they came. This resulted in a higher unemployment rate in urban areas.

While the Chinese government wanted to keep the rural labour force in rural areas, people naturally tried to violate the restrictions. The higher income in urban industries encouraged people to leave for the cities. In 1990 the average income in urban areas was 2.2 times higher than in rural areas. Since the rural household contracts were introduced during the early reform period, they were free to leave. However, rural residents could not become permanent urban residents, even when they could find employment in the private industrial or commercial sector or in the informal sector. The number of these so called "floating people" has been increasing. They live in rather poor conditions and are not protected by any social security system. Their working conditions and wages are lower than those with a permanent urban residence, and they are unable to obtain food rationing, housing, etc. The whole system creates significant cost to rural people who attempt to get into the city. In case of unemployment, they were not counted as unemployed.

The only unemployment reflected in the official statistics has been urban official unemployment. Moreover, as it is rare for an employed person to be fired or dismissed from a job in the state sector or urban collective enterprises, the figure for urban unemployment refer mainly to those people waiting for their first job assignment. The high urban employment rate has been pursued at the expense of efficiency in the public sector, although the private sector has been absorbing an increasing amount of labour. The large urban-rural income disparity has been largely due to the government's policy of job-separation, which kept urban income high while preventing rural people from entering the cities to earn more money.

In addition to the employment separation policy, another important element has shaped China's special pattern of urbanization, and that is the development of township and village enterprises and private business in the rural areas. The employment in the rural industrial and commercial undertakings grew fast, and by the end of 1989 its share of the total rural labour force was 29 per cent. Still, disguised unemployment in rural areas runs high. According to a study conducted in 1989, one third of 333 million labourers working in the primary sector were identified as surplus labour. As a consequence of the fast growth of the non-traditional sector, the villages and towns prospered and grew even further. Hence industrialization in China has not led to the abandonment of a rural hinterland, instead, the rural areas have turned into urbanized industrialized areas.

China's gradual removal of price controls combined with the elimination of subsidies in many sectors exerted income effects. At the removal of each price control, the prices for the goods went up and approached market values. Each time, there was a certain amount of wage increase in the form of e.g. a direct food subsidy to consumers to compensate for the increase in the cost of living. The food subsidy was distributed to urban workers registered in the formal sector and was based on the average consumption of urban households. Families which participated less in the formal sector and/or had more dependants were worse off because of undercompensation. When staple food prices increased, the low income group and those engaged in hard labour were more adversely affected because of their higher dependence on staple food, while the high income groups were more hurt by the meat price increases. In addition, the retired were hurt more seriously, since they could not get as high compensation as the workers, who enjoyed various extra payments from their enterprises.

In the Philippines the Gini ratio declined only modestly, from 0.47 in 1965 to about 0.44 in 1988. The distribution of wealth and assets is even more skewed than the dispersion of income. Adjustment policies seem to have intensified the problem of uneven income, wealth and asset distribution. The impact on poor people was especially hard not only because their own inability to protect themselves, but also through such things as the uneven distribution of government services (health, education and housing); and the unfavourable labour market situation with falling productivity, increasing underemployment: the poor were the first ones to be laid off since they are usually the least schooled, least skilled and least productive. Adjustment programmes also led to higher inflation which had a more acute impact on the poor, partly because of an absence of wage indexation, and partly since the poor do not have access to inflation resistant assets. Adjustment policies also did not result in a shift from relatively regressive indirect taxes towards more progressive direct taxes. Finally, although a real devaluation of the exchange rate would have favoured the poor, the nominal

devaluation in the adjustment programme was not sufficient to bring about a real devaluation.

In Thailand, income distribution became more unequal during the recession. The Gini coefficient was 0.45 in 1980/81, rose to 0.50 during the trough of the recession in 1985/86 and improved somewhat to 0.48 in 1988/89. Poverty increased in the whole country in the mid-1980s, but particularly in rural areas, where the poverty incidence increased to 36 per cent in 1985/86 compared to 27 per cent in 1980/81. In urban areas, however, poverty declined slightly in 1985/86. One reason for the different poverty experience in rural and urban areas is the big share of temporary workers in the urban areas. When they lost their jobs, there were very little basic social welfare services in the cities that they could rely on. But they were still able to return to their land, family and village, and this migration brought down urban poverty. The high rural poverty was also partly caused by a slump in agricultural prices.

C. ETHNICITY AND CONFLICTS

Another dimension of inequality is its overlap with ethnic or other forms of political conflict. In this sense, the experiences of Malaysia and Sri Lanka offer contrasting pictures. Malaysia was successful both in reducing the level of income inequality and maintaining a relatively stable political order despite the existence of fundamental ethnic divisions. Sri Lanka, on the other hand, witnessed a persistence of poverty and inequality as well as increasing ethnic tension and the rise of political violence.

Unbalanced growth may cause socio-economic instability. For example, in Malaysia, growth in the 1960s was based on strong export sector of a few primary commodities. This caused socio-economic imbalances which were a major cause of Malay racial riots in 1969. After the riots the Malaysian government adopted the New Economic Policy (NEP), which extended over a period of 20 years (1970-1990). NEP emphasized growth with distribution and economic equality between races.

Malaysia has indeed been successful in implementing NEP: it experienced relatively high growth, and in addition, the government was successful in improving the relative position of the Malays. It was also successful in improving income distribution not only between racial groups, but also between urban and rural areas. Both factors have contributed to political stability in the country since the 1980s. The role of the government has been crucial to all these achievements.

Naturally Malaysia has had to endure social costs, but in general they have not been able to entirely undermine the positive aspects of restructuring. First,

the education system has been slow in adjusting to all the necessary changes. The preferential education policies might, to some extent, even have aggravated racial polarization in the sense that the quality of education in tertiary institutions may have been diluted. At the same time, competition between non-Malayan students became tougher. Both drawbacks have affected in particular the non-Malayan middle-class. Secondly, the fact that Malays have experienced more social and economic change than other groups have probably caused certain transitional costs to this specific ethnic group. For example, drug abuse and child abuse have increased especially much among the Malay people, probably as a side effect of faster urbanization.

Even at the time of independence in Sri Lanka there was no clear consensus among the Sinhala majority and the minorities about how the newly achieved democratic power was to be shared among them. Soon realizing that power sharing at the centre was not possible, the Tamil minority began to demand a federal system. The first outbreak of violence occurred in the mid-1950s when the government made Sinhala the only official language. Commencing from this point the conflict has escalated. Eventually the federal demand led to a demand for a separate state and protracted armed conflict which still continues. Successive governments have failed to manage the ethnic relations in the country which have erupted in a long lasting violent conflict hampering possible economic progress. The roots of the problem are partly in the failure to move into a system which provided for greater devolution of power.

Sri Lanka has also been fortunate in not having a high migration from rural to urban areas. Maybe one of the reasons for this is the slow structural change of the economy. The share of agriculture in GNP has declined only modestly from 28 per cent in 1965 to 26 per cent in 1989, while the share of the industrial sector increased from 21 to 27 per cent. Secondly, many policies and welfare measures were designed to keep the population in the countryside.

There are emerging forms of tensions in other countries as well. In India, there are persistent conflicts between Hindus and Muslims, and Hindus and Sikhs, expressed most potently in separatist movements in Kashmir and Punjab. In Pakistan, there is continuing conflict between the Sindhis and the Mohajirs in the southern province of Sindh. In Papua New Guinea, the rising unemployment in rural areas is reflected to some extent in the poor law and order situation in many rural areas, the continuing and rising urban drift, and the disorder caused by tribal disputes.

D. HEALTH AND NUTRITION

On health and nutrition, the ESCAP region has both successes and failures. Singapore, the Republic of Korea and Malaysia have a life expectancy rate above

70 years, while Papua New Guinea forms the tip of the tail with 55 years; it is closely followed by the other poorer countries. These are also the only countries in the group where the average life expectancy of women does not exceed the national average by more than two years, and where the share of women in the population is the lowest. Other indicators regarding health and nutrition are provided in table 6.

Exceptionally high life expectancy rates in low income Sri Lanka and China are especially noteworthy. They both have a life expectancy rate above 70 years, ranking immediately after Singapore, which is ranked number one. Sri Lanka has lengthy history of longevity with the second highest ranking life expectancy already thirty years ago. China, on the other hand, has been the fastest in catching up with other high life expectancy countries.

Often, there is high variation of life expectancy between regions. For example, in India the inter-state variation during 1981-1985 ranged from 49

Table 6. Health indicators

Country	Maternal mortality, per 100 000 live births	Infant mortality, per 1 000 live births		Under five mortality, per 1 000 live births				Low birth weight babies (per cent)	Daily calorie supply, percentage of requirement		
				Total	Total	Female	Male		1980-1988	1965	1988
Singapore	14	26	7	49	9	7	10	6	87	126	
Republic of Korea	80	62	17	120	30	17	24	9	96	121	
Malaysia	120	55	16	105	29	17	22	10	101	119	
Thailand	180	88	27	149	34	28	38	12	95	103	
China	130	90	29	203	42	29	40	9	86	111	
Philippines	250	72	41	134	69	45	57	18	82	99	
Sri Lanka	180	63	19	114	35	21	26	25	100	106	
Papua New Guinea	700	140	57	248	80	70	84	25	72	92	
Pakistan	600	149	103	276	158	151	145	25	76	92	
India	550	150	92	282	142	121	116	30	89	94	

Source: Human Development Report 1992.

years for women and 51 for men for Uttar Pradesh, and 72 and 65 years respectively for Kerala. Similar differences exist, for instance in Papua New Guinea, but the contrast is not as sharp.

Health statistics also reveal a significant gap between urban and rural areas. In India the infant mortality rate has been 113 in rural areas and 64 in urban areas in 1981-1985. Kerala is again outstanding with figures of only a third of the whole country (34 and 26) mostly due to improved health practice combined with a very high female education rate. Even excluding Kerala the inter-state variability of the infant mortality rate has been quite wide and the intra-state rural-urban differential was as high as 68 in Uttar Pradesh. Kerala has also recorded the highest rate of decline in infant mortality.

For the selected countries in the study, infant and maternal mortality is highest in Pakistan, India and Papua New Guinea, and lowest in Singapore, the Republic of Korea and Malaysia. These differences can be traced in part to supply factors such as the inadequate supply of calories per person, which is also reflected in the high share of malnourished and low weight children, and insufficient health care. The situation on the supply of health services is depicted in table 7.

Table 7. Health services

Country	Percentage of population with access to				Population per doctor		Nurses per doctor	Births attended by health personnel (per cent)	Oral rehydration therapy used
	Health services	Safe water		Sanitation					
		1987-1989	1975-1980	1988-1990	1988-1990	1965				1984
Singapore	100	...	...	...	1 900	1 410	...	100	...
Republic of Korea	94	66	79	99	2 680	1 160	2.0	89	...
Malaysia	...	...	...	...	6 200	1 930	1.9	82	20
Thailand	70	25	81	86	7 160	6 290	8.9	71	40
China	...	...	...	...	1 600	1 010	0.6	94	40
Philippines	...	...	...	91	...	6 570	2.4	57	25
Sri Lanka	93	19	60	50	5 820	5 520	4.3	94	58
Papua New Guinea	...	20	32	56	12 640	6 070	6.9	20	46
Pakistan	55	25	55	18	...	2 900	0.6	40	42
India	...	31	75	...	4 880	2 520	1.5	33	13

Source: *Human Development Report 1992*.

In looking for determinants for success in the health sector, a number of points are immediately apparent. First, safe drinking water is an easy and cheap method of subsidizing health care; second, the government allocation for health services is a crude indicator of health care in the country; third, the quality of management of the health services so provided varies from country to country, and may improve with experience; fourth, certainly the number of health care personnel cannot be increased overnight; fifth, structural adjustment programmes often produced adverse effects on health care; and finally, that intra-country variations may be just as illuminating as inter-country comparison.

Wealthy Singapore and the Republic of Korea can offer health services to almost their entire population. Singapore, the Republic of Korea and Thailand provide safe water as well as sanitation to more than three fourths of the population.

Lack of easy access to safe drinking water continues to be a major problem affecting the health and well-being of people in countries like Papua New Guinea, for example, where most people do not have access to safe drinking water. More than 60 per cent of the rural population obtained their water from natural unimproved sources such as streams or rivers in 1979. In 1985, only about 10 per cent of the rural population had access to reliable water supplies within easy reach of their homes. In much of the rest of the countryside drinking water was contaminated, and had to be fetched by village women over difficult terrain and long distances.

Sri Lanka has a good record of health services: the statistics shows an ability to offer health service to almost the entire population. During the last 15 years the supply of safe water has improved fundamentally in the country. Already in 1965 Sri Lanka, apart from Malaysia, was the only ESCAP country that did not have a calorie supply deficiency. Sri Lanka is also spending the biggest share of government expenditure on health: 2 per cent of GNP.

Figures on government expenditure on health, education and welfare are provided later on in this chapter. China has one of the best record of health indicators; its government expenditure on health as a percentage of GNP was around 1.3 per cent both in 1960 and 1987, an average figure in the ESCAP region. Papua New Guinea has the highest public spending on health (3 per cent) in 1987 (and also the second highest spending on education: 5 per cent). Inefficient allocation and utilization of financial resources in Papua New Guinea have probably been part of the obstacle to achieving considerable progress in health indicators. For instance, more than two fifths of the total government health expenditure during 1978-1986 was spent on hospitals, despite the fact that they benefit only a small proportion of the total population. Preventive health

care and rural primary health care have received less priority than curative health and urban health care.

In Sri Lanka, public health care consists of subsidized health care including hospitalization through public health facilities. Family and volunteer workers were trained in large numbers to assist in the public health clinics. Also non-governmental organizations have been playing a significant role in the supply of primary health care. An increasing share of private enterprises have been providing health services, while the public sector continues to service the relatively poor. This switch is happening partly because of the low quality of services provided by the public sector. Public health institutions have had problems related to the availability of medication and trained personnel.

In addition, in Sri Lanka there are programmes of supplementary provisions for mothers, infants and pre-school children, distress relief against calamity, drought, floods and earth slides, social security covering one fifth of the employed, and pension for all permanent public sector employees.

In India the health service infrastructure is in short supply and unevenly distributed. In general, the access to total hospitalization services and child and maternity care facilities is more inequitably distributed for the rural than for the urban population. The regional contrasts are sharp between the two extreme cases of Bihar and Uttar Pradesh on the one hand and Kerala on the other. Hospitalization facilities are also more equitably distributed in Kerala and inequitably distributed in Bihar. Yet, in terms of per capita public expenditure on health services, Kerala does not stand out from other states. It is the effectiveness of utilization of public funds as well as the high level of educated females and the family and community habits regarding sanitation, hygiene and health awareness in general that explain Kerala's success. In addition, Kerala is the only state where over 90 per cent of the rural population lives in large villages with 10,000 people or more, in contrast to the all-India situation, where only 5 per cent of the rural population live in large villages. This is important because it is much easier and more economical to set up, staff and run hospital facilities when population is concentrated in large settlements than when it is dispersed in small settlements.

In contrast to the situation in Kerala, Papua New Guinea has a low population density, a rough topography, and more than four fifths of the population living in rural areas. This makes it more difficult to provide health care services at their doorstep. Besides this, a number of other inequalities across socio-economic groups affect the health sector. Groups with higher education and income, and those employed in the formal sector (12 per cent of the labour force)

have much better access to improved health facilities. One of the reasons for the relative discrimination against the poor and needy is the growing political power of urban classes.

However, the central constraint in the area of health in Papua New Guinea pertains to personnel. It is one of the causes for underutilization of available physical infrastructure. Many aid-posts do not operate well because of lack of supervision or adequate support. An important aspect of this problem is that most health centres have only male nurses and almost all aid-post orderlies are men. Naturally, this discourages many rural women from using these facilities. As a result, only one fifth of all births were attended by health personnel in the 1980s.

The proportion of births attended by health care personnel is also low in India and Pakistan, while it is high in China, Singapore and Sri Lanka. Papua New Guinea, the Philippines, and Thailand had more than 6,000 people per doctor in 1984. China, the Republic of Korea and Singapore had a ratio of less than 1,400. In China and Pakistan there were only 0.6 nurses per doctor in 1984 while Thailand had 8.9.

In China, economic restructuring induced by the reform, caused serious costs in the form of loss of health insurance for rural people. The collective health care system was based on the financial resources of the collective economy and enforced by the local administration embodied in the commune. In most places, there are no longer any collective economy which will pay the health care bills of its members. The village clinics have mostly been contracted out to private doctors. The majority of rural households have to pay full costs for their medical care.

The discontinuation has contributed to the increase in the rural-urban disparity in health care conditions. While rural people have lost most of their health insurance, the urban public sector workers have continued to enjoy the government's provision of free medical care. The free health care system, on the other hand, has led to a waste of resources in the public sector. As the patient do not care how much the bill is, hospitals can overstate the illness and make the patient buy more medicines than needed.

In the Philippines too, as a result of the economic crisis and the adjustment programme, there was a clear deterioration of the health and nutrition indicators, particularly in the first half of the 1980s. The declining rate of infant and child mortality slowed down, and temporarily even increased. There was an increase in water-borne and communicable diseases, and in the prevalence of anaemia. The trend of climbing life expectancy slowed down. The country's nutritional

status was affected. The costs of medical and health care increased. The proportion of underweight and wasting preschoolers increased between 1982 and 1987. However, the proportion of underweight schoolers and stunted children continued to decline. The number of households not consuming enough calories increased. Both the quantity and quality of food intake fell. Also in Pakistan, adjustment policies worsened social indicators related to health: infant mortality increased and life expectancy decreased.

In general, in the Philippines, the social sectors were among the most heavily hit in the government's budget during the adjustment episodes. At the peak of the crisis, social services sustained the second heaviest budgetary cut of almost 30 per cent, next to defence whose allocation fell by 34 per cent. During 1983-1985, health, social security and labour welfare, housing and community development, and other social services were all vulnerable to the fiscal squeeze caused by the adjustment programme. Housing and health were the hardest hit sub-sectors, but education, social security and labour, and other social services had been falling for three continuous years. This development is especially alarming, considering that the Philippines is one of the countries with the lowest share of public expenditures both on education and health as a percentage of GNP.

Nevertheless, the cut in government expenditure had a relatively bigger impact on the high and middle income groups. The reason for this is the targeting of social spending. For example, the health service structure placed emphasis on urban-biased, hospital-biased, physician oriented curative medical care (58 per cent of government total resources) instead of promotive and preventive health service (33 per cent). Programmes in nutrition and other services to the disadvantaged are the most poverty-oriented public services, although their share of the budget is very small. Even certain remedial measures implemented by the government during the crisis failed to carry preferential treatment for the poor.

E. EDUCATION

Education is another area in which selected ESCAP countries have recorded enviable progress. Table 8 provides figures on indicators in the area of primary education for the 10 countries in our sample.

Adult literacy is over 90 per cent in the Philippines, the Republic of Korea, and Thailand in contrast to Pakistan, India, and Papua New Guinea with 35, 48, and 52 per cent respectively. While women are worse off than men in all countries the gap has narrowed over time, except in Papua New Guinea. Singapore ranks amazingly low on the list of both literacy rate and mean years of schooling.

Table 8. Education indicators: primary education

Country	Primary net enrolment (relevant age group enrolled as a percentage of relevant age group)		Primary gross enrolment (all age groups enrolled as a percentage of relevant age group)				Primary completion rate (per cent)	Primary pupil per teacher ratio		
	1975	1989	Total		Female			1988	1965	1989
			1965	1989	1965	1989				
Singapore	100	100	105	110	100	109	98	29	26	
Republic of Korea	99	100	101	108	99	109	99	62	36	
Malaysia	...	...	90	96	84	96	96	29	21
Thailand	...	...	78	86	74	...	59	35	18
China	...	100	89	135	...	128	80	30	22	
Philippines	95	99	113	111	111	110	70	31	33	
Sri Lanka	...	100	93	107	86	106	94	...	14	
Papua New Guinea	...	73	44	73	35	67	59	19	32	
Pakistan	...	...	40	38	20	27	57	42	41
India	...	...	74	98	57	82	...	42	61

Sources: *World Development Report 1992*; and *Human Development Report 1992*.

In fact, in the field of mean years of schooling Singapore is clearly outclassed by China, the Philippines, Sri Lanka, the Republic of Korea and Thailand.

India has the second lowest literacy rate after Pakistan. Here, the battle against illiteracy has been an organizational failure. In 40 years, literacy rates have increased only slightly from 27 per cent for males and 9 per cent for females to 54 and 40. Again Kerala represents a balanced structure of population according to educational achievements with much narrower male-female and rural-urban differences. As many as 86 per cent of urban males and 81 per cent of rural males were literate, while the numbers for females were 86 and 73 per cent respectively.

Thailand has the second highest literacy rate in the region. For many decades the government of Thailand has paid much attention on education allocating a high share of its budget for primary education. One important aim of the six years of compulsory elementary education was to spread the Thai language

and culture. The government also was eager to increase literacy so that people would be able to read the government announcements.

While the enrolment rate for elementary schools is close to 100 per cent in Thailand, the drop-out ratio is also high: at every grade the average drop-out rate during 1987/88 was 7.4 per cent. Primary enrolment was 100 per cent in China, Malaysia, the Republic of Korea, Singapore, and Sri Lanka in 1988/89. In Pakistan, Papua New Guinea and Thailand, less than two thirds of the students who enrolled in primary school completed it.

In Papua New Guinea, the 1980 Census data reveal that more than half of the population in the age group 12-25 years had not had any schooling at all. The primary school drop-out rate has even increased over the years: in 1976 it was 27 per cent, but in 1988 it was as high as 38 per cent (probably higher due to underestimation). Part of the problem may be financial: except in the case of one province, Simbu, primary education is not free in the country. However, even in Simbu the drop-out rate is 49 per cent – 30 per cent higher than the country's average – it is safe to assume that parents sending children to school are experiencing other more dominating problems than the financial constraint.

The bulk of primary schools in Papua New Guinea suffer from inadequate facilities. Lack of an adequate number of teachers has been a continuing problem, in particular in remote rural schools. In 1988 more than 40 per cent of the community schools had less than four teachers, and 19 per cent of all primary students attended such schools. Another 40 per cent of all primary students attended schools with four to six teachers.

In addition, in Papua New Guinea, as well as in most other countries, there are significant inequalities in access to education between provinces, between rural and urban areas and within the rural area. The differences between males and females continue to remain large. The female-male gap in education is wider for countries with low enrolment rates: the share of women privileged enough to get some education is smallest in Pakistan, followed by India and Papua New Guinea. At the primary level, the female-male gap has however narrowed slightly over the past 20 years.

In India, primary education facilities have expanded, but there is not much demand for the kind of education offered at that level. According to a survey conducted in 1986/87, non-availability of schooling facilities does not turn out to be an important reason for not enrolling in school.

In China, a nine-year compulsory education system was introduced in 1986 to replace the previous six-year system. However, the quality of rural education

remains a problem. Rural primary and secondary schools have faced two major problems: the low quality of the facilities and the low level of qualification of teachers. Many rural schools are short of classrooms and many classrooms in use are in poor condition. Other teaching facilities are far from sufficient. The student-teacher ratio is 20 in an average urban primary school while it is 34 students in a rural primary school.

One major problem with teachers at various levels is their economic condition. In China, the average salary of a teacher is lower than the average salary for the public sector worker and much lower than for a private vendor. In the Republic of Korea, on the other hand, the average salary in the public sector for school teachers (elementary, middle and high school) was 27 per cent higher than the average salary for civil servants in 1992. In China the economically unattractive position of a teaching career does not motivate talented young people to go into teaching, when even qualified teachers have left the profession to go into a higher income profession. Many teachers working in rural primary schools have no professional training. They receive a rather low salary and many of them have to engage in farming to support their families, or they might opt to transfer to other more profitable occupations, leading to a further deterioration of the quality of instruction.

In Sri Lanka, universal free education had been established before independence. Today the public sector provides free tertiary education to qualified persons, free text books, a free midday meal, and subsidized travel for school children. Even in Sri Lanka the low quality of public education and regional disparities, remain an unresolved problem. Government schools in most rural areas do not have enough resources for teaching science. Laboratories are poorly equipped or non-existent in many schools. There has been continuous difficulties in the recruitment and training of an adequate number of science teachers. However, scholarship are provided for the best rural students to central schools with better facilities.

In 1988/89 Thailand's secondary enrolment ratio (28 per cent) was even worse than India's 43 per cent. Papua New Guinea has the lowest ratio (13 per cent), while the Republic of Korea, Sri Lanka and the Philippines have a ratio above 70 per cent. In Thailand, secondary education is comparatively weaker than primary education partly because it is neither free nor compulsory. Also the lack of sufficient facilities, particularly in rural areas, leaves large parts of the population without an entry chance. On the other hand, it is also possible that people do not press for post-primary education because they do not consider it income-increasing, which is to some extent true in the vast agricultural sector, which employed 70 per cent of the labour force in 1986-1989. Yet, the fact

remains that most rural people do not have a choice. The low level of education after primary schooling has become a constraint to industrialization. The government's strategy has been to switch towards service-led growth and thereby delay the decision to improve the level of higher education.

Enrolment in primary and secondary schools is as high as 97 per cent in the Republic of Korea and the Philippines, closely followed by Sri Lanka, Singapore and China, which have a ratio of at least 85 per cent. At the other extreme is Pakistan, where only 29 per cent is enrolled in primary and secondary schools, and this share has remained more or less constant during the last two decades. In Papua New Guinea, Pakistan and India, people above 25 years had an average of less than 2.5 years of schooling. The Republic of Korea has the highest average mean year of schooling: 8.8 years. The Philippines and Sri Lanka rank second and third in the statistics of mean year of schooling (more than five years).

In the Philippines, the adjustment programme has harmed education. Public school participation at the elementary level fell and the drop-out rate increased from 1982/83 to 1983/84. There was no compensating increase in private school enrolment. The cohort survival rate, the main indicator of the capability of the system to keep children in school, diminished in 1987. Even the adult literacy rate dropped from 89 per cent in 1980 to 86 per cent in 1985. In Pakistan also, adjustment policies worsened education indicators in the 1980s and total primary enrolment dropped. The erosion of education not only reduced the individual's real capability to earn income, but it also reinforced other negative effects such as the increase in the amount of street children, crime, juvenile delinquency, drug abuse, prostitution and other social ills.

Papua New Guinea, Malaysia, the Republic of Korea and Singapore spend most on education in terms of public expenditure as a share of GNP in 1989. In 1960, Sri Lanka, Malaysia, Singapore and Papua New Guinea had the largest share of public education expenditure. Public spending on primary education facilities suffered from the same kind of allocation bias as in health. Allocation of government expenditure has become increasingly more biased towards tertiary education partly at the expense of primary education. In this sense, the education system seems to discriminate more against those who are already disadvantaged and favours those who are privileged. The share of public expenditure on higher education was more than 15 per cent in China, India, Pakistan, the Philippines, and Singapore.

Statistics on higher education are given in table 9. In China, under the present system, all graduates from higher learning institutions are assigned a job in the public sector, unless they themselves choose another alternative. Hence, if

Table 9. Education indicators: higher education

Country	Secondary and tertiary gross enrolment (all age groups enrolled as a percentage of relevant age group)							Tertiary science enrol- ment ratio, percentage of tertiary	Third level students abroad, percentage of those home
	Secondary gross enrolment				Tertiary gross enrolment				
	Total		Female		Total	Female			
	1965	1989	1965	1989	1965	1989	1989			1987- 1988	1987- 1988
Singapore	45	69	41	71	10	8	6	29	25.3
Republic of Korea	35	86	25	84	6	39	26	31	1.9
Malaysia	28	59	22	59	2	7	6	34	38.1
Thailand	14	28	11	...	2	16	...	25	0.9
China	24	44	...	38	-	2	1	18	3.2
Philippines	41	73	40	75	19	28	...	...	0.3
Sri Lanka	35	74	35	76	2	4	4	37	5.6
Papua New Guinea	4	13	2	10	...	2	1	11	5.7
Pakistan	12	20	5	12	2	5	3	...	9.0
India	27	43	13	31	5	6	4	32	0.5

Sources: *World Development Report 1992*; and *Human Development Report 1992*.

they can gain admission to the university, employment is guaranteed. Secondly, non-academic jobs have become more lucrative. Both factors affect the motivation of the students.

At the secondary and higher levels in India, there has been an increase of institutions and even greater expansion of enrolment. Since institutional facilities have not been expanding at the same rate as demand, it has given rise to overcrowding in the existing institutions and the establishment of new institutions on commercial basis. The net result has been a deterioration in the quality of education.

In the labour market in India, the excess supply of higher educated persons has increased the pressure to absorb the growing educated labour force into the public sector, since the labour absorption of the industrial sector has been very

small. This has caused overmanning in the public sector and increased demand for even higher education as a means to improve the chances of getting a white-collar job. Labour legislation has contributed to a salary above the market clearing level, exacerbating the possibilities for labour absorption, further raising the demand for educational services, and creating a mismatch between the required education and actual supply of educated labour.

In Sri Lanka there is a mismatch between the type of higher education demanded and supplied on the labour market. The economy has not been generating adequate employment to absorb the large number of school-leavers with progressively higher level of education and correspondingly higher job expectations. This imbalance was partly the reason for the youth unrest and the socio-political upheavals in 1971 and 1987-1989.

Also in China, there are mismatch problems at the higher education level: on the one hand, there are too many university graduates but few specialized college graduates, while on the other, there are too many majoring in scholarly studies (like literature and history) for which demand was limited. At the middle school level, the main problem is a shortage of vocational schools or specialized secondary schools.

F. ENVIRONMENT AND QUALITY OF LIFE

In China, the deterioration of the natural environment has been a major loss in the past decade. The forest area shrank continuously, prairie area has degenerated, the fertility of cultivated land has diminished and soil erosion accounts for one fifth of the world's total soil erosion. Environmental pollution has been enormous.

As a result of environmental policies adopted during the 1970s and the 1980s, environmental deterioration in some areas has been brought under control. Afforestation has been speeded up. During the 1980s the volume of waste water, industrial dust and residue discharge decreased and the ratio of treatment of industrial waste water and the reutilization ratio of industrial waste residues increased. The green area in cities expanded.

However, most of these improvements were achieved at a time when central decision-making still dominated the domain of environment. China still has to develop social control mechanisms which would prevent local authorities and enterprises from pursuing their interests at the expense of the environment.

In Papua New Guinea, environmental protection is one of the national goals, but it has been accorded low priority in development strategies. Mining as

well as forest projects in different parts of the country have had considerable adverse effects on the environment. Logging practices adopted by a large number of companies have been seriously questioned by both local and foreign institutions. In response to some of these criticisms, the government has prepared a plan to reduce the adverse effects of forest utilization. However, the environmental damage done by logging companies represents one of the most serious social costs of economic restructuring.

In Thailand the general living environment has declined steadily due to increased pollution. The government has not been able to control the exploitation of forest resources. Forest reserves have declined rapidly contributing to landslides.

G. INFRASTRUCTURE

The Indian economy has retained its predominantly agrarian character, and the industrial structure has been such that its ability to absorb labour has been limited. Limited land resources combined with a growing population has given rise to the urban informal sector engaged in low-productivity, unorganized and mostly unskilled tertiary activities.

Due to the strategy of import substitution the technological capability that has been established in the industrial sector has been driven more by the necessity of devising production processes irrespective of costs than by product innovation directed toward improving quality or cutting down costs. Despite relaxation of the regulations that started in the 1970s and accelerated in the mid-1980s the industrial structure continues to be high-cost low-quality and internationally non-competitive.

China is currently implementing reforms in the housing sector, and increasing housing rents are likely to affect those who are able to get more housing space than others. Although the average housing space per urban resident has reached more than eight square metres in 1988, one fourth of the urban population live in a space of less than four square metres. Only those who can get large rooms can enjoy government housing subsidies but those who live in poor conditions actually receive no benefits from the government. The group with better living conditions is likely to have to pay for relatively more for their extra living space.

The Sri Lankan government has participated actively in the development of infrastructure, including housing. Several housing programmes contributed to an improvement in living conditions both in the form of direct construction and by providing small credit packages to households to upgrade housing.

IV. GOVERNANCE AND INSTITUTIONS

What emerges from the above discussion is that the ability to pursue both social and economic goals does depend critically upon the managerial ability of the state. This ability in turn depends upon a number of factors that are themselves susceptible to policy. First, size matters; for example, if Singapore decides to provide housing for its entire population, it has to construct half a million houses, while India would have to construct two to three million houses simply to cater to the increase in population every year. Second, and following from the first, decentralization matters, because it can reduce the size of each decision; thus, China was able to target its poverty alleviation policies effectively because it made the individual village or commune the key decision maker. Third, participation matters, both because it improves the monitoring of service agencies, and because it induces a shift from the monitoring of inputs (preferred by service providers) to a monitoring of outputs (which makes sense to users). Fourth, information matters, especially the consonance of information and decision; again, Singapore can target policies to needy groups because decision makers have the detailed information to discriminate between the needy and the not so needy. Fifth, the integrity and efficiency of the public officials matters, and therefore so does their salary and other remuneration.

It is possible to represent these diverse ideas in one word, governance. It refers to both the nature and quality of government in the country, and the strength of institutions of collective decision-making in the civil society. In other words, governance is focused not on the government, but on the ability and motivation of whoever is in the best position to act on behalf of a collectivity. For a variety of reasons, however, it is easiest to discuss the effectiveness of the government as an institution of collective decision-making, both to ask whether it has the capacity and the incentive to act in the public interest, and to examine whether it can solicit the cooperation of other segments in society.

To start with, we can ask what factors determine the effectiveness of the machinery of a government.

A. SCALE

The size of the unit to be managed is of importance. Singapore, for example, has a population of only three million, a factor that is likely of favour the governability of the country. Singapore was able to provide public housing for virtually its entire population of 3 million. Similarly, the government of the Republic of Korea provided approximately 700,000 houses to its population over more than two decades. The interesting feature of this comparison is that the total number of housing units thus provided in the two countries are of the same order

of magnitude. It could be argued that a single organization could well supervise the construction of about 35,000 housing units every year, but perhaps not 350,000 units, and certainly not 3.5 million units every year.

Populous countries, however, can always be divided into smaller units in order to render each individual unit more manageable. Even so, the relative size of the management unit itself matters. A very heavy bureaucracy, like the ones in India and the Philippines, have to suffer from inefficiency, overlaps and duplication of activities.

Spatial factors also affects the possibilities to implement policies and other decisions. Papua New Guinea has the lowest population density of the region (8.2 persons per square kilometre). The small population is geographically fragmented and in many areas population density is much lower than the average. This is further aggravated by the rugged terrain, particularly in the highland areas (which probably explains the underdevelopment of this area compared to the others). All these reasons, also including the extraordinarily diverse cultures and 700 different languages or dialects, make provision of public services and other development efforts difficult.

Another example is Kerala, the state in India with the highest human development indicators in the country. An important feature of Kerala is its spatial distribution of population. Kerala is the only state where over 90 per cent of the rural population lives in large villages with more than 10,000 inhabitants. The concentration of population in large settlements makes it much easier and more economical to set up, staff and run public service units like hospitals.

B. INFORMATION

A third issue of scale pertains to the nature of information available to decision makers. As mentioned earlier, it is possible to target programmes effectively if the decision maker possesses the detailed knowledge required for proper targeting. Often, however, while the required kind of knowledge is available in the public domain, it is so only at certain levels of decision-making. For example, while officials of a local government may have detailed knowledge about the existence of poverty in their midst, the decision to target anti-poverty programmes may be in the hands of provincial or national governments. This means that either the decision maker would have to be equipped with the appropriate kind of information in a manner that he or she can use, or that the official who already has the requisite knowledge should be empowered and given incentives to administer the programme.

The absence of information and data on specific sectors makes regular monitoring of progress difficult. Sometimes there is not even information and data available on specific sectors. In the Philippines there are no regular data available on the distribution of land, wealth and assets in the country. In India, which has a stronger database, information is often available on the basis of sample surveys when what is needed for policy purpose are general censuses. Lack of data not only makes it difficult to judge the changes that occur within a certain time span, it also makes the targeting of specific social intervention programmes almost impossible.

Another problem is that of data hoarding. This happens because information, like other valuable commodities, can be used for personal benefit. Government officials often have better access to certain information and networks, which they are able to use for personal advantage. In Sri Lanka, for example, officials in the ministry of education are well positioned to obtain information about opportunities and scholarships, which is extremely valuable in a context where higher education is a bottleneck. This creates incentives for public officials to hoard information for personal use, and for outsiders to cultivate officials in important positions.

Another dimension of hoarding is professionalization. In Papua New Guinea, for example, solutions to problems are often professionalized in order to keep information from people and to enable those in power to retain their power. The doctor who knows the cure for the disease definitely has more power than the lay person. There seems to be an increasing tendency in many societies to confiscate information by specialists, bureaucrats and other people with power. This often means that common people are deprived of sometimes even very simple information.

There is a need for the decentralization of information, not only because it would mean decentralization of power, but also because there are high costs involved with centralized information. To give an example, if practical knowledge of preventive health care, which is generally not very expensive, could be transferred to the poor communities, the financial burden of health care would decline considerably. In 1987-1989, Sri Lanka had the highest rate of use of an inexpensive therapy, the oral rehydration therapy, presumably because this information is more decentralized in Sri Lanka than elsewhere. Major health indicators, such as the infant mortality rate, show strong correlation with the information level of households and with education in general. The experience of Kerala in India indicates that health habits, health awareness and female education can contribute significantly to the improvement of health indicators.

A third dimension of information pertains to the problems themselves. Often the élite in power are isolated from the reality faced by the non-élite. In

theory, the voice of ordinary Chinese people can get transmitted to those in power through the Congress and the People's Consultative Conference, through the mass media, or by hoping that one of the "reporters" would make the leadership aware of them. However, this happens only if the complaint is serious enough. In practice, the person in the street is not likely to be heard, and thus not encouraged to express his or her views.

The lack of information is one of the main barriers isolating decision makers from societal problems. The information base is weak, inaccurate, and often centralized. Information tends to be centralized not only in the sense that decision makers at local levels have less information as a support for their decisions, but also, information comes in a very aggregate form, which thus fails to guide local decisions. For example in the Philippines and also elsewhere in the region, there are no disaggregated data from the provincial level downwards on family income and income distribution; while there are disaggregated data on infant mortality they are widely believed to be grossly understated.

Be that as it may, this raises two interesting questions. First, what would it take to generate the appropriate kind of information; and second, why the larger countries do not set up smaller units of decision-making?

C. CENTRALIZATION AND DECENTRALIZATION

Most Asian countries are governed both from an administrative centre in the country, the national government, and from regional or provincial states. In no country is there a sense that the nation is composed of independent federating units; on the contrary the individual units derive their powers from the centre. This is partly the result of colonial rule, which led to the creation of national entities before (or without) a clear notion of the rights of sub-national entities. Another aspect of the domination of the centre over subordinate units is through the use of financial controls. In most cases, such as India and Pakistan, the governmental revenues of subordinate units consist of grants from higher levels of government. Until very recently in the Philippines, local governments were expected to participate in the collection of taxes, but simultaneously, the national government had the sole prerogative of allocating resources. The Chinese example, where revenues are collected by local governments and a fixed amount ceded to the national government, seems to be an exception.

As a result of all this, decision-making powers are heavily concentrated in the dominating centres at the expense of state or local governments. This is the case with Malaysia, for example. In India there is a centralized system of collective decision-making, in which the centre had traditionally been given or assuming wide-ranging powers in several spheres including revenue collection so

that it has been in a stronger position *vis-à-vis* the states. In the 1950s the development of self-governing institutions was on the agenda in India, but it did not lead to any tangible results. Again in the 1980s efforts were made to construct a uniform three-tier institutional structure from the local village to the block (a group of about 100 contiguous villages) and further up to the district (a group of blocks). This move towards decentralization did not succeed partly because at that time many provincial governments were from parties opposing the ruling party in power in the centre.

While the extent of centralization has been gradually breaking down in India, making it possible for different states to pursue somewhat different development strategies, most states have not exercised their autonomy, choosing to implement programmes initiated by the centre. Thus, Haryana and Punjab have followed a growth-oriented policy based on agriculture, Kerala has emphasized investment in education and health, West Bengal has managed to bring about rural mobilization, and Karnataka has launched democratic decentralization. However, the capacity to raise revenues and freedom to tailor available financial allocations to their needs have been extremely limited in all states.

While decision-making in China is still highly centralized, there are important differences from the Indian case. In particular, local governments have received more financial autonomy during the reform period and their economic power has increased to some extent. After the remittance of a certain amount of budget revenue to the State Treasury, the provincial governments can make decisions on their own on issues like the local economic development plan, government expenditures, and social welfare. An interesting power that the local authorities do have is that they can block imports from other regions. This can be implemented in order to protect the regional economy.

It is clear that the balance of power between the centre and the local governments is a matter of continuous negotiation and redefinition. There are regulations that give wide-ranging powers to the central government. For example, the provincial governments in China need the government's approval on investments above RMB 30 million yuan. More importantly, central authorities have the power, which they have not hesitated in exercising, to overrule local government decisions in fiscal matters, such as the decision to order local officials, during the retrenchment period in the late 1980s, to put a stop to investment projects already under construction. On the other hand, if the majority of the regions in China are against a certain policy imposed by the central government, it may not be adopted. This occurred in the late 1980s when all the regional governments opposed the centre's attempt to increase its budget

share. A possible synthesis of this struggle is the emergence of a coordinating rather than a dominating role for the national centre. Sometimes the central government has to act as a mediator between the differing interest of the regional states.

In many countries the trend is towards the dilution of power from the centre to the local governments. So it is also in Sri Lanka where some administrative power has been transferred to the provincial councils. Sri Lanka has a long tradition of democratically elected local government bodies from the village level upwards operating since the third quarter of the nineteenth century.

Since Papua New Guinea gained self-government status in 1973, one of its most important goals has been "decentralization of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade, and more spending channelled to local and area bodies". After independence in 1975 the government kept its promise and decentralized the responsibility for delivery of many social services including health and education to the 19 provincial governments so that today, services affecting the bulk of the population are under the provincial government. However, whether this kind of decentralization has led to a greater participation of people as opposed to provincial bureaucrats is highly doubtful. The fact that the country claims to follow a policy based on decentralization, does not mean that it actually has been able to delegate power closer to those affected by the decisions. Nevertheless, it has certainly allowed provincial level politicians to play a much more active role in their respective provinces.

In the Philippines, both planning and implementation of social development programmes are still very much directed centrally. In spite of some efforts at decentralization in the past, regional officials have continued to serve more as extensions of the national government.

In Thailand, the military has been a dominating force in decision-making for most of this century. Over the years, business has gradually managed to push its way into decision-making. Under the influence of the military, the system of power has been oriented towards heavy control and decisions have been made within a system of top-down management, which has reinforced the system of strong central control. The people in power have paid much attention to policies and measures aimed to suppress attempts by grass-root organizations to acquire a role in economic and social decision-making, and to obstruct any direct political participation at the levels of the villages and workers' organizations.

Parallel with the modern system of decision-making, Papua New Guinea also has an interesting traditional way of deciding about collective matters at the

local level. Approximately 95 per cent of the country's land area is held under a complex system of customary land tenure which restricts free access to land for people outside clans. The tenure system has prevented the emergence of a landless agricultural labour class and share tenancy, although it also imposes constraints on mobilizing land for economic purposes quickly, and at times leads to serious conflict within clans regarding right of usage. Nevertheless, the system seems to have the capacity to accommodate moderate demand pressures for land without serious friction.

The examination of the selected economies shows that their overall political arrangements are centralized in character, but there is a strong gravitational pull towards decentralization. This gravitational pull is supported by the change in intellectual climate favouring smaller governments as well as the demands for greater democratization of the polity. The pull is being resisted by central governments on a number of grounds.

It appears that the major obstacle to decentralization may be an intellectual one, namely the absence of the clear theory that can both define the appropriate combination of centralized and decentralized authority, and also suggest steps in the process of bringing about the desired outcome.

The beginnings of such a theory can be stated very simply. The problem of excessive centralization is that it creates what has been called the "de-responsibilization" of the polity. This refers to a situation where the decision makers, whether in the government or outside, and whether at the national, provincial or local level, see their task not as the performance of a public function, but rather as the manipulation of some tier of the government. This means, for example, that the functionaries of a provincial government feel that they can benefit the province the most by obtaining the maximum concessions or the maximum resources for it from the central government. In this case, they would have very little incentive to focus their attention on the resolution of the problems facing the province. The same logic could be applied to the residents of a community, who if they feel that the performance of all civic functions is the responsibility of a distant government, would spend their entire energies in petitioning the distant government rather than seeking to redress the problem. Indeed, this could also apply to national government. If it is felt that the maximum benefits for the country can be obtained through increased foreign resource inflows, clearly the policies of a country would become hostage to the whims of foreign agencies.

The resolution of this problem lies not only in designating increasing tiers of government, but in trying to create conditions whereby these tiers would

become responsible for the areas in which they operate. This would require first and foremost that the different tiers be treated as governments; in other words, that they would have a measure of sovereignty that would be inviolate, and that the foundation of their rights or any changes therein be based only their consent. Finally, it requires that they have sovereignty in terms of revenue collection. All these are in the nature of constitutional changes, rather than mere regulatory or legislative enactments.

In addition to this, as is being recognized increasingly, the decentralization of political authority must be accompanied by the extension of commensurate powers to the judiciary. If this is not done, "the state must fall into anarchy or despotism"

Finally, the exercise of power requires the availability of information. Decentralization reduces the information demands at a central level, but increases them at a decentralized level. For example, countries would have to begin collecting economic and social information at disaggregated levels. It also means that data that are needed for the monitoring role of national agencies would have to be collected more carefully.

D. PARTICIPATION AND ACCOUNTABILITY

Both the centralized and the decentralized structure of decision-making have their limitations. One flaw of the centralized system is that the limited economic power at provincial levels affects the credibility of the local government in the eyes of the local population, since the people do not believe that the local decision makers have enough influence to solve their problems. If people in local institutions want to change things, they have to turn to the seat of power in the state capital. This leads to lukewarm participation even though there may be institutions formally functioning.

In addition to the power struggle at the regional level, there is a constant battle for power at functional levels, and frequently the two go together. It is arm-twisting not only between the politicians in power and the bureaucrat, but also between technocrats of diverse standing.

For instance, a basic weakness in the "decentralized" structure of decision-making in Papua New Guinea is a strong vertical top-down management practice (also prevailing in the centre-province link). The poor coordination between the national health department and the provincial health division combined with the lack of community participation in planning and delivering services have clearly harmed the quality of services provided.

In Papua New Guinea, as in many other countries (the Philippines, India) the bureaucrats have made few efforts to identify health development needs from the point of view of the target groups. Moreover, even when they are capable of identifying the needy correctly, the programmes do not necessarily reach them. Under the prevailing top-down hierarchy of institutional organization, programmes begin at the initiative of the technocrats and are implemented with accountability to the distant authority at the top, without feedback either from the grass roots or from programmes at the same horizontal level.

When it comes to education, for example, a common problem faced by the establishment in charge is a lack of understanding of the way the potential users of their services think. The officials in the institution do not understand what motivates people to choose education, and what might be the real barriers hindering education. The government may build schools and equip them with all facilities, but anyhow fail to reach a high enrolment rate perhaps because people are not convinced about the necessity of education.

A major problem with decision-making has also been the lack of community involvement on a sustainable basis. Institutions encouraging participatory and representative approaches are lacking in the decision-making processes. Often there is not even an effort made to get communities involved in neither addressing their needs nor participate in planning and decision-making. The existing institutional structure and its operation heavily depends upon governmental and bureaucratic support and very little on participatory mechanisms.

In Papua New Guinea, as in many developing countries, there is a popular belief that education is the sole responsibility of the state; this may well be part of the reason for the lack in community involvement. On the other hand, public officials do not make enough of an effort to find innovative approaches for involving the beneficiaries in the pursuit of educational development. This is particularly true when it comes to improvement of adult literacy and non-formal education.

Another area where the importance of involving people is self evident is in environmental protection and conservation. Conservation is one of the major goals of development in Papua New Guinea, and is becoming so in virtually all other countries. Yet, the environmental damage caused, say by forestry activities, has been substantial and the bureaucratic institutional and numerous legislative provisions have been largely ineffective in dealing with the problem.

Given the physical and institutional constraints in this area, it is very difficult if not impossible to implement an effective system of monitoring and

supervision of environmental protection without a high component of community participation. The present mechanism leave very little room for such participation, neither in the sector of environment nor in health or setting goals – which do not *per se* require any real commitment by those in power – but extend more importantly to the translation of goals into deeds with real effects.

In Papua New Guinea there also seems to be a deliberate delinking of health planning from other government sectors, especially from economic planning. Behind this kind of thinking seems to be the desire isolate economic decisions from the influence of other sectors. Economic growth is often a high-priority goal, and other sectors in the society are not supposed to compete with it. The dominance of economic policies over e.g. social policies often leads to unsustainable and fragile decisions in the social sector.

In Papua New Guinea the “decentralized” system of education is also unable to provide adequate skills to educational planners and policy makers on a sustainable basis. It is not even able to provide an adequate number of qualified and trained personnel to the schools. The educational facilities hence suffer from worsening quality caused not only by physical contraction and, but also by a decrease in utilization rate of educational facilities.

E. CONFLICTS AND POWER

A common phenomena in power domination is the conflict between the national élite and certain vulnerable groups. The power of the élite derives from wealth, education and/or gender, while the vulnerable are so because of their poverty, lack of education and/or female gender. This kind of power bias affects decision-making.

For example, in the Philippines the lack of political power of the poor is evidenced in the failure to introduce programmes of poverty alleviation. Similarly, Pakistan, which has the smallest proportion of women in the parliament, would be less likely than other countries to take the concerns of women into consideration while making decisions affecting their well-being.

Power and responsibility is also shared between the public sector and the private sector and between other institutions, e.g. non-governmental organizations. In Singapore 70 per cent of the primary health care is provided by the private sector. The government has also gradually tried to encourage individuals to bear a greater burden of the financial responsibility related to health.

The Malaysian government has for a long time, emphasized the public sector's role in the development of the country. Since 1986 the Malaysian

government started to reduce the role of the government in the economy by emphasizing privatization, deregulation, liberalization and foreign and local investment. This is likely to transfer some of the economic power from the government to the private sector.

In China, since everything has been under the control of the government, the development of social services has been heavily dependent on the government. In recent years the government started to involve enterprises and households in contributing financially to social development. These new arrangements are still far from being institutionalized.

In Sri Lanka, the administrative system has undergone two drastically opposite changes during the past two decades. During the first period from 1970 to 1977, the politicians in power tried to wrest control over the economy for the public sector, and during the second period after 1977, the government was making an effort to provide more space for the private sector.

In Papua New Guinea, social development functions are carried out in different areas by institutions under government control, as well as non-governmental organizations. The participation of profit-oriented institutions is not very significant in the social sector in the country. In rural Papua New Guinea, and in particular among many isolated communities, churches of different denominations have played a supportive role both in health and education. Since 1972, several steps have been taken to integrate and rationalize church services with those of the government. By supporting the church network of health facilities and training, the government was able to improve the outreach of the overall programmes, and to create an important link with the isolated communities. However, as the ties between the church and the government became stronger, it looks like the church has become increasingly dependent on the government for funds. One cost of this development is that the church health system has become increasingly bureaucratic. The economic dependency also makes the churches more vulnerable to the negative effects of the government expenditure reduction associated with structural adjustment programmes.

There are other sectors in which the strife for power can cause conflict in decision-making institutions. Ethnic, cultural or religious groups may be fighting over the right to govern. In many countries there is a constant battle over power between different parties. In others, only one party is allowed. In some political systems, a certain number of impersonal parties act as a core force. In other societies power tends to get very personified, which makes the decision-making process dependent on certain individuals and on their virtues and vices.

Malaysia is an interesting example of a society that has been able to deal with the conflicting interests of different ethnic groups. The decision-making system is actually very centralized, but in the centre itself, groups from different walks of life are participating in decision-making. Hence there is no strong economic, ethnic or religious élite that is in a position to dominate others. One important reason for this is the conscious effort of fostering of "political stability" in Malaysia. This strive for political stability would probably not have been successful without a certain extent of social control, which of course has its negative side. However, it seems likely that people have more or less accepted this kind of social control, since the system has been functioning smoothly. Probably one of the most important factors contributing to the people's acceptance of social control is the multi-ethnic system of power sharing. The sharing of power between diverse groups with often conflicting interests has given various groups the feeling of importance and simultaneously the concrete opportunity to participate directly in decision-making. Partly because of this multi-interest-group power sharing structure, the masses at the grass-roots level feel that their interests are being looked after.

Another important factor in the Malaysian system of governance is the trust that people have on those in power. People in power have generally acted responsibly. They have not heavily misused their position, for example, by oppressing others or by pursuing too selfish goals. Instead, they have tried to make good decisions acceptable to all groups.

It takes a long time to build up this kind of trust in society. For societies with a long tradition of conflicting groups hurting one another, it is very difficult to suddenly wipe out all fears of oppression and to create a belief that the decision-making process will become impartial and just. It takes only a few disappointments to reverse an otherwise positive experience. In many countries, there seems to be this kind of psychological barrier to an effective decentralization of decision-making. The relatively rich and educated people may naturally be greedy for power and consider themselves superior to the man in the street. But there also appear to be a fear that people are not mature enough to handle more power peacefully. It is true that power-sharing is often not without conflicts. However, maturity to make good and responsible decisions can only come through experience.

One commonly used excuse by those in power is the argument of ignorant masses: the man on the street is incompetent, undereducated or in other ways incapable to make the "right" decisions. In India the centralized and discriminating system of power was justified with the argument that private initiative and market forces could not be relied upon due to underdevelopment of the markets (poor and unequally distributed infrastructure, insufficient

monetization and financial institutions, underdevelopment of markets and the passivity of entrepreneurs and investors). This provided the basis for wide-ranging state intervention with comprehensive centralized economic planning as an instrument. For example, the direct licensing control regime requiring case by case examination by bureaucracy was consistent with the distrust of the market forces.

In China, power is concentrated in a single party, and in the hands of a small group of people. In this respect the difference between the old centralized communist system and the new decentralized socialist system is small. The Communist Party continues to be the main ruling force. In addition, the most important strategic decisions are still made within the Party, where the "core" leadership consisting of senior party members is the most influential. Under this kind of a political system the quality of the decision-making depends directly on the abilities and cohesion of the top leadership. The Congress only approves the decisions, which are then implemented by the State Council. The State Council is also responsible for the daily routine decisions and, in addition, prepares drafts of laws and regulations for the approval of the Party and the Congress.

In Thailand the powerful élites have been able to carefully orchestrate the political system in such a way that only the conservative élites of the military and high bureaucracy has had the opportunity to participate in decision-making. Technocrats have been instrumental in policy planning. Social policies have more or less been imposed upon people with very little regard for their true needs and with almost no effort to involve their participation in either the development or implementation of policy. This is not to say that there has not been grass-root movements trying to pressure the government. For instance, workers were pressing for 36 years for a Social Security Bill. In 1990, during a brief period of the reign of a democratically elected government, the Bill was passed.

F. THE QUALITY OF GOVERNANCE

The quality of decisions depends on several external factors and in addition, on the incentives influencing the individuals involved in the decision-making process. Among the external factors are laws and regulations, customs and people's expectations. Another important external force is information, which is also part of the incentive system.

Part of the incentive system has its roots in the decision makers. Personal resources affecting the quality of decisions are, for example, knowledge and education, values and prejudices, and a person's ambition in life. Values, knowledge and aspirations are the result of years and decenniums spent in the grinding-machine of life.

Another part of the incentive system is the incentives of the system. These incentives include, for example, material incentives like financial compensations, non-material incentives like other peoples respect, the information available, the mental and physical support or backup offered by the organization, and lastly, the degree of power that the decision-making person has.

The available information affecting the decisions include both information on different decision options and knowledge about the possible consequences of the decisions, in other words the feedback of previous decisions. The degree of centralization of decision-making determines how much power the individual decision maker has.

How the system and its workers value themselves has an important impact on the degree of responsibility the system is willing to accept. In Malaysia, for example, there is a long tradition of good civil service ethics. This practice of a high ethnic-code increases the trust and respect that people have in the bureaucracy. This creates a virtuous circle: respect raises the morale of the civil servants, and the higher morale gives rise to more respect and trust. The system itself encourages the civil servants to act responsibly according to the dignified worth of their profession and fulfil the high expectations by the people. The situation in Singapore is fundamentally similar; one often hears that the reason why Singapore can function as a corporatist country is because of the honesty of its bureaucrats.

There are many examples of the other extreme, where low morale of the bureaucrats affects performance negatively, which again lead to an even lower morale. In the Philippines, one of the consequences of the structural adjustment triggered by the second oil shock was a higher tolerance of other income-augmenting activities of public servants, e.g. the selling of goods in the office. Partly this was more acceptable due to the government's inability to grant pay increases. This, and many other factors, directly affected the efficiency of the government.

Naturally, it is easier to make good decisions if the decisions are not affected by any financial constraints. For example, countries with higher economic growth probably do have less opposition if they want to have e.g. a more equal income distribution, since the cake which has to be shared becomes bigger with growth. Here again we have the experience of Malaysia where continuous economic growth, without doubt, has made it easier to achieve a better balance between ethnic groups.

The Philippines suffered a lot from demand contractions imposed by the adjustment programme and experienced a clear decline in the quality of decision-

making. The austerity measures resulted in a cut in the logistical support system, which directly harmed government servant's performance. The public sector's performance also suffered from damages indirectly, in the form of increased effort by civil servants to earn additional income through corruption and extra jobs done in the office during working hours. In sharp contrast, very few public officials take part time jobs for extra income in the Republic of Korea, and in Singapore they are totally prohibited to have outside work (except in the case of government doctors). In Sri Lanka, engaging in outside work is widespread among public officials, and middle and high level officials increasingly engage in consulting work.

A common belief is that inadequate financial resources are a critical constraint on social development. This presumption is not valid in all cases. Kerala in India, and countries such as Sri Lanka have shown clearly that better social development is possible with low per capita income levels. In spite of being one of the poorest states in India, Kerala has the highest levels of life expectancy, literacy and utilization of health services, as well as the lowest levels of infant and child mortality.

In other words, our argument is that the determining factor is not the quantity of financial resources available to a country or allocated to a sector, but how efficiently these resources are allocated to achieve the targets, and the degree of commitment among the public functionaries for the achievement of the targets. Perhaps inefficient management would even become worse if there were a sudden increase in financial resources.

For example, in Papua New Guinea primary education is not free except in one province, Simbu. Simbu does have the highest enrolment rate in the country: 92 per cent compared to the average of 71 per cent for the whole country. However, the drop-out rate in Simbu is 49.2 per cent, or almost a third higher than the country's average of 37.6 per cent. It is probably safe to assume that in Simbu there are other more dominating restrictions to education than the financial constraint.

Decentralization was mentioned in the previous chapter, but not from the point of view of its effects on the quality of decisions. If decision makers are far removed from the people affected by the decisions, the former's ability to make the right decisions would be considerably curtailed. This is partly due to the limited feedback on the actions.

Frequently, the person monitoring the implementation of decisions is physically removed from subordinates. In most countries, the responsibility for

ensuring the proper functioning of schools, hospitals, and water supply and sanitation services lay with head offices of line departments situated in the capitals of the countries. This was the case until very recently in the Philippines.

The psychological distance may, however, be an even bigger obstacle to good quality decisions. For example, men in power cannot really grasp the problems that women have to confront, which are different from their experience. Similarly, the rich cannot understand the poor. The human being also has a tendency to put other people in homogeneous categories forgetting that people are different. In India, many policies were watered down, because uniform solutions were imposed on people from different backgrounds. In rural India, for example, formal schools are by and large available. However, most of the primary schools are one-teacher schools with very inadequate teaching aids. Secondly, most villagers who themselves are uneducated are not convinced about the necessity of school education. Thirdly, there is an opportunity cost involved in joining formal schools, since children are often participating in work inside or outside the home. Lastly, teachers are often not very motivated, they come unwillingly from other (mostly urban) areas and are accountable to their superiors in the educational hierarchy rather than to the village community.

When decision makers fail to comprehend the real needs of the people, as in the above example, the schooling facilities remain underutilized. The constraints on the successful implementation of education policies are clearly more institutional than financial. One reason for the failure is in how people think. A common misunderstanding is that social development basically mean physical infrastructure, like a school building, and hence forgetting the teachers and the network supporting the teaching activity.

Effective universal primary education, however, would require not only the improvement of the existing infrastructure, but also efforts to improve the relevance of the syllabus, knowledge about the causes of non enrolment and drop-outs (which differ for boys and girls) along with measures to correct them. In addition, actions are needed to get stable and committed teachers preferably from within the area. Lastly, efforts at entrusting the monitoring of the educational services with the local community are needed. Simultaneously, it is necessary to undertake adult education programmes on a large scale so as to eradicate illiteracy and to improve the appreciation of education by the parents.

The physical and psychological distance is also likely to reduce the motivation of the decision maker to choose the best policies. If you can see a starving child from the slums in front of you, you are likely to be more motivated to do something about the problem.

There are different ways of controlling the services provided by the public sector. However, quality control is often not in the right hands. In India and the Philippines, for example, the local (village or block) level functionaries are accountable to the distant district authority, not to the local population. Consequently, they end up acquiring considerable discretionary powers which are prone to be misused. A top-down approach and a centralized system of decision-making is likely to create the wrong kind of incentives in the control system.

In many countries with a heavy bureaucracy, like in India, the decision-making process is very slow. This discourages people, both inside and outside the system. Actions are taken only if absolutely necessary. The slow decision-making process does not only cause delays and hardships, it also encourages people to find loopholes and other ways to get ahead in the waiting lines. Sometimes this creates a parallel system, often illegal, that is based on nepotism and corruption, and compensates for the flaws in the official system.

In China, the state has remained the dominant sector in spite of reforms, and government regulations over the private sector are still full of restrictions. Hence, government officials hold enormous power to interfere in business activities, especially in respect of procedures required for the establishment of enterprises. This has led corruption. At the same time, as markets have developed and the profitability of non-state owned enterprises tended to be high, businessmen are able to pay high bribes to officials to remove certain obstacles, including taxes.

Corruption becomes increasingly attractive when the salaries and morale of the officials are low, when they have a lot of power, when decision-making is not transparent enough, and when the administration is overburdened. A Pakistani chief justice in the high court gets a lower money salary than a secretary in the private sector. The chief justice, however, do enjoy free residential accommodation and transport, but conditions for judges at the local level are much worse. Not only are public sector salaries low compared to the private sector, they also do not keep up with inflation as well. However, in certain countries like Sri Lanka, the difference between the average salary in the public and the private sector is apparently not very significant. Table 10 reveals the massive differences in salary levels of public officials in Singapore and the Republic of Korea on the one hand, and Sri Lanka and Pakistan on the other. Note in particular the high salaries of judges and magistrates in the former countries. More detailed information on this issue is given in the tables in the Annex.

In many countries, the legal infrastructure is overburdened and often corrupt, which does not make it easy to fight corruption. In China, more than

**Table 10. Salaries in the public sector
(US dollars)**

<i>Profession</i>	<i>Singapore</i>	<i>Republic of Korea</i>	<i>Sri Lanka</i>	<i>Pakistan</i>
School teacher	574-8 778	834-2 323	38-163	
University teacher	3 019-6 988	1 030-1 700	125-300	
Judges and magistrates	1 380-24 974	1 291-3 100	250-425	115-560
Police	574-8 778	906-2 688	50-175	
Doctor	1 380-6 988	1 258-1 697	125-375	
Civil servants	405-27 971	641-2 922	88-375	

100,000 corruption cases (involving bribes of more than 480 million yuan) were persecuted in 1989. Often it is hard to use legal procedures to protect entrepreneurs from power-abusing officials. Lack of transparency in the bidding and awarding of contracts, land distribution and other crucial activities were reported in the case of the Philippines.

In China, the dual price system has also given rise to corruption. When there are controlled and market prices for the same goods at the same time, government officials can make profits by purchasing goods at artificially low prices and selling them at market prices. Some research results in China show that the total value of the difference between planned prices and market prices amounted to one fifth of the national income in 1988. This amount does not necessarily reflect the illegal earning of only corrupted officials, but it does give a rough idea about how widespread various rent-seeking practices are.

In the Philippines the slashing of public sector expenditures during the adjustment programme aggravated the problem of low salaries of public servants, which might have led to an increase in corruption. Higher corruption does not only mean reduced efficiency of government services. Corruption may also discriminate against the needy by reducing the availability and/or quality of services even further for those not able to pay bribes.

Not only is the administration in India slow, but it is also influenced by the manner the conflicts are resolved. There is in the country a noticeable dependency syndrome, whereby the people increasingly rely on government intervention to resolve conflicts. The long history of psychological dependency may have eroded the scope of participatory methods in collective decision-making. The few existing self-governing institutions at the local level are ineffective, are discouraged to take initiatives and are unable to make good decisions.

The small amount of self-governing institutions below the state-level has gone hand-in-hand with the well-established distrust of the market in resolving conflicts in economic interest. The overlegislated regime of licensing and controls has not only increased the load on the judiciary but also put a lot of pressure on the enforcing machinery. Consequently, the demand for bureaucratic functionaries has been rising progressively. Similarly, the implementation of policy programmes requiring coordination between different administrative departments at the block level or below, is ineffective since the execution of collective decisions is carried out with vertical lines of control.

There is also a manpower constraint in the public sector. For example, in many countries the government has set up separate departments for environmental protection, monitoring of activities relating to the environment and enforcement of environmental legislation. However, it has difficulties in finding competent people to do the job. There are not enough local people with the appropriate education and experience, and expatriates are unwanted and, in any case, too expensive.

The decision-making process also depends on the time frame adopted by the decision makers. An interesting example is the Philippines. The economic crisis changed the government's style of decision-making: the long-term perspective formerly incorporated in planning narrowed down to a crisis-oriented, short-term view, probably at the expense of sustainable solutions.

G. A GENERAL THEORY OF STRUCTURAL CHANGE

Countries in the ESCAP region have very different experiences both in economic performance and in terms of social indicators. Some countries such as Malaysia, the Republic of Korea and Singapore have been doing extremely well in all areas including economic growth, human development, and adjusting to shocks. In their case we have a clustering of good performance in several different areas.

Other countries have plunged from crisis to crisis like the crow stuck in the tar either by the beak or by the tail and is characterized by a clustering of "bads". There is, however, one clear exception: Sri Lanka has been doing remarkably well in sectors like health and education, in spite of its low income and sluggish economic growth.

In a closer analysis of country performance we note that not only do good (or bad) performance in the economic and the social sector come together. There is also a striking clustering of excellent (or miserable) social and economic performance on one hand, and good (or poor) governance, on the other hand.

The quality of governance emerges as a critical factor in determining a country's experience. Governance act as a filter through which both external shocks and domestic policies are transformed into country performance. If the country has a good system of governance, it is most likely to be a good achiever in many different sectors.

The social sector does not automatically and necessarily progress in parallel with economic prosperity. Most countries that have experienced growth have also deliberately used their skills in good governance to promote social development. In fact, generally they have been pursuing economic growth, social development and other desirable goals simultaneously.

ANNEX I
SALARIES IN THE PUBLIC SECTOR
(US dollars)

<i>Profession</i>	<i>Singapore</i>	<i>Republic of Korea</i>	<i>Sri Lanka</i>	<i>Pakistan</i>
School teacher				
Non-degree, starting	574			
Degree, starting	1 070			
Hons-degree	1 380			
Highest rank	8 778			
Starting		834		
Average		1 409		
Highest grade		2 323		
Non-graduate, starting			38-43	
Graduate, starting			63-75	
Highest rank			125-163	
University teacher				
Lecturer with Ph.D., starting	3 019			
Full professor	6 988			
Lecturer, starting		1 030		
Assistant professor, starting		1 111		
Full professor, starting		1 356		
Average		1 700		
Assistant lecturer, starting			125-150	
Professor			250-300	
Judiciary				
Magistrate	1 380			
Judge	16 865			
Chief justice	24 974			
Judges, starting		1 291		
Judges, highest grade		3 100		
Judges, average		2 026		
Judges and magistrates			250-375	
High court judges and magistrates			375-425	
Civil judges				115-259
Addl.D and SJJ				151-259
D and SJJ				230-376
High court judges				503
Chief justice				560
Police				
Constable	574			
Inspector	1 518			
Commissioner	8 778			

ANNEX I (continued)

<i>Profession</i>	<i>Singapore</i>	<i>Republic of Korea</i>	<i>Sri Lanka</i>	<i>Pakistan</i>
Constable, starting		2 362		
Constable, highest grade		2 688		
Lieutenant, starting		906		
Lieutenant, highest grade		1 785		
Constable, starting			50	
Constable, experienced			88	
Police officers, superintendent			125-175	
Doctor				
Doctor	1 380			
Specialist	4 615			
Senior specialist	6 988			
Doctor, starting		1 258		
Doctor, highest grade		1 697		
Doctor, starting			125-188	
Doctor, head of regional hospital			300-375	
Civil servant				
Clerk	405			
Administrative officer	1 639			
Secretary	8 777			
Highest rank	27 971			
Lowest level, starting		641-1 360		
Lowest level, highest grade		1 360		
First level, starting		2 634		
First level, highest grade		2 922		
Civil servant, starting			88-125	
Civil servant, secretaries			300-375	

SOCIAL DIMENSIONS OF CHINA'S ECONOMIC REFORMS

by

*Gang Fan**

I. INTRODUCTION: ECONOMIC REFORMS AND SOCIAL DEVELOPMENT (1978-1989)

A. EXTERNAL SHOCKS AND INTERNAL CRISES: THE CASE OF CHINA

After adopting an economic restructuring policy in 1979, China embarked on a period characterized by dramatic institutional reforms and high growth.

While for some other Asian countries the impetus for economic restructuring arose from various external factors such as prolonged global recessions, oil crises, turbulence in world financial markets, and high real interest rates, China was mainly compelled by its own internal crises. In the late 1970s, after the 10 year political chaos and economic stagnation known as the "Cultural Revolution", Chinese economy was on the brink of collapse and the Government found itself short of means to revitalize the economy within the framework of the old system. The door to the outside world was still closed tightly and the economy was almost totally self-sufficient. To say that China initiated its economic restructuring to adapt itself to the external changes is true only in the sense that China realized the gaps between itself and the rest of the world, especially the western world, had become increasingly unacceptable. The gaps could be seen in per capita income, standard of living, production capacity, technology development, etc. It was quite clear at that time that a government would be hard-pressed to justify its rule if it could not succeed in providing people with more economic gains or demonstrate its ability to narrow those gaps between the country and the rest of the world. When China opened its door to the outside, it had to adjust itself to the changed and changing international economic structure. In doing so, the external factors like oil crises and recessions in OECD countries, were still hardly responsible for provoking China's evolution, considering the negligible extent to which China was dependent on the world economy at that time.

* Associate Professor, Institute of Economics, Chinese Academy of Social Sciences, Beijing, People's Republic of China.

B. INSTITUTIONAL REFORMS

Economic restructuring in China has been taking place on two fronts: reforms in economic institutions and adjustments of industrial structure. The institutional reform has been viewed by many, not without justification, as the main stimulus to the decade-long rapid growth on the one hand, and to current economic and social problems, on the other.

The pre-1979 economic system was characterized by highly centralized planning, administrative coordination and the absolute dominance of public (state) ownership. The theme of the reform has been the decentralization of decision-making powers and the introduction of market forces as an important coordination mechanism, within the framework of public ownership which is upheld as a major "socialist principle". The reforms during 1979-1989 passed through two major stages: (1) the 1979-1984 period, highlighted by the introduction of the "household contract responsibility system" (CRS) in rural sectors and the expansion of autonomy for local governments and state-owned enterprises; and (2) the 1984-1989 period, which focused more on "urban" reforms, particularly the introduction of CRS into the state-owned industrial sector.

Household farming. By the end of 1983, 98 per cent of rural households had signed contracts with local collective economic authorities, which remained the owner of land. Since then, household-based production replaced collective farming as the major institutional arrangement of the rural economy. Although the state plan for agricultural production still plays a guiding role in contract-making, and therefore determines to some extent what the farmers produce, the rural economy has now become much more market-oriented and farmers can pursue their own interests by engaging in a variety of business activities besides farming.

Rural industry. One important development during the past decade has been the boom of rural township and village-owned industrial enterprises (TVEs), the business of which is almost totally market-oriented and outside the framework of state planning control. The TVEs have become the main outlet for the rural surplus labour force and the major contributor to the country's industrial growth. By the end of 1989, the total output value of TVEs accounted for as much as 21.47 per cent of total social output value and 35.68 per cent of total industrial output value. And more than 21 per cent of the rural labour force worked in the TVEs. This had significantly eased the problems of unemployment and urban congestion.

Market and planning. Due to decentralization and introduction of CRS into state-owned enterprises, the proportion of industrial production subject to

mandatory planning has been gradually reduced from more than 90 per cent in 1978 to 60 per cent in 1990. Most price controls on consumer goods have been lifted and the proportion of intermediate goods traded at market prices increased to about 70 per cent in 1990. Fiscal policy and monetary policy have been playing more influential roles in macroeconomic management where direct planning control used to be the only instrument.

Non-state-owned sectors. In addition to the flowering of rural TVEs, another significant development was the growth of private business, including self-employed commercial and industrial activities, private enterprises, and foreign funded and joint venture corporations. By the end of 1990, total output value of these sectors as a proportion of total industrial output value reached 9.78 per cent. Meanwhile, the industrial output value of the state sector as a proportion of total industrial output value decreased from 77.63 per cent in 1978 to 54.53 per cent in 1990.

The external sector reforms. In the process of domestic reforms and opening up to the outside world, reform measures had also been undertaken in the external sector including (1) decentralization of trade decisions to local levels; (2) introduction of licensing to replace foreign trade planning; (3) introduction of a parallel foreign exchange market; (4) use of foreign loans and encouragement of foreign investment; and (5) establishment of special economic zones to promote the use of foreign capital, technology, and management know-how.

C. ECONOMIC DEVELOPMENT AND CHANGES IN THE INDUSTRIAL STRUCTURE

Economic growth. China experienced rapid growth in the 1980s. The average annual growth rate of GNP was 9.6 per cent and per capita GNP increased from \$US 226.2 in 1978 to \$US 923.5 in 1990 at constant exchange rates of 1978 (China's currency was devaluated by almost 300 per cent during the period).

Trade. Exports and imports grew rapidly at average annual rates of 15.3 per cent and 13.0 per cent respectively during 1979 to 1989. Exports as a proportion of GNP increased from 5.2 per cent in 1978 to 13.9 per cent (\$US 59.14 billion) in 1989 and imports increased from 4.7 per cent to 12.4 per cent (\$US 52.54 billion) of GNP for the same period. Considerable trade deficits were registered during 1985-1989, with the deficit averaging 22.7 per cent of the total annual trade value. In 1990, China recorded its first annual trade surplus (\$US 8.74 billion) since 1985, thanks to, among other things, the devaluations of the Chinese currency. Meanwhile, the net capital inflow increased continuously from

\$US 338 million in 1979 to \$US 3,720 million by 1989 with an average annual growth rate of 34.9 per cent. Debt service as a percentage of export fell from 7.49 per cent in 1980 to 6.9 per cent in 1988 and total debt as a percentage of GNP was 9 per cent in 1988.

Industrial restructuring. The rural reforms in the early 1980s generated an increase in agricultural output value as a proportion of total output value of society from 24.8 per cent in 1978 to about 30 per cent in 1983/84, but it fell to 22.9 per cent in 1989 as industrial output grew by 4-8 percentage points more than agricultural output in most years during 1984-1989. In the industrial sector, light industry grew at an average annual rate of 11.6 per cent, which was higher than the average annual growth rate of 9.7 per cent for heavy industry (including raw materials manufacturing and infrastructure construction). As a result, bottlenecks became more severe by the end of the decade and an industrial structural adjustment programme was initiated to restore balance.

The brisk development of rural industry has changed the rural economic structure to a significant extent. Agricultural output value as a proportion of total rural output value declined from 68.9 per cent in 1980 to 45.4 per cent in 1989. The rest of rural output consisted of manufacturing, construction, transportation and commerce. And rural industry contributed 24.4 per cent of the country's total exports in 1989.

Also transformed was the regional economic structure as the south-east coastal areas developed more rapidly than north-west inland areas and regional disparity widened.

As the result of an ambitious growth programme and economic reform characterized by decentralization and introduction of market forces, China experienced its first period of severe inflation. Inflation rates were of single digit in most years but reached as high as 18 per cent in 1988 which caused the government to adopt a three year retrenchment plan to curb the overheated economy.

The transformation of the economic system has also been accompanied by economic fluctuations, including two minor cycles during 1979-1982 and 1985/86 respectively and a major recession during 1989/90.

Another important problem which has generated much attention is that economic development of the past decade was still essentially extensive through the use of capital rather than intensive through increasing productivity. The economic reform has so far not brought about a fundamental improvement of the

Table 1. Some important economic indicators

	1978	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Growth rate of GNP		7.81	4.48	8.75	10.32	14.58	12.73	8.31	11.01	10.89	3.55	5.00
Per capita GNP (\$US) ^{a/}	226.2	302.3	279.7	269.9	286.1	288.0	277.4	263.6	280.9	342.8	374.5	318.1
Per capita GNP (\$US) ^{b/}	227.3	257.1	265.0	283.8	309.9	351.0	391.2	417.7	457.1	500.2	512.6	523.4
Population growth (billion)		1.192	1.385	1.517	1.156	1.082	1.124	1.414	1.449	1.426	1.439	2.826
Inflation rate (per cent)	0.70	6.0	2.40	1.90	1.50	2.80	8.80	6.00	7.30	18.50	17.80	2.10
Urban unemployment rate (per cent)	5.30	4.90	3.80	3.20	2.30	1.90	1.80	2.00	2.00	2.00	2.60	2.50
Export as percentage of GNP	4.67	6.07	7.70	7.97	7.55	8.34	9.45	11.16	13.01	12.63	12.39	
Foreign capital inflow (\$US billion)					1.98	2.71	4.65	7.26	8.45	10.22	10.06	10.29

Source: *China Statistical Yearbook*, various years.

^{a/} At current prices and current exchange rates. ^{b/} At domestic inflation rate and constant exchange rate of 1978.

generally low efficiency level of economic activities, especially those in the public sector which still dominate the economy.

D. MAJOR ACHIEVEMENTS IN SOCIAL DIMENSIONS

While economic growth has been given top priority in China since 1978, social sectors, including education, health care, social security, environmental protection, transport and communications, have also registered progress more or less precipitated by the increase in national income. The life expectancy at birth of a Chinese has gone up from 68.2 years in 1978 to 70.1 years in 1990. Mortality from major infectious diseases dropped from 2.41 to 0.9 per 100 thousand population for the same period. Infant mortality rate was 0.37 per cent in 1981; while in 1988, it was 0.139 per cent for cities and 0.236 per cent for counties.

The enrolment rate of school age children reached 97.4 per cent in 1990 and the adult literacy rate increased from 77.19 per cent in 1982 to 84.12 per cent in 1990. Enrolment in institutions of higher learning increased from 0.856 million in 1978 to 2.08 million in 1989, with an average annual growth rate of 8.4 per cent.

During 1981 to 1989, the volume of waste water discharge per million (RMB yuan) output value decreased from 4.5 tons to 2.21 tons and the treatment ratio of industrial waste water increased from 15.6 per cent to 28.2 per cent; discharge of industrial dust was reduced by 1.2 per cent and the receiving ratio of industrial dust increased from 6.7 per cent to 60.5 per cent; the volume of industrial residue discharge per million (RMB yuan) output value was reduced from 0.073 tons to 0.046 tons and the reutilization ratio of industrial waste residues increased from 27.0 per cent to 35.1 per cent.

The green area in cities per 1,000 residents expanded from 1.06 hectares to 2.64 hectares during 1978-1989. The percentage of the urban population with access to tap water increased from 81.0 per cent in 1978 to 87.9 per cent in 1989. The average subsidized living space for urban residents rose from 4.2 square metre in 1978 to 8.8 square metre in 1988.

Employment increased at an average annual rate of 2.7 per cent (the average growth rate of population was 1.5 per cent); as a result, total employment as a percentage of population increased from 41.7 per cent in 1978 to 49.8 per cent in 1989. The urban unemployment rate has been kept rather low and through most of the 1980s, it was below 2.0 per cent, with the highest rate reaching 2.6 per cent in 1989.

Table 2. Some social indicators

	1978	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Life expectancy at birth (year)	68.2		69.0	67.9				68.9		69.1		70.1
Infant mortality (1/1000)			34.68				14.0 ^{a/} 25.1 ^{b/}			13.9 23.6		
Adult literacy (per cent)				76.3					79.1			84.1
Enrolment of school age children (per cent)	94.0	93.0	93.0	93.2	94.0	95.3	95.9	96.4	97.2	97.2	97.4	97.4
Hospital beds per 1,000 population (nos.)	1.94	2.02	2.02	2.02	2.05	2.08	2.11	2.14	2.20	2.25	2.28	2.30
Urban average living spaces (sq m)	4.20	4.96	5.27				6.70	8.00	8.50	8.80		
Population with access to tap water (per cent)	81.0	81.4					81.0		86.6	86.3	87.9	
Public green area per 1,000 population (hectare)	1.06	0.96					1.37		2.16	2.21		

Sources: *China Statistical Yearbook*, *China Social Statistics*, and *China Health Statistical Yearbook*, various issues.

^{a/} Urban. ^{b/} Rural.

The national Gini coefficient has remained below 0.3, while for urban households it was lower than 0.25 and for rural areas, lower than 0.3 in most areas with a few exceptions (the Gini coefficient for total rural population increased from 0.21 of 1978 to 0.30 of 1988). The percentage of rural people in absolute poverty¹ was reduced from 82.6 per cent (i.e., 399.8 million people, according to the recent Statistic Bureau figure) in 1978 to 6.9 per cent (38.58 million people) of total rural population in 1989.

Due to this progress, China was recently classified as a "medium human development country" with a (UNDP) Human Development Index (HDI) ranking of 82 among 160 countries while its GNP, based on 1988 data, was ranked at 133.

This progress, however, did not seem to fully reflect the economic growth achieved. Evidence showed that the disproportionate development between the social dimensions and economic sectors required to be redressed. Before 1978, China's economic development effort was not very successful and, at the same time, it did not achieve most of the social goals to which the government committed itself. The new record of development since 1980 had also raised the question of how to maintain appropriate development of social sectors which would not automatically and necessarily progress in parallel with economic prosperity, while at the same time giving economic growth top priority in a low-income developing country.

The rest of this paper will be devoted to the analyses of problems in the social dimensions on which economic restructuring has exerted some influence. Based on this, it will also consider the institutional causes for the asymmetry of progress in social sectors and economic growth, followed by some policy recommendations.

II. ISSUES WITH RESPECT TO THE SOCIAL DIMENSIONS OF ECONOMIC RESTRUCTURING

A. INCOME DISPARITIES

Institutional reforms and economic restructuring can affect people's income levels in both relative as well as absolute terms. Efficiency oriented economic

¹ By the official poverty line in monetary term, the urban absolute poverty is negligible. Some studies done by the Research Institute of State Statistic Bureau show, however, that the current cost of a minimum basket of food and other basic needs sufficient to maintain a subsistence of an urban resident is about 670 yuan. Taking this as the urban poverty threshold, there are about 4.9 per cent of urban population in absolute poverty.

reform is intended to change the incentive structure and thus necessarily affects the income differentials between groups. The adjustment of industrial structure and the adoption of the "open-door policy" will have some effect on income disparities between sectors and regions.

1. Rural vs. urban

During 1978-1990, per capita money income of urban households increased from 313.8 yuan to 1,369.2 yuan, which represented an average annual growth rate of 6.4 per cent in real terms; for rural households, it rose from 133.9 to 612.2 yuan, giving an average annual growth rate of 7.1 per cent.

Many policies were designed and adopted to narrow the income difference between rural and urban households, especially in the early 1980s when it was realized that without a substantial rise in farmers' income, agriculture would continuously lag behind, impeding the development of the national economy. New measures, such as increasing the procurement prices for agricultural products, encouraging rural private economic activities and controlling the prices of rural inputs, substantially increased rural incomes in the 1979-1984 period. During that time, the average annual growth rate of rural household money income reached 17.3 per cent, much higher than the urban rate of 12.6 per cent in the same period. The differential therefore was narrowed from 1:2.4 in 1979 to 1:1.8 in 1985. The situation, however, was reversed when the urban reform gained momentum. The expansion of enterprise autonomy led to a rapid increase in workers' personal income and the lifting of price controls caused a surge in input prices. Consequently the gap widened again to 1:2.2 by 1990 (see Zhu Ling, 1990).

Some other reform measures also influenced income differentials. For instance, as far as total income is concerned, the reduction of food price subsidies for urban residents narrowed the income differentials between the rural and urban households, as it devalued urban household income. On the other hand, the larger urban-rural income disparity has been partly due to the government's policy of job-separation which kept urban income high while preventing rural people from entering the cities to earn more money.

2. Rich vs. poor

Before the reforms, economic equality was pursued as a first priority, sometimes at the expense of economic efficiency. The efficiency-oriented economic reforms have been designed to change the incentive structure and therefore to enlarge the income disparity in some respects. This meant that, while some countries adopted policies to pursue more equal distribution, China was for some

time deliberately widening the differential in income distribution in exchange for greater economic efficiency. The policies may not be successful for two reasons, namely (a) the income differential might be narrowed or remain the same instead of being enlarged, or (b) the income difference has been enlarged but efficiency has not been improved. The policy targets should nevertheless be kept in view when the income disparity issue is considered.

In the early 1980s, "letting a few get rich first" was encouraged and enterprises were urged to increase the income divergence among workers according to their performance. The private sector developed rapidly and, as some data show, the money income of the self-employed labourers and private businessmen had increased to between 100 per cent and 400 per cent above the wage income of workers employed in the state sector. The actual difference might be smaller, however, if we take into account the fact that employees of the state sector enjoy subsidized housing, pension programmes, free medical care and other benefits which were not available to a private sector employee or a self-employed entrepreneur. The foreign funded and joint venture companies usually offer higher wages than the domestic firms. A survey, for example, showed that the real wages in these companies were 18 per cent higher than those earned in the state enterprises.

The income differential in the state enterprises generally failed to expand. When the bonus and contract responsibility system was first introduced, the income difference among workers increased. However, the "equal share of big bowl" phenomenon returned before long. The total bonus of an enterprise was once again equally distributed. The average per capita bonus of an enterprise was regulated by the government by imposing a ceiling or, when the ceiling was removed, through progressive taxation with rates starting at 100 per cent on the bonus just above the previous ceiling level. In many cases, the managers' contract remuneration was not paid or was redistributed among workers.

It is safe to say that although the income difference between economic sectors (e.g., public and private) increased, differentials in the public sector remained almost the same as before. The Gini coefficient for urban households was lower than 0.25 and for the rural people, it was below 0.3 in most areas (the Gini coefficient for total rural population increased from 0.21 in 1978 to 0.30 in 1988). The important disparity between the rural and urban households seemed to persist as the Gini coefficient for the total population was higher than 0.3 and in a number of regions, such as in Gansu province, it reached as high as 0.41.

Table 3. Income disparity

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Rural Gini coefficient	0.21	0.22	0.24	0.24	0.23	0.25	0.26	0.26	0.28	0.29	0.30		
Urban-rural income ratio	2.34	2.36	2.23	2.23	1.89	1.83	1.86	1.80	2.11	1.99	1.99	2.14	1.24

Source: The State Statistics Bureau, *China Statistical Yearbook*, various years; *Statistic Bulletin for 1990, National Economic and Social Development*.

3. Regional differentials

Due to more rapid development in the south-east coastal areas resulting from the open-door policy, income differentials among regions have risen, leaving the north and west inland areas behind. One study showed that the rural households' money income increased in the past decade in all regions, but at different rates. In East China (which included most of the coastal areas) it increased at an average annual rate of 15.4 per cent, while in the Central and West China, it increased at 13.3 per cent and 12.1 per cent respectively during 1978-1988. The income differential ratio of the East, the Central and the West, changed from 1.3:1.1:1 in 1980 to 1.4:1.2:1.

The widening regional income disparity is one of the most undesirable outcomes of economic restructuring in China. However, it did not imply that the strategy of more rapid development of the coastal areas was an unsound strategy. It is necessary for China to acquire modern technology and foreign capital as well as to expand its external market. It might be misleading to assume that the rapid development of the coastal areas had been at the expense of lower development of the inland regions. As long as no one became worse off in the process, and as long as the opposite measure (say, giving less stress to the east and making more effort to boost the west) would not lead to a higher growth rate of the economy as a whole, it would be hard to make a judgement about total social welfare improvement. What should be improved is the economic assistance that the coastal provinces provided to the western inland areas to reduce the disparity in economic development and income distribution.

4. Poverty

The Government raised the official poverty threshold in 1984 from previous 150 yuan to 200 yuan. Even by this new standard, China had made considerable progress in reducing the proportion of its population in absolute poverty. However, regional disparities are still evident, as the number of "absolute poverty counties" had been reduced more in the eastern provinces than had been the case in the west during that period.

During 1985-1989, the government allocated about 4 billion yuan per year for a poverty relief programme, of which about 25 per cent was financial allocation and the rest were special loans. The government also implemented special direct aid programmes for certain chosen poverty counties. These enabled such counties to obtain benefits more quickly than others.

Some distortions may arise through shortcomings in implementing poverty relief measures as well. First, the number of people or counties in absolute poverty might sometimes be overstated as some counties may overreport in order to get special treatment (relief funds, tax deductions, loans, etc.) from the central government. It can also be understated as some counties reported lower levels so as to be rewarded for success in poverty alleviation. Second, relief funds in many cases were misallocated. Quite a few local governments, especially at the county level, used such funds for purposes other than relief, such as constructing new office buildings, luxury hotels and their residential complexes, and spending the funds on luxury imported official cars, while the majority of the people in the county were not able to meet their basic needs.

5. Income effects of price reform

An important part of China's economic reform has been the introduction of market forces into the planned economy. For this purpose, the fixed and centrally determined price system, which distorted incentives and resource allocation, must be replaced by market determined prices. Because of the existence of excess demand or "repressed inflation", the removal of price controls would definitely increase the price level. On the other hand, decentralization expanded the financial powers of enterprises and local governments and reduced state budget revenue as a proportion of the national income (the State revenue as a percentage of national income fell from 31.9 per cent in 1979 to 21.6 per cent in 1988). To reduce the budget deficit, the Government has been making efforts to eliminate various price subsidies and to introduce the market mechanism in allocating resources in some social programmes such as housing and insurance. All of these measures exert income effects on different groups of people in various ways and extents.

The Government took steps in 1979, 1985, 1988 and 1991 respectively, to remove price controls and to eliminate the subsidies on staple foods, meats and edible oils which constitute the subsistence requirements of urban households. As a result, consumer prices for these goods went up and approached market values. Each time, there was a certain amount of wage increase in the form of a direct "food subsidy" to consumers to compensate for the increase in the cost of living. The food subsidy was distributed to urban workers who registered in the state and collective sectors ("formal sectors") and was based on the average consumption of urban households. Those families which participated less in the formal sectors and/or had more dependants would be more worse-off because of under-compensation. In the case of staple foods (grain products) price increases (1979 and 1991), the low income group would be more adversely affected because of their higher dependence on staple foods; in the case of meat price increases (1985 and 1988), the high income group was hurt more because they consumed more of this commodity.

Two other groups were also hurt more seriously. The first group consisted of those engaged in hard labour (miners, steel mill workers, and porters, for example) whose food consumption was high, especially of staples. This was reflected in the relatively strong reactions to the 1991 price changes in some heavy industry areas. The second group consisted of the retired. Except for the 1991 case, every price adjustment was followed by some cost-push inflation. Producers of other goods would take advantage of the opportunity to raise the prices of their products. For this kind of inflation, most workers could usually be compensated to a considerable extent by various extra payments (in the form of bonuses, either in money or in kind) from their enterprises. Retired people, however, would be under-compensated in this kind of inflation (after they got the regular food subsidies from the government) because they could not get bonuses. Some retired workers, government officials and professors saw an absolute decline in their living standard after the price adjustment.

The current housing reform will also have considerable income effects on urban households, as the reform will substantially (by 400 per cent or more in the first stage) increase housing rents to a more economic level. This change, however, will primarily reduce the income of those who were able to get more housing space than others. Under the previous housing system, the rents were a minor consideration in demanding an apartment. Naturally, the consequence was an unlimited excess demand for housing on the one hand and a large number of unused apartments on the other. Although the average housing space per urban resident reached more than 8 square metres in 1988, about 26 per cent live in a space of less than 4 square metres. Only those who can get large rooms can enjoy government housing subsidies but those who live in poor conditions

actually receive no benefit from government expenditures. Thus housing has been one of the major disparities among urban residents and has accompanied the monetary income disparity, as the low income groups are usually unable to get adequate housing. The increase in house rents may make apartments too expensive for low income groups. But as most of them live in such cramped quarters that rent increases have a limited impact on them. The better-living-condition group will now have to pay for extra living space and thereby cut other consumption instead of enjoying extra benefits from the government's low-rent housing policy. There are no housing disparity data available, but the positive attitude of ordinary people and negative attitude of higher ranking officials (they usually are able to enjoy better living conditions) towards housing reform seems to prove the existence of such a disparity.

6. Remarks on income disparity

It might be easy to achieve a high level of equality by cutting the income of the rich and submitting everyone to poverty, as China did in its pre-reform history. But this is definitely not the objective of economic restructuring. The best outcome of economic restructuring should be the highest national income level possible with the lowest income differentials among people. It is, however, hard to achieve, due to the fundamental contradiction between equality and an incentive structure that promotes efficiency. It seems that a more realistic way to deal with the issue is to identify the present nature of the problems and to focus on solving the most urgent ones. Currently, China is still faced with the problem left by history - too much emphasis on equality, which jeopardized economic development and efficient use of resources including human capital. If this can be identified as the main problem, then the best approach is to encourage income differentials consistent with improving efficiency (for instance, the income differential between profitable and loss-making enterprises, or between the hard-working and less productive workers) as well as to minimize those differentials which would not provide efficiency incentives but only create social instability (high income from corruption, for instance).

B. UNEMPLOYMENT, URBANIZATION, MIGRATION AND SOCIAL WELFARE

1. A general remark

One of the fundamental social inequities in China has been the traditional urban-rural job separation based on the so-called "permanent residency registration system" which permanently classifies people as "urban" or "rural". Many problems of social disparity (including income disparity described above) have their source in this social arrangement. If one is lucky enough to be born in the

city as an urban resident, he or she will be endowed with the privileges of employment in the state sector, and have access to low-priced food and housing, and various other benefits. If not, he or she receives none of these. The only endowed right for rural people is that of using and sharing a piece of land in the home village. In many cases, social dissatisfaction which accompanied economic restructuring is actually not caused by economic restructuring itself, but resulted from this social setting which has not changed along with other economic reforms. As long as this system is in effect, some social problems are inevitable as part of the economic reform process. Thus, the social problems investigated below actually also suggest the reform of this system.

2. Low urban unemployment and high rural disguised unemployment

The only unemployment reflected in official statistics has been urban unemployment. Moreover, as it is rare for an employed person to be fired or dismissed from a job in the state sector or urban collective enterprises, the figures for urban unemployed mainly refer to those people waiting for their first job assignment.

Before 1978, the Government usually assumed full responsibility for assigning jobs in state or collective sectors to everyone who joined the urban labour force. The Government, however, has taken no direct responsibility for the rural people, as if from its point of view, all rural labourers would automatically be employed by virtue of being born on their land, regardless of how many people have already crowded onto that piece of land. New job opportunities provided by state enterprises and urban collectives were required to be allocated to those who could present an urban residence card. The permanent job assignments were reserved strictly for the permanent residents. Moreover, when no positions were available for urban unemployed labourers, the Government would send them to rural areas, as it did in the early 1960s and in the period of the Cultural Revolution. This asymmetrical and artificial employment policy kept the nominal unemployment (urban unemployment) rate rather low for a long time. But problems accumulated. The new job opportunities provided by the state and urban collective sectors had been decreasing and the people who had been sent to the countryside were a potential source of instability as they (and their families) were dissatisfied and would keep complaining about their being worse-off. When the Cultural Revolution ended, over 5 million of these people were allowed to return to the cities from where they came. This resulted in the urban unemployment rate to rise to a record high of 4.9 per cent in 1978.

Since 1978, the urban unemployment rate has been low, for the following reasons:

- (1) Economic growth has created a great number of new job opportunities in cities.
- (2) Policies have encouraged the development of urban collective, cooperative and private enterprises and the self-employed business. Several tax reduction and exemption measures were adopted in order for these sectors to provide more jobs to absorb the new-comers into the labour market. Self-employed labourers as a proportion of total urban employment increased from 0.16 per cent in 1978 to 4.5 per cent in 1989 with an annual growth rate of 36.9 per cent. For the foreseeable future, the Government will continue to rely on the collective and private sectors as the main outlet for urban employment.
- (3) As the government has attached great importance to urban stability, high urban employment rate has been pursued at the expense of industrial efficiency. State-owned enterprises were forced to accept more workers as a "political task". As a result, more employees become surplus labour in terms of efficient ratios of labour to capital and to the scale of production. According to a survey made in 1989, in 43,825 state-owned enterprises a total of 948,379 workers were categorized as "surplus", accounting for 6.1 per cent of the total employees of these enterprises.
- (4) The "permanent residence registration system" prevents rural residents from becoming urban residents. Under this condition, people with a rural residence registration but currently living in the city would not be counted among urban residents and therefore would not be counted as the unemployed. The discrimination against non-urban residents (inability to obtain food rations and housing, etc.) would cause many of these people to return to their rural homes.

While the rural labour force is prohibited from coming into the cities, rural disguised unemployment runs high. According to a study conducted in 1989, one third of 332.84 million labourers working in agriculture, forestry, animal husbandry and fishery in 1989 were identified as surplus labour.

The point is that, if the government had given up the employment separation policy and officially permitted rural labourers to become urban residents, the overall real rate of unemployment (including various types of disguised unemployment) might have remained the same, as it was determined by the overall economic growth rate, but overall social welfare might have been improved. The real trade-off exists between the two kinds of social costs: urban unrest caused by high unemployment and income inequality caused by the urban-rural

job separation. While some other developing countries have chosen the policy which reduce the rural-urban income disparity by allowing rural labourers to come to cities looking for jobs, the Chinese Government has chosen the opposite. It is hard, however, to make a clear judgement about which policy is more beneficial in terms of overall social welfare.

3. Labour migration and the “floating population” problem

Another consequence of rural economic reform under unchanged employment separation policy has been the increasing size of the so-called “floating population”.

While the Government wants to keep the rural labour force in rural areas, people tried to violate the restrictions. The higher income in urban industries provided strong incentives for people to leave for the cities. Even the low availability of job opportunities did not prevent people from entering cities, especially for those that are currently in disguised unemployment. Meanwhile, as the rural reform featured by the introduction of the household contract responsibility system had actually removed most restrictions on farmers’ decision-making in pursuit of maximizing income, they were free to leave.

Rural residents, however, could not become permanent urban residents under the current system even though they could find employment in urban private industrial enterprises and commercial businesses or, in many cases, in the informal sector. The result was that they became “floating people”. Many of them were “long-term floating”. According to census statistics, the percentage of people who had left residential registration places for more than one year increased from 0.66 per cent in 1982 to 1.89 per cent in 1990 (the percentage should be higher in 1988 and 1989 because during the 1989/90 retrenchment period, many rural people were forced to return home). The percentage of total floating people must be much higher, however, because there have been more city visits of less than one year. There has been an increasing number of such people in big cities like Guangzhou, Wuhan and Beijing. In 1990, 4.8 per cent of the population living in Beijing were such floating people. It was reported that in Hubei province, more than 50 per cent of the work force in some urban textile enterprises were rural women workers (Cai Hong, 1991).

Without permanent urban residential registration, the floating people have lived in rather poor conditions and have not been protected by any social security system. They have been doing the most primary labour under the worst conditions and they have to accept lower wages for the same work. Actually, urban labourers have moved up to better jobs and left the inferior jobs to these floating people.

The government made several attempts to expel the rural people from the cities, but failed whenever the urban markets were providing opportunities. However, the government's job-separation policy has succeeded in keeping the situation under control. The whole system creates significant costs to rural people who attempt to get into the city.

4. Urbanization or "urbanized rural area"

Two key factors have shaped China's special pattern of urbanization: (1) the employment separation policy; (2) the development of township and village enterprises and private industrial and commercial businesses. When a farmer becomes "surplus" on the land, the rural industrial and commercial undertakings are naturally his first resort for employment. Among total employment, the number of rural labourers increased from 306.4 million to 409.4 million during 1978-1989, with an annual increase rate of 2.4 per cent, of which employment in the TVEs increased from 28.3 million in 1978 to 93.7 million in 1989 with an annual growth rate of 10.5 per cent. By the end of 1989, employment in TVEs as a percentage of the total rural labour force reached 28.9 per cent. When more and more rural people found jobs in nearby TVEs, the towns prospered. Villages became small towns and small towns became larger towns. The result is that, while urbanization was relatively bounded in terms of size and the extent of concentration of population, the number of small towns has increased. The total number of townships increased from 7,956 in 1985 to 11,935 in 1989. The industrialization of the past decade has not led to the abandonment of rural areas leaving "ghost towns" behind. Rather, the trend is to create an urbanized and industrialized rural area.

This trend has received both endorsement and criticism. On the one hand, an urbanized rural area can avoid the social problems many countries suffered in the process of industrialization such as urban poverty, congestion, crime and political instability. On the other hand, it may not be beneficial because of lack of economies of scale in both industrial production and construction of urban public utilities. An industrialized rural area might be only urban-like but not truly urbanized because of low coverage of municipal utilities.

5. Social security and welfare

In China's social and economic terminology, social security is termed as "labour insurance", including unemployment insurance, old-age pensions, free medical care and comfort pensions for bereaved families. To date, social security programmes have been mainly financed by the Government and the state-owned enterprises. Total social expenditures on social security as a percentage of national income increased from 2.2 per cent in 1979 to 3.4 per cent in 1987.

The major problems of the current social security system is that it has been partial and enterprise-based. It is partial because it has only covered the "permanent" employees of state-owned enterprises, government institutions and some urban collective undertakings which are subject to direct government regulation. The temporary workers and "contracted" workers in those undertakings are not covered. And the majority of the population in rural area, including those working in the rural industries, are not covered. Thus, the coverage of this social security system as a percentage of the total work force was only 22.3 per cent in 1978 and 23.0 per cent in 1988. (Since the experiments of social security reform initiated in 1984, some employees of urban private enterprises and self-employed labourers could purchase insurance through the state-run insurance company. By the end of 1990, a total of 150 million urban labourers benefited from various pensions and unemployment insurance programmes, accounting for 26.4 per cent of total labour force, according to the statistics from the Labour Ministry.)

There used to be a collective social security system in rural areas based on the village community, which was called the "Five-Insurance System" referring to insurance for old-age pension and disabled pension programme provided by the collective communities. The provision of insurance funds was much less than required but its coverage was quite broad. This social device has remained in effect after 1979, but in many cases only in a nominal sense. As a result of rural reform and the replacement of collective production with household farming, the collective local community lost its economic capacity to provide insurance as it did previously. Consequently, rural households have become less protected by the collective social security programme. The number of people who benefited from collective insurance programmes shrank from 2.68 million in 1978 to 2.22 million in 1989.

The present system is also enterprise-based, as the retirement pension and unemployment insurance are mainly borne by the enterprises or "work units". Although there have been no formal unemployment insurance schemes established for state employees yet, workers are actually fully insured against becoming unemployed. When an enterprise makes losses or totally ceases production, its employees can still get at least their standard basic wages paid by the enterprise with government subsidies or specific loans (so-called "policy lending") granted by the government. An important characteristic of the current social security system is that the cost of providing retirement pensions of an enterprise is a function of the number of retirees an enterprise has, rather than a function of the number of working employees. Statistics show that the number of retirees increases more rapidly than the number of newly employed in the public sector, especially in enterprises, over the past decade (i.e. the industries are "getting

old'). Meanwhile, the retirement age decreased in relation to life expectancy. As a result, the ratio of the number of the employed to the number of the retired in the state-owned sector declined from 26.2:1 in 1978 to 6.2:1 in 1989; and the ratio of total payment to the retired to the total wage bill for the employed increased from 3.5 per cent in 1978 to 14.61 per cent in 1989. This shows that the current system itself carries an increasing burden and is difficult to sustain.

The "free health care" system which is another component of "labour insurance", has also caused problems, especially an excessive demand for medical services and a considerable amount of waste of resources as well as growing expenditures on medical care by state-owned enterprises and governmental institutions. The total expenditures on medical care by state-owned enterprises and institutions increased from RMB 2.73 billion in 1978 to RMB 11.29 billion in 1988, or from 2.4 per cent to 4.2 per cent of the total government expenditures.

Besides various shortcomings of the current pension programme and free medical care scheme, this enterprise-based social security system turns out to be an obstacle to overall economic reform and industrial restructuring since it binds the worker to the enterprise and, more generally, to the state-owned sector. It makes it extremely difficult to let enterprises go out of business or for the worker to leave the enterprise. Everyone belongs to a "state-owned unit" and the unit means everything to its employees from guaranteed employment, free medical care, pension, and welfare to subsidized housing. If the state decides to let one unit go bankrupt, it has to find another unit to provide for the employees of the bankrupt unit, as those employees have nowhere else to go for security. This blocks the way of any readjustment of the industrial structure and enforcement of the bankruptcy law. On the other hand, as the employees of the state-owned sector are fully insured while others have no security, the other sectors seem less attractive. To be an employee of the state sector remains the most desirable status for many risk-averse labourers. Meanwhile, once employed by the state, one is unlikely to attempt to transfer to the non-state sector.

C. EDUCATION

It is fair to say that the Chinese government and the society as a whole have put a great emphasis on the development of education since the late 1970s. Steps towards improving education took place before economic restructuring, and the resumption of the higher education entrance examination in 1977 marked a new era for the development of education in China. A nine-year compulsory education system was introduced in 1986 to replace the previous six-year system. Graduate education was resumed in 1978 and doctoral programmes were initiated in 1984.

Various kinds of professional training and adult education classes sponsored by government departments, enterprises and social organizations also form a significant part of the system. Government expenditures on education as a percentage of total government expenditures increased from 6.8 per cent in 1978 to 12.4 per cent in 1989. The contribution to education from various sources other than the government budget increased from almost nothing in 1977 to RMB 3.85 billion in 1985 and doubled during 1985-1989. Total social expenditures on education as a proportion of GNP increased from 2.6 per cent in 1978 to 3.1-3.7 per cent through most of the 1980s (it dropped to 2.8 per cent in 1989). Government expenditures on education as a proportion of total social expenditures increased from 51.6 per cent to 60-66 per cent in the most years of the 1980s.

Apart from many achievements, the following problems require attention: the quality of rural education; the quality of higher education; the status of teachers; and the "mismatch" problem.

1. High availability and low quality: the rural primary and secondary education

The availability of primary education has been fairly high as the enrolment rate of school age children has remained above 94 per cent since 1978 and reached 97.4 per cent in 1989. Seventy-eight per cent of total 123.73 million primary school students were attending 705,000 rural primary schools in 1989. The national overall drop-out rate was about 3 per cent (2.3 per cent for primary school, 4.8 per cent for junior high school and 2 per cent for secondary high school) in recent years but observations show that the rural drop-out rate was much higher than the urban rate (no specific data available). Out of 100 graduates of primary schools in 1989 (rural and urban combined), 70.5 entered junior middle schools or Skilled Work Schools, Specialized Secondary Schools, Agricultural or Vocational Middle Schools in 1989. The ratio of rural primary graduates entering middle schools was also lower than the national average.

Rural primary and secondary schools have faced two major problems: the low quality of school facilities and the low level of qualification of teachers. Many rural schools are short of classrooms and many classrooms in use are in very poor, or even dangerous, condition. Other teaching facilities are far from sufficient. An average rural primary school teacher teaches 34.4 students, while his urban counterpart teaches only 19.6 students. Many teachers working in rural primary schools have no professional training. They receive a rather low salary and many of them have to engage in farming at the same time to support their families. Quite a few qualified teachers have transferred to other more profitable occupations in recent years, leading to further deterioration of the average

teacher's qualification level. Although the government has initiated retraining programmes for rural teachers, the overall situation is unlikely to change quickly.

2. The deterioration of the quality of higher education

The student/teacher ratio in higher education grew from 4.2 in 1978 to 5.2 in 1989. The average educational level of university faculty has increased considerably since those who joined the faculty in recent years all have at least a masters degree, and quite a few have doctoral degrees. University facilities have been improved by new modern equipment and computers have been used in the learning process. Meanwhile, academic degrees have become an important element in employment and promotions.

It is hard to say, however, that the quality of higher education has improved significantly since the early 1980s, especially in terms of the academic capacity of graduates. While the poor quality of education seen in the 1970s could be explained by the fact that no one could teach or wanted to teach, the slow progress in the quality improvement of higher education in the 1980s has been due to the fact that fewer want to learn. Starting from the mid-1980s, more and more college and graduate students would satisfy themselves with a "pass" on examinations, and spend more and more time on doing business (if any), gambling, and going to party. Much cheating has been reported, but it is suspected that much more goes unreported as there is concern that most of the class might otherwise be unable to pass. There is a need to discourage cheating in examinations.

Several disincentives to the pursuit of education can be identified, some of which are in the education system itself, but others are associated with economic and social factors. Among these, the following two seem the most important: (1) The guaranteed employment system. Under the present system, all the graduates from higher learning institutions are assigned a job in the public sector, unless one chooses another alternative for himself. Many students work hard in high school in order to gain admission to the university, but when they are admitted, they stop working hard as the employment now becomes guaranteed by the system. (2) Academic work becomes less attractive economically. When income differentials between an academic job and other jobs were small, the former would be more attractive because it would gain some non-monetary benefits (such as better working conditions and social respect). In the process of economic reform, however, more and more non-academic occupations become more lucrative than academic professions. Only those who have a very strong preference for scientific exploration will take the school years seriously. For others, a simple degree is enough to have an assigned job.

3. Teachers' status

Teachers at various levels have regained their social status to a great extent since the late 1970s. The major problem which remains unsolved, however, is how to improve teachers' economic conditions to a level they deserve. The average salary (basic wage plus bonus) of a university professor is a little bit higher than that of a senior worker in a state-owned enterprise, but lower than the average salary for the public sector (see table 4) and much lower than a private vendor (if without taking the housing and other social benefits into account a direct comparison is hard to make when the incomes of different economic sectors are involved). The government made several attempts to increase the income of teachers at various levels, but each time it was followed by income increases of other occupations and the relative income level of teachers was set back as before. When a career in education remained economically unattractive, less talented young people would like to go into teaching and quite a few qualified teachers have left the profession to take positions in other higher income professions.

When schools cannot pay high salaries to their teachers because of financial difficulties, they are allowed (or are sometimes encouraged) by the government to

Table 4. National income per capita and average annual wages in all state-owned units and in the education sector (RMB yuan)

	1970	1988	1970-1988 Growth rate (per cent)
a. National income per capita (at current prices)	235	1 052	11.4
b. Average annual wages of staff and workers in all state-owned units (money wages)	609	1 853	6.4
c. Average annual wages of teachers and other staff in state-owned units of education sector (money wages)	530	1 764	6.9
c/b (per cent)	87.0	95.2	107.8

Sources: *China Education Statistical Yearbook*, 1988; and *China Labour and Wage Statistics*, 1987, 1990.

run businesses and use it as a resource for extra income (bonuses). The school-run small businesses (including commercial stores and small factories) at all educational levels blossomed in the late 1980s. They do help schools to increase teachers' income but do not necessarily improve the quality of education. Instead, when many teachers are involved in business activities, the quality of education can deteriorate.

4. The mismatch

At the higher education level, two mismatch problems exist: (a) there were too many university graduates but few specialized college graduates; (b) too many took a major in scholarly studies, such as literature and history, for which demand was limited and declining in the educated labour market. This situation only improved recently, as the number of college students with more practical training as a percentage of total students in higher education increased from 34 per cent in 1985 to 36 per cent in 1989; and the percentage of students majoring in economics and finance increased from 8.6 per cent in 1985 to 10.7 per cent in 1989 and the percentage of students with technology majors increased by 2.2 percentage points. Even then, there are still many cases in which college graduates have difficulties finding work in their major subject of study or even in finding a professional job at all.

At the middle school level, the main problem is a shortage of vocational schools or specialized secondary schools. In the 1970s, a high enrolment rate to regular secondary schools was pursued as the main objective of primary education in both urban and rural areas and many regular middle schools were established without enough qualified school teachers and teaching facilities. The government tried to change this situation beginning in 1980 and to give more emphasis on vocational education. The overall national percentage of graduates of primary schools entering middle schools dropped from 87.7 per cent of 1978 to a low of 66.2 per cent in 1984. Meanwhile, more and more agricultural secondary schools and other vocational secondary schools have been developed in rural areas and a more practical objective has been pursued. Enrolment at agricultural schools increased from less than a thousand in 1978 to more than 1.18 million in 1989. During 1985-1990, a total of 3.895 million students graduated from various agricultural schools and vocational schools, twice more than that during 1980-1984.

D. HEALTH

Health care remains mainly a responsibility of the public sector, although there are more private doctors than before, especially in rural areas. The major hospitals and other health care institutions have all been run by the government

which equipped them with the best medical care facilities and affiliated with the best doctors and technical personnel. Government expenditures on health care as a percentage of national income fluctuated between 1.13 per cent (1987) and 1.32 per cent (1983) during the 1980s. The state-owned enterprises and governmental institutions are all equipped with their own clinics and sometimes even hospitals, providing health care services to their own employees and their dependents (some large enterprise hospitals have recently provided services to the public). Most minor illnesses can be treated in these clinics and hospitals.

The current rural health care consists of three levels of institutions: county hospitals and health preventive medical institutions, township hospitals and village clinics. County hospitals are run by the local government. The township hospitals are used to be run by the local township administrations but have gradually been shifted over to the collective economic communities with government subsidies. The village clinics are used to be run by the collectives but now more than 80 per cent of the clinics have been contracted to individuals or are taken over by private doctors.

While health conditions improved further during the 1980s in general, shortcomings can be seen in the following areas: (a) The discontinuation of rural health insurance system and the increase in the rural-urban disparity in health care conditions; and (b) the waste of medical resources in the public sector.

1. The deterioration of rural health care condition

If anything could be counted as the "cost" of China's economic restructuring, the loss of health insurance for rural people, who compose the majority of the Chinese population, is certainly one of such costs. Before the introduction of the Household Contract Responsibility System into the rural economy, there was a collective health care system operating in most rural areas under the previous commune framework. The system was based on the financial resources of the collective economy and enforced by the local administration embodied in the commune. It worked like a health insurance programme under which all individual members of the commune were insured by the collective economy against major illnesses. The economic reform since 1978 actually disbanded the commune and consequently discontinued the collective health care system. The village clinics have been mostly "contracted" out to private doctors and in most places there is no longer a collective economy which can or will pay the health care bills of its members. Some rural private doctors actually take medical care as their part time second job and spend part of their time on farming or other business activities. This make it harder for rural people to get needed medical treatment.

According to official statistics, there are only about 20 per cent of rural households that are currently protected by some kind of collective health insurance, but most of the rest must pay full costs for their medical care. It is reported that many farmers became impoverished because of illness and some who had just become rich returned to poverty after paying their surgery bill. Increasing medical care costs often prevent the rural people from receiving adequate and timely treatment. As a result, rural areas have lagged noticeably behind the cities in the development of health care. The annual average growth rate in the number of hospital beds during 1980-1988 was 6.26 per cent for urban hospitals, but only 0.35 per cent for the rural areas. Hospital beds per 1,000 urban residents increased from 4.7 to 5.6, while in the rural areas the ratio remained unchanged during the same period. The ratio of percentages of rural doctors and urban doctors was reversed during 1980-1988 from 54.3 per cent: 45.7 per cent to 45.2 per cent: 54.8 per cent. Doctors per 10,000 rural people rose from 7.65 to 8.40, while doctors per 10,000 urban resident increased from 32.22 to 39.51. By the end of 1989, about 13 per cent of villages had no clinics or health-care stations. Consequently, the congestion problems worsened in rural areas and county level hospitals.

The previous collective economy was rather poor and in fact could barely provide sufficient medical care for its members. And, perhaps the most important, rural people were living in such poor conditions that their overall level of well-being was much lower than today. The loss of medical insurance, however, is without doubt a real reduction to people's well-being, given the benefits they got from income growth. This situation has attracted attention from many people, including government officials, and proposals have been made recently for the establishment of new types of rural health insurance systems based on voluntary participation, mutual aid, and cooperative efforts among the rural people themselves.

2. Free medical care for urban workers

While rural people have lost most of their health insurance, urban workers have continued to enjoy the government's provision of "free medical care". This system applies exclusively to those employed in the public sector, i.e. workers in state-owned enterprises and staff members of governmental institutions. People who are working in the private sector, including self-employed individuals, have to bear all medical expenses themselves (previously existing subsidies to medicines have been eliminated gradually in recent years). Some collective enterprises cover the medical expenses for their own workers and staff.

The "free health care" system has caused excessive demand for medical care and increasing waste. Expenditures on medical care of stated-owned

enterprises and governmental institutions have grown rapidly and become hard to bear (see table 5). Because visits to hospitals and clinics are free (in some cases, the person who visits doctors bears only a fraction of registration fees), more working time is spent on such visits and hospital congestion is harder to overcome. Because medication is free, a lot of precious medicines are wasted. The situation also leads to various undesirable practices. Because patients do not care how much the bill is, hospitals could overstate the illness and make the patients buy more medicines than are needed. This certainly exacerbates wastes.

Table 5. Free medical care

	1978	1985	1988
Persons enjoying free medical care (million)	7.28	8.98	9.75
Total expenditure on free medical care (billion yuan)	2.73	6.46	11.29
Average expenditure per person (yuan)	37.5	71.9	114.10

Sources: China Health Statistics Yearbook; and China Social Statistics, various years.

“Free health care” is good for the beneficiaries because people are free to seek medical care whenever there is a need. However, the misallocation of medical resources under the current system reduces the availability of medical care for others. For instance, if medicine wasted by urban people could be used by rural patients, overall health conditions would certainly improve. From this point of view, increases in urban patients’ user fees should not be seen as a “cost” of current health care reforms, though it certainly will reduce the satisfaction level of some people concerned.

E. ENVIRONMENT, SANITATION AND URBAN CONGESTION

1. The natural environment

Another major loss in the past decade has been the deterioration of the natural environment. The forest area continuously shrank at an annual pace of 500,000 hectares in the early 1980s. The forest stock was 10.26 billion cu m in

1985 but diminished to 9.14 billion cu m in 1989. The prairie area has degenerated at a pace of 1,330,000 hectares per annum. Five billion tons of soil have been eroded per year, accounting for one-fifth of the world's total soil erosion. One-third of cultivated land suffers soil erosion. The sandy waste land expands 1,500 sq km every year. Due to the degeneration of the ecological environment and the use of chemical fertilizers, the fertility of the cultivated land has been severely diminished and more and more land has been polluted by industrial wastes and pesticides.

Environmental pollution in China has reached a higher level than what developed countries once reached at a similar stage of economic development and industrialization. In the late 1980s, all northern cities and 80 per cent of southern cities suffered from at least 30-40 ton air dust fall per sq km per month. In some cities, the air dust fall amounted to hundreds of tons. In 1989, a total of 8.4 million tons of industrial dust was discharged and a total volume of 8,307 billion cu m of waste gas was emitted into the air. About 73 per cent of industrial waste water and 97 per cent of urban waste water was drained directly into rivers without treatment. Major rivers like the Yangzi and the Yellow River receive 70 per cent of total urban waste water. Eighty-two per cent of rivers and lakes have been polluted to some extent and 381 cities have suffered from water pollution. About 65 per cent of monitored urban areas suffered noise levels over 55 decibels.

2. The efforts made and obstacles to environmental protection

In 1970, the Chinese government for the first time included environmental protection in the Five-Year Plan for economic and social development. The Environmental Protection Law was adopted in 1979 and was followed, over the next few years, by a series of laws and regulations concerning protection of forest, marine biology, air, water, and so on. Policies were announced in 1981 with regard to the "Enhancement of environmental protection in the period of economic restructuring"

In the 1970s, environmental policy focused on the treatment of wastes and the prevention of pollution. Attention shifted in the 1980s to the protection of the natural environment and maintenance of ecological balance. As regards pollution, additional measures were taken to ensure that the polluting plants would not be allowed to start operations. All project proposals are required to be approved not only by economic standards but also according to environmental criteria. More legal and economic means, as opposed to administrative ones, were used in the late 1980s to enforce the laws and regulations. The government and enterprise expenditures on environmental protection in recent years reached about 0.5 per cent of GNP.

As a result of the effort, environmental deterioration in some areas has been brought under control. During the period between 1981 to 1989, the volume of waste water discharged per million (RMB yuan) output value decreased from 4.5 tons to 2.21 tons and the treatment ratio of industrial waste water increased from 15.6 per cent to 28.2 per cent; discharge of industrial dust was reduced by 1.2 per cent and the receiving ratio of industrial dust increased from 6.7 per cent to 60.5 per cent; the volume of industrial residues discharge per million (RMB yuan) output value was reduced from 0.073 tons to 0.046 tons and the reutilization ratio of industrial waste residues increased from 27.0 per cent to 35.1 per cent.

Afforestation has been speeded up and various "ecological projects" undertaken. The largest project of afforestation has been carried out in 13 provinces and 512 counties of north China and has achieved afforestation of 9.13 million hectares and successfully curbed further soil erosion and the expansion of sandy waste land in that region. The green area per 1,000 residents in cities expanded from 1.06 hectares to 2.64 hectares during 1978-1989.

However, the same causes for environmental deterioration still pose obstacles to the further improvement of environmental control. They are:

- (1) Various short-term perspectives and conflicts of interest. Efforts to strengthen environmental protection have often been impeded by some "urgent needs" which involve increasing current government revenues or household income. This problem intensifies when a government confines its priorities to maintaining short-term political stability.
- (2) The lack of a new type of social control mechanism after the decentralization of economic decision-making. Decentralization strengthened the position of local governments and enterprises in pursuit of their own interests and this contributed a great deal to the re-vitalization of the economy and increase of national income. However, social controls which would prevent local authorities and enterprises from pursuing their interests at the expense of the environment have not yet been set up.
- (3) The inability of small enterprises to contribute to environmental protection. Recent economic growth has mainly been fueled by the development of thousands of small-sized Township and Village Enterprises (TVEs). In most cases, these enterprises are run with backward equipment and technology. When the government adopted the policy encouraging the TVEs' development, it could not set strict environmental standards without rendering most of those business unprofitable.

- (4) The austere budget. As state revenues as a percentage of GNP have been shrinking, it is difficult to increase expenditures on environmental protection. Some research shows that if the total expenditures on environmental protection is not increased to 1.5 per cent of GNP (the minimum level of developed countries) in the next decade, China will face more severe environmental deterioration by the end of the century.

3. Sanitation and public utilities

The development of rural sanitation and public utilities has been very slow. Progress can be observed in some more developed rural areas where more tap water and sewer pipes have been put into use, but for most other areas, only little progress has been registered. So far, however, no official statistics on such new developments are available. Therefore, the discussion in this section refers only to the urban sector.

Generally speaking, urban sanitation has been improved to a great extent in the past decade along with the development of urban public utilities (see table 6).

Table 6. Urban public utilities and sanitation facilities

	1978	1985	1989
Urban population with access to tap water (per cent)	81.0	81.0	87.9
Length of sewer pipes per 1,000 population (km)	0.25	0.27	0.38
Population with access to gas (per cent)	13.9	22.4	38.6
Public green area per 1,000 population (hectare)	1.06	1.37	2.64
Area of parks and zoos (1,000 hectares)	15.2	21.9	38.3
Garbage disposal (million ton)	31.3	44.7	62.9
Disposal of night soil (million ton)	16.4	17.3	26.0

Sources: *China Statistical Yearbook*; *China Social Statistics*; and *China Rural Statistical Yearbook*, various years.

Some basic problems, however, remain unresolved and some of them worsened in the past decade. They can be listed as follows:

- (1) Shortage of water. According to a nation-wide survey of 236 cities, 57.6 per cent of the cities suffer from water shortage, among which 40 cities face a very severe shortage of more than 1,249 tons per day.
- (2) The out-dated technology and low capacity of urban drainage facilities. More than half of the total urban areas are without drainage structure and 97.6 per cent of urban waste water are discharged into rivers and lakes without being treated. Forty-five per cent of urban underground water resources have been polluted to varying degrees.
- (3) Limited access to gas fuel and limited coverage of heat supply. These restrain progress in preventing air pollution.

4. Urban congestion

Frustrations of daily life for an average Chinese urban resident often come in the form of crowded living conditions, traffic jams, and communication difficulties. In all these aspects, China still has a long way to go, although rapid progress in these areas was made in the past decade.

5. Housing

Although the average per capita housing space for urban residents reached more than 8 square metres in 1988, about 26 per cent of urban residents still live in a space of less than 4 square metres per capita. Aside from the cramped living space, the quality of living conditions also needs improvement. By 1989, 5.82 per cent of urban households still had no access to tap water; 42 per cent lacked sanitation facilities, 89.48 per cent had no bathroom; 46.76 per cent had no heating facilities (among those who have heating, more than half had no central heating service); and 26.91 per cent had no kitchen or had to share a kitchen with other households.

6. Transportation

Investment in road construction as a percentage of total investment fluctuated between 9.1 per cent to 15.9 per cent during the 1980s and for 5 years declined steadily. The momentum of expansion in transportation capacity per annum was also falling in the late 1980s. At the same time, the volume of freight and the number of passengers increased rapidly as a result of rapid economic growth and the expansion of the national market. Consequently, the problem of road congestion became worse. The ratios of volume of passenger traffic to the length of roads has increased steadily. In 1978, the ratios were 224.9 for rail transport, 5.86 for highways, 7.4 for inland water transport; but by 1989, they were 570.9, 26.5, and 17.27 respectively. The ratios of freight volume to the length of roads

increased too. In 1978 the ratios were 1,099.8 for railways, 3.1 for highways; and these rose further to 1,953.8 and 33.3 respectively in 1989.

Passenger transportation was over-crowded. In many cases, especially along the principal rail lines, a passenger had to wait in a queue for hours, even entire days, to get a railway ticket. A black market for tickets developed in most major stations. Urban transportation has suffered the most severe congestion. The national average ratio of urban vehicles per kilometre of road increased from 2.1/km in 1978 to 5.9/km in 1989. Traffic jams have become a routine of urban life. Meanwhile, the number of bicycles per 1,000 urban people increased from 321 in 1978 to 548 in 1989 and the number of buses per 1,000 people increased from 0.16 in 1978 to 0.46 in 1989. It takes many urban residents 2 to 3 hours to commute to work by bus each day and people are frustrated by traffic jams on the roads and by the crowded rush hour buses.

7. Communications

The postal service remains as the primary means of communication for most Chinese people and the quality of service has been satisfactory for most users. Telecommunications, however, is still one of the most backward sectors and has been identified as a critical bottleneck inhibiting economic and social development in today's rapidly advancing information world.

Until as late as the mid-1980s, almost all civilian telecommunication facilities in use were those built in the 1950s and the 1960s. In 1980, there were just 0.43 telephones per hundred people, as compared to 0.27 ten years earlier. For urban residents in the provincial capitals, the figure was higher - 2.1 telephones per hundred people. But most of these telephones were in official establishments and of the few households owning telephones, most were government officials. In rural areas, the villages which could be reached by phone as a percentage of total villages was 45.4 per cent in 1985. The past decade saw government efforts at various levels to speed up the construction of telecommunication infrastructure, but the shortages and congestion have not yet changed significantly as demand has increased with economic development and rising incomes. For instance, the rate of first connection of urban calls reached 64.64 per cent in 1987, but dropped back to 56.96 per cent in 1988 and fell further to 56.54 per cent in 1989. The difficulty of getting a telephone line remains one of the most frustrating problems of urban life. An average urban household in Beijing must pay more than its total annual income to have a telephone installed. In many cases, it needs to pay even more because officials or workers of the telephone company need to be bribed when there is still excess demand on the market.

Table 7. The quantity and quality of telecommunication services

	1980	1987	1989
Telephones per 100 persons	0.43	0.75	0.98
Telephones per 100 persons in provincial capital cities	2.1	4.1	5.1
Percentage of cities at county level and above equipped with automatic telephone exchanges	38.4	49.3	61.0
Percentage of townships with telephone services	95.5	95.1	95.8
Percentage of villages with telephone services	62.8	44.8	43.6
Rate of delayed delivery of telegrams		0.3	0.3
Rate of delayed long-distance telephone calls		16.32	13.01
Rate of first connection of urban calls		64.64	56.42

Sources: *China Statistical Yearbook*; and *China Social Statistics*, various years.

The government is desirous of a more rapid development of the communications sector and had given it high priority. However, investment in this sector has not increased significantly as a percentage of total government expenditure on economic construction. The central government adopted the policy to encourage the local government to increase investment in communications. It also plans to raise funds from individuals to boost the development of telecommunications.

F. CORRUPTION

Corruption enlarges income disparity and creates social tension. The market-oriented economic reform has created two new outlets for corruption: (1) "selling" business licenses to non-governmental businesses; and (2) "rent-seeking" on the difference between the administered prices and market prices.

An important part of economic reform is to allow the non-state controlled sector to be established and developed by local governments and private individuals. However, the state sector has remained the dominant sector and government regulations over the non-state sector have been restrictive. Government officials still hold enormous power to interfere in business activities, especially in respect of procedures required for the establishment of enterprises. Legislation regarding

private and local businesses has been insufficient and the enforcement of existing laws is weak. It has been hard to use legal procedures to protect entrepreneurs from power-abusing officials. At the same time, as the market develops and the profitability of non-state owned enterprises tends to be high, businessmen are able to pay high bribes to officials to remove certain obstacles, including taxes. Generally speaking, government officials can collect bribes in connection with any kind of business activity and at any phase of business operation by abusing their "approval" power.

Price reform has also opened the door to corruption. To avoid steep inflation and maintain the present living standard, it has been conducted in a "step-by-step" manner. One major device for this purpose is the so-called "double-track price system", under which planned prices and market prices are effective for the same goods at the same time, but for different sales - planned sales or market sales. While this mechanism has succeeded in introducing some market forces into a planned economy without making anyone worse-off for the time being (thus winning people's support), it gives rise to corruption, because now the government officials who hold the discretion over the "planned goods" could easily make their own profits simply by purchasing goods at the low artificially fixed prices and then selling them in the market. Some research results show that the total value of the differences between planned prices and market prices of all goods which were subject to the double-track price system amounted to RMB200 billion yuan or one-fifth of the national income in 1988. This amount did not necessarily reflect the illegal earnings of corrupt officials, but it did constitute the object of various "rent-seeking" practices.

Wide-spread corruption turned out to be one of the most important causes for political unrest in the late 1980s. To maintain political stability, the government initiated a campaign against corruption. According to official statistics, in 1989, a total of 20,794 bribes involved in 116,763 corruption cases were persecuted; the total amount of illegal income recovered from corrupt officials amounted to 482 million yuan. Among these, 13,057 cases involved bribes of over 10,000 yuan. More than 70 officials involved held high ranking positions (see Li Peng, 1990). The persecuted cases may be only the "tip of the iceberg", but the figures indicate the seriousness of the problem.

III. INSTITUTIONAL ARRANGEMENTS FOR SOCIAL DEVELOPMENT

A. THE GOVERNMENT, ENTERPRISES AND INDIVIDUALS IN SOCIAL SECTORS

In the past four decades, the Chinese Government has committed itself, partially based on the egalitarianism of socialist ideology, to reallocating China's very limited resources to meeting the people's basic needs - food, primary education and health care, basic social security, etc. - and to emphasize social development, more than other countries at a similar level of economic development. This commitment has contributed to China's relatively high performance in social development compared to other developing countries and to its higher ranking with respect to the HDI.

The Government's commitment has been translated into its role of direct provision of not only the social infrastructure or "software" such as legislation, regulation and coordination for social development, but also almost all the physical infrastructures or "hardware": the schools and hospitals are almost all run by the State, the urban public utilities are all state-owned and transportation, communication and public utilities are all owned by the Government. Social welfare for urban workers is provided through enterprises, but the final responsibility is borne by the government because it has to grant subsidies or bank loans to those loss-making enterprises which are no longer able to provide wage payments and other benefits to their employees. The government actually tried to take care of everything and to place everything under its control, especially in urban areas. The consequence is that the development of social sectors has been heavily dependent on government expenditures.

With this kind of institutional arrangement for social development, it is difficult to maintain a balance between the social and economic dimensions of development, especially after decentralization took place. When the government budget revenue declined as a proportion of the GNP, the expenditures on social sectors are hard to maintain. However, the data show that government expenditures on social sectors as percentages of both the total expenditures and GNP, have increased in the 1980s as compared to the 1970s and remained quite stable in most years during the 1980s (see table 8). This reflects the positive attitude of the Chinese Government towards the social sectors. The stability of the expenditures on social sectors as a proportion of GNP, however, was achieved at the expense of government expenditures on economic sectors and therefore at the expense of the government's ability to implement its macroeconomic management policies, especially fiscal policy. The decline of government's ability is one of important causes of the economic instability and inflation of the late 1980s.

Table 8. Government expenditures in social sectors

<i>Year</i>	<i>Total expenditures as percentage of GNP</i>	<i>Expenditures on social sectors as percentage of total budget</i>	<i>Expenditures on economic sectors as percentage of total budget</i>	<i>Expenditures on social sectors as percentage of GNP</i>	<i>Expenditures on economic sectors as percentage of GNP</i>	<i>Expenditures on education as percentage of GNP</i>	<i>Expenditures on health as percentage of GNP</i>
1978	31.24	13.23	63.71	4.10	19.73	1.97	0.85
1980	24.28	16.41	55.31	4.45	15.01	2.58	0.95
1981	22.83	18.97	48.83	4.43	11.41	2.64	0.98
1982	21.64	21.07	47.10	4.68	10.46	2.73	1.05
1983	21.50	21.86	49.15	4.86	10.93	2.78	1.07
1984	21.57	21.47	50.74	4.77	11.27	2.82	1.03
1985	21.81	22.14	48.51	4.77	10.46	2.98	1.03
1986	23.31	20.81	52.97	5.00	12.73	3.08	1.04
1987	20.96	20.66	51.46	4.48	11.15	2.76	0.93
1988	18.79	21.47	51.61	4.15	9.97	2.60	
1989	18.49	22.19	52.34	4.20	9.91		

Sources: *China Statistical Yearbook*, various years; and *China Finance Statistics*, 1950-1988.

Note: Social sectors include education, health-care, scientific research, culture, social welfare and relief work.

To maintain balanced development, the Government started in recent years to diversify the financial resources for social development and to experiment with new social arrangements which involves more people in contributing to social development. For example, enterprises are required to provide special funds for the development of local education and are encouraged to institute their own schools for employees and employees' families. Rural households have been asked to make contributions to the development of local education and health care. Besides voluntary donations, various local taxes (usually in the forms of "fees") have been levied on farmers. User's fees have been increased in order to reduce government subsidies to the social sectors. The social security system and urban housing system are undergoing reforms to cut down government burdens. These measures increased the contributions of individuals and enterprises to the social sectors (see table 9). These new arrangements, however, are still far from being institutionalized and substantial work is needed to establish a more productive and effective system.

B. THE INSTITUTIONAL ARRANGEMENT FOR DECISION-MAKING

1. The centre-local relationship

Even in the reformed socialist economy, decision-making power in China is still highly centralized. Not only those decisions which concern nationwide interests must be made at the central level, but also major local policies should in principle be approved by central authorities. The central government also sets the divisions of and limitations on power for various matters between the central and the local level. Before the reform, for example, the rule was set by the central government that the provincial government has the right to make a decision (before reporting to the central government) on an investment under RMB 10 million yuan and all other investment projects above 10 million yuan should be approved by the central authority (the State Council or the State Planning Committee). From 1985, local decision-making power on the investment has been expanded to include all investments under RMB 30 million yuan. Central authorities, however, still have the power to revoke the decision-making powers of the local governments at any time. Using the example of investment decisions again, it can be observed that, during the period of retrenchment from late 1988 to 1990, most provincial decisions were cancelled or simply ignored, as the central government ordered local officials to put a stop to many investment projects which were already under construction as a result of local decisions.

The local governments, however, did receive considerable autonomy over their own regions' economic and social affairs in decentralization reforms of the past decade. After the remittance of a certain amount of budget revenue to the

**Table 9. Social sector budget
(Billion yuan)**

	1975	1980	1985	1988
1. Education				
Government expenditure	5.14	11.54	25.51	36.40
Extra-budget expenditure by institutions and public enterprises ^{a/}	0.61	1.96	3.66	4.60
Extra-budget expenditure by local government and schools	0.87	1.06	1.50	3.35
Donations from various sources ^{b/}	n.a.	n.a.	1.60	2.46
Expenditure by households				
Urban households ^{c/}	n.a.	n.a.	1.55	4.11
Rural households	n.a.	n.a.	n.a.	n.a.
2. Health				
Government expenditure	2.25	4.26	8.84	12.39
Expenditure by state-owned enterprises and institutions	2.73 ^{d/}	3.64	6.47	n.a.
Expenditure by households ^{e/}				
Urban households	n.a.	n.a.	1.65	3.66
Rural households	n.a.	n.a.	5.64	n.a.

Sources: CSY, CSS, UHRE, CRS, various issues.

^{a/} Mainly expenditures on technical education and professional training by various public institutions and state-owned enterprises with their own financial resources (some of which come from government appropriations). ^{b/} Donations for purposes of education from individuals, public and private enterprises, overseas Chinese, etc. ^{c/} Per capita expenditure by urban households (based on survey of household expenditures). ^{d/} For 1978. ^{e/} Include expenditures on medical care and on medicines. Calculations are based on survey of household expenditures.

State Treasury, the provincial governments can make decisions on their own on many matters including the local economic development plan, government expenditures, and social welfare packages. They can even protect the regional economy by blocking imports from other regions, which is what happened in the sluggish market of the last two years. In many cases, "local policy" plays a more important role and the "local voice" has become much stronger than before. This is not only because the central government has granted local governments the right to make their own decisions, but also because local authorities have become economically and financially stronger than before in their relationship with central authority - they have their own sources of revenue and local

government expenditures make up a growing proportion of total state expenditures (combining the “budgetary” revenue-expenditure and the “extrabudgetary” revenue-expenditure. See table 10 on the relative financial powers of the central and local governments). It should be noted that the decentralization reform so far has mainly decentralized decision-making power to local governments and state-owned enterprises, not to private individuals, although the number and significance of private businesses have been growing steadily.

It is important to understand that the central government in its relationship with a particular local government serves not only as a “supervisor” or “boss”, but actually, in many instances, acts as the representative of the interests of all other local governments or all other regions of the country. Special treatment for one region will be opposed by others, whose interests must also be reconsidered by the central planner. There will be no special treatment if the central government cannot provide a strong argument to justify the decision to other regions by showing either the urgent political priority or the benefits other regions would eventually get from the policy. Even if a policy may benefit all regions in the long-run, if the majority of regions oppose it, it may not be adopted. For instance, during 1989/90, the central government tried to reform the fiscal system and to increase the central budget revenues as a proportion of the total state budget revenue so as to strengthen its ability to carry out macroeconomic stabilization policies. This attempt failed because almost all the regions opposed it. In a decentralized socialist country, the central government is not necessarily a weak one, but can only be strong when it is supported by a majority of local governments. (The strength of the central government also depends on some other conditions discussed below).

2. The process of decision-making

The process of decision-making is where all parties concerned come together to exercise their decision-making power. Even in the most strictly centralized period in China’s history of the past 40 years, most important economic and social development decisions required adherence to certain procedures and involved a variety of opinions, through discussions and bargaining among various parties. This may be demonstrated by the process of drawing up the State Plan for economic and social development. Every province and every ministry under the State Council prepares their own plans for the forthcoming year. Their plans are submitted to the State Planning Committee (SPC) and integrated into a draft of the National Plan which already reflects the central government’s strategic consideration. This draft would in turn be taken by local governments and ministries as a guiding principle but would still be subject to revision according to the comments and recommendations of local officials and ministerial

Table 10. The financial power of central and local governments

<i>Year</i>	<i>Total budget revenue as percentage of national income</i>	<i>Central expenditures as percentage of total state expenditures</i>	<i>Extrabudget revenue as percentage of national income</i>	<i>Local extrabudget revenue as percentage of total extrabudget revenue</i>	<i>Central budget deficits^{a/} (billion yuan)</i>	<i>Total local budget deficits (billion yuan)</i>
1979	31.9	47.9	13.5		-13.333	-3.734
1980	28.3	50.7	15.1		-14.550	1.800
1981	25.8	50.8	15.2		-1.1870	-1.364
1982	25.4	48.1	18.8	66.3	-4.6280	-1.694
1983	25.6	48.2	20.5	62.8	-8.3960	4.050
1984	26.0	46.6	21.0	60.4	-3.0000	-1.454
1985	26.1	44.5	21.7	58.4	0.0830	2.079
1986	27.7	39.3	22.0	58.8	-9.4180	2.363
1987	24.2	39.5	21.7	59.2	-9.6780	1.719
1988	21.6	35.9	19.7		-10.651	2.796
1989	22.2					
1990	22.7					

Sources: China Statistical Yearbook, various years; and China Finance Statistics, 1950-1988.

^{a/} The "budget deficits" here are government announced figures, which are "after borrowing" deficits when all debt borrowing have been counted as revenue.

bureaucrats. Then a national planning conference would be held before finalizing the Plan. This conference would provide the chance for intensive and extensive bargaining between the central planners and local governors and between politicians and ministerial bureaucrats. Everyone in this conference (the proceedings of which are not made public) negotiates on behalf of his own region or sector. The final outcome, of course, will be some kind of compromise and the objectives of all parties involved would more or less be reflected in the final Plan.

From this point of view, difference between the conventional centralized system and the reformed decentralized system only exists in the sense that the central authority's preference was weighted more under the old system while under the new system the local governments have a more influential voice in the decision-making process.

The Communist Party continues to be the main ruling force and the most important strategic decisions are made within the Party first then approved by the People's Congress and implemented by the State Council. There is a "core" leadership consisting of the most influential senior party leaders, regardless of whether they currently hold an official position in either the party or the Government. Before any decision is reached, however, the senior party leaders also consult with local officials and ministers as well as their own think-tanks. The State Council is responsible for the routine decisions each day as it implements the Party's strategic decisions. It also prepares drafts of laws and regulations which will be submitted to the Party and the Congress for review and approval. The People's Congress is nominally the highest authority of the country but so far it has not been very active, and has functioned mainly as the body which provides formal approval of what the Party leaders and the State Council have already decided.

Under such a political system, the "strength" or "weakness" of the central government would depend partially on the power structure of the top leadership. If one leader (like Mao Zedong) could stand out above all political factions within the leadership, the central government would be strong as it could effectively force the local governments to follow its orders in the absence of a vocal opposition. If this is not the case, decisions are reached only when a certain political balance is established among different factions, and the central government would be a weak one because of its inability to make quick and decisive decisions. In other words, under such a political system, difficulties in reaching a "consensus" within the core of the top leadership mean that the smooth coordination and cooperation among ministries and local governments would be hard to achieve.

3. Individuals' participation

Under the current system, there are several formal and informal channels that individuals can resort to express opinions or complaints to the leadership. These are as follows.

- (a) The Congress and the People's Consultative Conference. These bodies consist of officials at all levels and some well-known figures from various fields. The representatives of the Congress and the members of the Consultative Conference bring with them some understanding about what ordinary people are thinking. Some of them would pass this information to the leadership through congressional activities within certain limits. As an example, we can cite the case of the people prevailing upon the government, through the Congress and the Consultative Conference, to increase expenditures on education beginning in the mid-1980s.
- (b) Mass media. There was a period in the mid-1980s after the reforms began, when newspapers, and radio and TV broadcasts publicized a considerable amount of people's complaints and local problems.
- (c) Internal channels. When people do not have official channels for expressing their opinions and complaints, they tend to speak out among themselves. If the problems are not severe, the complaints are not very noticeable. The more severe the problems, the more strong and more frequently the people would express their dissatisfaction one way or another. The more the complaints, the more likely the local officials or "inside-reporters" would notice and report them to the top leadership. Maybe the leadership would not like to hear them and would not work on resolving the problems directly, but at least they would become aware of them and to take them into consideration in the policy-making process. Many problems have been resolved - slowly and sometimes annoyingly - through these informal channels, and it can be predicted that many others will continue to be worked out in this way.

The low level of people's direct participation in the decision-making process, in turn, diminished their belief in the importance of their participation. A survey made by the State Statistical Bureau and the Institute of Sociology of the Chinese Academy of Social Sciences in 1988 shows that only 33.3 per cent of urban workers thought that their participation in solving various social problems (including inflation, income disparity, corruption, social inequities, etc.) would be important; 47 per cent believed that only the government would have the means to solve social problems and they were not in a position to help; others in

poll were simply not sure whether the problems could really be solved at all (see State Statistic Bureau, *China Social Statistics*, 1990).

4. Governance in the transition period

The following characteristics can be found in China's reform of the past decade:

- (a) The reform remains mainly economic, with the political system unchanged;
- (b) For the state-owned sector, reform has been mainly in the direction of decentralization of managerial decision-making power, while ownership remains unchanged; and
- (c) A non-state sector has been allowed to develop under the condition that the domination of the state sector should be maintained.

In short, the reform so far has confined itself as an economic managerial system reform, without going into more fundamental social institutions. Even so, and whether or not it will move further after this kind of reform, China has been experiencing a transformation from the old methods of governance to the new. The key problem is that the transformation will not be easy and that it cannot be done overnight.

Before the new system can be established and starts to function well, there might be a long period of instability because of the lack of effective governance or because of an "institutional vacuum". The disproportionate development of the social sectors is an unavoidable phenomenon of transformation. This, however, should not be used as an argument for the restoration of the old system. What is needed is further institutional reforms in order to establish new and effective methods and institutions of governance. For example, when the decentralization of decision-making to enterprises and local governments leads to the reduction of the state budget revenue as a proportion of the GNP, and the central budget revenue as the proportion of the total state revenue, the balanced development of social sectors and economic sectors is of necessity hard to maintain. But this is just due to lack of proper complementary institutional arrangements to ensure balanced development. What is needed is not to restore the old centralized command system, but to make further improvements in tax laws and their enforcement as well as effective fiscal control over state budget revenues; to reform the present social welfare system and the funding system of other social sectors like education, health-care and environmental protection so as to raise funds from sources other than the state budget, and to establish new social values

to ensure effective cooperation and self-regulation among individuals and institutions under the new system to reduce the operational costs of social sectors. The goals of governance are not just balance and control (like what might exist in "good old days"), but also aim at promoting productivity and prosperity. And the most important factor is not whether there exists some period during which people lose their control over the societal environment, but whether things are going in the right direction towards the establishment of a new and more productive type of governance.

IV. CONCLUSIONS

A. SUMMARY OF VARIOUS SOCIAL PROBLEMS

There are several ways to classify the social problems analysed in this paper:

- (a) *Old vs. new.* Many social problems are left by the old system and not caused by economic restructuring; these include such problems as rural poverty, low quality of rural education, the rural-urban disparity in employment, and urban congestion. Some social problems, however, are indeed caused by the institutional reforms and adjustment of industrial structure, such as the widening of regional disparity, the discontinuation of previous rural collective health insurance system and the deterioration of the natural environment.
- (b) *Disproportionate progress vs. absolute deterioration.* The typical case for China is that in most social dimensions, advances have been made after a decade of institutional reform and economic development, but they are not commensurate with the rapid economic development that has been achieved.² Meanwhile, in a few areas, absolute deterioration can be identified, such as the loss of health insurance for rural people³ and worsening of environmental conditions.
- (c) *Designed vs. undesired.* The widening of income disparity among workers is an example for the "designed" changes, because it was one of objectives of economic reform which aimed at the break up of the incentive structure under the old system so as to improve economic

² Economic development may not be great enough either if compared to other countries or compared with China's potentials. The "progress" made or achievements identified in this paper, nevertheless, are all based on the comparison with China's own past.

³ Even in this case, it is still hard to say that there was an absolute deterioration in rural health care condition, if we take into account the fact that the life expectancy of rural people has gone up and rural (county level) infant mortality rate has fallen during the past 10 years.

efficiency. Meanwhile, many other adverse changes in social dimensions are undesired because by solving them, people will get better off. Among those undesirable social consequences, were some that took place because of the decision makers' lack of awareness of the full ramifications of the impact of a reform policy. This is the case in which the consequence may be different if the decision makers were more knowledgeable and took some complementary measures. An example is environmental deterioration in some areas, which was partly due to the government's lack of adequate information on what would happen when policies were adopted to promote the development of local small scale industries. It was already too late when additional measures were taken to strengthen environmental protection. Another kind of undesired changes consists of those cases where there was full awareness of the consequences and implications of a policy measure but there was no suitable alternative policy option to pursue to achieve the same end. The example for this is the income effect of price reform. In this case, the short-run lowering of real income of certain groups can be regarded as a "cost" of the reform. Without the price reform, or without reallocating some resources from one sector to another, or redistributing income among different sectors, the population, including groups being hurt, would pay a much higher price later as there would be no improvement in economic efficiency.

B. FURTHER REFORMS

Many policy implications can be drawn from the above analyses. The Government should pay more attention to the social dimensions of economic development and adopt concrete and enforceable policies and regulations to promote balanced progress of social sectors along with economic growth. Besides this, what is of crucial importance is to undertake further institutional reforms to create an effective social mechanism in order to achieve a high level of participation by the individual, as well as efficient management and harmonious coordination. Some policies concerning fundamental institutional changes, however, are far beyond the scope of this paper and need more profound and comprehensive study and analysis which cannot be attempted here. Following are some policy recommendations concerning some reforms which seem most feasible in the near future, given the current economic and political constraints:

- (1) Fiscal reform. Current fiscal contract system between central and local government should be replaced by a tax-sharing system, in order to maintain the increase of state revenue along with the growth of national income and maintain the central government revenue as a proportion of total state budget. This will be beneficial for the central

government to carry out its social responsibilities, as well as to implement its macroeconomic stabilization policies. On the other hand, to narrow the gap between regions, an interregional assistance programme should be carried out. Moreover, the central government should take full responsibility to assist poor inland regions to reduce poverty and increase income, and the more developed coastal provinces should be encouraged to enter into some form of mutually beneficial economic assistance relations with poorer provinces. Local barriers to inter-province trade should be removed and forbidden by legislation.

- (2) Social security system reform. The current “partial and enterprise-based” social security system (including pension and unemployment insurance) should be expanded to cover not only employees in the state sector but also (at the first stage) those in the urban private sector and (at a later stage) the rural population. This will not only increase labour mobility, but also improve the social equality in enjoying social benefits. The financial sources for the social security system should also be widened to include individual contributions to reduce the burden on the state budget.
- (3) Health insurance system. This is especially urgent for rural people. The Government should provide support for the rural cooperative health insurance system which should be widely established in accordance with different economic conditions in different areas. Health insurance should be available for those who are willing to pay for it.

REFERENCES

Statistics:

1. *China Statistical Yearbook* (CSY), State Statistical Bureau of People's Republic of China, 1990 (English edition), 1987, 1988, 1989.
2. *China Statistical Abstract* (CSA), 1991, International Consultant Center for Social and Economic Information, 1991.
3. *China Finance Statistics* (CFS), 1950-1988, edited by General Planning Department, Ministry of Finance; China Financial and Economic Publishing House, 1989. (Chinese edition).
4. *China Education Statistical Yearbook* (CESY), 1988, ed. by State Education Committee, Beijing Industrial University Press, 1989.

5. *China Health Statistical Yearbook* (CHSY), 1987, 1986, 1985, Ministry of Health.
6. *China Social Statistics* (CSS), 1987, 1990, Department of Social Statistics, State Statistical Bureau of China, 1987.
7. *China Labour and Wage Statistics* (CLWS), 1949-1985, 1978-1987, Department of Social Statistics, State Statistical Bureau of China, 1986, 1988.
8. *Urban Household Income and Expenditure* (UHRE), *The Nation-wide Survey*, 1988, 1987, Team For Urban Social and Economic Survey, State Statistical Bureau, 1989, 1988.
9. *China Rural Statistical Yearbook* (CRS), 1989, 1988, 1987, Department of Rural Social and Economic Statistics, State Statistical Bureau.
10. *China Price Statistical Yearbook* (CPS), 1989, Team for Urban Social and Economic Survey, State Statistical Bureau, 1989.
11. *World Development Report* (WDR), 1989, The World Bank, Oxford University Press, 1989.
12. *Yearbook of International Trade Statistics* (YITS), various years, The United Nations, New York.
13. *Monthly Bulletin of Statistics* (MBS), various years, The United Nations, Geneva.
14. *Contemporary Practical Compendium of World Economy* (CWE), Institute of World Economy and Politics, Chinese Academy of Social Sciences, China Economic Press, 1990.
15. *National Economic and Social Development* (NESD) *During Seventh Five Year Plan*, State Statistical Bureau, China Statistical Press, 1990.

Books and articles:

- Atkinson, A.B. (1990). *Unemployment Insurance and Economic Reform in China*, London, Programme of Research into the Reform of Pricing and Market Structure of China, London School of Economics, 1990.
- Byrd, William A. and Lin, Qingsong (1990). *China's Rural Industry: Structure, Development, and Reform*, Oxford University Press, 1990.
- Cai Hong (1991). "Rural workers thrive in urban workplace", *China Daily*, 24 June 1991.

- Chen Juansheng (1991). "China's poverty relief and economic development", *Economic Daily*, 6 May 1991.
- Edwards, S. (1989). "The sequencing of economic reform: analytical issues and lessons from Latin American experiences", *The World Economy*, vol. 13, 1989.
- ESCAP (1990). *Restructuring the Developing Economies of Asia and the Pacific in the 1990s*, United Nations, New York, 1990.
- Kakwani, N., Makonnen, E. and van der Gaag, J. (1990). *Structural Adjustment and Living Conditions in Developing Countries*, World Bank, Policy, Research, and External Affairs, Working Paper, WPS 467, 1990.
- Li Hong (1991). "Welfare reform sees initial success", *China Daily*, 21 May 1991.
- Li Peng (1990). "The Government report to third session of the Seventh People's Congress", *People's Daily*, 17 March 1990.
- UNDP (1990). *Human Development Report 1990*, New York, Oxford University Press, 1990.
- Zhu Qingfang (1990). *An Analysis of Indices of Social Security*, Collection in Social Sciences, vol. 3, 1990.
- Zhu Ling (1991). "Income distribution: the trend after reform", *The Reform*, vol. 4, 1991.

CONNECTION BETWEEN ECONOMIC AND SOCIAL DEVELOPMENT: AN INDIAN CASE STUDY

by

*Suresh D. Tendulkar**

I. INTRODUCTION

In the paper, we propose to study the Indian experience regarding the possible connection between economic and social development.

We may note at the beginning that in the Indian context, the major focus of social development has been primarily on poverty alleviation especially since the mid-1960s. While institutional restructuring, adult education, compulsory primary education and public provision of easily accessible health services have been on the agenda of social development in their own right as well as in their instrumental role in poverty alleviation, they have not received as much political support and legitimacy as poverty alleviation. Consequently, in this study too, poverty alleviation efforts and performance have been discussed in greater detail than other aspects of social development.

Secondly, the Indian development strategy consciously chose to insulate the economy from the transmission of influences - both positive and negative - from the rest of the world till very recently. Consequently, it did not benefit from the boom in international trade till the early 1970s, nor did it have to undertake major structural adjustments in response to adverse movements and fluctuations in world trade since then. Major structural reforms for integration with the global economy have been on the agenda of the policy reforms only since July 1991. This is not to deny that the period since the oil price hike of 1973 has indeed been marked by reluctant, halting and unplanned efforts towards adjusting to the external shocks. However, these adjustments have not involved major structural adjustments. The major structural transformations in industry and agriculture have taken place in response to internal compulsions and their pace has been dictated by considerations of internal socio-political and organizational feasibility than by compulsions to adjust to external shocks.

* Professor of Economics, Delhi School of Economics, University of Delhi, Delhi, India.

Under the circumstances characterized above, it should be obvious that the relative emphasis between economic and social development as also the relative importance attached to different dimensions of social development emerge as revealed outcomes shaped by the internal socio-political compulsions and constraints rather than one being looked upon as a "cost" incurred in order to advance in the other dimensions in the process of adjusting to external shocks. The present study is shaped by this perception. It is organized as follows. The next section outlines the economic development strategy and record of economic growth since Independence. Section III is devoted to social development with major focus on poverty alleviation efforts, performance and possible underlying factors. The period chosen has been since 1970/71 when poverty alleviation received major political support. We also discuss over the same period, the progress in the areas of health and education. Section IV discusses the issues relating to the modes of governance and their broad qualitative assessment. The final section presents concluding observations.

II. DEVELOPMENT STRATEGY AND RECORD OF ECONOMIC GROWTH

On attaining Independence from the British colonial rule in August 1947, the central problem of Indian development was posed in terms of initiating a self-reliant and sustained growth process in a poor, backward economy that had remained virtually stagnant for a long time during the pre-Independence past. Given the inadequacies in the magnitude as well as the regional spread of the infrastructural facilities, insufficient spread of monetization as well as the banking and financial institutions, the non-existent or underdeveloped markets and the consequent shyness or unwillingness on the part of entrepreneurs and investors, it was argued that private initiative and market forces, by themselves, could not be relied upon to initiate the sustained growth process. This provided the justification for a wide-ranging state intervention with comprehensive centralized economic planning as an instrument. It may be noted that the distrust of the market forces was also rationalized more positively in terms of the iniquitous outcome of those forces in the face of the pervasive inequalities in the size distribution of privately-owned wealth and accentuated and perpetuated further by social inequities. There was clearly a need for the reconciliation among (a) the egalitarian aspirations - later symbolized in the rhetoric of the socialist pattern of society, (b) the predominantly private ownership of means of production and the capitalist and the pre-capitalist institutions which were inherited from the past and (c) the democratic political framework which dictated a non-coercive, consensus-based and gradualist course in state intervention. This reconciliation was sought in the

choice of the mixed economy as the institutional framework¹ in which state-initiated development process was expected to take place. Progressive expansion of the public sector and its determined use by the state for providing socially desirable direction to private economic activity were the key elements in this institutional framework. The success of this framework was crucially conditional on the existence of the autonomous state that would be able and willing to initiate and implement socially desirable actions independently of the diverse interest groups in the society.

This was a bold experiment that was then described as democratic socialism in an underdeveloped economy which was thought to offer an alternative to and a contrast with the other major experiment under the communist regime that was taking place in the populous underdeveloped economy of the mainland China. This provided the United States with a possible ideological stake in the Indian development process and, what is more, persuaded it to support centralized state intervention in India in spite of its ideological commitment to free enterprise. In this situation, the first Prime Minister of India, Nehru, propounded and practised the principle of non-alignment with either of the two blocs led by the USA and the USSR. This policy of non-alignment in the external relations enabled India to attract concessional aid from both the blocs in the then prevailing atmosphere of cold war.

The solution to the central development problem posed above, namely, initiating a sustained growth process was concretized in the Mahalanobis strategy² that formed the basis of the Second Five Year Plan in the mid-1950s. This strategy had two components. The long-term component sought to increase the rate of capital accumulation by raising the share of the basic, heavy and machine-building industries in the allocation of total investment in a sustained fashion. This would enable the economy to raise the capital-intensity, and, with its impact on improving labour productivity raise the long-term growth rate. Given the longer gestation lag and higher capital-intensity of the basic, heavy and machine-building industries, this strategy was not expected to increase the employment and the supplies of consumer goods in the short and the medium-run. The compelling need for both in a low-income underdeveloped country like India

¹ For elaboration of the specific features of the mixed economy institutional framework in the Indian context and its implications for policy formulation, see S.D. Tendulkar, "The role of policy research in formulation and implementation of macroeconomic strategies in India", United Nations, Economic and Social Commission for Asia and the Pacific, "Institutional relations in development", *Development Papers No. 8* (Bangkok, 1991), pp. 31-49.

² See P.C. Mahalanobis, *The Approach of Operational Research to Planning in India* (Bombay, Asia Publishing House, 1963), esp. chapters 3 to 6.

prompted Mahalanobis to suggest a transitional strategy. This consisted of encouraging cottage, village and small-scale industries which were taken to be capital light and labour-using. This was expected to enhance employment as well as supplies of consumer goods in the transitional period while releasing scarce investable resources for long-term growth.

Three interrelated elements of critical choice in this strategy deserve to be emphasized because of their profound impact on the character of the growth process. The first one related to the role of foreign trade in the growth process. It was argued³ that large economies - defined in terms of population, potential markets and availability of diversified natural resources - are marked by limited reliance on international trade. In the Indian context, this rationalization of limited reliance on foreign trade was further reinforced by the import substitution-based industrialization that was adopted in the light of "export-pessimism" prevailing in the 1950s. The second critical choice related to the nature of the regulatory regime. Consistent with the distrust of the market forces mentioned earlier, the discretionary, direct licensing control regime requiring case by case examination by bureaucracy was chosen. This was reflected in both industrial and import licensing. The third critical choice involved significant extension of the public sector beyond the conventional indirectly productive infrastructural facilities to the directly productive basic, heavy and machine-building industries requiring large investments. This strategy was implemented from the mid-1950s to the late 1970s.

We may now note the key ingredients of the policy-package adopted for the implementation of the Mahalanobis strategy, its relationship to the three critical choices and its consequences.⁴ Starting with the trade policy, in the fixed exchange rate regime that existed till the early 1970s, maintenance of an over-valued exchange rate implied the acceptance of the export pessimism judgment. In order to restrict potential excess demand for foreign exchange, various graded tariff and quota restrictions on imports were imposed along with the discretionary instrument of import-licensing using the criteria of "essentiality" and "indigenous non-availability". Traditional primary exports were virtually neglected and in the case of non-traditional exports, certain ad hoc incentives were given to offset the disadvantage arising from the over-valued exchange rate. Recurrent foreign

³ See I.G. Patel, "The strategy of Indian planning", in C.R. Rao, *Essays on Econometrics and Planning* (Calcutta, Pergamon Press and Statistical Publishing Society, 1963), pp. 217-224.

⁴ For details, see the following: J.N. Bhagwati and P. Desai, *India: Planning for Industrialization*, (London, Oxford University Press, 1970); J.N. Bhagwati and T.N. Srinivasan, *Foreign Trade Regimes and Economic Development: India* (New York, National Bureau of Economic Research, 1975); and United Nations Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East*, 1968, chapter II, "Controls and liberalization in India", pp. 69-75.

exchange crises - arising partly out of the adopted policy package itself - further strengthened import controls and foreign exchange restrictions of various kinds. These restrictions along with the over-valued exchange rate, provided virtually unlimited and continued protection to the producers of import-competing products and discriminated against exports. Concessional foreign assistance substituted for export expansion as a source of foreign exchange during this period. In the industrial policy domain, various capital subsidization measures (through tax exemptions, rebates, and concessions as also concessional finance through public financial institutions) were combined with industrial licensing applicable at the upper-end of the investment scale with a view to controlling capacity, output-mix, location and technology at the micro level in the private sector. While trade policy protected the domestic producers from international competition, industrial licensing restricted the entry of other producers and prevented the emergence of internal competition especially at the upper-end of the investment scale. The net impact of import-control and capital subsidization policies was to increase the import and capital intensity of industrialization that was taking place in a protected environment. Simultaneously, direct public sector investment got accelerated in the infrastructural sectors as well as in universal intermediates like steel, cement, machine tools etc. The infrastructural services as well as universal intermediates were supplied at subsidized prices and reinforced the stepped-up private profitability in a protected market. Comprehensive plan frame may have further contributed by reducing the secondary uncertainty (a la Koopmans) faced by the private entrepreneurs.

The period from the early 1950s to the mid-1960s was marked by a sustain growth in real GDP per capita of about 2 per cent per annum. A major contribution to this growth came from the manufacturing sector in general (growth rate of 6.5 per cent per annum and the registered manufacturing sector in particular (growth rate of nearly 8 per cent per annum). As mentioned above, a mutually reinforcing dynamic interaction between the public and the private sector investment in a protected domestic market played a crucial role in bringing about this outcome. It was recognized that the growth process was operating under the two sets of constraints, namely, availability of basic wage-good, namely, foodgrains and that of foreign exchange. The wage goods constraint was relaxed by two factors: a reasonably high growth (3 per cent per annum) in the domestic output of foodgrains mainly through area expansion and imports of wheat from the United States under the Public Law 480 under rupee payment arrangement. In the absence of export expansion (even in current dollar terms), concessional foreign assistance from both the blocs contributed towards relaxing the foreign exchange constraint.

Two exogenous shocks disrupted the growth process in the mid-1960s. A war with China (1962) and with Pakistan (1965) increased defence expenditures besides leading to the cessation of foreign assistance from the United States. In addition, two successive and severe droughts in the agricultural years (July-June) 1965/66 and 1966/67 generated inflationary pressures despite stepped up imports of wheat under PL 480. In the face of inflationary pressures, the adjustment to the abrupt cessation of foreign assistance took the form of a cutdown in public investment in particular and the consequent slow-down in the rate of investment in general. The chemical-biological technology-oriented process of green revolution was initiated in response to two severe droughts with the objective of stepping-up the domestic grain-output through the extension of irrigation and raising the yield rate. A package of liberalization sponsored by the World Bank was also tried in the second half of 1966 in the middle of the two droughts. This consisted of devaluation of the rupee combined with trade liberalization and relaxation of industrial licensing procedures. Its impact was confounded with the then prevailing inflationary atmosphere originating in the harvest failures and it was perceived politically to be a failure. This perception got reflected in the enactment of the Monopolies and Restrictive Practices Act (MRPA) in 1969 and the Foreign Exchange Regulation Act (FERA) in 1970 which sought to extend the scope of the industrial licensing regulations by bringing the large industrial houses and private foreign investment under the purview of additional discretionary control regime. The period from the mid-1960s to 1973/74 (the first oil shock) was thus one of instability and adjustment to exogenous shocks. There was a decline in the trend rate of growth real GDP per capita to 1 per cent per annum resulting mainly from the deceleration in industrial output. Trend growth rate of GDP originating in agriculture was marginally stepped up to 2.80 per cent per annum. The growth performance was patchy in terms of considerable fluctuations around the trend growth rates.

A more than quadrupling of imported oil price (from \$US 2.70 per barrel in September 1973 to \$US 11.20 per barrel in March 1974) was preceded by a severe agricultural drought in 1972/73 and indifferent harvest in 1971/72. Another war with Pakistan resulting in the creation of Bangladesh in 1971 led to a further steep rise in defence expenditure. The internal and the external shocks together accentuated the inflationary pressures which had been accumulating since 1972. The point-to-point annual rate of inflation based on the wholesale price index rose from 2 per cent in April 1971 to about 17 per cent in September 1973 and 34 per cent by September 1974. This was accompanied by deterioration in barter terms of trade and a rise in the current account deficit to 1.18 per cent of GDP in 1974/75 compared to an average of 0.2 per cent in the four years prior to 1974/75.

The adjustment to these shocks consisted of a stiff doze of internal demand compression, a slow-down in the rate of real gross domestic capital-formation, some short-term concessional financing from IMF, an acceleration in export earnings (especially in the newly emerging Middle-East markets) facilitated further by exchange rate depreciation and combined with a slow-down of imports and finally, increase in current account transfers, especially remittances from migrants to the oil exporting countries. Consequently, the annual rate of inflation declined from 34 per cent in September 1974 to negative levels by September 1975 and never reached double digit level until June 1979. The current account deficit was converted into the surplus during 1976-1978. This was accompanied by the continuation of the industrial deceleration and the accumulation of the foodgrain stocks with the government and the accretion to the foreign exchange reserves. This period was remarkable for two reasons. First, a hesitant and halting start was made towards reducing the counter-productive impact of industrial regulatory system by providing relaxations of various kinds and a single-window clearance. Secondly, the dependence on imported oil, and a steep rise in its price combined with terms of trade deterioration broke the insulated nature of the Indian economy and catapulted it into the international markets via the need to step up export-earnings. These circumstances prompted a halting beginning of breaking away from two of the three critical choices made under the Mahalanobis strategy i.e. a move towards industrial deregulation and opening-up of the economy to external trade. These were made in response to the perceived compulsions of the changing situation.

The second major increase in the price of oil from \$US 13 per barrel in late 1979 to \$US 30 per barrel in early 1980 also coincided with a severe drought in 1979/80 when real income originating in agriculture dropped by 13 per cent from the record level of 1978/79. Unlike at the time of the first oil-price-hike, the period immediately preceding the second oil-price-hike was marked by reasonable price stability and the accumulation of both food and foreign exchange reserves. There was indeed some disruption in the infrastructural services but it was corrected by the early 1980s through better management of the available facilities. Armed with these favourable initial conditions, the response to the twin exogenous shocks was in terms of (a) stepping up real public-investment along with improving its operation, and (b) further relaxation of counter-productive industrial licensing as well as import-licensing regulations. This was facilitated in the mid-1980s by favourable exogenous circumstances, namely, the reduction in the international price of crude oil and some volume expansion of international trade.

As a consequence of policy-initiatives as well as favourable external environment, the performance of the Indian economy in the 1980s has been far

better than in the preceding three decades. There appears to be a possible break away from the so-called Hindu rate of growth of 3.5 per cent per annum experienced over the three previous decades⁵ ending in 1979/80. A little over 5 per cent growth in real GDP has been recorded for the 1980s. This implies a doubling of the growth rate of real GDP per capita from 1.5 per cent to nearly 3.0 per cent. The higher growth rate has resulted much more from the rise in resource productivity than from the step-up in the rate of investment. This is particularly so in the case of the organized manufacturing sector.⁶ However, the sustainability of productivity growth and hence of the overall stepped up growth rate stands threatened by macroeconomic instability in the fiscal and the balance-of-payments (BOP) spheres. The gross fiscal deficit increased from 3.5 per cent of GDP in 1970/71 to 5.3 per cent in 1980/81. But after 1980/81, it rapidly reached the peak of 9.5 per cent in 1986/87 before declining somewhat to 8.1 per cent in 1989/90. The BOP deficit has increased progressively from 1.5 per cent of GDP at the peak of the second oil-price-hike in 1980/81 to 2.8 per cent in 1988/89 and 2.4 per cent in 1989/90 despite impressive export performance in the latter half of the 1980s. While the blame for this is placed (without any basis and evidence) on the so-called import liberalization of the 1980s (which, as we have described above, was nothing but relaxation of the rigours of import licensing), the major role has been played by the bulk imports (mainly to contain domestic inflation) and defence imports. This large magnitude of BOP deficit had indeed been experienced in the 1960s but it was then financed mainly through concessional foreign aid. In the 1980s, it was financed mainly through drawing down on foreign exchange reserves and short- and medium-term commercial borrowing. This has resulted in a dramatic rise in external debt from \$US 18.6 billion (11.9 per cent of GNP) in 1980 to \$US 62.5 billion (23.9 per cent of GNP) by the end of 1990. It was estimated at \$US 70 billion by the end of 1991. There has also been a corresponding rapid rise in the debt service obligations in relation to foreign exchange earnings. On top of this, during 1991, there was short term liquidity crunch which was triggered by political instability, fall in India's credit rating abroad, dwindling foreign exchange reserves, the stoppage of capital inflows and the emergent capital flight. The urgent need has arisen macroeconomic stabilization in the fiscal and the BOP spheres.

⁵ See R. Nagaraj, "Growth rate of India's gross domestic product, 1950/51 to 1987/88: an examination of alternative hypotheses", *Economic and Political Weekly*, vol. XXV, No. 26 (30 June 1990), pp. 1396-1403.

⁶ See R. Nagaraj, "Industrial growth: further evidence and towards an explanation and issues", *Economic and Political Weekly*, vol. XXV, No. 41 (31 October 1990), pp. 2313-2332; and I.J. Ahluwalia, *Productivity and Growth in Indian Manufacturing Industry* (Delhi, Oxford University Press), chapter 3.

While India boasts a diversified industrial structure that is not found in other countries at comparable level of per capita GNP, this industrial structure has emerged from the import-substitution oriented strategy that was carried out in an environment of discretionary control regime and protection both from the internal and the international competition. Consequently, the technological capability that has been established, has been driven by the necessity of devising production processes irrespective of costs than by product innovations directed toward improving quality or cutting down costs. The relaxation of the rigours of industrial and import licensing that started in the 1970s and got accelerated in the mid-1980s has indeed imparted some flexibility to adjust to the changing market signals. However, the industrial structure continues to be high-cost low-quality, and consequently, unable to be internationally competitive. The cost of inefficiency is being borne by domestic users and consumers of industrial products. This weakness in the industrial structure is sought to be corrected through economic restructuring which is expected to improve resource utilization, have a favourable impact on export growth and impart a long-term viability in BOP at a higher level of participation in international trade.

The other dimension of the industrial structure relates to its limited labour absorption. Despite diversification, the share of the high productivity organized segment, (including the public sector) is no more than 8 or 9 per cent. The economy, therefore, retains its predominantly agrarian character where agriculture and allied activities still provide a major source of livelihood to two-thirds of the workforce. With the growing pressure of population on land, there has been a spill-over of workforce into low-productivity, unorganized and mostly unskilled tertiary activities. The urban informal sector has thus emerged as a persistent feature belying the earlier expectation about its transitional character. Rapid absorption of labour in high-productivity non-agricultural activities is the only long-term solution to this problem. Major economic restructuring aimed at sustained improvement in resource utilization as also rapid growth in resource productivity would lead to higher (direct plus indirect) absorption of labour in high productivity organized segment.

It should thus be obvious that major structural adjustment cannot escape being at the top of the economic agenda for the 1990s. Major policy reforms directed at macroeconomic stabilization as well as at economic restructuring have been initiated since July 1991. They are, however, too recent to be assessed for their effectiveness.

III. SOCIAL DEVELOPMENT

A. APPROACH

The relationship between social and economic development in the Indian development process has been articulated in the Indian Plan documents.⁷ In the early 1950s as mentioned earlier, the central problem of development was perceived in terms of initiating a self-reliant and sustained growth process in a backward economy that had remained virtually stagnant for a long period during the pre-Independence past. The second (1955-1960) and the third (1960-1965) Plan documents contain interesting discussion regarding the distributional impact of growth. It was recognized that economic growth might lead to worsening of income distribution and suggestions were made to counter these tendencies. The basic thrust of the approach was to improve the access of different segments of the population to the income enhancing opportunities generated by the growth process through certain institutional changes. The proposed institutional changes in the rural context included (a) land reforms including tenancy reforms and ceiling legislation; (b) encouragement to cooperative institutions in the field of production, input-supply and marketing; (c) community development scheme to bring about collective action for the purpose of constructing rural infrastructural facilities; and (d) village and block level self-governing institutions to foster broad-based participation in the development process. In addition (e) fiscal instruments were to be deployed for redistributive purposes, (f) expansion of public sector was expected to counter the tendencies towards private concentration of economic power and (g) progressive labour legislation including minimum wage was enacted to protect the interests of labour in the organized part of the economy. These changes were supposed to accelerate the trickle down of the benefits of the growth-process and thereby improve the distributional outcome. A detailed assessment of these changes (especially (a) to (e)) was undertaken in the 1960s and 1970s by official committees.⁸ They pointed towards their

⁷ For a survey of perceptions reflected in the plan documents see S.D. Tendulkar, "Strategies for reducing economic inequalities and alleviating poverty" (mimeo.), UNESCO, Paris (1982); and S.D. Tendulkar, "Economic inequality in an Indian perspective", in A. Beteille, eds., *Equality and Inequality: Theory and Practice* (Delhi, Oxford University Press, 1983), pp. 71-128.

⁸ See *Report of the Study Group on the Welfare of the Weaker Sections in the Village Community* (Chairman: Jayaprakash Narayan), Government of India, Ministry of Community Development (1963) Two volumes; *Report of the Committee on Distribution of Income and Levels of Living* (Chairman: P.C. Mahalanobis), Government of India, Planning Commission Part I (1964), Part II (1968); *Report of the Committee on Panchayati Raj* (Chairman: Asoka Mehta), Government of India, Ministry of Agriculture and Irrigation (1978); and *Report of the All-India Rural Credit Review Committee* (Chairman: B. Venkatappiah), Reserve Bank of India; and *Review Arrangements for Institutional Credit for Agriculture and Rural Development* (Chairman: B. Sivaraman), Reserve Bank of India (Bombay, 1981).

ineffectiveness and/or failure. The reasons were partly social and partly political but the common problem brought out by these evaluations related to the adoption of centralized approach and initiative which imposed uniform solutions in situations marked by social, cultural and economic diversities. These evaluations also indicated that the poorer sections of the society were either being by-passed altogether or inadequately benefited by the growth process. The response to these findings was in terms of evolving target-group oriented programmes with earmarked central or central plus state funding so as to benefit certain identified target groups of socially or economically weaker sections.

This changed perception of the mid-1960s towards distributional consequences of economic growth coincided with certain important changes in the political sphere which lent it political legitimacy and sanction. The charismatic first Prime Minister Nehru had a virtually undisputed supremacy in the Congress Party which ruled without much challenge at the Centre as well as in all the States till Nehru's death in 1964. The general election in 1967 destroyed the supremacy of the Congress Party in many states. In the tussle for leadership after Nehru's death in the changed situation, Nehru's daughter Indira Gandhi emerged as the compromise candidate for Prime Ministership as there could not be any consensus among the organizational bosses in the Congress Party about the successor to Nehru. Mrs Gandhi could not depend on the organization of the Congress Party to establish her supremacy as the organization was tightly controlled by the political bosses whose collective identity was known by the name Syndicate. In this situation, Mrs Gandhi decided to split the Congress Party in 1969, called for the mid-term election in 1971 (following the successful war with Pakistan in 1971) in order to get direct popular mandate and made poverty eradication (GARIBI HATAO) an election slogan. Her faction of the Congress Party got elected to the Central Parliament with a thumping majority and followed it up with a similar performance in the election to the state legislatures using the same slogan.

The Fifth Five Year Plan starting in April 1974, translated the political slogan of poverty eradication into economic terms by suggesting the strategy of growth with redistribution. In this strategy, the deepening of the process of green revolution for agricultural technology transformation was to be combined with target-group-oriented anti-poverty programmes⁹ specifically meant for agricultural

⁹ See K. Sundaram and S.D. Tendulkar, "Anti-poverty programmes in India: an assessment", in S. Mukhopadhyay, ed., *The Poor in Asia - Productivity Raising Programmes and Strategies* (Kuala Lumpur, Asian and Pacific Development Centre, 1985), chapter 3, pp. 165-260; and K. Sundaram and S.D. Tendulkar, "Integrated rural development programme", in S. Mukhopadhyay, ed., *Case Studies in Poverty Programmes in Asia* (Kuala Lumpur, Asian and Pacific Development Centre, 1985), chapter 6, pp. 201-244.

labourers and marginal and small farmers. The aim of these programmes was to improve the economic viability of each target-group by making available subsidized credit and input-supply on a preferential basis. In addition, the minimum needs programme (MNP) was also initiated so as to improve the village-level infrastructure relating to health, education, drinking water and transportation facilities. Despite subsequent changes in the Central and State governments finally culminating in the era of minority government at the Centre towards the end of 1980s, commitment to the social objective of poverty eradication has persisted. This has resulted in the institutionalization of the two major target-group oriented rural anti-poverty programmes. The first one, the Integrated Rural Development Programme (IRDP) aims at rehabilitating the economically non-viable poor households into viable self-employed enterprises by making available subsidized supplies of credit. Secondly, two programmes for wage-employment generation for the poor households, namely, National Rural Employment Programme (NREP) and Rural Labour Employment Guarantee Programme (RLEGP) were started in the late 1970s and early 1980s. They have been recently combined into the Jawahar Rozgar Yojana (JRY) i.e. rural wage employment programme named after the first Prime Minister of India. Both the programmes are centrally initiated with the subsidy funded on a matching basis by the Centre and the States. The objective of IRDP is to eradicate poverty at the household level in a non-reversible, sustained fashion by imparting economic viability to the poor households. JRY is meant to provide avenues for temporary income supplements in slack agricultural seasons. Socially disadvantaged sections such as Scheduled Castes and Tribes are given higher subsidies besides getting coverage on a preferential basis under IRDP and JRY. In most of the states, both the programmes are implemented through the local level bureaucracy. In two states - West Bengal and Karnataka - they are being implemented through the local level self-governing institutions. In addition to MNP IRDP and JRY, ad hoc central grants are made available by the Central Government to the states affected by severe droughts. These have been used to generate wage employment on drought relief programmes in addition to JRY.

Besides the centrally initiated programmes, certain state governments have developed state specific programmes which also impact on poverty eradication. These are funded entirely by the state governments. Thus, Employment Guarantee Programme (EGS) has been in operation in Maharashtra since 1972/73. This is financed by profession tax on urban professional employees. Under EGS, the collector of a district is obliged to provide manual unskilled wage employment in the vicinity of the group asking for it under certain laid-down procedures. This programme has been the centre-piece in the recent debate on providing employment guarantee on all-India basis. Tamil Nadu Government has been

implementing rural social security programme¹⁰ against certain clearly identifiable contingencies besides widely covered free Noon Meal Programme (NMP) for the pre-school and school children.¹¹ Andhra Pradesh Government has also been implementing a Two-Rupees-a-Kilogram of Rice programme under which 70 per cent of the households in the state have been availing of subsidized supply of rice with a ceiling on the supply through the scheme at the household level.¹²

There has been no major target group oriented programme for the urban poor. Some of the state level programmes in Tamil Nadu and Andhra Pradesh have been benefiting the urban poor to some extent. Besides, the Public Distribution System (PDS) under the Civil Supplies Departments in the states has been mainly urban in character with the exception of Kerala where there is no clear cut rural-urban divide. Although it is not explicitly targeted, there has been some self selection in PDS as the quality of grain made available through PDS is usually of low quality. The Food Corporation of India (FCI) established in 1965 has been carrying out the procurement of domestically produced grains for both buffer stocking and for PDS. Imports of grains have been negligible in these operations since the early 1970s, thanks to the success of the Green Revolution in increasing the domestic grain output. PDS has contributed to poverty alleviation in two ways. First, it has made available subsidized grain to the urban population (the degree of penetration varies across states) and hence softened the impact of inflation on the beneficiaries. Second, it has stopped the sucking of rural supplies into the urban markets in response to the concentration of purchasing power in the urban areas especially during severe droughts. Consequently, the rural grain supply situation during droughts does not get worse as it used to happen during the earlier period. Third, its geographical spread has made it possible to reduce the inter-state variability in per capita grain availability in the face of rising inter-state variability in per capita grain output. This is borne out from the fact that nearly 80 per cent of the procurement takes place in the three grain surplus areas of Punjab, Haryana and Western Uttar Pradesh whereas distribution of grain through PDS is geographically much more widespread. Thus, the intervention of the Central Government in the market for foodgrains has managed to bring about

¹⁰ See S. Guhan, "Social security for the unorganized poor: a feasible blueprint for India", paper presented at the UNDP Symposium, Bombay (January 1992).

¹¹ See B. Harris, "The give and take of calories: Tamil Nadu's food and nutrition policies and village food energy economy during drought in the early eighties", pp. 107-124 in C.T. Kurien, E.R. Prabhakar, and S. Gopal, eds., *Economy, Society and Development* (New Delhi, Sage Publications, 1991); and Mina Swaminathan, "Child care services in Tamil Nadu", *Economic and Political Weekly*, vol. XXVI, No. 52 (28 December 1991), pp. 2988-2992.

¹² See R. Radhakrishna, "Political economy of grain market Intervention in India", pp. 86-106 in C.T. Kurien, E.R. Prabhakar and S. Gopal, eds., *Economy, Society and Development* (New Delhi, Sage Publications, 1991).

the reallocation of total supply over time (through buffer stocking operations) and across space (through procurement and distribution) and contributed towards urban poverty alleviation directly and rural poverty alleviation indirectly especially in drought years by preventing the rural supplies being sucked out.

B. PROGRESS IN POVERTY ALLEVIATION

What has been the impact of these measures on the incidence of poverty? An earlier detailed study of rural poverty across major states was carried out by M.S. Ahluwalia¹³ in the 1978 covering the period from the mid-1950s (1956/57) to the early 1970s (1973/74). Three major conclusions of this study provide us with an understanding about the progress on the poverty-eradication objective:

1. The incidence of rural poverty, measured either in terms of a crude headcount ratio or in terms of a more sophisticated Sen Index, showed no systematic time-trend either upward or downward but only wild fluctuations over the period covered.
2. Fluctuating headcount ratio combined with a progressively rising rural population produced a systematic positive time-trend in the absolute number of the poor. On an average a million persons were added to the population of the poor every year.
3. The incidence of rural poverty was found to be inversely related to the real agricultural income per head of the rural population. In other words, the incidence of poverty tended to go up in the same year or the one following a drought whereas it tended to decline in years of bumper agricultural harvests.

A parallel study of urban poverty carried out by Datta¹⁴ showed that the first two findings were also valid for the urban poor over a somewhat shorter period from 1960/61 to 1973/74.

Thus, before the target-group-oriented anti-poverty programmes of the 1970s came on board, it seemed that the slow-growth of 1.5 per cent per annum in per capita GDP (at constant prices) did not make much of a dent on the incidence of poverty and that the destiny of the poor was governed much more by the vagaries of the monsoons rather than the conscious government policies.

¹³ See M.S. Ahluwalia, "Rural poverty and agricultural performance in India", *Journal of Development Studies*, vol. 14, No. 3 (April 1978,) pp. 298-328.

¹⁴ See B. Datta, "Inter-sectoral disparities and income distribution in India, 1960/61 to 1973/74", *Indian Economic Review*, vol. XV, No. 2 (April-June 1980).

As noted earlier, the period since 1973/74 has been marked not only by the emergence and progressive crystallization (especially in the 1980s) of the direct anti-poverty programmes but also by the progressive expansion of the public distribution system and the government buffer-stocking operations in foodgrains and the doubling of the growth rate of per capita real GDP in the 1980s. In order to study the outcome this constellation with respect to the incidence of poverty, it is not possible to carry out the time series analysis of the poverty-incidence on the same lines as Ahluwalia. This is because the National Sample Surveys of Consumer expenditure are available only at some selected time-points after 1973/74 and not on an annual basis as in the period till 1973/74. In view of Ahluwalia's finding that the incidence of (especially rural) poverty is affected by year-specific agricultural harvest characteristics, it is necessary to choose the time-points of comparison carefully to get at least some broad idea about the time trend. Since the rural poor constitute overwhelming share of the total poor, we decided to choose the two time-points which were somewhat similar to each other in terms of harvest characteristics. At the all-India level, both the agricultural year July 1970 to June 1971 and the rabi-harvest of 1982/83 plus the kharif harvest of 1983/84 (which together broadly correspond to the calendar year 1983, when the National Sample Survey was conducted) were local peaks around those years. Consequently, the incidence of poverty in these two years may be taken to be representative of "normal" years. Besides, 1970/71 happens to be the year when there were no anti-poverty programmes or major government interventions in the market for foodgrains. These two features are present in the early 1980s in 1983 and get further intensified after the mid-1980s. The next year after 1983, for which the National Sample Survey is available is 1987/88 which was widely publicized as the major drought year after the indifferent harvest in 1986/87. Thus, the choice of 1987/88 would enable us to assess the changes in the incidence of poverty between the "normal" 1983 and the agriculturally adverse 1987/88 and detect the possible role played by the government policies.

With the foregoing rationale for the selection of the time-points, headcount ratio measure of the incidence of poverty has been worked out for 1970/71, 1983 and 1987/88 separately for the rural and the urban population in 20 states in order to capture the regional and the rural-urban dimensions in the incidence of poverty. For this purpose, the all-India poverty lines have been specified in terms of monthly per capita total consumer expenditure of Rs 15 (rural) and Rs 20 (urban) at 1960/61 prices. These all-India poverty lines have been adjusted to take account of differential price level in a state relative to all-India as well as differential rates of change in the consumer price index in different states and all-India again separately for the rural and the urban population. Hence, the poverty lines differ from state-to-state. We may emphasize that, at comparable prices, the poverty lines used in the present study are lower than those being used by the

Indian Planning Commission for this reason, the estimates of headcount ratios in the present paper are more conservative than those which would emerge if we were to use the official poverty lines adopted by the Planning Commission.¹⁵

Table 1 presents the overview of the results at the all-India level. The following major findings may be highlighted:

1. The weighted headcount ratio for the 20 states declined by eight percentage points (from 47 to 39 per cent) for the rural and seven percentage points (from 37 to 30 per cent) for the urban population over the 12.5 year period between 1970/71 and 1983. It is important to note that it declined further to 36 per cent (rural) and 28 per cent (urban) in 1987/88 despite 1987/88 being publicized as a drought year. It thus represents a deviation from the regularity noted by Ahluwalia for the period from 1956/57 to 1973/74.
2. The decline in the rural headcount ratio between 1970/71 and 1983 was not sufficient in relation to population growth so that the number of rural poor increased from 206 million to 214 million over this period. The headcount ratio decline between the local agricultural peak of 1983 and agriculturally adverse 1987/88 turned out to be large enough to bring about a decline of 3 million over this period. In contrast, despite a gradual decline in the headcount ratio, the number of urban poor increased from nearly 41 million in 1970/71 to 53 million in 1983 (or less than a million per year on an average) and further to 58 million in 1987/88 (or 1.25 million on an average). Consequently, the share of the urban poor in the total (rural plus urban) poor increased gradually from 16 per cent in 1970/71 to nearly 20 per cent in 1983 and nearly 22 per cent in 1987/88.
3. The inter-state relative disparity in headcount ratio (as judged by the weighted coefficient of variation) widened sharply by seven percentage points (from 25 to 32 per cent) for the rural population between the two local agricultural peak years of 1970/71 and 1983 before declining by a little over two percentage points in the drought year 1987/88. In contrast, the relative disparity for the urban population, increases only slightly between 1970/71 and 1983 before rising sharply by over eight percentage points in 1987/88. In other words, the urban relative disparity was nearly seven percentage points higher than the rural in 1987/88 while it was lower in 1983.

¹⁵ See B.S. Minhas, L.R. Jain and S.D. Tendulkar, "Declining incidence of poverty in 1980s: evidence versus artefacts", *Economic and Political Weekly*, vol. XXVI, Nos. 27 and 28 (6-13 July 1991), pp. 1673-1682.

Table 1. Overview of the all-India estimates of the poverty situation

<i>1</i>	<i>Description</i>	<i>Year</i>	<i>Rural</i>	<i>Urban</i>	<i>Combined rural plus urban</i>
	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
1.	Weighted headcount ratio for 20 states (per cent)	1970/71	47.11	37.20	45.14
		1983	39.28	30.21	37.08
		1987/88	36.20	28.38	34.17
2.	Inter-state weighted coefficient of variation (per cent)	1970/71	24.95	27.07	n.c.
		1983	31.95	28.23	n.c.
		1987/88	29.62	36.44	n.c.
3.	Estimated number of poor persons: all India (millions)	1970/71	206.03 (83.61)	40.61 (16.39)	246.64 (100.00)
		1983	214.07 (80.35)	52.59 (19.65)	266.66 (100.00)
		1987/88	210.92 (78.42)	58.24 (21.58)	269.16 (100.00)

Notes: 1. Panel 1 provides the weighted average headcount ratio for 20 states using state-specific population as weights.

2. Panel 2 indicates the weighted coefficient of variation of state-specific headcount ratios using state-specific population as weights.

3. Panel 3 gives the estimated number of poor persons by applying the headcount ratios in panel 1 to the corresponding all-India population. Figures in brackets are percentage shares in relation to the combined rural and urban poor population.

4. n.c.: not calculated.

The foregoing three findings indicate that the decline in the rural as well as the urban headcount ratio between the two local peak years 1970/71 and 1983 was associated with a rise in the number of rural and urban poor besides being unevenly shared by different states. The further decline between 1983 and the agricultural drought year 1987/88 presents a sharp rural-urban contrast. For the rural population, it was associated with a decline in the number of rural poor and what is more, it was shared more evenly than in 1983. In contrast, the decline in the urban headcount ratio was unevenly spread across states besides proving inadequate in preventing a rise in the number of urban poor.

What could have been the major factors behind the rural-urban contrast in the performance in poverty alleviation especially between 1983 and 1987/88? First, the drought, judged in terms of the production loss, did not turn out to be very serious. The index number of agricultural output of all crops (triennium ending 1981/82 = 100) remained stagnant between 1986/87 and 1987/88 although there was a decline of 3.7 per cent in 1986/87 over the local peak year of 1985/86. Thus, the income losses during 1987/88 could not have been very significant. Secondly, there indeed was a decline in the output of foodgrains by seven million tonnes in 1986/87 over the previous (peak) year 1985/86 and a further dip by 3 million in 1987/88. These declines were much smaller than the ones that had taken place in the earlier drought years over a much smaller base. Moreover, these declines were made up by releasing the grain through the public distribution system (PDS), partly by depletion of stocks and partly by moving the grain from the surplus to the deficit states. Thus, the grains released through PDS amounted to 16 million tons in 1983 and were stepped up to nearly 20 million tons by 1987/88. At the all-India level, the PDS off-take as a proportion of total grain consumption (reported in NSS) went up from 12 per cent in 1983 to nearly 15.5 per cent during 1987/88. Since more than half (11.3 million tons) of the PDS off-take came from the depletion of stocks, this must have considerably moderated the grain movement from rural to urban areas. In addition, the drought affected states in 1987/88 were given central assistance to the tune of Rs 1,433 crores which was equal to the funds released at the all-India level on NREP and RLEGP - the two centrally-initiated wage employment generation programmes. The drought-relief employment that was generated exceeded the employment generated under NREPD and RLEGP put together. This gets reflected in a decline in the person-day rate of unemployment from 7.5 per cent in 1983 to 4.6 per cent in 1987/88 for rural males and from 9.0 per cent to 6.7 per cent for rural females over the same period. Similar decline was also observed for urban males.¹⁶ It, thus, appears that the effective public intervention in 1987/88 managed to reverse the earlier regularity of worsening poverty situation in a drought year.

¹⁶ See P. Visaria and B.S. Minhas, "Evolving an employment policy for the 1990s: what do the data tell us?", *Economic and Political Weekly*, vol. XXVI, No. 15 (13 April 1991), pp. 969-979.

The rural-urban contrast highlighted above at the all-India level reveals itself, and quite expectedly, at the state-level as well. For the rural population as many as nine major and populous states (Tamil Nadu, Madhya Pradesh, Andhra Pradesh, Kerala, West Bengal, Uttar Pradesh, Maharashtra, Karnataka and Rajasthan) with initially high headcount ratios registered a decline between 1970/71 and 1983 (Period I) as well as between 1983 and 1987/88 (Period II) and their share among the rural poor declines from nearly 71 per cent in 1970/71 to 67 per cent in 1987/88. Amongst the worst performers in terms of poverty alleviation, only two major states (Bihar and Orissa) with initially high headcount ratios appear besides others (Punjab and Haryana) with very low initial headcount ratios. In the urban segment, only three major states (Tamil Nadu, Uttar Pradesh and Madhya Pradesh) managed to reduce the urban headcount ratio between both the periods I and II. The remaining major states experienced a rise in headcount ratio in at least one of the two periods. This group included industrially advanced and urbanized states of Maharashtra, West Bengal and Gujarat besides Bihar, Andhra Pradesh, Karnataka and Rajasthan.

Thus, the poverty alleviation performance in the rural segment was more impressive than the urban segment between 1970/71 and 1983 and this was further reinforced between 1983 and 1987/88. In order to understand these differences, an earlier study¹⁷ suggested a descriptive device of an additive decomposition of headcount ratio between two time-points into two components (a) a component that is attributable to growth in real average per capita total expenditure (APCTE) assuming invariant size distribution of PCTE between the two time-points and (b) another component that can be attributed to a change in the size distribution of PCTE between the two time-points assuming unchanged APCTE. Descriptively, we called (a) as the growth effect (GE) and (b) as the distributional (change) effect (DE). The decomposition scheme was implemented for 20 major states separately for the rural and the urban population in decomposing the change in headcount ratio between 1970/71 and 1983 and again between 1983 and 1987/88. The results indicate interesting contrasts between the rural and the urban segments as well as between the two periods. We present only major points.

First, we consider the period between 1970/71 and 1983. In the rural segment, growth effect was quantitatively more important in absolute magnitude than the distributional change effect - adverse or favourable. In other words, growth in APCTE exerted a strong influence in bringing about a decline in

¹⁷ See L.R. Jain and S.D. Tendulkar, "Role of growth and distribution in the observed changes in the headcount ratio measure of poverty: a decomposition exercise for India", *Indian Economic Review*, vol. XXV, No. 2 (July-December 1991), pp. 165-203.

Table 2. Ranking of states according to rate of change of poverty alleviation: rural population

Category	Rank	State	Compound annual rate of change of headcount ratio (absolute number of the poor)	
			I	II
I	2	3	4	5
I(a)	1	Manipur	-8.89 (-7.69)	-10.27 (-8.62)
	2	Delhi	-4.48 (-3.86)	-11.79 (-6.83)
	3	Tamil Nadu	-1.38 (-0.19)	-3.11 (-2.01)
	4	Madhya Pradesh	-1.72 (-0.03)	-2.76 (-1.34)
I(d)	5	Andhra Pradesh	-4.05 (-2.59)	-3.64 (-2.46)
	6	Kerala	-3.98 (-2.69)	-2.95 (-1.67)
II(a)	7	Tripura	-2.31 (+0.29)	-17.09 (-15.21)
	8	West Bengal	-1.58 (+0.21)	-5.25 (-3.70)
II(d)	9	Uttar Pradesh	-3.25 (+1.41)	-1.78 (-0.40)
	10	Maharashtra	-0.29 (+1.28)	-0.25 (+0.36)
	11	Karnataka	-1.98 (-0.34)	-0.20 (+1.01)
	12	Rajasthan	-2.35 (-0.03)	-0.70 (+1.39)
III	13	Bihar	+0.12 (+1.97)	-2.38 (-2.64)
IV	14	Orissa	-1.51 (+0.08)	+0.75 (+1.45)
	15	Haryana	-5.36 (-3.46)	+0.36 (+2.07)
	16	Himachal Pradesh	-1.95 (+0.01)	+0.80 (+2.51)
	17	Gujrat	-4.37 (-2.53)	+1.71 (+3.13)
	18	Punjab	-3.76 (-2.27)	+3.18 (+4.23)
	19	Assam	-0.26 (+2.50)	+4.08 (+6.31)
	20	Jammu and Kashmir	-0.64 (+1.54)	+5.71 (-7.73)
		20 States	-1.44 (+0.28)	-1.80 (-0.37)

Table 2 (continued)

Category	Rank	State	Headcount ratio (per cent)		
			1970/71	1983	1987/88
1	2	3	6	7	8
I(a)	1	Manipur	56.91	17.78	10.92
	2	Delhi	4.40	2.48	1.41
	3	Tamil Nadu	55.31 (5)	46.47 (4)	40.32 (5)
	4	Madhya Pradesh	52.03 (6)	41.87 (6)	36.92 (7)
I(d)	5	Andhra Pradesh	39.28 (12)	23.44 (13)	19.84 (14)
	6	Kerala	60.21 (3)	36.25 (8)	31.68 (9)
II(a)	7	Tripura	38.96	29.10	12.52
	8	West Bengal	67.12 (1)	54.98 (2)	43.14 (3)
II(d)	9	Uttar Pradesh	39.65 (10)	38.07 (7)	35.11 (8)
	10	Maharashtra	43.74 (7)	42.17 (5)	41.70 (4)
	11	Karnataka	39.50 (11)	30.78 (11)	30.50 (11)
	12	Rajasthan	43.58 (8)	32.36 (10)	31.36 (10)
III	13	Bihar	58.07 (4)	58.93 (1)	52.87 (2)
IV	14	Orissa	62.41 (2)	51.57 (3)	53.32 (1)
	15	Haryana	28.93 (14)	14.53 (15)	14.77 (15)
	16	Himachal Pradesh	17.82	13.93	14.44
	17	Gujrat	42.18 (9)	24.14 (12)	26.05 (12)
	18	Punjab	17.59 (15)	10.90 (16)	12.57 (16)
	19	Assam	32.83 (13)	31.76 (10)	38.04 (6)
	20	Jammu and Kashmir	16.90 (16)	15.60 (14)	20.03 (13)
		20 States	47.11	39.26	36.20

Table 2 (continued)

Category	Rank	State	Absolute number of poor persons (millions)					
			1970/71		1983		1987/88	
1	2	3	9		10		11	
I(a)	1	Manipur	0.530	(0.26)	0.195	(0.09)	0.130	(0.06)
	2	Delhi	0.018	(0.01)	0.011	(0.01)	0.008	(0.004)
	3	Tamil Nadu	15.893	(7.74)	15.524	(7.30)	14.168	(6.78)
	4	Madhya Pradesh	18.141	(8.84)	18.080	(8.50)	17.017	(8.14)
I(d)	5	Andhra Pradesh	13.783	(6.71)	9.925	(4.67)	8.873	(4.24)
	6	Kerala	10.766	(5.25)	7.755	(3.65)	7.190	(3.44)
II(a)	7	Tripura	0.543	(0.26)	0.563	(0.27)	0.268	(0.12)
	8	West Bengal	22.380	(10.90)	22.966	(10.80)	19.378	(9.27)
II(d)	9	Uttar Pradesh	30.115	(14.67)	35.854	(16.86)	35.218	(16.84)
	10	Maharashtra	15.178	(7.40)	17.796	(8.37)	18.574	(8.88)
	11	Karnataka	8.761	(4.27)	8.396	(3.95)	8.783	(4.20)
	12	Rajasthan	9.249	(4.51)	9.212	(4.33)	9.804	(4.61)
III	13	Bihar	29.452	(14.35)	37.602	(17.68)	36.535	(17.47)
IV	14	Orissa	12.545	(6.11)	12.668	(5.96)	13.516	(6.46)
	15	Haryana	2.391	(1.16)	1.540	(0.72)	1.689	(0.81)
	16	Himachal Pradesh	0.574	(0.28)	0.575	(0.28)	0.643	(0.31)
	17	Gujrat	8.098	(3.95)	5.877	(2.76)	6.752	(3.23)
	18	Punjab	1.818	(0.89)	1.365	(0.64)	1.645	(0.79)
	19	Assam	4.378	(2.13)	5.959	(2.80)	7.848	(3.75)
	20	Jammu and Kashmir	0.635	(0.31)	0.769	(0.36)	1.075	(0.51)
		20 States	205.250	(100.00)	212.632	(100.00)	209.114	(100.00)

Notes: 1. Periods I and II in columns (4) and (5) refer respectively to 1970/71 to 1983 and 1983 to 1987/88.

2. Figures in brackets in columns (4) and (5) indicate the compound annual rates of change in the absolute number of poor.

3. Figures in brackets in columns (6) to (8) indicate the rank of each state in descending order of headcount ratio among 16 major states.

4. Figures in brackets in columns (9) to (11) indicate the percentage share of the corresponding state in the total number of poor persons in 20 states.

5. For ranking criteria, see the discussion in the text.

headcount ratio in 18 out of 20 states. Distributional change effect was favourable in only six out of 20 states. In five of these, it reinforced the favourable growth effect. Adverse distributional change in 14 states was mostly insignificant in magnitude. The urban segment presented a somewhat different picture. While the growth effect also dominated over the distributional change effect in terms of absolute magnitude, the distributional change effect was favourable in 17 out of 20 states. In 12 out of 17 states, the growth and distributional change effects were mutually reinforcing. While the possible factors behind the urban picture are not clear, regionally dispersed agricultural growth might have been responsible for the rural picture as major public interventions were not prominent by 1983.

Secondly, we consider the period between 1983 and 1987/88. Preliminary decomposition results show that, in contrast to the first period between 1970/71 and 1983, the distributional change effect for the rural population was favourable and significant in 14 out of 20 states ten of which were major ones in terms of population size. It was larger in absolute magnitude than growth effect in seven major states. The urban distributional change effect was favourable in eight out of 20 states only four of which were major ones. The public interventions mentioned earlier in connection with the all-India results certainly appear to have played a major role in bringing about a reduction in rural headcount ratios at the state level as well though the details would be too numerous to spell out here.

C. HEALTH STATUS OF THE POPULATION

Health status of the population is usually captured by two mortality-related outcome indicators, namely, infant mortality rates (IMR) i.e the number deaths before the age of one year per 1,000 live births and expectation of life (EOL) at birth which is a probabilistic aggregation of age-specific mortality experience of the population. IMR is taken to be a sensitive indicator because it relates to that age-group of the population which is health-wise most vulnerable, and difficult to reach directly except at the household level. Moreover, preventive health care technology is well-known and well-established to bring down the level of IMR. On the other hand, EOL at birth is a generally secularly rising indicator which reflects gradual changes in general mortality reductions including those among infants, which take place mainly due to preventive and curative health care practices.

Starting with EOL at birth, during the quinquennium 1970-1975 the EOL at birth at the all-India level was 50.5 years for males and 49.0 years for females. It rose during the quinquennium 1981-1985 to 55.4 years for males and 55.7 years for females. It is fairly well established that the risk of mortality is higher for females especially during early child bearing age than for males so that the

Table 3. Ranking of states according to rate of change of poverty alleviation: urban population

Category	Rank	State	Compound annual rate of change of headcount ratio (absolute number of the poor)	
			I	II
I	2	3	4	5
I(a)	1	Himachal Pradesh	-8.25 (-5.39)	-32.11 (-31.06)
	2	Manipur	-8.39 (-0.30)	-12.79 (-9.01)
II(a)	3	Delhi	-2.22 (+2.26)	-13.56 (-9.81)
	4	Tripura	-0.96 (+2.25)	-10.41 (-7.71)
	5	Tamil Nadu	-2.26 (+0.15)	-3.37 (1.06)
	6	Kerala	-2.73 (+0.45)	-3.06 (+0.12)
	7	Orissa	-0.20 (5.07)	-4.20 (+0.84)
	8	Uttar Pradesh	-1.30 (+3.40)	-3.60 (+1.07)
	9	Madhya Pradesh	-1.62 (+2.78)	-2.06 (+2.30)
II(d)	10	Haryana	-4.93 (-0.39)	-2.60 (+2.21)
III	11	Punjab	+0.27 (+3.95)	-18.44 (-15.59)
	12	Assam	+0.69 (+5.22)	-12.58 (-9.26)
	13	Maharashtra	+0.07 (+3.42)	-3.21 (-0.25)
IV	14	West Bengal	-1.78 (+0.89)	+1.28 (+4.01)
	15	Bihar	-0.78 (+3.58)	+0.30 (+4.80)
	16	Jammu and Kashmir	-7.88 (-4.39)	+1.91 (+5.48)
	17	Gujarat	-3.34 (-0.06)	+2.72 (+5.73)
	18	Rajasthan	-2.21 (+2.32)	+1.74 (+6.45)
	19	Andhra Pradesh	-2.58 (+1.26)	+3.73 (+7.56)
	20	Karnataka	-2.40 (+1.58)	+3.85 (+7.88)
		20 States	-1.65 (+2.07)	-1.38 (+1.28)

Table 3 (continued)

Category	Rank	State	Headcount ratio (per cent)		
			1970/71	1983	1987/88
1	2	3	6	7	8
I(a)	1	Himachal Pradesh	13.40	4.57	0.80
	2	Manipur	18.94	6.33	3.42
II(a)	3	Delhi	23.73	17.92	9.30
	4	Tripura	15.24	13.51	8.24
	5	Tamil Nadu	47.22 (2)	35.49 (6)	30.41 (8)
	6	Kerala	55.36 (1)	39.16 (4)	34.50 (5)
	7	Orissa	43.24 (6)	42.19 (1)	34.78 (4)
	8	Uttar Pradesh	44.71 (5)	37.96 (5)	32.19 (6)
	9	Madhya Pradesh	48.65 (3)	39.67 (3)	36.13 (2)
II(d)	10	Haryana	25.76 (12)	13.69 (14)	12.15 (13)
III	11	Punjab	15.07 (15)	15.59 (13)	6.23 (16)
	12	Assam	10.54 (16)	11.48 (15)	6.27 (15)
	13	Maharashtra	31.64 (11)	31.91 (7)	27.55 (11)
IV	14	West Bengal	24.78 (13)	19.79 (12)	20.96 (12)
	15	Bihar	46.00 (4)	41.70 (2)	42.27 (1)
	16	Jammu and Kashmir	16.59 (14)	5.95 (16)	6.48 (14)
	17	Gujarat	38.17 (8)	24.97 (11)	28.17 (10)
	18	Rajasthan	36.58 (9)	27.67 (9)	29.19 (9)
	19	Andhra Pradesh	35.86 (10)	25.88 (10)	30.52 (7)
	20	Karnataka	39.77 (7)	29.36 (8)	34.80 (3)
		20 States	37.20	30.21	28.38

Table 3 (continued)

Category	Rank	State	Absolute number of poor persons (millions)					
			1970/71		1983		1987/88	
I	2	3	9		10		11	
I(a)	1	Himachal Pradesh	0.032	(0.08)	0.016	(0.03)	0.003	(0.005)
	2	Manipur	0.027	(0.07)	0.026	(0.05)	0.017	(0.03)
II(a)	3	Delhi	0.865	(2.15)	1.144	(2.20)	0.719	(1.25)
	4	Tripura	0.025	(0.06)	0.033	(0.06)	0.023	(0.04)
	5	Tamil Nadu	5.885	(14.62)	5.999	(11.54)	5.718	(9.94)
	6	Kerala	1.908	(4.74)	2.017	(3.88)	2.028	(3.52)
	7	Orissa	0.798	(1.99)	1.480	(2.85)	1.537	(2.67)
	8	Uttar Pradesh	5.539	(13.76)	8.412	(16.18)	8.824	(15.34)
	9	Madhya Pradesh	3.301	(8.26)	4.649	(8.94)	5.149	(8.95)
II(d)	10	Haryana	0.457	(1.14)	0.435	(0.840)	0.480	(0.83)
III	11	Punjab	0.485	(1.20)	0.787	(1.51)	0.367	(0.64)
	12	Assam	0.136	(0.34)	0.257	(0.49)	0.166	(0.29)
	13	Maharashtra	4.971	(12.35)	7.568	(14.56)	7.482	(13.00)
IV	14	West Bengal	2.718	(6.75)	3.037	(5.84)	3.625	(6.30)
	15	Bihar	2.592	(6.44)	4.023	(7.740)	4.967	(8.66)
	16	Jammu and Kashmir	0.142	(0.35)	0.081	(0.16)	0.103	(0.18)
	17	Gujarat	2.861	(7.11)	2.841	(5.46)	3.651	(6.35)
	18	Rajasthan	1.662	(4.13)	2.215	(4.26)	2.935	(5.10)
	19	Andhra Pradesh	3.013	(7.48)	3.523	(6.78)	4.890	(8.15)
	20	Karnataka	2.832	(7.04)	3.447	(6.63)	4.851	(8.43)
		20 States	40.29	(100.00)	51.990	(100.00)	57.535	(100.00)

Notes: 1. Periods I and II in columns (4) and (5) refer respectively to 1970/71 to 1983 and 1983 to 1987/88.

2. Figures in brackets in columns (4) and (5) indicate the compound annual rates of change in the absolute number of poor.

3. Figures in brackets in columns (6) to (8) indicate the rank of each state in descending order of headcount ratio among 16 major states.

4. Figures in brackets in columns (9) to (11) indicate the percentage share of the corresponding state in the total number of poor persons in 20 states.

5. For ranking criteria, see the discussion in the text.

gradual improvement in EOL at birth for females overtaking that for males can be mainly attributed to reduction in the mortality rate in the child bearing age groups for females. For the period 1981-1985, the inter-state variation in EOL at birth varies from 51.4 years (Uttar Pradesh) and 52.0 year (Bihar) to 65.4 years (Kerala) and 62.6 years (Punjab) for males and from 48.5 years (Uttar Pradesh) and 51.5 years (Bihar) to 71.5 years (Kerala) and 63.6 years (Punjab) for females. Obviously, the states at the lower end of EOL at birth reflect very high incidence of maternal mortality whereas those at the upper end indicate successful prevention of the same phenomenon. In this connection, Kerala's performance is remarkable because it stands out as a socially desirable and inspiring example not just in raising EOL at birth to the highest level among the Indian states but achieving the same for females who outlive Kerala males on an average, by a wide margin of 5 years. The (dubious) distinction at the other end goes to Uttar Pradesh. State-wise comparison shows that the rate of improvement in EOL at birth for females exceeded that for males in all the states indicating a reduction in female mortality risk across the board.

The other and more sensitive outcome indicator of health status is the infant mortality rate (IMR). Infant deaths account for one-third of the total deaths at all ages. Despite reducing IMR to half of what it was at the time of Independence, India still ranks among the countries with very high IMR which is traced to high fertility and unhealthy conditions surrounding pregnancy and child birth. A reduction in IMR is feasible with improved health practices at the time of pregnancy and birth as also with better nutrition, pre and post-natal care and immunization against prevailing major causes of infant death. The handicaps in achieving significant reduction are much more organizational and technological rather than financial in nature. A reduction in IMR not only reduces the daunting burden of excess mortality and ill-health but, combined with female education, is also known to bring about a reduction in crude birth rate with a lag.

In the recent past, the IMR per thousand live births for the quinquennium 1971-1975 was as high as 145 (rural) and 84 (urban). It declined during 1981-1985 period to 113 (rural) and 64 (urban). Inter-state variability was quite wide. During 1981-1985, Kerala had the amazingly lowest IMR of 34 (rural) and 26 (urban). This is comparable to many medium and high income countries and has been achieved without significant use of immunization technology and with mostly improved health practices combined with very high female education rate. Even excluding Kerala, IMR for the rural population ranged between the low of 78 for Karnataka and the incredibly high 162 for Uttar Pradesh. As many as eight out of seventeen states mostly in the Central, the North-Central and the Eastern region recorded IMR exceeding 100. In the urban segment too, even after excluding Kerala, the range was equally wide between 43 in Karnataka to 94 in

Uttar Pradesh. Kerala also had the distinction of recording the highest rate of decline in IMR exceeding 5 per cent per annum for both the rural and the urban population. The urban rates of decline in IMR are more often higher than rural. The intra-state rural-urban differential in IMR ranged between the high exceeding 60 per thousand in Uttar Pradesh, Madhya Pradesh and Orissa and around 30 for Andhra Pradesh, Karnataka, Maharashtra and Punjab, 25 for Assam and as low as 8 for Kerala. The highest rural-urban differential in IMR of 68 per thousand for the most populous state of Uttar Pradesh is more than twice as high as the average IMR of 32 per thousand for the most densely populated state of Kerala. The high levels as well as differentials starkly bring out not only the avoidable burden of excess mortality but also the difficulties in reducing the rate of growth of population by controlling the birth rate.

The available health service infrastructure is in short supply relative to the needs and is unevenly distributed across space with considerable urban concentration. At the all India level in 1982, 86 per cent the hospital beds were located in urban areas. Consequently the number of beds per million population was as low as 123 for the rural population compared to 2,578 for the urban population. Kerala had the highest number of beds per million population in both the rural (1,046) and the urban (4,494) population. It was the only state where the majority of hospital beds was located in the rural areas. Madhya Pradesh was at the other end of the spectrum with 29 (rural) and 1463 (urban) beds per million population although it was Bihar which had the lowest number of beds per million (26) and also the highest rural-urban disparity. One unique feature of Kerala is important in interpreting these figures. Kerala is the only state where over 90 per cent of the rural population lives in large villages with 10,000 or more population. This is in contrast to the all-India situation, where only 5 per cent of the rural population lives in large villages. This is important because it is much easier and more economical to set up, man and run in-patient hospital facilities when population is concentrated in large settlements than when it is dispersed in small settlements.

While the foregoing facilities reflect physical availability, they do not necessarily ensure effective access to the facilities according to the needs of the population. For getting some idea in this connection, we draw on the results of the National Sample Survey of Social Consumption conducted during 1986/87. For this purpose, we focus on hospitalization cases (HC) and Child and Maternity Care Facilities (CMCF).

Hospitalization cases reflect in most cases an extreme form of morbidity requiring intensive medical attention. Public hospitals in general provide

subsidized supplies of these facilities. In this connection, the following findings emerge:

- (i) The share of freely treated hospitalization cases (FTHC) in public hospitals in total number of hospitalization cases (HC) provides an indicator of overall access to subsidized facilities. This share was 51 per cent for the rural and 50 per cent for the urban population. If one looks at FTHC in public hospitals in relation to freely treated cases in all types of hospitals, this share was 84 per cent (rural) and 91 per cent (urban) at the all-India level. In other words, bulk of the free facilities were available in public hospitals. FTHC cases in public hospitals also dominated the total HC treated in public hospital. Interestingly, Kerala appears at the lower-end of the scale in terms of these indicators related to FTHC cases in public hospitals at the aggregate level.
- (ii) For judging the effective access to hospitalization for different segments of the population, it is necessary to have some indicator of the "need" for hospitalization. In this connection, in the absence of any other alternative we make a conservative assumption that the objective need may be random across all age-sex groups and across the affordability scale as captured in the per capita total expenditure (PCTE). It is conservative in the sense that it may possibly understate the need at the lower end of PCTE and overstate at the upper end. Under this assumption, we find (a) that FTHC facilities wherever available, have reached the bottom 40 per cent of the population reasonably well; (b) that access to total hospitalization facilities, in general, is more inequitably distributed for the rural than for the urban population; (c) that the regional contrasts are sharp between the two extreme cases of Bihar and Kerala. Not only are hospitalization facilities more easily available in Kerala than in Bihar but they are equitably distributed in Kerala and inequitably distributed in Bihar.

Turning to the child and maternity care facilities (CMCF), we find (a) that the overall availability of CMCF related medical attendance is better but its access more skewed for the urban than for the rural population and (b) that Kerala fares best and Uttar Pradesh worst in terms of overall-coverage and availability, rural-urban differentials as well as in terms of access to lower-income users. As regards the pre-natal and post-natal care facilities, their reach is found to be extremely limited except Kerala and Tamil Nadu. With relatively better availability of immunization facilities and wider spread of education and awareness in Kerala than in Bihar, according to (i) rural-urban location; (ii) education of mother as well as (iii) affordability criteria, all disparities are much narrower in Kerala than

in Bihar. It is also interesting to note that education of adult female has a stronger influence than the level of living in availing of immunization facilities.

The foregoing survey-based findings provide clear cut clues as to why Kerala has the highest expectation of life at birth and the lowest infant mortality rate whereas the Northern and the Eastern states of Uttar Pradesh, Bihar and Madhya Pradesh fare badly with reference to both the outcome indices of the health status. It is important to note that in terms of per capita public expenditure on health services, Kerala does not stand out so different from other states as it does in terms of health status performance indicators. It is effectiveness of utilization of public funds as well as complementary role played by especially female education and the family and community habits regarding sanitation, hygiene and health awareness in general that possibly explain Kerala's success.

At the aggregate level, public expenditure on the health sector has increased from 1.2 per cent of GDP in 1976/77 to 1.6 per cent of GDP at market prices in 1986/87. It is not possible to get the rural-urban breakdown or the breakdown according to curative and preventive services. Nearly three-fourths of the total public spending is by state governments. A comparison with Indonesia, Sri Lanka and Pakistan indicates that India's per capita expenditure is high relative to its level of per capita national income and that government spending is also relatively high as a proportion of public expenditure and national income. In other words, India spends relatively generously on health in comparison with other low income countries, although the absolute level of spending is still very modest.¹⁸ In addition to public spending by the centre and the states that is explicitly accounted, health spending is also undertaken by the local government and the organized private sector whose estimates are not available for 1986/87. Private household expenditure on health in 1986/87 was a little over 42 per cent of the total (reported) health expenditure. Over the years private qualified allopathic physicians have grown at the rate of 6.5 per cent per annum between 1964 and 1986 and private hospital beds at nearly 8 per cent per annum between 1974 and 1986. While the number private physicians in 1986 was 2.75 times the physicians in public sector, the private hospital beds were only 35 per cent of those in the public hospitals. In other words, while the curative medical facilities are more readily available in the private sector (and those too, mostly in urban areas), the reliance on publicly available hospitalization facilities is still quite significant. Over the longer period, public outlays under the Plans that have been allocated to the health sector were about 3.3 per cent of the total in the First Plan.

¹⁸ See P. Berman, *Health Economics, Health Financing and the Health Needs of Poor Women and Children in India*, A Ford Foundation Programme Paper, Ford Foundation, New Delhi (January 1991).

The proportion was reduced in the subsequent plans and has been restored back to 3.5 per cent in the Sixth and the Seventh Plan. The improvement in the health outcome indicators has been taking place steadily over time due possibly to various factors. Some among them include better knowledge and awareness of health related issues, more experience in organizing the programmes as also pressures from democratic policy. How important each of these has been is not easy to disentangle.

D. EDUCATION

The availability of well-educated population and scientifically trained and skilled workforce have long been recognized as a necessary though not a sufficient condition for the smooth functioning of the society and the economy as also for bringing about socially desirable changes in the attitudes and beliefs of the population. The Indian situation presents a multi-dimensional paradox in this context.

The post-Independence India started with a literacy rate (for the population above 5 years of age) as low as 27 per cent for males and around 9 per cent for females. With the illiteracy of huge magnitude, it was necessary to start an adult-education programme on a large scale to reach those who were already beyond the school going age. Simultaneously, it was necessary to expand and strengthen primary education for the children born in the post-Independence India. After 40 years, according to 1991 population census, illiteracy still afflicts 36 per cent of the male population and over 60 per cent of the female population above 7 years of age. The organizational failure on this count requires no comment. While primary educational facilities have formally expanded in terms of the setting up of schools, the available infrastructural facilities (including buildings, blackboards and other teaching aids) and perceived relevance of the syllabi are such that there is not much demand for the kind of education being imparted. This comes from the survey conducted in 1986/87 where non-availability of schooling facilities does not turn out to be an important reason for not enrolling in the school. Even among those who happen to get enrolled, the drop-out rate is quite high especially for the rural children and much more so for girls than for boys. While schooling infrastructure needs to be strengthened in the rural areas, socio-cultural and economic compulsions forcing non-enrollment or drop-out after enrollment are yet to be sufficiently understood.

At the secondary and higher levels, there has been proliferation of institutions and even greater expansion of enrollment. In fact, the rate of growth of demand for education has been higher, the higher is the level of education. The dominant share of demand for higher education is concentrated in the large and metropolitan

cities. Since the institutional facilities have not been expanding at the same rate as demand, it has given rise to overcrowding in the existing institutions and proliferation of new institutions on "commercial" basis. The net result has been the deterioration in quality. Simultaneously, the proportionate subsidies on higher education have been rising faster than on primary and secondary education.¹⁹ With the costs progressively going up and user fees not keeping pace with them, the overall public expenditure on education has been rising but more slowly than other items of public expenditure. Consequently, a growing share of public expenditure on education is being accounted for by higher education. At the same time, the growth rate of the economy has been slow and the rate of labour absorption in high salary organized sector has been even slower, so that the factory sector manufacturing units provide employment only to about 4 per cent of the total labour force. There has thus been pressure on absorbing the growing educated labour force into the public sector thereby giving rise to overmanning in the public sector units. In addition, the discretionary control regime had also generated the labour absorption possibilities in the administrative departments. However, the supply of higher educated persons rose at a faster rate than demand. Consequently, higher education has become not a source of human capital formation but what Arrow has called a "filter" in a situation where the number of applicants for white-collar jobs is too large in relation to the number of positions. This has given rise to self-propelling demand for higher education as a means for hopefully improving the chances of getting the white-collar jobs. The labour legislation and unionization helped by judicial and populist political pressures have managed to keep the wage and salary levels well above the market clearing levels. This had three consequences. First, it limited the labour absorption possibilities. Secondly, the high salaries had the signalling effect in further raising the demand for higher educational services in order to pass through "filters". Thirdly, it has created a mismatch between the minimal educational requirements for a job from the social point of view and the formally higher educated work-force that is hired to man those jobs.

The processes outlined above have generated the structure of population by educational achievements that is lop-sided in nature across educational categories, across males and females and rural-urban divide and inter-state differences. Thus, 7 per cent of the urban males and a mere 1.2 per cent of the rural males had graduate-level or higher education in 1987/88. The corresponding percentages for females were much lower, 3.8 per cent (urban) and 0.3 per cent (rural). Simultaneously, as high as 28 per cent of the urban males and a higher 52 per cent of the rural males were illiterate. These percentages were much higher for the females. This brings out the extreme rural-urban and male-female differentials.

¹⁹ See S. Mundle and M. Govinda Rao, "Volume and composition of subsidies in India, 1987/88", *Economic and Political Weekly*, vol. XXVI, No. 18 (4 May 1991), pp. 1157-1172.

Inter-state differentials can be illustrated with the help of two extreme cases of Kerala and Bihar. In both the states, the shares of graduates and above are somewhat higher for Kerala and lower for Bihar than the all-India shares indicated above. The real difference emerges at the lower level. Only 14 per cent of urban males and 19 per cent of the rural males were illiterate in Kerala compared to 36 and 61 per cent of Bihar. Kerala reflects a considerably balanced structure of population according to educational achievements with much narrower male-female and rural-urban differences. The opposite holds in the case of Bihar. Thus, the life chances of an average rural female to escape illiteracy are as low as 0.143 in Bihar, as high as 0.73 in Kerala compared to 0.26 at the all-India level. At the other extreme, the life chances to escape illiteracy for an average urban male are 0.445 (Bihar), 0.860 (Kerala) and 0.723 (all-India). Once the hurdle of illiteracy is crossed, the life chances of getting graduate level and higher education are far better in Bihar than in Kerala. Consequently, the role of higher education as a channel for upward mobility and equalizer of opportunities would operate much more equitably in Kerala than in Bihar. In extreme situations, in the absence of broad-based spread of minimal education, higher education may produce a perverse result of reinforcing existing social rigidities and social differentiation.

Education sector public expenditure by the Central and the State government together amounted to 2.6 per cent in 1976/77 and 3.4 per cent in 1986/87 as a share of GDP at market prices. This is higher than the corresponding spending on health mentioned earlier. The centre's share was only 10 per cent of the total. Over the ten-year period, the growth rate of public expenditure per capita in real terms was 4.8 per cent per annum. Over the same period, about 47 per cent of the expenditure was spent on elementary education, about 33 per cent on secondary education with the remaining 20 per cent going into technical and higher education. When we examine the decadal growth rates (per cent per annum) over the three decades 1951-1961, 1961-1971, 1971-1981 and the first half of the 1980s we find the following regularities:

- (i) Growth rate of expenditure in nominal terms increases over time but the rate of growth of expenditure on secondary education is always somewhat higher than that for primary education;
- (ii) Growth rates of either number of schools or number of teachers are higher for the secondary education than for the primary education within each decade;
- (iii) Growth rates of number of schools or number of teachers show a significant decline over the three and a half decades.

These findings²⁰ indicate that the major real inputs into elementary and secondary educational services have experienced deceleration over the 35 years while public expenditure shows acceleration. They also bring out relatively greater emphasis placed on secondary than on elementary education.

IV. GOVERNANCE AND INSTITUTIONS

At the time of Independence, India adopted the political system of a representative democracy of the parliamentary type based on universal franchise and with the executive authority vested in the cabinet with collective responsibility. In this system, the executive is accountable for its decisions to the popularly elected representatives. The Indian Constitution formally adopted in 1950 provides for the parliament, the executive and the judiciary as the three pillars on par with each other with checks and balances. All the three pillars operate at the Centre as well as in 25 states (currently in existence) which have been carved out mainly on the linguistic and sometimes (especially in the north-east) on ethnic basis. In addition, 7 union territories are managed by the Centre. Traditionally, the Centre had been given wide-ranging powers in several spheres including revenue collection so that it has been in a stronger position *vis-à-vis* the states. This gave rise to a centralized system of governance with virtually a single party rule with the Congress Party ruling the party at the Centre as well as the states. After the death of the first Prime Minister, Nehru in 1964, the general elections of 1967 marked the watershed when several states came to be ruled by the parties which were in opposition to the party at the Centre. Since then, changes in the political arena have been more frequent. The non-Congress Governments came to power at the Centre in 1977 for the first time and then again twice in the late eighties but did not last long. Currently, the Congress Party has been heading a minority government with several states being ruled by the non-Congress parties.

Over the years, the extent of centralization has been gradually breaking down, although the space available at the state level has not been very significant. All the same, it has made it possible for different states to pursue somewhat different development strategies. Thus, Haryana and Punjab in the North have followed a growth-oriented strategy based on agricultural prosperity which has led to non-agricultural labour absorption and considerable reduction in the incidence of poverty along with improvement in most social indicators. Kerala, in the South, has emphasized the social sector investment in education and health while not being very successful in the realm of economic growth. The Eastern state of West Bengal has managed under the Communist regime, to bring about a fair amount of rural mobilization which, as yet, has not been converted into

²⁰ See V.J. Ravishankar, "India: government expenditure on social services 1976/77 - 1986/87" (mimeo.) (New Delhi, World Bank, February 1989).

agricultural prosperity. Democratic decentralization has been launched in Karnataka in a somewhat halting fashion.²¹ On the whole, barring the two states of West Bengal and Karnataka, decentralization below the state-level has not progressed very far. A few other states have some local self-governing institutions but they have not been functioning satisfactorily. Most of the states have been using the bureaucracy for implementing the various programmes most of which have been initiated by the Centre.

It is interesting to note that the nurturing and development of local-level self-governing institutions was part of the agenda of institutional development in the nineteen-fifties. As mentioned in the earlier section, this was attempted in a centralized fashion but did not lead to any tangible results. The issue of democratic decentralization came back on the political agenda in the nineteen-eighties when the ruling Congress Party while it was in majority at the Centre in the mid-eighties, tried to evolve a uniform three-tier institutional structure from the village to the block (a group of about 100 contiguous villages) and further up to the district (a group of blocks). This happened in a situation when several states were being ruled by the non-Congress parties. The move towards decentralization was opposed by the non-Congress Parties because they perceived it as a move on the part of the Congress Party to strengthen the Centre's hold on the local-level self-governing institutions and bypass the authority of the Chief Minister of the state. The official committees on the local-level self-governing institutions pointed out several handicaps in their emergence. The major handicap consisted of the centralization of political and bureaucratic power within the state at the level of the state-government and the non-tolerance of parallel seats of political and bureaucratic power at the lower-level.

As mentioned earlier in this section, only two states (West Bengal and Karnataka) have succeeded in allowing the partial emergence of these power structures but that too in a limited and halting fashion. In West Bengal, they have been entrusted mainly with the implementation of some of the anti-poverty programmes. In Karnataka too, their involvement has been limited to the monitoring of the performance of the social sectors like education and health. Their capacity to raise revenues and freedom to tailor available financial allocations to their needs has been extremely limited. This limits their credibility in the eyes of the local population to solve their problems for which they have to turn to the seat of power in the state capital. This leads to the lukewarm participation of the local population even though formally these local-level institutions may be functioning.

²¹ See K.S. Krishnaswamy, "Decentralization and planning", in C.T. Kurien, E.R. Prabhakar and S. Gopal, eds., *Economy, Society and Development* (New Delhi, Sage Publications, 1991), pp. 170-186.

The non-emergence of self-governing institutions below the state-level has gone hand-in-hand with the well-entrenched distrust of the market in resolving inter-personal or inter-group conflicts in economic interests. Thus, the case-by-case discretionary control regime of industrial and import licensing had been installed to allocate industrial capacity and scarce imports at the detailed micro-level. Price and distribution controls had been imposed on a large number of key industrial commodities. A fairly exhaustive legislation had been enacted to enforce minimum wages, resolve industrial disputes, control lockouts and closures, prevent concentration of economic power and tightly control the entry of foreign investment. There are also several price and distribution controls over agricultural commodities besides minimum wage legislation for rural labour. This has not only increased the load on the judiciary by producing a huge back-log of cases locked up in litigation but also put lot of pressures on the enforcing machinery. Consequently, the demand for bureaucratic functionaries has been rising progressively. Thus, over the 12-year period from 1977 to 1989, the employment in the public sector has risen by 4.75 million whereas the private sector (organized) employment has increased by hardly 0.60 million over the same period. Of the 4.75 million increase in public sector employment, 2.32 million were accounted by the so-called quasi-government bodies and another 1.87 million in the state government employment.²²

This brings us to the structure and the reach of bureaucracy. At the time of Independence, the country inherited the all-India level Indian Civil Service that was trained in Britain. This was converted into the Indian Administrative Service after Independence. It is a non-specialized general administrative service which operates at the Centre, the state capital and the district level. Apart from this service, there are other central services such as the Indian audit and accounts service, Indian Railway Service, Indian Economic Service, Indian Statistical Service, Indian Engineering Service and so on. The reach of the Central services is confined to the offices of the Central Government located in different parts of the country. Apart from these central government services, state governments operate their own administrative services. The reach of these services is limited below the district level where block-level and village-level functionaries and those in quasi-government enterprises look after the sprawling administrative requirements which have emerged out of reliance on centralized interventions from the top. The ever-increasing reliance on government intervention to resolve conflicts has generated a dependency syndrome with several consequences for effective governance. It has eroded the scope of participatory methods in collective decision-making and hence led to the virtual absence or ineffectiveness of local-level self-governing institutions. Secondly, the parliamentary system

²² See Government of India, Ministry of Finance, *Economic Survey 1991/92*, Part II, Sectoral Developments (New Delhi, 1992), tables S-52 and 53.

with representative method of collective decision-making operates at the level of state capitals or the Centre far away from where those affected by the collective decisions are located. This has considerably diluted the accountability for collective decisions. Thirdly, the execution of collective decisions is carried out by the bureaucracy with vertical lines of control. With the limited reach of the central bureaucracy, the local (village and block) level functionaries are accountable to the distant authority at the district level but their decisions have immediate bearing for the local population. Consequently, they end up acquiring considerable discretionary powers which are prone to be misused. Fourthly, apart from the possible misuse of discretionary powers, the decisions often take a long time to travel to the local level causing delays and hardships. This gives rise to the power of the patronage that elected representatives acquire in the prompt execution of the decisions. Finally, several centrally initiated area-based rural development programmes require coordination among different administrative departments at the block level or below. Administration with vertical lines of control is ill-suited to handle such coordination. Consequently, the implementation of such programmes proves ineffective. Successful or smooth implementation of such programmes has involved one of the two mechanisms: (i) presence of an enlightened and committed bureaucrat at the state capital or the district level personally sorting out coordination problem; (ii) the presence of voluntary organization at the local level bringing pressures on the concerned departments. However, these mechanisms are not available on a large scale.

The foregoing consequences of the dependency syndrome have inevitably led to the general deterioration in the quality of governance. This is reflected not only in the slow, ineffective and often corrupt administration but also in the resolution of conflicts in a partisan manner especially because of the stratified nature of the village society.

We turn now to the institutional features of the social services. We have already observed in Section III that most of the institutions become viable at a large size of population settlements and are consequently concentrated in the urban areas. In education as well as health services, we confine ourselves to the population who need these services most but whose access to them happens to be limited.

Starting with education, government-run primary schools are expected to be located in every village whereas the secondary school facilities are expected to be made available by the government for a group of contiguous villages. We have mentioned in Section III that the non-availability of school has been noted on a very small scale as a reason for non-enrolment in the schooling system. This means that the formal schools are available. However, most of the primary

schools are one-teacher schools with very inadequate availability of teaching aids. Secondly, most of the villagers who are themselves uneducated or illiterate are unconvinced about the perceived relevance of the transmitted syllabus for the future earning potential of their children. Thirdly, many rural children have positive opportunity cost associated with joining the formal school because of their use in releasing the elders for farm non-farm work by looking after their siblings or their direct participation in economic activity. Fourthly, the unsatisfactory supply characteristics of education along with positive opportunity cost of the prospective school-age children are combined with the disinterested teachers who come unwillingly from other (mostly urban) areas and are accountable to the superiors in the educational hierarchy rather than to the village community. Consequently, the schooling facilities, such as they exist, remain underutilized. Effective universal primary education would, therefore, require not just the improvement of the existing institutional infrastructure but also efforts at improving the relevance of the syllabus, at knowing the causes of non-enrolment and drop-outs (which differ for boys and girls) along with measures to correct them, at getting stable and committed teachers preferably from within the area and finally at entrusting the monitoring the educational services with the local community. The constraints on these measures are institutional much more than financial. Simultaneously, it is necessary to undertake adult education programmes on a large scale so as to eradicate illiteracy. This is necessary to improve the appreciation of the parents regarding the need to educate their children.

Unlike primary education which is in apparently excess supply, health services are perpetually in short supply in rural areas. In the current scheme of institutional infrastructure, there are two channels for reaching the services up to the village level. First for the general health services and the second for children under the Integrated Child Development Services (ICDS). At the top of the general health infrastructure for the rural population is the health officer in the district hospital for an average population between 1 and 2 million. Next comes the community health centre (one per 100 thousand), then the Primary Health Centre with block medical office, health officer and other staff (one per 30 to 50 thousand), a subcentre with a multipurpose health worker (one per 5 thousand) and finally a village health guide and a trained nurse (one per one thousand). ICDS is a major Central Government programme for maternal and child nutrition and child development managed not by the Health Ministry but by the departments of Women and Child Development in the Ministry of Human Resource Development. The services are provided at the community level feeding and child development centres (FCDC) staffed by salaried workers. Currently, one FCDC is expected per 1,000 population and ICDS covers approximately one-half of the total blocks of about 5,000. While the institutional infrastructure is

described above at a general schematic level, there are wide variations across states, and similarly in their effectiveness.

Acute scarcity of health services has been a major cause of high infant mortality rate and a low expectation of life at birth in the rural areas. Given the small and non-viable size of rural population settlements, it may not be feasible to establish full scale medical facilities. However, various experiments undertaken by the voluntary agencies give pointers to the possible measures. First, given the local epidemiological pattern, preventive measures can be undertaken by the community with assistance from the district-level health personnel. Secondly, health awareness in detecting common illnesses and diseases can be increased with collective efforts along with elementary treatment packages. Thirdly, local health workers can be trained to diagnose the common illnesses, and provide treatments. Simultaneously, referral facilities can be established with block and district-level health infrastructure in serious cases. The experience of Kerala noted in Section II clearly indicates that health habits, health awareness and female education can contribute significantly to improve the performance of health indicators. It also brings out the inter-connections between health and education in reinforcing each other. The constraints on such efforts are imposed by the virtual absence of institutions to bring out collective participation and efforts.

V. CONCLUDING OBSERVATIONS

In this study, we have attempted to examine the Indian experience with regard to the possible connection between economic and social development. As argued in the introduction, a conscious attempt was made to a large extent to insulate the economy from the rest of the world and pursue a mostly inward-oriented economic and social development strategy. The developments during the period since 1950/51 can be recapitulated broadly in terms of the following broad phases.

The period from 1950/51 to the mid-1960s was marked by a reasonably successful attempt to initiate a sustained growth process based on heavy industry based industrialization in a stagnant economy. In the social sphere while the emphasis was placed on institutional restructuring so as to facilitate the efficient operation of the trickle-down mechanism, it did not succeed mainly due to its centralized approach.

The period from the mid-1960s to the oil-price-hike of 1973 was one of adjustment to agricultural droughts through the initiation of the process of technological transformation in agriculture and to the cessation of foreign aid by

a cutdown in public investment in infrastructure and heavy industries. In the social sphere, the problem of absolute poverty comes to the fore in a situation of a slowing-down in the process of economic growth and acquires political legitimacy in the constellation of contextual political circumstances.

The third phase relates to the period between the two oil-price-hikes i.e. between 1973 and 1980. During this period, the problem of inflation resulting from agricultural harvest failures of the early 1970s was much more dominant in terms of policy response than adjustment to oil-price-hike. Since the economy was insulated from the external trade in the earlier period, it was not significantly adversely affected consequent upon the oil-price-hike. The adjustment to inflation was brought about through demand compression and slowing down of the rate of growth of investment. The external imbalance was handled by tight control on imports and was facilitated by expansion of exports to the Middle-East and the progressive rise in the remittances by the migrants to the Gulf countries. This led to the accretion of foreign exchange reserves. Simultaneously, the technological transformation of agriculture starts yielding returns in the form progressive rise in the foodgrain stocks with the government. In the social sphere, target-group-oriented poverty alleviation programmes get conceptualized. Although health and education were parts of the minimum needs programme, they do not get emphasized through resource allocation.

The fourth and the final phase relates to the 1980s beginning with the second steep oil-price-hike preceded by a severe drought of 1979/80. Armed with food and foreign exchange reserves, the adjustment to this shock consists of raising public sector investment, improving the operational efficiency of infrastructural services and progressive relaxation of the rigours of licensing controls on industry and import trade. With the gradual easing of oil price, this policy response brings about a step up in the growth rate of real GDP despite fluctuations in the world economy. A doubling of the growth rate of real per-capita GDP (mostly due to total factor productivity growth) makes possible increased allocation to poverty alleviation programmes and aided by the comfortable grain stock position, the proportion of the rural as well as urban population below the poverty line shows a gradual decline even in a widely publicized drought year of 1987/88. The progress in terms of social indicators of health and literacy is also impressive in the 1980s though slow in relation to the magnitude of the problem. It should thus be clear that the period of rapid growth in the 1980s is not accompanied by any apparently adverse impact on social development. In fact, the second half of the 1980s is marked by a step-up in efforts towards increasing literacy and reducing infant mortality.

By the end of the 1980s, the continuation of the increased growth rate stands threatened by macroeconomic imbalances in the fiscal and the balance of payments spheres. The gradual deregulation has provided stimulus towards economic restructuring for the purpose of integration in the global economy. Both the macroeconomic stabilization and the economic restructuring undertaken since July 1991 have the objective of improving resource utilization and productivity as well as raising the level of participation in international trade. This structural adjustment may involve social costs especially during the transition period. But this cannot be assessed at this point of time.

India's progress in the social spheres, in relation to its own past, looks impressive. However, it still has the (dubious) distinction of hosting the largest number of the world's poor. The burden of illiteracy as well as excess mortality - among females more than among males and for the rural more than for the urban population - still continues to be high but avoidable. Can these be treated as "costs" of economic development? Clearly, despite political support and legitimacy, the problem of absolute poverty has not been brought under control. Neglect of literacy and health appear more in the nature of organizational and technological failures than the ones which can be causally related to economic development. Absence of constituency for these sectors might also have contributed to their slow progress. This constituency could naturally have emerged in the presence of credible local self-governing institutions. A plausible hypothesis seems to be that the policy makers treated social and economic development as separable and virtually independent pursuits and failed to forge a reinforcing link between them.

SOCIAL COSTS OF ECONOMIC RESTRUCTURING: THE MALAYSIAN CASE

by

Stephen Chee and Cassey Lee***

I. INTRODUCTION

Economic development has been accompanied by relative equity and promotive of the processes of nation-building and sociopolitical stability in Malaysia. This paper examines the social implications of economic development and the attendant policy and programme adjustments in Malaysia. The focus of the analysis is the twenty-year period (1970-1990) of the First Outline Perspective Plan (OPP1) which spanned four 5-year development plans implemented under the rubric of the New Economic Policy (NEP), a broad-scale social engineering blueprint, launched in the aftermath of the racial riots of 1969.

The OPP1 and the NEP came to an end in 1990, but in their place a National Development Policy (NDP) and a new 10-year Second Outline Perspective Plan (OPP2) have been installed to guide development planning for the period 1991-2000. Even before the launching of the OPP2 and the NDP, the country's top political leadership has projected an optimistic scenario for Malaysian development a further generation into the future in terms of a vision of industrialized country status by the year 2020. This "Vision 2020" is clearly anchored on an euphoric assessment of past achievements and future scenarios of growth.

Our primary purpose in this paper is to evaluate the record of the past twenty years, focussing on the social aspects of economic restructuring and change. The first section gives a macroeconomic portrait of the twenty-year development record.

While the benefits of economic growth should not be downgraded, policy makers might have tended to ignore the "downside" or to understate the social costs involved. Section II discusses in some detail the social development trends,

* Professor of Public Administration, Faculty of Economics and Administration, University of Malaya.

** Faculty of Economics and Administration, University of Malaya.

with particular emphasis on the patterns of changes and effects in the following sectors: health, education, employment and income, and the environment. For open economies, however, some of the effects of economic adjustment may not be entirely avoidable due to exogenous factors; but well-defined policies can, nevertheless, ameliorate some of the side-effects of economic development and achieve growth with distribution. The third section, therefore, discusses the role of governance and social institutions in achieving economic growth with equity. The final section offers policy recommendations arising from the analysis of the Malaysian case.

II. THE DEVELOPMENT RECORD

By any yardstick, the development record in Malaysia over the past twenty years has been impressive. The country is richly endowed with natural resources, with a multi-ethnic population of about 18 million (54 per cent bumiputeras, i.e. Malays and other indigenous peoples, 35 per cent Chinese, and 10 per cent Indians), and possessed of efficient systems of administrative and physical infrastructure. Yet in 1969, the country was in the throes of violent ethnic conflict and societal tension following the general elections in May. Twenty years later, the country was experiencing unprecedented growth in an environment of political stability.

A. DEVELOPMENT STRATEGIES

In the 1960s, the policy regime was that of a relatively laissez faire system based on a strong primary export base but dependent on a few commodities. Light manufacturing was promoted through a policy of import substitution. That policy regime of limited government intervention, emphasis on primary exports, agricultural diversification, and import substitution did not generate sufficient employment opportunities nor provide adequate growth margin to correct the social imbalances that had accumulated over the long period of colonial economic transformation. The massive socio-economic imbalances were a major cause of resentment among bumiputeras (literally "sons of the soil", referring to Malays and other indigenous ethnic groups).

The change in the policy regime in the 1970s was associated with the launching of the New Economic Policy (NEP) in the aftermath of the racial conflagration of 1969. The NEP was to underpin economic policy for the period 1971-1990, aimed at achieving national unity through a two-pronged strategy of social engineering, namely restructuring Malaysian society such that economic roles shall not be identified with ethnicity and be more closely reflective of the racial composition of the population, and eradicating poverty irrespective of race.

Henceforth, interethnic equity was to be a purposive goal of social and economic policies, but distribution was to be accomplished in the context of rapid economic growth. Inevitably, the policy regime assigned an assertive role for the public sector through the expansion of public enterprises although private enterprise was expected to play a significant role in economic growth. Development strategy shifted to export-oriented industrialization in the seventies, although import substitution was not abandoned. By the early 1980s, however, there was a further shift in industrial policy towards heavy industries with the establishment of the Heavy Industries Corporation of Malaysia and the decision to produce a national car (the Proton Saga), both a reflection of political determination rather than a natural progression in industrial upgrading. Nevertheless, development strategies overlapped, and the shift to heavy industries was mounted with concurrent priorities given to a second round of import substitution; export-oriented industrialization; primary export promotion; and a belated emphasis on promotion of small and medium scale industries in the late 1980s.

B. MACROECONOMIC PERFORMANCE

During the twenty year period, growth of gross domestic product (GDP) fluctuated, with the Malaysian economy performing at a high rate of 7.5 per cent per annum in the 1970s, but, as prolonged world recession in the early eighties, following the second oil shock in 1979, impacted with domestic constraints, growth slowed to 5.9 per cent per annum in the 1980s. Clearly, external forces exerted a strong influence on growth with the economy posting negative growth (at -1.1 per cent) of GDP in 1985. Counter-cyclical measures in 1981-1984 propped up GDP growth, but at the cost of twin deficits in the balance of payments and the budget. The average rate of growth was 6.7 per cent during the OPPI period, somewhat short of the plan target of 8 per cent per annum but still higher than the 6 per cent registered during the 1960s. Since 1987, the economy has recovered strongly with GDP growth registering 8.9 per cent, 8.8 per cent and 10.4 per cent in 1988, 1989 and 1990, respectively.

Real GDP in 1990 recorded more than a three-fold increase over the period, but as population grew on the average by 2.5 per cent per annum, per capita income in real terms recorded only a two-fold increase from \$M 1,937 in 1970 to \$M 4,268 (in 1978 prices), or \$M 6,180 in current terms, in 1990 (Malaysia 1991a: 37). Growth has been accompanied by price stability, with the inflation rate averaging only 4.6 per cent during the period.

Total investment over the period rose by 9.6 per cent per annum, with public sector investment (linked to the expansion of non-financial public enterprises under the NEP) recording significant increases, averaging 10 per cent per annum

as against 9.4 per cent per annum for the private sector. This reflected the dominant role of the public sector in providing the growth impetus under the OPP1. However, private investment picked up after the economic recovery in 1986 and by 1990 its share of total investment had rebounded to 67.3 per cent (Malaysia 1991a: 38). With total investment reaching 35.1 per cent in 1990, as a ratio of GNP in real terms, as against the savings ratio of 30.3 per cent, the resource gap may be widening again (see table 1).

Although the OPP1 envisaged that full employment would be achieved, with the unemployment rate targeted to fall to 3.6 per cent by 1990, unemployment

Table 1. Malaysia: Macroeconomic targets and achievements, 1971-2000

	<i>Target OPP1</i>	<i>Achieved OPP1</i>	<i>Target OPP2</i>
Average growth rate, 1971-1990	(Per cent per annum)	(Per cent per annum)	
GDP	8.0	6.7	7.0
Private consumption	6.2	6.3	7.2
Public consumption	9.1	7.1	5.8
Private investment	8.5	9.4	8.0
Public investment	10.1	10.0	-0.4
Exports	7.1	9.2	6.3
Imports	5.2	10.0	5.7
Employment	3.3	3.4	3.1
Labour force	3.1	3.3	2.9
	<i>Target 1990</i>	<i>Achieved 1990</i>	<i>Target OPP2</i>
	Per cent	Per cent	
Unemployment rate	3.6	6.0 ^{1/}	4.0
<i>Share of GNP (per cent)</i>			
Savings	16.5	30.3	35.2
Investment	22.3	35.1	34.6

Source: Malaysia, *Second Outline Perspective Plan 1991-2000* (hereafter OPP2), pp. 39, 78, 90.

Note: Estimates of unemployment in Malaysia follow the internationally accepted definition of unemployment and include all persons in the labour force who, during the reference period, were without any work although available for employment. The estimate covers those who were not actively looking for work and they accounted for about half of the total unemployed.

remained paradoxically high with the rate reaching 8.3 per cent in 1986. This was because, while job creation was almost as high as targeted, the size of the labour force increased rapidly and participation rates were higher. Indeed, the labour force participation rate in 1990 was 66 per cent, with the male rate at 85 per cent and the female participation rate at 47 per cent. In addition, retrenchment during the recession years, emerging mismatches between supply and demand, and labour market rigidities exacerbated the situation. In 1990, however, the unemployment rate had come down to 6 per cent; since Malaysian unemployment figures include people "not actively looking for work", it is likely that full employment has been achieved as evidenced by labour shortages in certain sectors and the large influx of immigrant workers into the country.

C. STRUCTURAL TRANSFORMATION

The Malaysian economy has moved from dependence on the export of a few primary commodities. There is a better balance as reflected in the structural transformation in the changing composition of output among and within sectors, as a result of diversification and modernization of the economy. The share of agriculture in GDP has declined from 29 per cent in 1970 (adjusted to 1978 prices) to 18.7 per cent in 1990, with an average growth rate of 4.4 per cent per annum; while the manufacturing sector has accelerated at 10.3 per cent average growth rate to increase its share in GDP from 13.9 per cent in 1970 to 27 per cent in 1990. Clearly, manufacturing has replaced agriculture as the growth sector (see table 2). The contribution of the services sector to GDP has also been significant over the years, increasing from 36.2 per cent in 1970 to 42.3 per cent in 1990. The mining sector's share would have been smaller but for the significant contribution of petroleum and gas since the second half of the 1970s.

The structural change in the economy is also clearly reflected in the changing pattern of sectoral employment (table 2), with a rising proportion of the labour force in the manufacturing sector; though the services sector still accounts for the largest proportion of employment, the challenge under OPP2 is to increase jobs in the non-government services due to the declining share of public sector employment as a result of continuing policy since 1986 to reduce the role of government in the economy.

Equally striking are the structural changes occurring in the composition of output within sectors. Agricultural diversification has resulted in rapid expansion of palm oil and forestry products and the declining significance of rubber in the economy. In the mining sector, tin, bauxite and iron ore have declined due to depletion of known reserves, while the contribution of crude petroleum production to the mining sector value-added increased from 16.5 per cent in 1970 to 82.6 per

Table 2. Malaysia: Sectoral targets and achievements

	1970 ^{a/}	Target 1990	Achieved 1990	Target 2000
Share of GDP (per cent)				
Agriculture and forestry	29.0	19.7	18.7	13.4
Mining	13.7	2.6	9.7	5.7
Manufacturing	13.9	26.2	27.0	37.2
Construction	3.8	4.7	3.5	3.5
Services	36.2	48.3	42.3	45.4
Import duties less bank service charges	3.4	-1.5	-1.2	-5.2
Proportion to total employment (per cent)				
Agriculture and forestry	53.5	35.1	27.8	20.0
Mining ^{b/}	2.6	1.5	0.6	0.5
Manufacturing	8.7	16.8	19.5	23.9
Construction	2.7	3.6	6.4	7.4
Services	32.5	43.0	45.7	48.2
		Target OPP1	Achieved OPP1	Target OPP2
Average growth rate, 1971-1990		(Per cent)	(Per cent)	(Per cent)
Agriculture and forestry		5.4	4.4	3.5
Mining ^{b/}		3.8	4.9	1.5
Manufacturing		12.2	10.3	10.5
Construction		8.3	6.4	7.0
Services		8.5	7.6	8.0

Source: OPP2, p. 41.

^{a/} Adjusted to 1978 prices. ^{b/} Includes petroleum and gas.

cent in 1990 (Malaysia 1991a: 42). It is the manufacturing sector, however, which is the leading sector and which portrays the modernization of the economy. In 1970, manufacturing products accounted for only 12 per cent of total exports; in 1990, the proportion was 60.4 per cent. Within the sector, the production for the domestic market under the first phase of import substitution has given way to labour-intensive processing and assembly-type industries (such as textiles and electronics) in the Free Trade Zones (FTZs) for exports and, in the 1980s, to the emergence of heavy industries, such as the national car, methanol, sponge iron, and pulp and paper.

D. GROWTH AND EQUITY

The NEP which guided Malaysian development over the twenty year period 1970-1990 stipulated that economic growth was to be accompanied by distribution. The OPP1 defined a high-growth development strategy but the targeted real GDP growth of 8 per cent per annum was not achieved. It is open to debate whether the NEP distributional objectives constrained growth, as some have argued (Ariff 1991: 20-22), but the record is clear: growth has been accompanied by remarkable achievements in living standards and equity.

As tables 3 and 4 show, there was a wider coverage of basic amenities, contributing to general improvement in the quality of life and significant reduction in income imbalances among the racial groups as well as between rural and urban areas. Life expectancy has been increased for both males and females. While population increase remains high, crude death and infant mortality rates are down markedly. Amenities in relation to population have shown overall significant improvements. Average monthly income for all households in Peninsular Malaysia increased from \$M 264 in 1970 to \$M 1,163 by 1990, and from \$M 505 in 1976 to \$M 1,167 in 1990 for Malaysia as a whole. While income disparities continue

Table 3. Malaysia: Indices reflecting quality of life

	1970	1990 ^{a/}
Life expectancy (year)^{b/}		
Males	61.6	69.0
Females	65.6	73.5
Birth rate per 1 000 population	32.4	27.1
Infant mortality rate per 1 000 live births	39.4	13.5
Death rate per 1 000 population	6.7	4.7
Primary school enrolment ratio (per cent)	88.2	98.9
Teacher-pupil ratio (primary and secondary)	28.9	20.9
Doctoral/population ratio	1:4 302	1:2 656
Television sets per 1 000 population	22	100
Passenger motorcars per 1 000 population	26	96
Telephones per 100 population	1.0	9.7
Total road (km)	21 182	39 113

Source: OPP2, p. 44.

^{a/} Refers to 1989 figures. ^{b/} Peninsular Malaysia only.

**Table 4. Mean monthly household income
(In current prices)**

	1970 (\$)	1976		1990	
		(\$)	As ratio of mean income	(\$)	As ratio of mean income
Peninsular Malaysia					
Overall	264	—	1.0	1 163	1.0
Bumiputera	172	—	0.7	931	0.8
Chinese	394	—	1.5	1 582	1.4
Indians	304	—	1.2	1 201	1.0
Others	813	—	3.1	3 446	3.0
Sabah					
Overall	—	513	1.0	1 148	1.0
Bumiputera	—	344	0.7	895	0.8
Chinese	—	1 191	2.3	2 242	2.0
Others	—	1 415	2.8	2 262	2.0
Sarawak					
Overall	—	427	1.0	1 208	1.0
Bumiputera	—	288	0.7	932	0.8
Chinese	—	708	1.7	1 754	1.5
Others	—	2 913	6.8	4 235	3.5
Malaysia					
Overall	—	505	1.0	1 167	1.0
Bumiputera	—	339	0.7	928	0.8
Chinese	—	796	1.6	1 631	1.4
Indians ^{a/}	—	537	1.1	1 201	1.0
Others	—	996	2.0	3 292	2.8

Source: OPP2, p. 45.

^{a/} Peninsular Malaysia only.

to be wide, improvements are evident from the lowering of the Gini coefficient from 0.513 in 1970 to 0.445 in 1990 for all households; reduction in the national incidence of poverty from 52.4 per cent in 1970 to 17.1 per cent in 1990; and the reduction of hardcore poverty (defined as those households receiving less than half of the Malaysian poverty line income of \$M 370 per month for Peninsular Malaysia, \$M 544 for Sabah, and \$M 452 for Sarawak) to about 143,100 households or 4 per cent of total households (Malaysia 1991a: 98-101). However, the income share of the bottom 40 per cent of the households was only 14.4 per

cent compared with 50.3 per cent for the top 20 per cent of the households in 1990.

As shown in tables 4 and 5, inter-ethnic and rural-urban dimensions of poverty remain wide, despite remarkable progress under the NEP. Inter-ethnic

Table 5. Poverty eradication targets and achievements

	1970	1976	Target 1990	Achieved 1990	Target 2000
Peninsular Malaysia					
Incidence of poverty (per cent)	49.3	—	16.7	15.0	5.3
Rural	58.7	—	23.0	19.3	8.0
Urban	21.3	—	9.1	7.3	3.0
Bumiputera	65.0	—	—	20.8	—
Chinese	26.0	—	—	5.7	—
Indians	39.0	—	—	8.0	—
Others	44.8	—	—	18.0	—
Sabah					
Incidence of poverty (per cent)	—	58.3	—	34.3	20.0
Rural	—	65.6	—	39.1	27.3
Urban	—	26.0	—	14.7	6.5
Bumiputera	—	67.1	—	41.2	—
Chinese	—	22.2	—	4.0	—
Others	—	15.7	—	6.3	—
Sarawak					
Incidence of poverty (per cent)	—	56.5	—	21.0	12.7
Rural	—	65.0	—	24.7	16.5
Urban	—	22.9	—	4.9	0.8
Bumiputera	—	68.7	—	28.5	—
Chinese	—	29.6	—	4.4	—
Others	—	9.4	—	4.1	—
Malaysia					
Incidence of poverty (per cent)	—	42.2	—	17.1	7.2
Rural	—	50.9	—	21.8	11.2
Urban	—	18.7	—	7.5	3.1
Bumiputera	—	56.4	—	23.8	—
Chinese	—	19.2	—	5.5	—
Indians	—	28.5	—	8.0	—
Others	—	44.6	—	12.9	—

Source: OPP2, pp. 46, 109.

income gaps have been moderated, with the overall ratio of Bumiputera to Chinese mean income improving from about 44 per cent in 1970 to 59 per cent in 1990 in Peninsular Malaysia, although income disparities remain still high in certain sectors and occupations.

The NEP and development strategies were also aimed at the restructuring of society. In terms of employment restructuring, while Bumiputeras are still overrepresented in agricultural occupations and the public sector, the employment structure in the industrial and commercial sectors is more reflective of the country's ethnic ratios (table 6). In particular, in less than one generation, a large Malay middle-class (incorporating an emerging Bumiputera commercial and industrial class) has been created. Indeed, Malaysian development has been characterized by the expansion of the middle class, particularly the rapid "embourgeoisment" of the Malays, reflecting the success of the affirmative action of the NEP strategy of economic growth.

With regard to wealth restructuring, the share of Bumiputeras in the ownership of equity capital increased from 2.4 per cent in 1970 to about 20.3 per cent in 1990; on the other hand, other Malaysians (mainly Chinese) increased their share in corporate equity from 32.3 per cent to 46.2 per cent between 1970 and 1990, while the foreign share of corporate ownership has declined from 63.3 per cent to 25.1 per cent. The Bumiputera share is short of the NEP target of 30 per cent; in percentage and absolute terms, nevertheless, the rate and amount of growth of Bumiputera share ownership in the space of 20 years have been quite stunning.

Thus, Malaysia's development has been impressive in terms of the aggregate growth indicators, the broad participation of all segments in the economy, as well as in terms of the substantial gains in income distribution and eradication of poverty. But this path of progress has not been without its constraints and difficulties.

E. STRUCTURAL ADJUSTMENT MEASURES IN THE 1980s

The structural reforms envisaged in the NEP assumed rapid economic growth within the context of a favourable external environment. Since 1980, as a result of the prolonged world recession following the second oil shock in 1979, the Malaysian government has had to make adjustments to development policies and strategies. Fiscal retrenchment measures were undertaken in the Fourth (1981-1985) and Fifth (1986-1990) Malaysia Plan periods by downsizing the public sector and encouraging the private sector to take the leading role in the

Table 6. Malaysia: Restructuring targets and achievements

	1970 ^{a/}		Target 1990		Achieved 1990		Malaysia 1990		Target 2000	
A. Employment restructuring (sectoral employment)	('000)	(per cent)	('000)	(per cent)	('000)	(per cent)	('000)	(per cent)	('000)	(per cent)
Bumiputera										
Primary ^{b/}	951.1	66.2	1 091.4	37.4	875.2	29.0	1 404.6	36.7	1 364.3	26.5
(per cent)	67.6		61.4		71.2		76.4		75.8	
Secondary ^{c/}	173.1	12.1	782.7	26.8	918.5	30.5	1 038.9	27.2	1 775.2	34.5
(per cent)	30.8		51.9		48.0		49.8		53.6	
Tertiary ^{d/}	312.4	21.7	1 046.8	35.8	1 219.8	40.5	1 381.9	36.1	2 004.8	39.0
(per cent)	37.9		48.4		51.0		50.9		51.7	
Non-Bumiputera										
Primary ^{b/}	454.9	33.5	686.2	27.1	354.0	14.0	433.0	15.5	435.6	11.3
(per cent)	32.4		38.6		28.8		23.6		24.2	
Secondary ^{c/}	389.7	28.7	725.4	28.7	996.1	39.5	1 048.6	37.5	1 536.1	40.0
(per cent)	69.2		48.1		52.0		50.2		46.4	
Tertiary ^{d/}	512.5	37.8	1 116.6	44.2	1 170.5	46.5	1 314.0	47.0	1 870.3	48.7
(per cent)	62.1		51.6		49.0		49.1		48.3	
B. Ownership restructuring (percentage of corporate equity)										
Bumiputera ^{e/}		2.4	30.0					20.3		
Other Malaysians		32.3	40.0					46.2		
Foreigners		63.3	30.0					25.1		
Nominee companies		2.0	—					8.4		

Source: OPP2, pp. 49, 116-117.

^{a/} Peninsular Malaysia only. ^{b/} Agriculture. ^{c/} Mining, manufacturing, construction, utilities and transport. ^{d/} Wholesale and retail trade, finance, government and other services. ^{e/} Includes trust agencies and other related institutions.

economy. Privatization became announced policy from 1983 as a measure to promote the private sector and to reduce the financial burden of the non-financial public enterprises on the government. Additional institutional reforms included deregulation and liberalization of the economy, encouraging greater foreign management and expertise and the inflow of foreign direct investment.

Several legislative enactments, such as the Industrial Coordination Act, which tended to inhibit private investment, were revised to stimulate both local and foreign investments and administrative procedures were rationalized to promote a conducive business environment. The "Malaysia Incorporated" concept and the privatization drive signalled the expected change in the relative mix between the public and private sector roles in economic development. These were buttressed by admonitions to improve administrative efficiency and productivity as well as service quality; increase efficiency and competitiveness; and to emulate the values and work ethics of the successful East Asian countries. Supportive policy initiatives included the launching of the Industrial Master Plan in 1985, the formulation of a National Agricultural Policy in 1984, the adoption of the "Look East Policy", and the emphasis on Human Resource Development (HRD), Research and Development (R&D) and Science and Technology (S&T).

III. THE SOCIAL DIMENSIONS OF ECONOMIC RESTRUCTURING

Undoubtedly, the performance of the Malaysian economy since independence has been impressive in comparison with many other developing countries. The implementation of the New Economic Policy (NEP) and the adoption of an Export-oriented Industrialization policy since the late 1960s have brought social stability and economic prosperity to the country. In turn, relative political stability has helped the processes of economic development and social restructuring. Adverse external events, however, in the form of oil shocks in the mid and late 1970s and economic recession in the mid-1980s forced adjustment policies and shifts in strategy. A more balanced assessment of Malaysia's past achievements which looks beyond the quantitative macroeconomic indicators is undertaken in this section. The social dimensions of development, which are more often qualitative in nature, should be taken into account in such an assessment. For this purpose, four areas or sectors in the Malaysian context will be analyzed namely, health, education, income and employment, and the environment. The four sectors were chosen not only because they are important aspects of the quality of life per-se, but because of the direct impact of economic restructuring on them in the Malaysian context.

Health indicators such as the infant mortality rates and life expectancy imply tremendous improvement in the health status of the average Malaysian since independence. However, structural changes, such as rapid rural-urban migration particularly by the Malays, accelerated by the implementation of the NEP, have increased pressure on urban health and education facilities. Drug abuse, child abuse and a host of other "modern" diseases such as cardio-vascular and neo-plasma have become more prevalent. The quality of life in urban areas has also been compromised by congestion, increase in crime rates and inadequate housing.

The education sector has also made substantial progress, as can be seen from the decline in the illiteracy rates and increase in the enrollment rates. The implementation of preferential policies in this sector has, however, precipitated problems such as racial polarization and "brain drain". The high rate of unemployment amongst the tertiary-educated has also brought into question the efficacy of the education system in meeting the manpower requirements of industrial development.

Socio-economic restructuring via the implementation of the NEP has brought about more balanced development, in inter-ethnic and geographical terms for Malaysia. Income distribution has improved and incidence of poverty has declined. Socio-economic restructuring via employment restructuring through public sector employment has engendered problems related to dependency on public sector employment and subsidies. Furthermore, the process of transforming Malaysia into an industrializing nation has also resulted in deterioration of the environment.

A. HEALTH AND THE QUALITY OF LIFE

The provision of public health services has improved considerably over the years since independence. This is reflected in general health indicators such as infant mortality rates and life expectancy (table 3). The former has declined substantially from 39.4 per 1,000 live births in 1970 to 13.50 per 1,000 live births in 1990. The average life expectancy for males and females has increased from 61.6 years and 65.6 years in 1970 to about 69.0 years and 73.5 years in 1990 respectively.

In general, the percentage of total public development expenditure allocated to the health sector has declined since the Second Five-Year Plan (1961-1965). The declining trend has been reversed during the implementation of the Fifth and Sixth Malaysia Plans (see table 7). However, in terms of absolute amount, the public development expenditure allocated to the health sector has increased. A

Table 7. Malaysia: Federal government development expenditure on health and population, water supply and sewerage, 1971-1995

Year	Health and population		Water supply		Sewerage	
	(\$ million)	(Per cent)	(\$ million)	(Per cent)	(\$ million)	(Per cent)
1971-1975	183.3	(1.9)	163.1	(1.7)	8.6	(0.1)
1976-1980	309.4	(1.2)	377.2	(1.5)	69.1	(0.3)
1981-1985	762.7	(1.6)	1 085.8	(2.2)	200.0	(0.4)
1986-1990	931.0	(2.6)	2 467.0	(7.0)	57.2	(0.2)
1991-1995 ^{a/}	2 253.0	(4.1)	2 854.5	(5.2)	550.9	(1.0)

Source: Various *Malaysia Plans* and their *Mid-Term Reviews*.

^{a/} Allocation.

substantial and an increasing amount of the allocations to this sector is being spent on patient care services, which basically involves building new hospitals and upgrading existing ones. The percentage of allocation to public health services and training (which includes rural health and dental services) has declined (table 8). This decline took place in spite of the recognition that health resources in rural areas are inadequate and that poverty was still considered an important cause of bad health (Jomo and Chee 1985: 73-74). Furthermore, there has also been a massive exodus of experienced medical officers, medical specialists and nurses from the public to the private health sector in recent years. Thus, the remaining medical personnel, especially those serving in the rural areas, may be new and unexperienced ones. Such adverse developments may imply deterioration in the delivery of health services.

There is direct evidence that the health service system was under strain particularly during the 1980s. This can be seen from health infrastructure indicators during this period (table 9). The acute care hospital beds per thousand population figures showed a decline from 1.7 in 1985 to 1.5 in 1990. Similarly, population (1,000) per hospital in Peninsular Malaysia increased progressively from 153.4 in 1970 to 191.0 in 1985 to 207.2 in 1990. The figures for population per-clinic lead to a similar conclusion. The apparent contradiction in the improvement in population per-doctor and population per-nurse figures is clearly due to the worsening distribution of doctors and nurses between the public and private health sector. The situation in the 1980s may have been exacerbated by the recession in the mid-1980s which resulted in many health patients reverting

Table 8. Malaysia: Public development expenditure on health services, 1971-1995

Programme	1971-1975		1976-1980		1981-1985		1986-1990		1991-1995 ^{a/}	
	(\$ million)	(Per cent)	(\$ million)	(Per cent)	(\$ million)	(Per cent)	(\$ million)	(Per cent)	(\$ million)	(Per cent)
Public health services ^{b/}	40.3	22.0	70.0	22.3	140.6	30.6	187.0	20.1	167.0	7.4
Patient care services ^{c/}	110.5	60.3	166.4	52.9	230.8	50.2	682.0	73.3	1 946.0	86.4
Training	17.4	9.5	16.2	5.2	20.8	4.5	11.0	1.2	67.0	3.0
Other health services	13.0	7.1	36.6	11.6	35.7	7.8	31.0	3.3	39.0	1.7
Population activities	2.1	1.1	25.4	8.1	32.1	7.0	10.0	1.1	12.0	0.5
Total development expenditure on health	183.2		314.5		460.0		931.0		2 253.0	

Source: Various Malaysia Plans.

^{a/} Allocation. ^{b/} Rural health and dental services. ^{c/} New hospitals, upgrading and renovation.

Table 9. Malaysia: Health infrastructure indicators, 1970-1990

Year	Acute care hospital beds per 1 000 population	Ratio of hospital beds to population	Population per doctor	Population per nurse	Population (thousands) per hospital		Population (thousands) per clinic	
					Peninsular Malaysia	Sabah and Sarawak	Peninsular Malaysia	Sabah and Sarawak
1970	1.56	1:641	4 302	n.a.	153.4	69.4	5.7	11.5
1975	1.62	1:617	4 480	3 029	163.5	75.9	5.1	8.9
1980	1.70	1:575	3 568	1 725 ^{a/}	176.0	80.1	5.3	6.2
1985	1.70	1:622	3 175	1 521 ^{a/}	191.0	81.8	6.1	5.6
1990	1.50	1:667 ^{b/}	2 656 ^{b/}	1 364 ^{a/,b/}	207.2 ^{b/}	92.6 ^{b/}	6.6 ^{b/}	6.1 ^{b/}

Sources: Various *Malaysia Plans*; and *Economic Report 1990/91*.

^{a/} Peninsular Malaysia. ^{b/} 1989 estimates.

back to using public health services due to reduced affordability and the rising cost of private health care services.

Imbalance in regional growth has also resulted in uneven distribution of health infrastructure. For example, table 10, indicates that states with high income generally enjoy better access to health facilities in terms of population per-doctor. This situation is substantially reinforced by the provision of private health services which tend to be concentrated in the more developed and higher income states (table 11 and table 12). It is therefore not surprising that the health status (measured, for example, by infant mortality rates) of the higher income states' population is better (table 10). Nevertheless, the improvement in overall infant mortality rates over the twenty year period from 1970 to 1990 is quite impressive.

Other indicators of health conditions are also useful in analyzing social consequences of economic development and restructuring. One such indicator is the incidence of drug abuse which has increased rapidly in Malaysia in recent years (see table 13). As drug abuse is more of an urban rather than rural problem, it may be partially symptomatic of problems related to rapid urbanization (Siti Norazah *et al.*, 1987: 112). Interestingly, the ethnic dimension in the distribution of social effects is brought to the fore in this case as a disproportionate percentage of registered drug addicts are Malays who have experienced the most rapid rate of rural-urban migration (see table 14). The increase in intravenous drug abuse may

**Table 10. Health indicators by state,
1970-1990**

State	Population per doctor				Infant mortality rate per 1 000 live births		
	1970	1980	1985	1990	1970	1980	1988
High income							
Federal Territory	–	979	815	721	–	20.7	9.7
Selangor	1 801	4 564	3 335	2 280	29.4	21.2	11.3
Middle income							
Johor	5 480	4 667	4 187	3 145	36.7	24.6	12.9
Melaka	3 921	3 933	3 012	2 648	43.8	18.8	13.5
Negeri Sembilan	4 033	3 117	3 353	2 617	39.7	23.7	11.4
Pahang	7 599	5 055	4 583	3 508	43.3	27.1	17.4
Perak	4 345	4 535	3 544	2 823	41.7	25.2	15.3
Penang	2 502	2 910	1 925	1 815	38.0	19.9	13.2
Perlis	7 856	5 112	3 794	3 400	35.5	24.2	12.1
Sabah	8 379	7 898	6 897	5 082	–	26.7	19.6
Sarawak	12 204	7 305	6 696	5 175	–	23.9	9.8
Terengganu	14 514	8 317	5 555	4 226	56.3	29.9	15.9
Low income							
Kedah	10 328	7 064	5 516	4 277	42.3	28.7	16.7
Kelantan	14 218	10 156	6 898	3 764	58.7	31.8	17.7

Sources: Various Malaysia Plans; and Social Statistics Bulletin (1988).

Note: Interpretation of the rates for Sabah and Sarawak should be undertaken cautiously due to under-registration of births and deaths.

have also contributed to the alarming increase in reported AIDs cases seen in recent years.

It should also be noted that there is a relatively higher incidence of child abuse amongst Malay families. This is also said to be related to the acute rural-urban migration experienced by this group of the population in recent years which resulted in the breakdown of the extended family system and the need to cope with the pressures of life in an unfamiliar urban setting (Nathan *et al.*, 1981).

Other indicators of health are related specifically to urban related problems. Diseases commonly associated with modern and urban life-styles such as heart

Table 11. Malaysia: Distribution of registered doctors, 1978 and 1988

State	No. of government doctors		No. of private doctors		Ratio of private to government doctors	
	1978	1988	1978	1988	1978	1988
High income						
Federal Territory	576	900	311	757	0.54	0.84
Selangor	93	195	166	556	1.78	2.85
Medium income						
Johor	122	263	149	332	1.22	1.26
Melaka	60	98	43	101	0.72	1.03
Negeri Sembilan	85	214	49	145	0.58	0.68
Pahang	75	172	49	123	0.65	0.72
Perak	176	288	188	182	1.07	0.63
Perlis	35	37	7	20	0.20	0.54
Penang	127	286	180	317	1.42	1.11
Sabah	-	165	-	153	-	0.93
Sarawak	-	195	-	163	-	0.84
Terengganu	51	138	10	48	0.19	0.35
Low income						
Kedah	78	179	63	132	0.81	0.74
Kelantan	74	151	22	67	0.30	0.44

Sources: *MMA Report (1980)*; and *State/District Data Bank 1987/88*.

and cardio-vascular diseases, neo-plasms (cancer) and motor vehicle accidents have figured prominently as principal causes of death in Malaysia in recent years, while infectious diseases have declined (Ministry of Health: 1988).

Congestion, especially in urban areas, has also become a serious problem in the country. This has happened despite the fact that a substantial proportion of the public development expenditure has been allocated to infrastructure building. For example, during the Fifth Malaysia Plan (1985-1990), 24 per cent of the total public development expenditure was allocated to the infrastructure sector, of which 82.2 per cent went to the roads sub-sector. Despite the substantial investment in road construction, which has increased the length and coverage of the road network, the average traffic condition especially in urban areas has worsened. Thus, there has been significant increase in congestion in major sections of the inter-urban road networks. This is partly a result of public investments in this sector which were not based on economic considerations such

Table 12. Malaysia: Distribution of hospital beds, 1980, 1985 and 1988

State	Total no of government hospital beds ^{a/}			Total no. of private hospital beds ^{b/}			Ratio of private to government hospital beds		
	1980	1985	1988	1980	1985	1988	1980	1985	1988
High income									
Federal Territory	n.a.	n.a.	2 436	575	1 047	1 120	-	-	0.46
Selangor	1 173	1 381	1 429	556	902	967	0.47	0.65	0.68
Medium income									
Johor	n.a.	n.a.	2 730	33	232	314	-	-	0.12
Melaka	900	961 ^{c/}	1 174	70	85 ^{c/}	135	0.08	0.09	0.11
Negeri Sembilan	1 779	1 826	1 694	19	70	78	0.01	0.04	0.05
Pahang	n.a.	n.a.	1 466	32	47	65	-	-	0.04
Perak	3 530	3 546	3 704	475	523	856	0.13	0.15	0.23
Perlis	418	418	404	n.a.	n.a.	n.a.	-	-	-
Penang	n.a.	n.a.	2 161	251	635	777	-	-	0.36
Sabah	n.a.	n.a.	2 799	10	30	132	-	-	0.05
Sarawak	n.a.	n.a.	2 486	97	77	151	-	-	0.06
Terengganu	773	852	1 110	15	20	20	0.02	0.02	0.02
Low income									
Kedah	1 499	1 793	1 793	n.a.	80	138	-	0.04	0.08
Kelantan	1 045	900	1 661	n.a.	n.a.	n.a.	-	-	-

Sources: Computed from *Social Statistical Bulletin* (1988); and *State/District Data Bank* (1980-1986, 1987/88).

^{a/} General and district. ^{b/} Hospitals, nursing and maternity homes licensed each year. ^{c/} Refers to 1984 figures.

Table 13. Malaysia: Total number of dadah dependents identified and registered from 1970 to November 1985

<i>Year</i>	<i>Number identified</i>	<i>Cumulative figure</i>	<i>Year</i>	<i>Number identified</i>	<i>Cumulative figure</i>
1970	711	711	1979	8 299	46 778
1971	908	1 619	1980	7 154	53 932
1972	1 155	2 774	1981	10 391	64 323
1973	2 075	4 849	1982	13 363	77 686
1974	2 557	7 406	1983	14 624	92 310
1975	5 062	12 468	1984	11 914	104 225
1976	9 850	22 318	1985	5 671	109 896
1977	8 047	30 365			
1978	8 114	38 479	Total	109 896	

Source: Low Yoke Lin, University of Malaya M.Ec. (P.A.) Thesis (1988).

Table 14. Malaysia: Ethnic distribution of registered drug addicts

<i>Year</i>	<i>Total</i>	<i>Ethnic group</i>			
		<i>Malays (per cent)</i>	<i>Chinese (per cent)</i>	<i>Indians (per cent)</i>	<i>Others (per cent)</i>
1970)					
1971)					
1972)	12 468	58.4	19.8	19.1	2.7
1973)					
1974)					
1975)					
1976	9 850	51.0	24.6	13.2	1.1
1977	8 047	49.7	30.8	16.8	2.7
1978	8 114	46.0	40.0	12.4	1.6
1979	8 299	41.4	42.7	14.6	1.3
1980	7 154	36.2	49.5	13.3	1.1
1981	10 391	44.7	40.6	12.4	2.3
1982	13 363	45.1	38.0	14.6	2.4
1983	14 624	48.2	37.1	13.1	1.6
1984	11 915	50.5	34.0	13.1	2.3
1985 (November)	5 671	52.8	31.9	13.7	1.6
Total	109 896				

Source: Low Yok Lin, University of Malaya M.Ec. (P.A.) Thesis (1986).

as the Penang Bridge and the East-West Highway. As a result, transport infrastructure in the country is characterized by significant excess capacity co-existing with critical shortages especially in urban and industrial areas. The resulting congestion in certain areas not only worsens air pollution and traffic jams but it also increases accident rates. New housing schemes sprout up along new highways continuously taxing carrying capacity and raising accidents rates. The Klang Valley, for example, which is one of the most congested areas in the country accounts for about 40 per cent of road accidents in Peninsular Malaysia. Furthermore, poor road quality in terms of skid resistance and poor geometrics have also been suspected as major but under-reported causes of accidents.

Rapid industrialization of the economy also has important implications for occupational safety aspects confronting the work force. As an increasing proportion of the work force becomes involved in the industrial sector, occupational safety will become increasingly important in view of the rising frequency of industrial accidents in the sector (table 15). Furthermore, the re-location of some industries by multinationals from their home countries may degrade the environment further and thus pose additional health problems to the population in the vicinity of such factories. This is particularly serious for the older industrial estates such as Petaling Jaya which are located near residential areas. The preference of poor workers to stay in such residential areas in order to minimize their transportation costs has not helped to improve the situation either.

Public policy in Malaysia with regard to housing has always been directed towards a house owning society. However, the demand for housing especially in urban areas has out-stripped the supply from the public and private sectors. Rapid population growth and urbanization due to rural-urban migration and expansion of the modern sector have been the main causes. As the rapid increase in the urban population comprises mainly of families with lower and middle incomes, the shortage of low-cost and low medium-cost housing is particularly acute. The increase in the prices of the medium-cost houses due to inflation, shortages of cement, rising cost of urban land and speculative activities in real estate, has further restricted the accessibility of these groups to housing facilities (Sixth Malaysia Plan: 1991: 365). This has contributed to the growth of squatter settlements in major urban areas. Except for older squatter settlements, such areas may have poor sanitation such as insufficient water pressure and supply and inadequate drainage which can pose considerable health problems such as communicable diseases, for example, cholera. Furthermore, haphazardly built houses (often wooden) in densely populated squatter areas are vulnerable to fire hazards.

The dismal performance of the public and private housing sector can be seen from table 16. In general, there has been a shift in emphasis from public to

Table 15. Malaysia: Frequency of industrial accidents by sector, 1980, 1985 and 1988 (Percentage)^{a/}

Sector	Year		
	1980	1985	1988
1. Agriculture, forestry and fishing	0.6	1.1	1.7
2. Mining and quarrying	2.7	3.7	4.7
3. Manufacturing and processing	4.5	3.5	3.9
4. Construction	1.6	1.2	0.8
5. Electricity, gas, water and sanitary services	0.6	0.3	0.4
6. Commerce	0.6	0.3	0.6
7. Transport, storage, and communications	0.6	0.6	1.1
8. Services	0.5	0.3	0.3
Average	1.3	1.2	1.5

Source: Computed from *Labour Indicators*, various issues.

^{a/} As a percentage of total employment in the particular sector.

private provision of housing. The ratio of public to private sector provision of planned housing units has increased from 1:1.19 for the period 1976-1980 to 1:3.71 for the period 1986-1990. The figure for completed houses tells a similar story.

The public sector has consistently under-achieved on the targets allocated to them. The percentage of targets achieved from 1986 to 1990 increased in comparison to the previous five year period despite the decline in units completed due to the downward revision of the units planned for the period. During the Fourth Malaysia Plan period (1981-1985), out of the 398,570 units of houses planned, only 201,900 or 50.7 per cent were completed. For the Sixth Malaysia Plan (1986-1990), only 97,126 units of houses or 65.2 per cent of the 149,000 units planned, were completed.

Large declines were recorded by public low-cost, medium and high-cost housing, and institutional and staff housing. Public low-cost, medium and high-cost houses built during the Sixth Malaysia Plan amounted to 53,786 units compared with 141,470 units built in the preceding five-year period, a 62.0 per

Table 16. Malaysia: Public and private sector housing performance, 1971-1995

Programme	1971-1975		1976-1980		1981-1985			1986-1990			1991-1995
	Units completed	Units planned	Units completed	Targets achieved (per cent)	Units planned	Units completed	Targets achieved (per cent)	Units planned	Units completed	Targets achieved (per cent)	Units planned
Public sector	86 076	220 800	121 510	55.0	398 570	201 900	50.7	149 000	97 126	65.2	174 000
Public low-cost housing	13 244	62 200	26 250	42.2	176 500	71 310	40.4	45 800	26 172	57.1	40 000
Housing in land schemes	41 965	53 100	36 770	69.2	110 010	34 980	31.8	57 500	32 056	55.7	56 100
Institutional and staff housing	24 240	48 200	20 560	42.7	58 500	25 450	43.5	27 000	11 284	41.8	32 600
Medium and high cost housing	6 627	57 300	37 930	66.2	53 560	70 160	131.0	18 700 ^{a/}	27 614 ^{a/}	147.7	45 300 ^{a/}
Private sector	173 734	262 000	362 680	138.4	524 730	204 170	38.9	552 500	203 802	36.9	399 000
Private developer	64 862	100 000	199 490	199.5	349 470	104 800	29.9	540 000 ^{b/}	196 319 ^{b/}	36.4	386 400 ^{b/}
Private developer – low cost	–	–	–	–	90 000	19 170	21.3	370 400 ^{b/}	88 877 ^{b/}	24.0	215 700 ^{b/}
Private developer – medium and high cost	–	–	–	–	259 470	85 630	33.0	169 600 ^{b/}	107 442 ^{b/}	63.4	170 700 ^{b/}
Co-operative societies	3 585	12 000	4 120	34.3	25 260	4 570	18.1	12 500	7 483	59.9	12 600
Individuals and groups	105 287	150 000	159 070	106.0	150 000	94 800	63.2	–	–	–	–
Total	259 810	482 800	484 190	100.3	923 300	406 070	44.0	701 500	300 928	42.9	573 000

Sources: *Third, Fourth, Fifth, and Sixth Malaysia Plans.*

^{a/} Commercial agencies. ^{b/} Inclusive of individuals and groups.

cent decline. The dismal performance of public housing can be partly attributed to the economic recession in the mid-1980s and its impact on the Government's finances.

The Government was partly to blame as, in early 1980s, massive Federal expenditure was channeled to the housing sector (and defence) as part of its expansionary counter-cyclical policy. For example, Federal development expenditure on the housing sector increased from \$M 295 million in 1980 to \$M 1,231 million in 1981 and \$M 1,589 million in 1982. However, fiscal retrenchments were subsequently implemented in 1983 and 1987, resulting in drastic curtailment in Federal expenditure on the housing sector. Federal development expenditure on housing was reduced drastically from \$M 1,589 million in 1982 to \$M 566 million in 1983 and again, from \$M 1,054 million in 1986 to \$M 79 million in 1987. This type of short-term restructuring, by boosting demand and raising the expectations of an increase in the provision of public housing only to confound it later by fiscal retrenchments, may have worsened the housing situation.

The private sector performed somewhat better in the early 1980s but was still disappointing compared to its performance during the second half of the 1970s. Low-cost units built by the private sector increased almost five fold during 1986-1990 compared to the previous five year period. However, this achievement is unsatisfactory in terms of the targets allocated and in view of the special privileges granted under the Special Low-Cost Housing Programme. Thus, the provision of low-cost housing has been unsatisfactory. The rapid increase in the prices of medium and high-cost houses particularly in the late 1980s has resulted in the "crowding-out" of low-income purchasers in the low-cost housing sector. Thus, one of the basic needs of the population, particularly the poor and the middle class, has not been met satisfactorily.

B. THE EDUCATION SECTOR

The education system in Malaysia plays a very significant role in fostering national integration and unity, especially in view of the multi-racial character of its society. In addition, it is also oriented to meet the skilled manpower requirements of the nation. The government's commitment to this sector, as proxied by the sectoral allocations in Malaysian development plans, has fluctuated in the past. In terms of the percentage of annual total public expenditure on education, there was a discernible decline from the mid-1970s to mid-1980s followed by an increase in subsequent years (see table 17). However, in terms of absolute amount, the total public expenditure on education has increased annually since 1970 except for 1983 and 1987. The decline during these two years was due

Table 17. Malaysia: Federal government expenditure on education, 1970-1990

	1	2	3	4	5	6	
Year	Education development expenditure (\$M million)	As a per cent of total development expenditure	Education operating expenditure (\$M million)	As a per cent of total operating expenditure	(1+3) Total expenditure on education	Total federal expenditure on education (\$M million)	(5/6) Education expenditure as a percentage of total federal expenditure
1970	44	6.1	477	22.1	521	2 886	18.1
1975	212	9.1	1 158	23.6	1 370	7 051	19.4
1976	227	9.5	1 261	21.6	1 488	8 206	18.1
1977	274	8.5	1 751	23.7	2 024	10 615	19.1
1978	252	6.7	1 791	22.3	2 043	11 823	17.3
1979	339	7.9	1 918	19.1	2 257	14 322	15.8
1980	558	7.5	2 228	16.4	2 786	21 080	13.2
1981	791	7.0	2 726	17.4	3 517	27 044	13.0
1982	1 082	9.4	2 991	17.9	4 073	28 156	14.5
1983	988	10.2	2 915	15.9	3 903	28 043	13.9
1984	1 009	12.0	3 183	16.1	4 192	28 213	14.9
1985	872	12.1	3 473	17.3	4 345	27 208	16.0
1986	1 064	14.1	3 743	18.6	4 807	27 634	17.4
1987	810	17.1	3 862	19.1	4 672	24 926	18.7
1988	865	16.5	4 115	18.9	4 980	27 043	18.4
1989 ^{a/}	1 242	16.1	4 407	17.7	5 649	32 528	17.4
1990 ^{b/}	1 552	14.1	4 809	18.5	6 361	37 016	17.2

Source: Computed from Ministry of Finance, *Economic Report*, various issues.

^{a/} Estimated actual. ^{b/} Latest estimates.

to the financial constraints facing the Government during the recessionary period, which resulted in cuts in the development expenditure on education. The ordinary budget for education was little affected. It should be noted that the development expenditure on other sectors such as security (defence and internal security) and housing suffered even more severe cuts during the same period. For example, the Federal development expenditure on security was reduced from \$M 1.39 billion in 1983 to \$M 0.12 billion in 1987 (Economic Report 1990/91). The development expenditure on economic services remained relatively stable during the same period.

One measure of the improvement in the education infrastructure is the pupil-teacher ratio, which has improved in the 1980s after deteriorating in the first half of 1970s (table 18). The pupil-teacher ratio for primary and secondary schools has declined from 23.3 and 31.0 in 1970 to 20.1 and 21.3 in 1989 respectively. The pupil-teacher ratio for the primary level in the country compares favourably with other ASEAN member countries: Singapore (26), Thailand (19), Philippines (33), and Indonesia (24) during the period from 1986 to 1988 (UNDP 1991: 146-147).

Table 18. Malaysia: Social indicators of education

<i>Year</i>	<i>Primary school enrolment rate (per cent)</i>	<i>Pupil/teacher ratio (Primary level)</i>	<i>Pupil/teacher ratio (Secondary level)</i>
1970	88.2	23.3	31.0
1975	96.0	27.3	31.8
1980	93.6	22.8	27.3
1985	95.4	22.4	24.1
1989	98.9	20.1	21.3

Source: Ministry of Finance, *Economic Report 1990/1991*.

The improvement in the pupil-teacher ratio should, however, be accepted with some reservations. Rural-urban migration has resulted in excessive demand for classrooms in the urban areas. As a result, shortages and over-crowding exist in urban schools, where the average class size may be as high as 44 children per-classroom against the optimal figure of 35 (6MP: 159). The problem of large classes also afflicts the secondary level. As a result, many schools in the major towns have double sessions to cater for the demand for education. Meanwhile, over-crowding may have affected the quality of teaching in schools.

The overall progress of the education system can be seen from the increase in the adult literacy rate in the country from 60 per cent in 1970 to 74 per cent in 1985. The primary school enrollment rate has increased from 88.2 per cent in 1970 to 98.9 per cent in 1989 (table 3). Studies have also indicated high drop-out rates during the transition from primary to secondary level particularly in the rural areas (OPP2: 10). There has also been significant changes in the composition of student enrollment in public institutions. Aside from the primary school level, other levels of education showed increased participation at higher levels of education. This indicates improvement in the accessibility to higher education in Malaysia (see table 19).

Table 19. Malaysia: Student enrolment in public institutions, 1970-1990

Level of education	1970		1975		1980		1985		1990	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Pre-school	n.a.		n.a.		n.a.		162 980	4.3	188 840	4.6
Primary	1 679 798	75.0	1 890 974	68.3	2 008 587	63.8	2 191 680	58.5	2 447 210	59.1
Lower-secondary	432 703	19.3	643 073	23.2	812 065	25.8	922 210	24.6	943 920	22.8
Upper secondary	99 637	4.4	178 313	6.4	247 889	7.9	333 060	8.9	368 500	8.9
Post-secondary	13 635	0.6	22 090	0.8	31 498	1.0	52 390	1.4	75 140	1.8
Teacher education	2 927	0.1	7 940	0.3	13 247	0.4	16 560	0.4	21 580	0.5
Certificate	369	0.1	1 221	0.04	2 603	0.1	6 880	0.2	9 180	0.2
Diploma	3 318	0.1	11 835	0.4	12 262	0.3	25 050	0.7	28 000	0.7
Degree	7 677	0.3	15 008	0.5	21 944	0.7	37 840	1.0	60 010	1.4
Total	2 240 064	100.0	2 770 454	100.0	3 150 095	100.0	3 748 650	100.0	4 142 380	100.0

Sources: *Third Malaysia Plan; Mid-Term Review; Fourth, Fifth; and Sixth Malaysia Plans.*

Apart from the general progress made in the education system, the implementation of the New Economic Policy, especially with regard to redressing racial occupational and income imbalance, has had a significant impact. It is partially through education that the Bumiputera community can be successfully integrated into the modern sectors of the economy. Government intervention through affirmative action policies, financial assistance and establishment of special institutions which cater almost exclusively for the Bumiputera community has improved their access to public education. At present, the Bumiputera proportion of total enrolment is in the range of about 60 per cent to 65 per cent, far in excess of its proportion of the total population.

However, such actions have had limited success in encouraging more Bumiputeras to enter into science and technological fields. Other types of public education, such as diploma courses cater almost exclusively for Bumiputeras (see table 20). However, if the enrolment in local private institutions and institutions overseas are taken into account, the impact of the NEP policies on ethnic

participation in tertiary education is substantially moderated. There appears to be an asymmetry in the racial participation in public and private education at this level. For example (see table 20), in 1988 70.2 per cent and 25.3 per cent of students in local public institutions following certificate-level courses were Bumiputeras and Chinese respectively. The corresponding figures for enrolment at local private institutions are almost mirror images, with the Bumiputera and Chinese accounting for about 15.0 per cent and 65.4 per cent respectively. For institutions overseas, Chinese alone accounted for 83 per cent of total enrolment at the certificate level in 1988. The racial composition of enrolment at the degree level is along similar lines. For diploma courses, the inclusion of the enrolment at local private institutions and institutions overseas does not alter the dominance of Bumiputera participation at that level due to the sheer size of Bumiputera enrolment in public institutions.

It is thus ironical that the implementation of the New Economic Policy in the education sector, meant to foster national unity, may have exacerbated racial polarization instead. For example, not only does racial polarization exist in local tertiary institutions but the asymmetry in racial participation in local public, local private and institutions overseas have further worsened the situation. The asymmetry in racial participation in the local public, local private and overseas academic institutions is a direct result of the inability of the education system to meet the rising demand for tertiary education and the implementation of the NEP via enrolment quotas in local public tertiary institutions.

The implementation of the NEP might have also diluted the quality of tertiary education in the country. For example, to implement the quota system for admission into institutions of higher learning, the entry requirements for the Bumiputera were relaxed. Furthermore, rapid expansion of students intake into these institutions has put additional pressure on its infrastructure.

Another social cost associated with the implementation of the NEP at the tertiary education level is the "brain drain" experienced by the country. The imposition of enrolment quotas at the tertiary level has restricted non-Malay access to tertiary education after 1970 compared to the situation before, where enrolment was based purely on merit. As a result, it is not surprising that many non-Malays who have opted to "exit" from the system via emigration to other countries have cited future tertiary education opportunities for their children as an important factor. The escalation in the costs of overseas tertiary education has worsened the situation in recent years. The most affected segment of the population has been the non-Malay middle class. However, recent relaxation of Government policy on higher education by allowing "twinning programmes" between local private colleges and foreign institutions has provided additional educational space to non-Malays.

Table 20. Enrolment in tertiary education by race and level of education, 1970-1988

Level of tertiary education	1970 ^{a/}				1980				1985				1988							
	Total in numbers	Ethnic shares (per cent)			Total in numbers	Ethnic shares (per cent)			Total in numbers	Ethnic shares (per cent)			Total in number	Ethnic shares (per cent)						
		Bumi-putera	Chinese	Indians		Others	Bumi-putera	Chinese		Indians	Others	Bumi-putera		Chinese	Indians	Others				
A. Certificate courses	369	-	-	-	11 958	19.6	69.3	10.1	1.0	34 985	38.5	48.5	11.6	1.4	18 630	30.2	59.4	9.4	1.0	
Local public institutions	369	41.0	56.6	2.4	2 603	61.1	34.8	3.7	0.4	6 915	65.9	30.4	3.2	0.5	7 043	70.2	25.3	3.7	0.8	
Local private institutions	-	-	-	-	4 092	13.5	74.0	11.1	1.3	21 957	39.6	44.7	14.1	1.6	1 900	15.0	65.4	17.0	2.6	
Institutions overseas	-	-	-	-	5 263	3.7	82.7	12.4	1.2	6 113	3.7	82.7	12.4	1.2	9 687	4.0	83.0	12.0	1.0	
B. Diploma courses	3 318	-	-	-	23 183	59.5	32.9	6.7	0.8	40 677	66.5	27.1	5.8	0.6	41 874	66.8	28.3	4.2	0.7	
Local public institutions	3 318	86.5	11.8	1.0	0.7	12 262	93.1	5.8	0.9	0.2	24 916	94.1	5.2	0.6	0.1	26 225	92.8	6.4	0.5	0.3
Local private institutions	-	-	-	-	-	5 968	9.7	73.0	15.8	1.5	10 023	14.9	67.7	16.0	1.4	7 173	7.0	80.7	10.7	1.6
Institutions overseas	-	-	-	-	-	4 953	36.6	51.7	10.4	1.3	5 738	36.6	51.7	10.4	1.3	8 476	37.0	52.0	10.0	1.0
C. Degree courses^{b/}	7 677	-	-	-	41 454	45.4	44.3	9.5	0.8	60 522	49.4	40.7	9.2	0.7	92 171	48.4	40.8	10.1	0.7	
Local public institutions ^{c/}	7 677	40.2	48.9	7.3	3.6	21 944	62.0	31.2	5.7	1.1	37 838	63.0	29.7	6.5	0.7	48 539	61.8	31.1	6.6	0.5
Local private institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 251	5.8	61.3	31.7	1.2	
Institutions overseas	-	-	-	-	-	19 510	26.6	59.1	13.7	0.6	22 684	26.6	59.1	13.7	0.6	42 381	34.3	51.3	13.4	1.0
Total all types	11 364	53.7	38.3	5.3	2.7	76 595	45.6	44.8	8.8	0.8	136 184	51.7	38.7	8.8	0.8	152 675	51.2	39.6	8.4	0.8

Sources: Calculated from Malaysia (1981), table 21-3, pp. 351-352; Malaysia (1986), table 19-3, pp. 490-491; and *Mid-Term Review of the Fifth Malaysia Plan*, pp. 276-278.

^{a/} The breakdown of enrolment of Malaysian students in local private and overseas institutions is not available for 1970. ^{b/} Includes enrolment in post-graduate course. ^{c/} Includes degrees conferred by the University of Campbell, USA, on students on Tunku Abdul Rahman College, and by the Universiti Kebangsaan Malaysia, and the University of Ohio, USA on students of the MARA Institute of Technology (ITM). TAR College receives minimal government funding and is open to other ethnic groups, though the student population is predominantly Chinese. ITM is wholly supported from public funds but is exclusively for Bumiputera students.

Another important issue is whether the education system has successfully served the manpower needs of the country's industrial development. Rapid industrialization and growth in the past (with the exception of the recessionary years) have resulted in shortages in technical workers and engineers. The inadequate output of this category of workers is partly a consequence of the low percentage of upper secondary school students enrolled in vocational schools. For example, from 1986 to 1988, Malaysia was reported to have 1.7 per cent of its secondary level students enrolled in technical schools. The corresponding figures for Newly Industrializing Economies (NIEs) such as Hong Kong and the Republic of Korea are 10.0 per cent and 15.9 per cent respectively.

As potential engineering students are sourced from science students at the secondary level, enrolment in this category is an indirect indicator of the education system's capacity to produce future technicians and engineers. The composition of enrolment at the upper secondary level at public institutions in terms of arts and science has changed from 56:44 in 1980 to 70:30 in 1988. For the degree level, the composition of enrolment in terms of arts and science and technology changed from 52:48 in 1980 to 60:40 in 1988. This indirectly implies that local public education may be biased against the training of more technical manpower. Unfortunately, no figures are available for a similar analysis of enrolment at institutions overseas, which accounts for about 45 per cent of total enrolment in tertiary education. The high proportion of students studying overseas constitutes a big drain on foreign exchange. The resulting mismatch between output of the education system and the requirements of the industrial sector has been partially blamed for the high unemployment (discussed below) amongst graduates in the second half of the 1980s.

C. INCOME AND EMPLOYMENT

The more balanced level and distribution of income, and employment between ethnic groups have been the cornerstone of the New Economic Policy which sought to restructure the economy to eradicate poverty and abolish the identification of race with occupation and location. In the following section, income distribution, poverty and employment will be analyzed in some detail with respect to the social costs incurred as a result of the implementation of NEP, in particular, and industrial restructuring, in general.

1. Income distribution

Since the Second Malaysia Plan (1971-1975), no quantitative targets have been set for the progressive reduction of income disparities in the country through the implementation of the NEP. However, targets have been set for the reduction

in inter-ethnic income disparities. Targets were set for the ownership and management by the Bumiputeras, other races and foreign interests in the commercial and industrial sector. The intermediate targets for wealth restructuring in terms of equity ownership set for Bumiputeras were: 9 per cent (1975), 16 per cent (1980), 23 per cent (1985), and 30 per cent (1990). The targets for other races and foreigners for 1990 were 40 per cent and 30 per cent respectively.

In general, income distribution in the Peninsular Malaysia has improved during the First Outline Perspective Period (1971-1990). The Gini coefficient has declined from 0.51 in 1970 to 0.49 in 1979 and 0.45 in 1990 (OPP2: 9). The mean income of the bottom 40 per cent of households has increased at a faster rate than that of the middle and higher income groups. The improvement in income distribution is a reflection of the progress made in the eradication of poverty, attributed mainly to increased participation by rural households in non-traditional sectors. Improvements in the rural infrastructure such as health, education, roads and communication have also been an important factor.

Inter-ethnic distribution of income has also improved. The overall ratio of Bumiputera to Chinese income increased from 43 per cent in 1970 to 57 per cent in 1990 (table 4). Intra-ethnic income disparity remained substantial, particularly amongst the Bumiputera. Some contend that intra-ethnic income distribution has worsened (Anand 1983). In 1990, the Gini coefficient for the Bumiputera was 0.428 compared with 0.423 for the Chinese. Rural-urban income disparity has declined although the gap is still wide. In Peninsular Malaysia, average rural income is only about 58 per cent of urban income in 1990 (OPP2: 100).

In comparison to other countries in the region, Malaysia's performance in income distribution seem less satisfactory. For example, for the period from 1980 to 1987, the income share of the lowest 40 per cent of households in Malaysia was 13.9 per cent compared to 15.0 per cent for Singapore, 15.2 per cent for Philippines, and 21.2 per cent for Indonesia. From 1970 to 1985, the average Gini coefficient for Malaysia was 0.48 compared to Singapore's 0.42, Thailand's 0.47, Philippines' 0.45 and Indonesia's 0.31 (UNDP 1991: 152-153).

The achievement of the 30 per cent target for Bumiputera ownership of commercial and industrial equity has been a controversial issue. According to the Second Outline Perspective Plan, as at the end of 1990, Bumiputera equity ownership has increased to 20.3 per cent. Even though this is an under-achievement on the target, it represent a significant progress because in 1970 the Bumiputera share was only 2.4 per cent. It should be noted that a significant portion of Bumiputera equity ownership is held by trust agencies and related institutions (as much as 44 per cent of total Bumiputera equity holdings, according to the SMP

Mid-Term Review). In addition, critics have pointed out that the figures have been substantially underestimated as par values of equities have been used instead of market values. Furthermore, indirect Bumiputera ownership via holdings of nominee companies were not included. Accuracy aside, this "trusteeship" mode of income distribution calls into question the economic benefits that the Bumiputera community may have enjoyed as a result of economic restructuring in these sectors.

2. Poverty

The targets set for poverty eradication in the First Outline Perspective Plan (1971-1990) was for the overall incidence of poverty to be at 15.0 per cent, with rural incidence of poverty at 23.0 per cent, and urban incidence of poverty at 9.1 per cent by 1990. From the official figures, Malaysia's performance in poverty eradication during the past 20 years has been impressive. The overall incidence of poverty in Peninsular Malaysia has declined from 49.3 per cent in 1970 to 15.0 per cent in 1990. The targets for rural and urban poverty were also over-achieved, with the incidence of poverty in both areas being 19.3 per cent and 7.3 per cent in 1990 respectively.

As at 1990, the number of poor households amounted to 448,900, out of which 107,300 households were considered to be under hardcore poverty. Hardcore poverty is defined as those households receiving less than half of the poverty line income.

Unlike income distribution, Malaysia's performance in poverty eradication compares favourably with other countries in the region. For the period from 1980 to 1988, the percentage of total population below the poverty line for Malaysia was 27 per cent compared to 58 per cent for Philippines, 30 per cent for Thailand, and 39 per cent for Indonesia. For the same period, poverty incidence in rural areas was 38 per cent in Malaysia compared to 34 per cent for Thailand, 64 per cent for Philippines and 44 per cent for Indonesia (UNDP 1991: 152-153). Malaysia's achievement in poverty eradication is even more impressive if one takes into account the fact that its poverty line at \$M 33 per capita per month (1970 prices) is substantially higher than the international poverty line, set at \$M 18.5 per capita per month (1970 prices) (Kharas and Bhalla 1991: 14).

However, critics have pointed out the possibility of statistical manipulation or re-definition of the poverty line by the Government (Jomo: 1991: 145-151). Yet others (Kharas & Bhalla 1991: 14-15), contend that poverty in Malaysia has been virtually eliminated according to the international poverty line. The Government, while acknowledging the success of its poverty eradication

programme, has noted the significance of inter-ethnic and rural-urban dimensions of poverty (OPP2: 47). Poverty is still concentrated in the traditional primary sectors (padi, rubber and coconut smallholdings) in less developed states, in which the majority of the population are Malays. This is contrasted with the industrial-urban areas which enjoy relatively higher incomes. The Government's intervention in poverty stricken sectors to eradicate poverty via, amongst others, improvement in the agricultural and marketing infrastructure, land development schemes and subsidies has had tremendous impact, as seen by the decline in the incidence of poverty. However, there has been some negative side-effects such as over-dependency on subsidies as a source of income (padi farmers) and deterioration in the income disparities between farmers/smallholders of different farm sizes and between farmers of different status (tenants/owner).

3. Employment

The growth and structural change experienced by the Malaysian economy can be seen from the distribution of the labour force by sector. As can be seen from table 2, the proportion of labour force employed by the primary sector has declined while that of the secondary and tertiary sector has increased. With the advent of rapid industrialization beginning in the 1960s, the proportion of employment in the manufacturing sector has increased from 6.4 per cent in 1957 to 19.5 per cent in 1990 (OPP2: 41). The increase was particularly rapid in the 1970s and early 1980s due to the promotion of labour intensive export-oriented industries such as the electronics/electrical and textiles industries. By 1988, both industries accounted for 36 per cent of total employment in the manufacturing sector. Meanwhile, the proportion of workers involved in the agricultural sector has decreased from 53.5 per cent in 1970 to 39.7 per cent in 1980 and 27.8 per cent in 1990. In terms of absolute numbers, the number of participants in the agricultural sector actually declined during the period from 1980 to 1985 before increasing slightly in subsequent years. The number of workers in the mining and quarrying sector has consistently declined throughout the 1980s. While the secondary sector (construction and manufacturing) provided employment opportunities in the 1970s and during the second half of the 1980s, the service sector took the lead role in the second half of the 1980s.

The public sector represents an important avenue of employment, accounting for about 13 per cent of total employment during the 1970s and 14 per cent during the 1980s (see table 28). However, its role in employment has declined since mid-1980s due to the financial constraints facing the public sector. A partial freeze on staff recruitment was imposed in 1983. Privatization, although estimated to affect 91,864 or 13 per cent of employees from the public sector, has not had a significant impact on employment. This is due to the non-retrenchment condition

laid down by the Government, imposed during the first five years of Privatization. As a result, the newly privatized entities were basically over-staffed, thus restricting their ability to create further employment opportunities (Ismail 1991).

Unemployment increased in the 1960s when the labour force grew more rapidly than employment opportunities. The industrialization strategy at that time, based on import substitution, could not absorb the expanding labour force sufficiently. In the 1970s, labour intensive export-oriented industrialization substantially reduced the unemployment rate. Adverse developments in the 1980s such as the recession in the mid-1980s, higher level of interest rates, lower primary commodity prices, the stock market crash, public spending cuts and the emphasis on capital-intensive heavy industries have substantially increased the unemployment rate during this period. During this period, high incidence of retrenchment occurred in the labour-intensive electronics/electrical and textiles industries. As a result, the manufacturing sector experienced substantial retrenchment of its workers during the recessionary years from 1983 to 1986. For example, its share of the total retrenched workers increased from 31.5 per cent in 1983 to 54.1 per cent in 1986 (Salih & Young: 1990:24). As the electronics and textile industries are concentrated in Free Trade Zones (FTZs) such as Penang, retrenchments in the manufacturing sector were localized in these areas. Furthermore, a majority of the retrenched workers were females as they comprised a substantial proportion of the total workers in these industries.

It should also be noted that the promotion of export-oriented industries resulted in the denial of workers' freedom in these sectors (electronics and textile) to form unions at the national level. It was feared that such developments would erode the competitiveness (based on low labour costs) of these industries in Malaysia.

The severity of unemployment in the second half of the 1980s was also compounded by the Government's emphasis on heavy industries, which were capital intensive in nature, thus having low labour-absorption capacity. The capital intensity measured by the Incremental Capital Output Ratio (ICOR) increased from an average of 3.1 during the period from 1971 to 1980, to 20.6 in 1986 before declining to 11.1 in 1987 (Lin 1990: 15).

There has, however, been substantial progress in the restructuring of employment via the New Economic Policy to eliminate the identification of race with occupational function. The objective was to ensure that Bumiputeras were represented or employed in the modern sector (secondary and tertiary) in proportion to their numbers in the total population. From table 21, it can be seen that the proportion of Bumiputeras involved in the modern sector has increased since

**Table 21. Malaysia: Employment by sector and ethnic group, 1970-1990
(Percentage)**

Sector	1970 ^{a/}				1975 ^{a/}				1980						
	Bumi-putera	Chinese	Indians	Others	Total ('000)	Bumi-putera	Chinese	Indians	Others	Total ('000)	Bumi-putera	Chinese	Indians	Others	Total ('000)
Agriculture and forestry	67.6	19.9	11.5	1.0	1 334.6	68.4	19.5	11.3	0.9	1 476.5	73.1	16.4	9.7	0.8	1 910.9
Mining and quarrying											33.9	54.7	10.6	0.8	80.1
Manufacturing	32.1 ^{b/}	58.7 ^{b/}	8.5 ^{b/}	0.7 ^{b/}	671.7 ^{b/}	36.1 ^{b/}	53.6 ^{b/}	9.5 ^{b/}	0.8 ^{b/}	932.8 ^{b/}	40.9	50.4	8.0	0.6	755.1
Construction											39.1	53.4	6.4	1.1	270.2
Electricity, gas and water											67.1	9.7	22.6	0.6	31.0
Transport, storage and communications											52.6	35.0	11.9	0.5	209.5
Wholesale and retail trade, hotel, restaurants	42.6 ^{c/}	45.5 ^{c/}	10.7 ^{c/}	1.2 ^{c/}	844.0 ^{c/}	44.0 ^{c/}	44.5 ^{c/}	10.5 ^{c/}	1.0 ^{c/}	1 157.9 ^{c/}	36.9	55.3	7.4	0.4	676.2
Finance, insurance, real estate and business services											36.9	55.3	7.4	0.4	78.3
Government services											59.1	29.7	9.8	1.4	658.2
Others services											59.6	28.7	10.4	1.3	147.4
Total	51.8	36.6	10.6	1.0	2 850.3	52.0	36.5	10.6	0.9	3 567.2	56.6	33.5	9.1	0.8	4 816.9

Table 21 (continued)

Sector	1985					1990				
	Bumi-putera	Chinese	Indians	Others	Total ('000)	Bumi-putera	Chinese	Indians	Others	Total ('000)
Agriculture and forestry	75.0	16.1	8.3	0.7	1 759.6	76.4	16.1	6.7	0.8	1 837.6
Mining and quarrying	51.9	33.1	12.8	2.2	44.4	48.8	38.9	10.8	1.5	39.1
Manufacturing	45.1	43.3	11.0	0.6	855.4	50.3	36.9	12.2	0.6	1 290.2
Construction	42.2	51.1	5.9	0.8	429.4	43.0	49.9	6.2	0.9	426.9
Electricity, gas and water	70.7	13.9	15.1	0.3	43.5	69.8	12.9	16.6	0.7	45.9
Transport, storage and communications	51.5	34.4	13.4	0.6	244.3	54.1	32.4	12.8	0.7	285.4
Wholesale and retail trade, hotel, restaurants	36.1	56.0	7.1	0.8	917.3	38.2	54.1	6.9	0.8	1 239.4
Finance, insurance, real estate and business services	42.5	46.9	9.7	0.9	198.9	41.1	47.4	10.3	1.2	231.3
Government services	65.7	24.7	8.9	0.7	819.5	65.9	25.3	8.2	0.6	850.2
Others services	65.7	24.7	8.9	0.7	312.3	66.9	24.5	8.0	0.6	375.0
Total	57.3	33.2	8.8	0.7	5 624.6	57.8	32.9	8.5	0.8	6 621.0

Sources: *Fourth, Fifth, and Sixth Malaysia Plans.*

^{a/} Peninsular Malaysia. ^{b/} Mining, manufacturing, construction and transport. ^{c/} Wholesale and retail trade, banking, public administration, education, health, defence and utilities.

1970. For example, the proportion of Bumiputeras involved in the manufacturing sector increased from 40.9 per cent in 1980 to 50.3 per cent in 1990. Their participation in the tertiary sector is significant mainly through employment with the public sector. Public sector employment typically accounts for about a third of the total employment in the service sector, of which the Bumiputera accounts for about two-thirds. A substantial proportion of those involved in the agricultural sector are still Bumiputeras. The proportion of Bumiputeras employed in the primary sector has increased consistently from 67.6 per cent in 1970 to 73.1 per cent in 1980 and 76.4 per cent in 1990. These figures reflect the failure of policy implementation to have greater representation of non-Malays in Government service and the agricultural sector.

In terms of the type of occupation, Bumiputeras are still under-represented in administrative and managerial jobs (see table 22). Their participation in registered professional jobs is still low. For example, as at 1990, the proportion of Bumiputeras involved in selected registered professional jobs are as follows: accountants (11.2 per cent), doctors (27.8 per cent), lawyers (22.4 per cent), and engineers (34.8). The corresponding figures for the Chinese are: accountants (81.2 per cent), doctors (34.7 per cent), lawyers (50.0 per cent), and engineers (58.2 per cent) (6MP: 35).

Table 23 indicates that the composition of unemployment by the level of education has also changed. As a result of improved access to education, the larger proportion of unemployed has shifted from the lower education level (less than LCE/SRP) to the higher education level (MCE/SPM). LCE/SRP and MCE/SPM correspond to 8 years and 10 years of schooling respectively.

More worrisome is perhaps the rapid increase in the proportion of unemployed tertiary-educated labour force. This may be attributed to the recession beginning in the mid-1980s up to the late 1980s. As the public service sector is also a major employer of the tertiary-educated labour force, its policy of freezing employment intake during the period has further aggravated the situation. This over-dependence of graduates on the public sector for employment is reflected by the fact that as many as a third of all graduates recruited between 1980 and 1983 were by the public sector.

The over-supply of graduates has also been blamed on the premium accorded by society on higher education especially as an agent of social mobility. It is also partly a result of the implementation of the NEP in which a substantial number of Bumiputeras were sent overseas for their tertiary education, some to mediocre institutions (Salih & Young 1990). The mismatch in the supply of and demand for labour skills discussed earlier (see Education), also plays an important

Table 22. Malaysia: Employment by occupation and ethnic group (percentage and total), 1970-1990

Occupation	1970				1975				1980						
	Bumi-putera	Chinese	Indians	Others	Total	Bumi-putera	Chinese	Indians	Others	Total	Bumi-putera	Chinese	Indians	Others	Total
	----- (Per cent) -----				(000)	----- (Per cent) -----				(000)	----- (Per cent) -----				(000)
Professional/ technical	47.0	39.5	10.8	2.7	136.7	48.0	38.7	11.0	2.3	189.7	53.7	33.8	10.3	2.1	288.1
Registered professionals	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Teachers and nurses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	60.8	30.9	7.7	0.6	127.0
Administrative and managerial	24.1	62.9	7.8	5.2	30.7	28.1	58.8	7.3	5.8	41.3	28.6	63.6	4.9	2.7	51.4
Clerical	35.4	45.9	17.2	1.5	142.5	46.0	40.8	12.0	1.2	192.6	52.3	37.9	8.9	0.9	350.9
Sales	26.7	61.7	11.1	0.4	258.5	24.8	65.7	9.1	0.3	345.7	31.1	62.0	6.7	0.2	471.1
Service	44.3	39.6	14.6	1.5	225.8	46.8	39.6	12.6	1.0	311.5	55.4	33.4	10.0	1.2	418.2
Agricultural	72.0	17.3	9.7	1.0	1 278.7	70.5	18.2	10.4	0.9	1 416.1	73.5	16.9	8.8	0.8	1 864.4
Production	34.2	55.9	9.6	0.3	777.4	40.6	48.4	10.5	0.5	1 070.3	45.5	43.9	10.1	0.5	1 372.8
Total	51.8	36.6	10.6	1.0	2 850.3	52.0	36.5	10.6	0.9	3 567.2	56.6	33.5	9.1	0.8	4 816.9

Table 22 (continued)

Occupation	1985					1990				
	Bumi-putera	Chinese	Indians	Others	Total	Bumi-putera	Chinese	Indians	Others	Total
	----- (Per cent) -----				(000)	----- (Per cent) -----				(000)
Professional/technical	58.8	30.9	8.7	1.6	421.7	60.3	30.8	7.7	1.2	580.8
Registered professionals	22.2	61.2	13.9	2.7	28.4	29.0	55.9	13.2	1.9	40.6
Teachers and nurses	64.2	28.9	6.4	0.5	169.6	68.1	25.1	6.3	0.5	218.5
Administrative and managerial	34.8	57.5	5.1	2.6	129.0	33.3	58.7	5.3	2.7	162.4
Clerical	54.1	37.8	7.6	0.5	547.2	55.6	36.5	7.6	0.3	767.1
Sales	33.2	59.2	6.8	0.8	626.3	39.2	53.2	6.3	1.2	973.9
Service	61.6	27.8	10.1	0.5	473.9	63.5	25.4	10.8	0.3	937.7
Agricultural	75.9	15.2	8.2	0.7	1 431.1	76.0	16.0	7.2	0.8	1 846.6
Production	47.3	41.8	10.5	0.4	887.0	49.7	38.8	11.1	0.4	2 275.3
Total	57.3	33.2	8.8	0.7	5 624.6	57.6	33.0	8.6	0.7	7 752.3

Sources: Fourth, Fifth; and Sixth Malaysia Plans.

Notes: n.a. = not available.

1. 1970, 1975 data are for clerical and related workers. 2. 1970, 1975 data are for sales and related workers. 3. 1970, 1975 data are for production, transport and other workers.

**Table 23. Malaysia: Registered unemployed
(Per cent by level of education)**

<i>Year</i>	<i>Below LCE/SRP</i>	<i>LCE/SRP</i>	<i>MCE/SPM</i>	<i>College, institutions universities</i>	<i>Total registered unemployed</i>
1975	66.5	17.1	16.0	0.5	108 242
1976	63.7	16.5	19.0	0.8	104 617
1977	57.2	17.3	24.1	1.4	104 201
1978	55.2	18.1	25.8	0.9	96 657
1979	51.2	19.7	28.3	0.8	76 628
1980	45.4	21.2	32.7	0.7	69 886
1981	42.4	22.1	34.9	0.6	70 143
1982	38.1	22.1	39.0	0.8	69 172
1983	37.1	20.8	39.6	2.5	67 467
1984	31.6	18.8	45.7	3.9	72 059
1985	29.7	18.3	47.5	4.6	80 681
1986	29.9	18.1	45.5	6.5	86 896
1987	27.2	18.6	47.0	7.2	78 553
1988	24.5	17.5	47.1	10.9	78 200
1989	22.6	17.4	50.0	10.0	72 127
End of August 1990	22.1	17.9	51.2	8.8	58 937

Source: Ministry of Finance, *Economic Report*, various issues.

role. As a result, not only are the resources expended on human capital wasted, but unemployed graduates (often an articulate and critical group) may become destabilizing elements in any society. The Government's solutions to this problem, such as temporary training schemes and the encouragement of graduates to venture into farming and small businesses, have thus far been ad-hoc and unsatisfactory.

Graduate unemployment can thus be taken as an indicator of the unsatisfactory state of human resource development planning in the context of economic restructuring especially with regard to meeting the manpower requirements of industrialization and maintaining an appropriate balance between public and private sector employment.

Unemployment amongst the female work force with primary and lower secondary education is however found to be lower in comparison to their male counterparts (table 24). This is due to the absorption of female workers in this

Table 24. Peninsular Malaysia: Percentage distribution of unemployment persons by educational level and sex, 1975-1988

<i>Educational level</i>	1975	1981 ^{a/}	1985	1988
Total	100.0	100.0	100.0	100.0
No formal education	10.7	5.9	9.6	2.4
Primary	40.2	24.5	25.0	20.3
Lower secondary)		27.8	35.6	31.0
Upper secondary)	48.0	34.7	25.3	35.8
Form six)		5.1	2.7	7.3
College/university	0.8	2.0	1.8	3.2
Male	100.0	100.0	100.0	100.0
No formal education	6.0	5.0	5.4	1.8
Primary	42.4	29.4	28.7	23.7
Lower secondary)		32.0	39.0	35.9
Upper secondary)	50.1	27.4	22.8	30.2
Form six)		3.8	2.0	5.0
College/university	1.3	2.3	2.2	3.4
Female	100.0	100.0	100.0	100.0
No formal education	15.6	6.9	13.4	3.3
Primary	37.9	19.5	21.7	14.7
Lower secondary)		23.4	32.6	22.8
Upper secondary)	45.8	42.2	27.5	45.2
Form six)		6.3	3.3	11.1
College/university	0.4	1.7	1.5	2.8

Source: Malaysia, Department of Statistics, *The Labour Force Survey Report* (1979, 1981-1984, 1985-1986 and 1987-1988).

^{a/} Figures are for Malaysia.

category by the labour intensive industries, for example, the electronics, electrical and textile industries (Jamilah 1987), where wages tend to be lower.

Unemployment amongst the Bumiputera is higher than that experienced by other races (table 25). This may be attributed, amongst others, to Bumiputeras' preference for public sector jobs. This is particularly true for Government-sponsored local and overseas trained graduates who are normally required to serve the Government because of scholarship bonds. Social impediments such as weak command of the English Language (the medium of communication in the private sector) and inadequate social and communicative skills (due possibly to their rural background) are significant but non-quantifiable factors which have resulted in the higher incidence of unemployment amongst Bumiputeras.

**Table 25. Malaysia: Unemployment by race,
1970-1990
(In thousand)**

	<i>Bumiputera</i>	<i>Chinese</i>	<i>Indians</i>	<i>Others</i>	<i>Total</i>
			1970^{a/}		
Labour force	1 608.3	1 122.4	338.7	28.6	3 098.0
Unemployment	130.7	78.8	37.3	0.9	247.7
Unemployment rate (per cent)	8.1	7.0	11.0	3.1	8.0
			1975^{a/}		
Labour force	1 975.7	1 390.7	421.8	34.9	3 823.1
Unemployment	120.3	88.1	44.3	3.2	255.9
Unemployment rate (per cent)	6.1	6.3	10.5	9.2	6.7
			1980		
Labour force	2 921.3	1 679.4	468.1	40.1	5 108.9
Unemployment	196.3	65.5	29.0	1.2	292.0
Unemployment rate (per cent)	6.7	3.9	6.2	3.0	5.7
			1985		
Labour force	3 480.0	1 987.3	530.4	41.4	6 039.1
Unemployment	254.1	122.6	35.8	2.0	414.5
Unemployment rate (per cent)	7.3	6.2	6.7	4.8	6.9
			1990		
Labour force	4 093.0	2 304.3	595.9	53.3	7 046.5
Unemployment	267.6	122.1	33.2	2.6	425.5
Unemployment rate (per cent)	6.5	5.3	5.6	4.9	6.0

Sources: Fourth, Fifth; and Sixth Malaysia Plans.

^{a/} Peninsular Malaysia.

The increased involvement of Bumiputeras in the secondary and tertiary sector, which are mainly located in urban-industrial areas, has resulted in an increase in the proportion of Bumiputeras residing in these areas. The increase in demand for housing in urban areas and the shortage of urban housing has brought about the establishment of squatter areas, most of which are communally or ethnically based. This phenomenon is particularly prevalent amongst the Malays, which accounted for about 80 per cent of the increase in the squatter population in Kuala Lumpur between 1957 and 1973. By 1978, the proportion of Malays in Kuala Lumpur's squatter population had increased to about a third (Tey and Kok 1987: 267). There are serious social implications pertaining to squatter

communities which are ethnically based. These relate to the potentially explosive situations that have been seen during the racial riots of 1969. This cannot be discounted as such areas are susceptible to politicization along communal lines.

D. ENVIRONMENT

1. Industrialization and the environment

Industrialization has a direct impact on the environment via the effluents it emits. In Malaysia, two sectors have been identified as main culprits of industrial pollution, namely, the palm oil and rubber processing industries. It is estimated, for example, that the discharge of effluents from both industries alone accounted for some 90 per cent of pollution load from industries (DOE 1984). Two enactments were introduced in the late 1970s to improve the situation. They are the Environmental Quality (Prescribed Premises) (Crude Palm Oil) Regulations, 1977 and the Environmental Quality (Prescribed Premises) (Raw Natural Rubber) Regulations, 1978. As a result, substantial improvements have been made in this area resulting in steep reduction (in the range of 56 per cent to 91 per cent) in the Biochemical Oxygen Demand (BOD) load, which measures organic pollution in rivers, for both industries (DOE 1984:4 and; DOE 1989).

In general, river water quality has improved. For example, in 1988 the improvement rate was as follows: Organic pollution (+0.2 per cent), Suspended Solids (+1.5 per cent) and Ammoniacal Nitrogen (+2.6 per cent). However, it has been found that rivers situated in the west coast of Peninsular Malaysia, where there is extensive industrialization, recorded greater number of non-compliance of heavy metals (lead, mercury, cadmium, copper, zinc and arsenic) pollution level. The main source of this type of industrial pollution are the metal finishing industries, 53 per cent of which are located in the states of Selangor and Federal Territory. Ninety per cent these establishments are medium and small scale operators.

In terms of air quality, high levels of Total Suspended Particles (TSP) were recorded in industrial areas. Annual mean concentration was 97 $\mu\text{g}/\text{m}^3$ in 1989, up from 92 $\mu\text{g}/\text{m}^3$ in the 1988 (DOE 1988 and 1989). The recommended guideline value is 90 $\mu\text{g}/\text{m}^3$.

Different types of industries will cause different pollution problems. Thus, the nature of industrial pollution problems will depend on the industrial strategies adopted by a country. In the case of Malaysia, the industrial strategy adopted up to late 1960s was one geared towards the promotion of import substitution industries. Upon the realization that the growth of such industries was limited by the small size of the domestic market and that it had a low labour-absorption

capacity, the government went on to encourage export-oriented industries beginning from 1968. Then, in the 1980s, emphasis shifted to the promotion of heavy industries, second round import substitution industries, resource-based industries, and small and medium scale industries.

Despite the limited size of the domestic market, import substitution industries comprise a significant sub-sector of the manufacturing sector. These industries, especially food and beverage are major sources of water pollution. In 1989, the food and beverage industries alone accounted for 41 per cent of the total number of industrial sources discharging into inland waters and these industries are mainly concentrated in the states of Selangor, Johor and Penang (DOE 1989: 87). In terms of organic load (BOD), the food industry alone accounted for about 58.9 per cent of the total BOD discharged from the manufacturing sector in 1987 (DOE 1987:74,82). As small and older firms are said to predominate in this industry, the Federal authorities face substantial problems in monitoring them (see the section on Small and Medium Scale Industries below). For example, the excuses given for non-compliance such as lack of space and financial capability are typical characteristics of small and medium scale industries.

Major export-oriented industries (non-resource based) include the electrical machinery and parts and the textile and clothing industries. It is difficult to assess the extent of the contribution of both industries to the deterioration of the environment. However, it should be noted that the electrical and textile industries account for only about 5.3 per cent and 2.4 per cent of the total pollution emission load from major fuel burning equipments respectively in 1989 (DOE 1989: 124). The corresponding share of other industries in 1989 are: Palm Oil Mill (22.1 per cent), Food (16.5 per cent), Rubber Products (17.2 per cent), Wood-based (10.7 per cent), and Chemical (8.4 per cent). In the case of water pollution, textile and leather accounted for 8.3 per cent of the total major water pollution sources in 1989. This again is small in comparison with the contribution of other industries: Food and Beverage (41.2 per cent), Raw Natural Rubber and Rubber Products (23.9 per cent), and Palm Oil Mill (11.5 per cent). However, in terms of organic load, textiles' contribution to the total load from manufacturing sector is about 14 per cent in 1987, second only to the food industry. Overall, non-resource based export oriented industries may contribute less to environmental degradation compared to other industries. However, as discussed in other sections, the indirect impact of such industries which are usually labour intensive, on the environment via its influence on rural-urban migration and urbanization should be taken into account.

Resource-based industries have always been an important sector in view of Malaysia's prominence as a primary commodities producer. This has been re-

emphasized since the mid-1980s with the introduction of the Industrial Master Plan, in which down-stream activities in this sector are given priority in order to upgrade Malaysia's industrial profile. The four major industries in this sector are rubber products, palm oil products, wood-based and food processing. Food processing has been discussed under import substitution industries. Resource based industries used to contribute substantially to industrial pollution especially river water pollution. The introduction of Environmental Quality Acts specific to respective industries such as Crude Palm Oil and Raw Natural Rubber processing have substantially reduced pollution load from these industries. It was estimated that from 1978 to 1989, the total organic load from crude palm oil mills has been reduced by 99 per cent (DOE 1989: 88). However, non-compliance has been on the increase in both palm oil and rubber industries. This has been attributed to the rising demand for the products of these industries (DOE 1988: 90-91). As at 1989, the oil palm and rubber industries still contribute about 2.4 per cent of total organic pollution load (BOD) discharged. The contribution of research institutions such as the Rubber Research Institute of Malaysia (RRIM) and the Palm Oil Research Institute of Malaysia (PORIM) in research on treatment of effluents from such industries has been significant.

The timber industry has been in decline since early 1980s due to over-exploitation of the forests in the past. Meanwhile, the domestic wood-based (down-stream) industry is still struggling to cope with the reduced supply of logs. Despite these developments, the timber and wood-based industries still contribute substantially to environmental degradation. The current rate of forest harvesting is considered to be unsustainable and it is predicted that Malaysia will experience forest depletion by 1995 (Brundtland Report 1990: 39). Besides the conversion of renewable resources to an exhaustible one, excessive exploitation of forests also leads to other environmental problems such as siltation of rivers, loss or decrease in bio-diversity and degradation of catchment areas.

Several aspects of institutional weaknesses have led to such a situation. First, the forest (indeed land) is considered a State matter and it contributes substantially to the States' revenue especially for Sabah and Sarawak. These States have a tendency to increase their revenue by opening up forest areas for logging. For example, until this day the Federal Government has not managed to persuade both states to adopt the common National Forest Policy formulated in 1977. Both states are said to fear losing control over forestry matters to the Federal Government.

Another weakness is the fragmented nature of the forestry industry which results in the maximization of profit by each segment of the industry with no commitment for the long term management of forests. This situation is further

reinforced by the short term nature of the logging licences granted (about 1 to 5 years) and partly by the lack of financial incentives from the government for a more integrated forestry industry (Fong & Lim 1986). A third weakness is the connection between politics and timber concessions which might have led to over exploitation of the forests. A fourth weakness is the inefficacy of legislation and its enforcement and the lack of resources in monitoring logging activities. For example, from 1981-1988, no environmental impact assessment (EIA) reports were submitted from the logging sector even though it became a requirement under the Environmental Quality (Amendment) Act, 1985 and the Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order, 1987. Such non-compliance is due to the fact that the Department of Environment has no jurisdiction to act against errant concessionaires because forest is a State matter. Finally, several incidents of illegal logging have been alleged to happen partly because of the corruption of forestry officials.

The small and medium scale industries (SMIs) sector has been identified as a priority sector in the Industrial Master Plan (IMP). The economic benefits expected from this sector include improvement in income distribution and labour absorption, greater entrepreneurship, and increased economic linkages in the industrial sector. It is possible that the environmental impact of the SMIs has been ignored or underestimated in the past (see for example, Fong 1990: 82). The sectors most affected by SMIs-induced environmental degradation include food processing, beverages, and metal finishing works. The quantity of effluents may be small but given the nature of these effluents (toxic) and their close proximity to residential areas, these effluents pose considerable health hazard to the population. For example, 53 per cent of the 107 metal finishing companies identified as producing waste acids, alkalines and sludges containing heavy metals were concentrated in the states of Selangor and Federal Territory. Ninety per cent of these can be classified as SMIs. These establishments were also found to be located in densely populated urban areas such as Batu Caves, Ampang, Puchong, Sg. Besi and Klang.

The adverse impact of SMIs on the environment is often a result of these establishments being incompatibly located (often temporarily) near residential areas. The SMIs also lack the capital, know-how and the economies of scale necessary to treat their industrial effluents or to install pollution abatement devices. It has also been difficult to enforce environmental regulations in this sector due to the haphazard, numerous and, sometimes, widely dispersed location of the SMIs, which puts additional pressure on the already meagre manpower of the Department of Environment. An even more serious problem is the fact that most of the SMIs have paid-up capital of less than \$M 2.5 million, thus removing

them from the Federal Government's jurisdiction in terms of licenses and permits.

2. Migration, urbanization and the environment

The industrialization policies and the New Economic Policy (NEP) have had a tremendous impact on demographic changes in Malaysia. To achieve the twin objectives of the NEP, it was necessary to introduce modern industries in rural areas, to create an urban Malay commercial and industrial community and to encourage the migration of rural inhabitants to urban areas. As industrial estates were predominantly located close to major urban centres in the more developed states, migration from less developed states was quite substantial. For example, the states of Selangor, Federal Territory and Pahang experienced net migration rates of 9.5 per cent, 7.9 per cent and 13.2 per cent from 1970 to 1980 respectively (1980 Population Census Report). Furthermore, during the same period, urban population in Peninsular Malaysia grew at the annual rate of 4.76 per cent compared to 0.89 per cent for rural population and 2.16 per cent for total population. The distribution of urban population was also extremely skewed. As at 1980, five states (The Federal Territory, Selangor, Johor, Penang and Perak) accounted for 72.5 per cent of the total urban population in Peninsular Malaysia. The Federal Territory and Selangor alone accounted for 34.5 per cent.

In general, the percentage of urban to total population in Malaysia is set to increase from 26.7 per cent in 1970 and 34.2 per cent in 1980 to 43.0 per cent in 1990 (Tey and Kok 1987: 245). The rapid population growth in the metropolitan areas due to urban growth and in-migration has resulted in the shortage of housing and the growth of squatter settlements. For example, in 1978, it was estimated that 25 per cent of Kuala Lumpur's population reside in about 140 squatter settlements. As soon as re-housing of one squatter settlement is completed, another new squatter area is established. Politically, it has been found to be difficult to use coercive methods to evict squatters. Even though migration and urbanization have played a significant role in restructuring society, the social cost especially environmental degradation (urban in this case) should not be ignored.

The lop-sided location of industries and rapid urban population growth pose serious problems to the environment. In 1989, it was estimated that three states, namely, Selangor, Federal Territory and Perak accounted for as much as 42 per cent and 36 per cent of the total number of mobile and stationary sources of pollution respectively (DOE 1989). In terms of air quality, the amount of total suspended particles in the industrial and heavy traffic areas in Selangor, Federal Territory, Johor Bahru and Penang still exceed the recommended value of 90 $\mu\text{g}/\text{m}^3$. Furthermore, the states of Johor, Penang, and Selangor together accounted

for almost 50 per cent of the total industrial sources of water pollution (DOE 1989: 127). More serious, however, is the deterioration of the quality of river water due to heavy and uncontrolled loadings of organic wastes and silt in the water courses. Domestic sewage accounted for 80 per cent of total organic load in 1989 (DOE 1989: 128). Greater urbanization and inadequate sewage facilities and the financial constraints of local authorities have been cited as major causes (6MP: 393).

E. SUMMARY

Social consequences of economic restructuring are distributed differentially in terms of ethnic, rural-urban and male-female dichotomies, depending on the type of structural adjustment measures undertaken. In the case of Malaysia, socio-economic restructuring in the form of the New Economic Policy has been successful despite lamentations about the under-achievement on some Bumiputera targets and discriminatory implementation by bureaucrats. Malaysia's performance in rectifying its income disparities, be it inter/intra ethnic or rural-urban, and the eradication of poverty have been impressive even by international standards.

In retrospect, it is difficult to maintain that the social effects from such restructuring measures would have been more moderate given a slower rate of its implementation. For, despite the prevalence of racial polarization, ethnic resentment (the fuel of racial riots in 1969) has been appeased somewhat, thus allowing economic development to take place amidst social and political stability. The speed of structural changes and the ethnic dimensions of the policies which brought them about, has resulted in the social consequences being distributed differentially in terms of ethnicity. Rapid mobilization of the Malays from the rural to the modern sector with the attendant rural-urban migration has resulted in substantial social costs being borne by this group in the form of urban related problems, dependence on the Government's affirmative-action programmes (subsidies, employment, scholarships, licenses, etc.) and a host of other problems.

Industrial restructuring has had no less an impact on society. Both industrial restructuring and the NEP, working hand in hand via demographic changes, have put pressures on social infrastructure in the urban areas such as health and education. The various industrialization strategies have also contributed to further degradation of the environment. The effects of export-oriented industrialization (EOI) was felt during the recessionary years of 1983-1986 which resulted in massive retrenchments particularly among female workers. The EOI strategy also resulted in denial of workers rights to form national-level unions in these industries.

In the case of medium-term restructuring, maintaining an appropriate balance between public and private sector participation in the economy has proved to be problematic. In the education sector, for example, further liberalization to encourage private sector participation has provided "space" for non-Malays who were denied places in public institutions due to the implementation of ethnic quotas. This, however, institutionalizes racial polarization further. Greater private sector participation in the provision of quasi-public goods, such as education and health, has also meant allowing market forces to concentrate such facilities (in terms of quality and quantity) in more developed states. Furthermore, as the case of the health sector illustrates, reduced affordability during a recessionary period may nullify the role that private sector may assume in alleviating demand pressures on public services.

Short-term economic restructuring in the form of fiscal retrenchments in the mid-1980s has mainly impacted upon employment. Long-term restructuring via the NEP has brought about dependence of the targeted group, the Malays, on public sector employment. Thus, the unemployment rate for this group rose considerably when the recruitment by public sector was frozen beginning from the mid-1980s.

The importance of how short-term economic restructuring measures are undertaken, namely which sectors are affected directly, is highlighted in the case of the housing sector. The use of this sector to implement counter-cyclical policies and fiscal retrenchments has dire social consequences in view of the fact that housing remains an important aspect of the general quality of life. In this respect, the Malaysian Government's commitment to the health and education sector, by shielding it from the fiscal curtailment, is commendable.

IV. POLITICAL ARRANGEMENTS AND ECONOMIC DEVELOPMENT

This section attempts to analyze the reasons for the success, as well as weaknesses, of the Malaysian strategy in pursuing social development objectives. Economic development after 1969 was conceived as a means rather than an end, with social development objectives being assigned greater priority and the national unity as the overriding goal. This was because, despite rapid growth after independence in 1957, the benefits of development were unevenly distributed; instead the wide disparities between ethnic groups and regions threatened the social fabric of the emerging nation. Hence, after the 1969 riots, socio-economic and political objectives were clearly articulated in the NEP and operationalized in the various five-year plans in the form of specific targets relating to the attainment of inter-ethnic equity, poverty eradication and regional balance.

There are critics of Malaysian development policies and strategies (see, for example, Mehmet 1986; Jomo 1991) who argue that, among other weaknesses, NEP social engineering and economic restructuring has tended to widen intra-ethnic income disparities and created rent-seeking "distributional coalitions". There have, clearly, been social costs (as discussed in the previous section). However, a balanced view of the development record would suggest that, to a remarkable extent, growth has been broadly based and achieved with improving inter-ethnic equity. Social development policies have, indeed, been geared towards uplifting the status of the Bumiputera (particularly Malay) community, but there have been benefits for other communities as well. The achievement of social development objectives in Malaysia must be found in the institutionalization of a pattern of political arrangements which may be unique to the Malaysian situation.

In surveying the spread of economic growth in Third World countries during the long period 1850-1980, Reynolds (1983: 975-976) concluded that the differences in economic performance between countries did not seem to lie mainly in the realm of factor endowments but that the "single most important explanatory variable is political organization and the administrative competence of government". Likewise a recent review concluded that "Malaysia's success in reducing poverty and improving income distribution cannot be traced to GDP growth alone" (Kharas and Bhalla 1991: 30). In brief, economic performance is related to policies and political arrangements, or "governance", in the Keynesian sense, implying "the responsibility of the government and the elites to create an environment in which people can pursue their economic, social, cultural and political goals, without excessive conflict, violence, or waste" (Banuri 1990: 9).

A. THE POLITICAL ECONOMY OF SOCIAL DEVELOPMENT

While the multi-ethnic nature of the population makes for perplexity in forging unity, in the absence of a common nationalism the State has provided a common focus of political identity and legitimacy in Malaysia. The ethnic emotions and tensions that lie beneath Malaysian society have erupted, fortunately infrequently, in violence, as in the immediate post-World War Two period and, more calamitously in 1969, and have tested the fragility of national identity, but even the lingering communist insurgency in the sixties never seriously threatened the authority and viability of the post-independence state.

Likewise, given the magnitude and long time dimension of the NEP social restructuring programme, it is inevitable that individual and communal insecurities have been politicized. At the heart of the problem of socio-economic modernization

and distributive equity in the multiethnic society is the difficulty of giving simultaneous assurances to Bumiputeras, that public policies will be aligned to their interests, and non-Bumiputeras, that they will not suffer sanctions or any sense of deprivation. Criticisms by non-Malays of the sensitive NEP and the manner of its implementation by the bureaucracy have been frequent, if often subdued; on the other hand, there have been demands by Malays that the NEP should be extended indefinitely until economic parity has been reached. Some disgruntled non-Malays, chiefly middle-class Chinese professionals, confronted with the prospect of blocked mobility and tertiary education access for their children have opted for emigration. It is the nature of the zero-sum orientation of ethnic relations in a plural society that, even as economic growth expands, ethnic insecurities seem to be heightened as individuals and groups became increasingly socially and politically mobilized (Chee 1988).

The problem of social development and restructuring was, therefore, not the injustice of preferential policies *per se* since these were already in practice during the British colonial regime and had since been incorporated into the country's constitution as part of a racial compact for independence. It was the difficulty of ensuring that there would be sufficiently rapid growth so that the economic pie would be large enough for the dividend from growth to be transferred to corrective equity programmes for Bumiputeras and yet maintain adequate economic space for the non-Bumiputeras. Market failure in equity-delivery in the fifties and sixties spurred political developments in 1969 which culminated in new institutional arrangements for social development. The public sector assumed the leading role in these arrangements.

B. THE ROLE OF THE PUBLIC SECTOR IN SOCIAL DEVELOPMENT

In this respect, the state has played a central role in economic and social development. Following Rockman (1990: 30), we might emphasize three aspects of the state: (a) the decision-making state, i.e., "the role of the state as an authoritative policy-making system"; (b) the intermediary state, "the role of the state as a repository, creator, and mediator of societal interests"; and (c) the production state, or "the role of the state as a provider of collective and distributional goods". The centrality of the state (the public sector writ large) as an institution in the politics and economics of development in Malaysia is manifest. Its expansion can best be seen in the explosive growth of government in the country. The facts are not in dispute. Tables 26 to 31 demonstrate the expanding role of the state and the growth of government in Malaysia:

- (1) Over the past twenty years, the public sector in Malaysia has commanded a sizeable share of the economy, as measured by total

Table 26. Total government expenditures, 1967-1990

<i>Year</i>	<i>Federal and state government expenditure (\$ million)</i>	<i>GNP at market prices</i>	<i>Federal and state expenditure as percentage of GNP</i>	<i>Government expenditure per capita (\$M)</i>
1967	2 986	9 652	30.9	298
1968	3 014	10 071	29.9	292
1969	3 181	10 978	29.0	300
1970	3 568	12 155	29.3	328
1971	4 259	12 501	34.1	381
1972	5 352	13 641	39.2	467
1973	5 157	18 064	30.5	488
1974	7 418	21 861	33.9	745
1975	8 652	21 606	40.0	725
1976	9 629	26 988	35.7	787
1977	12 484	31 064	40.2	993
1978	13 802	36 186	38.1	1 070
1979	16 984	43 092	39.4	1 279
1980	24 340	51 390	47.4	1 796
1981	31 275	55 602	56.2	2 222
1982	32 511	56 690	54.5	2 241
1983	33 216	65 154	50.7	2 231
1984	33 033	74 182	44.5	2 163
1985	33 686	71 962	44.0	2 021
1986	31 764	66 814	47.5	1 972
1987	28 683	74 679	38.4	1 735
1988	30 767	85 796	35.9	1 816
1989	36 009	96 447	37.3	2 075
1990 ^{a/}	40 265	109 219	31.1	2 235

Source: Calculated from Ministry of Finance, *Economic Report*, various issues.

^{a/} Estimates.

public sector (development and ordinary) expenditure as a percentage of GNP, from about 30 per cent in the 1960s to well over 50 per cent in the early 1980s (table 26). Since the recession years 1981-1986, the public sector has contracted slightly. The upward trend of public sector spending was clearly a result of increasing state intervention under the NEP. The explosion of government expenditure in the period 1980-1982 was due to counter-cyclical macroeconomic management. Behind the figures of public sector expansion during the OPP1 period is the activist role of the developmental state in economic policy-making, interest-intermediation on behalf of ethnic communities, especially in carving out strategic access for the

Table 27. Total government expenditure, by level of government, 1967-1990

Year	Total federal and state government expenditure (\$ million)	Federal government expenditure (\$ million)	Federal (per cent)	State government expenditure (\$ million)	State (per cent)
1967	2 986	2 426	81.2	560	18.8
1968	3 014	2 415	80.1	599	19.9
1969	3 181	2 545	80.0	636	20.0
1970	3 568	2 876	80.6	693	19.4
1971	4 259	3 483	81.8	776	18.2
1972	5 352	4 310	80.5	1 042	19.5
1973	5 517	4 447	80.6	1 070	19.4
1974	7 418	6 169	83.2	1 249	16.8
1975	8 652	7 051	81.5	1 601	18.5
1976	9 629	8 206	85.2	1 423	14.8
1977	12 484	10 615	85.0	1 869	15.0
1978	13 802	11 823	85.7	1 979	14.3
1979	16 984	14 191	83.5	2 793	16.5
1980	24 340	20 948	86.1	3 392	18.9
1981	31 275	26 821	85.7	4 454	14.3
1982	32 511	27 860	85.7	4 651	14.3
1983	33 216	27 790	83.7	5 426	16.3
1984	33 033	27 880	84.4	5 153	15.6
1985	31 686	26 822	84.6	4 864	15.4
1986	31 764	27 024	85.1	4 740	14.9
1987	28 683	24 296	84.7	4 387	15.3
1988	30 767	25 857	84.0	4 910	16.0
1989	36 009	30 533	84.7	5 476	15.3
1990	40 265	34 016	84.5	6 249	15.5

Source: Calculated from Ministry of Finance, *Economic Report*, various issues.

economically backward Malay community, and in production and provision of social and physical infrastructure.

- (2) The OPP1 period has seen unusual governmental dynamism in responding to constituency demands, as measured by the rise of public sector expenditure per capita, from about \$M 300 (in current terms) to over \$M 2,000 per head of population in the 1980s (see table 26). Differently stated, the public sector's contribution to per capita income rose from about 30 per cent in 1970 to 56 per cent in 1981 before falling to about 31 per cent in 1990, a reflection of the role of government in socioeconomic development, as much as it shows the extent of government intervention in economic activities. Since the

Table 28. Public employment, 1967-1990

Year	Total work force (thousands)	Government services ^{a/} (thousands)	Government services as percentage of total
1967	2 078	267	12.8
1968	2 065	267	12.9
1969	—	n.a.	—
1970	3 340	398	11.9
1971	3 467	420	12.1
1972	3 599	443	12.3
1973	3 735	467	12.5
1974	3 877	493	12.7
1975	4 020	520	12.9
1976	4 376	577	13.2
1977	4 476	582	13.0
1978	4 542	596	13.1
1979	4 700	622	13.2
1980	4 817	693	14.4
1981	5 010	757	15.1
1982	5 165	765	14.8
1983	5 271	786	14.9
1984	5 394	803	14.9
1985	5 625	819	14.6
1986	5 707	829	14.5
1987	5 881	836	14.2
1988	6 088	844	13.9
1989	6 351	847	13.3
1990 ^{b/}	6 603	850	12.9

Source: Calculated from Ministry of Finance, *Economic Report*, various issues.

^{a/} Include uniformed services. ^{b/} Estimates.

mid-1960s but accelerating throughout the OPP1 period, there has been substantial public investments in human capital, particularly through expansion of educational opportunities. This is reflected in the growth of the middle class in Malaysia, especially among the Malays. Federal expenditure on education, on the average, has been about 6 per cent of GDP (table 30). Indeed, as table 31 shows, federal expenditure on social and economic services has, in the 1980s, been consistently high reflecting the priority placed on creating human capital and developing the social and physical infrastructure to sustain development. In the seventies, expenditure on defence and security was quite high, as a percentage of GDP and of total federal expenditure, because of the uncertain implications of the communist victory in Viet Nam and the recrudescence of domestic communist terrorist activity, but only in rare periods over the past 20 years has it ever exceeded

Table 29. Malaysian public sector expenditure, 1985-1995

	1985		1990		1995	
	\$M	Percentage of GNP	\$M	Percentage of GNP	\$M	Percentage of GNP
1. General government operating expenditure	22 136	30.7	28 909	26.3	38 760	19.0
2. General government development expenditure	6 852	9.5	11 242	10.3	16 310	8.0
3. NFPE development expenditure	6 186	8.6	4 995	4.5	8 480	4.0
4. Public sector expenditure	35 174	48.8	45 146	41.1	63 350	31.0
5. Public sector overall deficit	3 236	4.5	3 663	3.3	8 190	4.0

Source: Adapted from Malaysia, *Sixth Malaysia Plan 1991-1995*, table 2-7, p. 71.

Note: General government comprises Federal Government, State governments, statutory authorities and local governments.

federal expenditure on social (education, health, welfare, etc.) and economic services (see tables 30 and 31).

- (3) Malaysian federalism is exceptionally centre-dominant, as shown in table 27. The Malaysian Constitution not only endows the Federal Government with more functions but also arrogates to it the most lucrative sources of revenue. State and local governments are financially weak, as well as being politically subservient to the Federal Government. This is revealed by the centralization, indeed monopolization, of public sector spending by the Federal Government in the Malaysian political economy: the Federal Government consistently accounts for over 80 per cent of total federal and state government expenditure. Development planning in Malaysia over three decades has strengthened the political power of the centre at the expense of the periphery. This is reinforced by the predominant control of the National Front in the state assemblies.
- (4) There has been a gradual increase in public sector employment over the years as a percentage of total labour force employment, as shown

Table 30. Malaysia: Federal expenditure on various sectors as percentage of GDP, 1970-1990

Year	GDP at market prices \$M million	Education	Health	Other ^{a/} social services	Economic services	Security	Housing
1970	12 308	4.2	1.4	0.5	3.5	5.4	n.a.
1975	22 332	6.1	1.9	0.8	7.9	6.9	n.a.
1980	53 308	5.2	1.5	1.7	10.5	6.4	n.a.
1981	57 613	6.1	1.7	3.5	14.1	8.1	n.a.
1982	62 579	6.5	1.7	4.0	12.7	8.2	n.a.
1983	69 941	5.6	1.4	1.9	10.4	6.9	n.a.
1984	79 550	5.4	1.3	2.0	8.5	5.4	n.a.
1985	77 470	5.6	1.5	2.1	7.9	1.3	1.3
1986	71 594	6.7	1.7	2.7	9.1	5.3	1.6
1987	79 625	5.9	1.4	1.1	6.2	4.5	0.1
1988	90 861	5.5	1.3	0.9	6.0	4.1	0.1
1989 ^{b/}	101 536	5.6	1.4	1.3	6.0	4.3	0.2
1990 ^{c/}	114 979	5.5	1.5	1.3	8.4	4.2	0.2

Source: Ministry of Finance, *Economic Report*, various issues.

^{a/} Inclusive of housing. ^{b/} Estimate actual. ^{c/} Latest estimate.

Table 31. Malaysia: Composition of federal expenditure, selected items, 1970-1990

Year	Total Federal expenditure (\$M million)	Education (per cent)	Health (per cent)	Other ^{a/} social services (per cent)	Economic services (per cent)	Security (per cent)	Housing (per cent)
1970	2 886	18.1	6.1	2.0	15.1	23.2	n.a.
1975	7 051	19.4	5.9	2.6	24.9	21.9	n.a.
1980	20 948	13.3	3.7	4.4	26.7	16.2	n.a.
1981	26 821	13.1	3.6	7.6	30.3	17.5	n.a.
1982	27 860	14.6	3.8	9.0	28.5	18.5	n.a.
1983	27 790	14.0	3.6	4.7	26.3	17.4	n.a.
1984	27 880	15.4	3.8	5.8	24.4	15.5	n.a.
1985	26 822	16.1	4.2	6.2	22.7	14.6	3.8
1986	27 024	17.8	4.5	7.2	24.1	14.0	4.2
1987	24 296	19.2	4.6	3.5	20.4	14.7	0.5
1988	25 857	19.3	4.7	3.3	21.2	14.3	0.4
1989 ^{b/}	30 533	18.5	4.8	4.2	20.0	14.4	0.8
1990 ^{c/}	34 016	18.7	5.2	4.3	28.5	14.2	0.6

Source: Ministry of Finance, *Economic Report*, various issues.

^{a/} Inclusive of housing. ^{b/} Estimate actual. ^{c/} Latest estimate.

in table 28; the public service has grown by nearly four times since the late 1960s. It is impossible to escape the impression that there has been a phenomenal growth in the size of government in Malaysia. In 1980, Malaysia was nearly twice the administrative state it already was becoming in 1970. The extent of bureaucratization in Malaysia in the 1980s was quite startling! Using the number of civil servants per thousand population as a measure of bureaucratization, the comparative ratios for 1980, given in one study, are as follows: Malaysia 40.6, Indonesia 13.9, and Thailand 7.6 (Evers 1987: table 1, p. 672). While this growth of the public service was related directly to the expansion of public enterprises and the extension of field services by regular bureaucracy, part of the cause was attributable to the attraction of public sector employment as a channel of social mobility for educated Bumiputeras as well as its use by the government to curb unemployment during the recession.

- (5) Although the Sixth Malaysia Plan projects that the size of the public sector, as measured by public spending, will be about 31 per cent of GNP in 1995 (a reduction of 10 percentage points over 1990), consolidated public sector expenditure is expected to be 40 per cent more in 1995. Hence, the public sector's contribution to social development will be quite substantial (table 29), despite the shifting of the mix between the public and the private sector in favour of the latter as the engine of economic growth under the Second Outline Perspective Plan and the National Development Policy.

Clearly, ameliorative government, under the NEP, has been a characteristic of economic development and restructuring over the last two decades. Although the effectiveness and impact of expansive government on social welfare, especially in eradicating poverty and reducing overall income inequality, in this country have been uneven there has been an undoubted commitment of national resources to distribution. By way of comparison with neighbouring countries, central government expenditure per capita in Malaysia in 1980 was nearly ten times that in Indonesia, five times more than that in the Philippines, and three times that in Thailand (Chee 1989: 14). If central government expenditure is a valid proxy for the production and enjoyment of "social or political goods" (such as administration, law and order, education, health, social amenities and other infrastructure), then Malaysians are clearly better off. But there is obviously a price to be paid in the increased presence of the state in society and the economy.

Because of the wide-ranging and multi-sectoral nature of the anti-poverty and restructuring programmes of the NEP, and given the low institutional and

resource capacity of the Malay and other Bumiputera communities, the government assumed an assertive role through its allocative, regulatory, and monitoring functions as well as direct participation as an entrepreneur, through a host of public authorities euphemistically known as non-financial public enterprises (NFPEs) and Bumiputera trust agencies, in spearheading the accumulation of capital and other values for the Malays and other Bumiputeras. In the process, a new state capitalism buttressed by a burgeoning public bureaucracy has developed under the NEP.

The presence of the "production state" was clearly manifested in the proliferation of the non-financial public enterprises in the seventies. The financial burden of inefficient government enterprises, the direct and indirect social costs of preferential policies on inter-ethnic relations, and the politicization of the economy as a result of the "quota" mentality which insisted that employment, wealth restructuring, and equity participation must ensure that Bumiputeras get at least 30 per cent share were obvious social transaction costs. What is not so obvious was the social benefit of a mixed-economy programme (which combined government intervention and market forces) that simultaneously and effectively delivered economic growth, distribution, and political stability. Effectiveness legitimacy has been an important characteristic of the Malaysian state. This in turn has reinforced the legitimacy, in the eyes of the dominant Bumiputera community, of the political institutions for collective decision-making, such as the Constitution even with its explicit entrenchment of ethnic "special privileges"; the system of parliamentary democracy based on constitutional monarchy; and the framework of coalition government based on the principle of multi-ethnic power-sharing. Bumiputera allegiance to the political system was of paramount importance; the NEP was the vehicle for this strategic objective. Inevitably, societal restructuring on the scale and time dimension envisaged in the NEP accentuated perceptions of reduced life-chances among the non-Malay (Chinese and Indian) half of the population.

Other social costs (tangible and intangible) of a strategy which emphasizes "political stability" in the service of economic growth should not be ignored. Because of the background experience of anti-colonial agitation and the postwar resurgence of communist-terrorist insurgency, the state has accumulated a fearsome arsenal of system-maintenance measures, the most notorious being the Internal Security Act (ISA) which provides for indefinite detention without trial. Predictably, as social tensions, arising from ethnic mobilization and economic hardships following the world recession and economic restructuring, take their toll on political stability, the powers of the state have sometimes been used to isolate dissidents or silence social critics of governmental failure.

The cost of the policy of encouraging foreign direct investment under the export-oriented industrialization strategy and subsequent liberalization of economic policies seems to have fallen most on the working class in the form of curbs on unionization and dampening of wages. As noted above, labour-intensive export-oriented industrialization not only raised environmental costs such as industrial pollution, the danger of toxic wastes, and the concentration of population in industrial zones, but industries had to be sustained by the massive inflow of illegal immigrant workers. Estimates of the number of illegal immigrants (mainly Indonesians and Thais) range from one million to 1.5 million, this in a country of about 17.5 million population, which inevitably adds to the strain on social services, depressed wage levels, and heightened social tensions as well. However, wage restraints have, in fact, been equally severely felt by public sector employees as a result of the prolonged recession in the eighties and the sheer size of the public sector wage bill.

In all, in the face of mounting public criticisms by interest groups and opposition parties in the mid-1980s of financial scandals and abuses of power, the knee-jerk reaction of the government has been to increase the social controls. As the social order appeared to be unravelling, made worse by an unprecedented split between rival forces in the ruling UMNO, massive arrests were made in October-November 1987 of 106 people under the Internal Security Act, covering a broad spectrum of opposition leaders, party activists, social critics, educationists and religious leaders. This was followed by the temporary suspension of four major newspapers from publication and the tightening of the coercive legislations such as the Official Secrets Act, the Printing Presses and Publications Act and the Police Act, ostensibly to cool the sociopolitical climate.

Fortunately, structural adjustments after 1982, in the form of fiscal austerity, deregulation and liberalization of the economy, and the shifting of development strategy to focus on the role of the private sector, in addition to expansion of external and domestic demand towards the latter part of the 1980s restored tranquility and helped to turn the economy around.

C. INSTITUTIONS FOR COLLECTIVE DECISION-MAKING

If the development strategy has been able to combine growth and equity, it is equally remarkable that these outcomes have also been achieved in an environment of relative political stability. Although this paper has not explored the socio-psychological dimensions of economic change in a plural society, one aspect of the social milieu in Malaysia is the high degree of tolerance (or the practice of avoidance of unnecessary confrontation) on sensitive issues. The

“egg-shell syndrome” in Malaysian society has a deterrent effect on communal extremism, even if zero-sum perceptions of life chances sometimes take a heavy toll on inter-ethnic goodwill. Fortunately, for most of the years, the ‘zone of indifference’ was large because of the availability of social and economic opportunities for inter-ethnic progress.

The primary institution for mediating between the contending interests in Malaysia has been multi-ethnic coalitional party government since 1957 (first under the tripartite Alliance, now the enlarged National Front). The Alliance was a consociational regime incorporating the three major communal parties, namely the United Malays’ National Organization (UMNO), the Malaysian Chinese Association (MCA), and the Malaysian Indian Congress (MIC). After the 1969 riots, the multi-ethnic governing coalition was expanded to include other communal and nominally non-communal parties in a National Front framework.

The essential ingredient of this successful and continuous governmental regime is consociational or accommodative political leadership. Space does not permit a full discussion of the Alliance-National Front format of governance (see, however, Chee 1991: 53-86). Briefly, it is government by multi-ethnic power-sharing, with elites transacting communal interests and demands in private which are subsequently translated into public policy. The system is premised on distrust of the masses and the legitimacy of party leaders as representatives of communal interests. The formula is, then, to transfer politics from the streets into the closed door of the Cabinet where ethnic differences are accommodated and compromises reached by high-level elites of the component parties. The Alliance system of societal decision-making by inter-communal accommodation worked when interests were complementary, as obtained in the 1950s and 1960s when there appeared to be an ethnic division of labour. But the inability of this closed-elite bargaining-style of governance to deliver protection and to process effectively the demands of resurgent Malay economic nationalism precipitated the crisis of 1969 and led to the installation of a UMNO-dominant, Malay-hegemonial National Front framework of rule. Under the new political ground rules after 1969, the asymmetry of power relations between communal components in the government is reflected in the purposive realignment of public institutions and public policy under the rubric of the NEP, both substantively and symbolically, with the interests of the dominant Malay community.

The principle of power-sharing and the motivation for elitist accommodation, despite the changed circumstances after 1969, have been maintained in the National Front government. The strategy of power aggregation is one that is based on mobilization of ethnic allegiance to the component parties which would be translated into electoral support for any candidate chosen to contest a particular

constituency at the parliamentary elections. Through this effective coalition of communal parties, the Alliance-National Front has been able to consistently garner 60 per cent of the popular votes and capture two-thirds of the seats in Parliament and most of the state assemblies. The system of power-sharing, though asymmetrical, has provided for continuity of rule and stability of political leadership.

There is, nevertheless, a tradition of political contestation in Malaysia, even though the opposition parties and interest groups have not been able to muster sufficient support to be a credible alternative or to provide a strong check on governmental accountability and responsibility. While the ineffectual opposition has meant continuity of National Front rule, there is also a tendency towards paternalistic government, with emphasis on centralization of authority and administrative decision-making. Ironically, then, the danger of political instability comes not from the opposition but from within the National Front and its contentious partners, through the struggle for power among internal elites which often spill over to the larger society, as in the internecine conflict between different factions in the main components of the coalition during 1984 to 1988.

Democracy has been maintained, with a brief hiatus in 1969/70, but while Parliament is a venue for representative government it is not a forum for social consensus. That consensus on the shape and nature of public policy has to be hammered out within the Cabinet or in the informal discussions among the National Front leaders. When that consensus breaks down, as in 1969, recourse has been found in the establishment of societal consultative forums such as the 65-member National Consultative Council to provide for closed-door elitist deliberation on the reshaping of an inter-ethnic concordat, the result of which in 1970 was the New Economic Policy. Likewise, the practice of consulting with a larger body of social elites was replicated in 1989 with the formation of the 150-member National Economic Consultative Council to deliberate on a successor policy to the NEP. Many of the recommendations of this body have clearly been incorporated into the new National Development Policy which underpins the Second Outline Perspective Plan for 1991-2000.

In the Malaysian system, the Constitution is the supreme law of the federation. In practice, however, following the legitimation of the Westminster heritage, Parliament is the apex political institution for collective representation; but in reality, the position and power of the Executive Branch (Cabinet) has been overwhelming. The judiciary has taken a conservative stance with regard to questions of policy and politics. Hence, with executive and legislative authority essentially fused in dominant-party government, the Prime Minister in Malaysia exercises tremendous power. Paradoxically, given the communal composition of

the National Front and a long-standing tradition that the prime minister and deputy prime minister be drawn from UMNO, the hegemonic partner, the country's top political leadership is elected from amongst only one segment of the population. If this seems a quirk of participatory democracy, the system has nevertheless worked quite well and, once appointed, the prime minister has often succeeded in assuming a national rather than segmental orientation. It is the genius of the Malaysian political economy of rule that, despite the contentious nature of the social engineering programme under the NEP, the trade-offs (more corrective equity and less equality) have generally been accepted or tolerated.

D. BUREAUCRACY AND SOCIAL DEVELOPMENT MANAGEMENT

As noted above, there has been an explosion of the public bureaucracy since independence in line with the primacy given to administrative activism to implement the five-year plans and to achieve the NEP goals. By and large, the administrative delivery system has been efficient, relatively honest, responsive to perceived clientele needs, and, in the upper echelons, extremely well-qualified and competent. While it is fashionable in Malaysia, as elsewhere, to decry the ills of bureaucracy, it must be noted that successive governments have turned the Malaysian public bureaucracy from a colonial custodial agent to a dynamic instrument in development administration. This has been achieved not only through a long series of administrative changes since 1957, involving structural, technological, attitudinal and behavioural reform efforts, but also because of the congruence in values and socialization between the Malay political leadership and the bureaucratic elite.

By definition, the higher bureaucracy is elitist, but there is a strong sense of professionalism and responsibility, tempered by its definition and perception of roles internalized through selective recruitment, training and experience. Hence, despite the increasing penetration of politics in recent years into public sector organizations, the federal generalist administrative service (the Malaysian Administrative and Diplomatic Service) is corruption-free and driven by the ethic of public service and the norms of political neutrality and institutional loyalty. Rapid expansion of the public services, weakening hierarchical and supervisory controls, the insidious intrusion of "money politics" in the political system, and political interference in administration might have affected the morale of the civil service. Though salaries and perquisites have not kept pace with the rising cost of living and are certainly lagging far behind private sector remunerations, especially for equivalent executive positions, administrative reforms plus constant prodding by the political leadership have maintained productivity and service quality.

Regular and public enterprise bureaucracies have played an instrumental role in achieving social development goals in Malaysia. The ability of the public sector to target policies to specific groups and for specific purposes has, of course, been facilitated by the nature and intent of the NEP, as well as by the adjustment measures introduced in short-term economic restructuring. Thus, for example, anti-poverty programmes are recognizably addressed to rural Malays and other Bumiputeras because the majority of the poor (rice-farmers, fishermen, and agricultural smallholders) are ethnically and geographically identifiable, although this ignores the sizeable urban and peri-urban poor among Chinese squatters and Indian estate workers. Likewise, targets and targeting of beneficiaries for the societal restructuring prong were made easier by the NEP's specification of goal attainment in terms of ethnic restructuring of statuses (income, employment, education, and ownership of wealth) to reflect the racial composition of Bumiputeras and non-Bumiputeras.

To implement the social development programmes of poverty eradication, a plethora of new federal and state government institutions was established, and existing agencies were strengthened. Because rural upliftment has a longer gestation period, the imperative of more demonstrable distributive outcomes was focused on ethnic economic restructuring. The restructuring programme of the NEP witnessed the launching of innovative strategies to increase the factor endowments of the Malays *vis a vis* the non-Malays, with the ultimate aim of creating a Malay commercial and industrial community in all categories and at all levels of operation. To undertake this massive programme a multi-faceted arsenal of government-sponsored institutions, strategies, and financial resources was mobilized to act in concert to promote Bumiputera participation.

The measures included, *inter alia*:

- (1) Fostering a Malay middle class by increasing Malay participation rates in the modern economic sectors and employment in high-income occupations, through expansion of employment opportunities in regular federal and state government bureaucracies, public enterprises, and private-sector firms;
- (2) Creating a Malay commercial and industrial elite by proving preferential access to capital and funding sources through newly established financial institutions and Central Bank-stipulated targets for commercial bank lending to Bumiputera businessmen;
- (3) Expanding economic opportunities for Malay and other Bumiputera enterprises through preferential awarding of public works contracts and other tenders by government departments and public enterprises.

preference in the issuance of licences, and by the provision of technical advisory services and training support to start up new businesses:

- (4) Rapid expansion of technical and tertiary education facilities to produce a sizeable pool of Malay graduate cadres supported by admission quotas, scholarships and bursaries;
- (5) Establishing federal and state agencies, quasi-government bodies, and Bumiputera investment institutions with large-scale public funding, through grants and loans, to undertake new enterprises, acquire foreign firms, enter into joint-ventures, and hold equity in trust for the Bumiputera community; and
- (6) Using administrative mechanisms (such as the Capital Issues Committee and the Foreign Investment Committee), new legislative instruments (e.g. the Industrial Coordination Act), and indirect administrative pressure and persuasion, to ensure that private firms (local and foreign) adhere to the NEP targets on employment and ownership restructuring.

Among the statutory authorities and special-purpose public enterprises established to promote societal restructuring were PERNAS (National Corporation), UDA (Urban Development Authority), SEDCs (State Economic Development Corporations), MARA (Council of Trust for the Indigenous People), PNB (National Equity Corporation), Bank Bumiputra, Bank Islam, and the Development Bank. In the rural development and poverty eradication fields, agencies which played prominent roles include: RISDA (Rubber Industry Smallholders Development Authority), FELDA (Federal Land Development Authority), FELCRA (Federal Land Consolidation and Rehabilitation Authority), FAMA (Federal Agricultural Marketing Authority), MAJUIKAN (Fisheries Development Authority), Bank Pertanian (Agricultural Bank), FOA (Farmers' Organization Authority), and various other regional development authorities.

Thus, bureaucracy has been properly harnessed to social development management. There is no possibility that market mechanisms could have produced such rapid results in achieving the twin goals of the NEP.

E. A NEW DEVELOPMENT POLICY FOR THE 1990s

Much has been achieved in the social development sector as a result of the NEP and the contribution of the public sector in the last twenty years. Much remains to be done in the area of ethnic restructuring and absolute poverty eradication. The NEP terminated in 1990 and has been succeeded by a new National Development Policy (NDP). If there was expectation among non-

Malays that, with the termination of the twenty-year NEP, there will be surcease to restructuring and preferential policies, this was unrealistic. It may be that the logic of the system of ethnic preferences makes these policies very easy to initiate, particularly as they are mandated by constitutional provisions, but extremely difficult to dismantle. Certainly, development under the aegis of the NEP has generated a burgeoning Malay middle class elite of bureaucrats, professionals, party functionaries, and businessmen who serve as powerful political lobbies with a stake in the maintenance of the system of preference.

However, the social engineering process has nurtured a more vibrant Bumiputera community. The economy is more balanced with the configuration of power in the polity. In a single generation, a critical mass of Malay middle class professionals and managerial bourgeoisie has been created and a solid foundation has been laid for Malay capitalism. These facts of the social economy, in conjunction with governmental recognition of the financial and political difficulties of mounting a second 20-year round of societal restructuring of the same magnitude and scope, plus the recommendations of the National Economic Consultative Council to attenuate the undesirable aspects of the NEP, led to the formulation of the NDP with a shorter perspective plan of ten years but a broader framework for achieving socioeconomic objectives. Under the NDP and the Second Outline Perspective Plan 1991-2000 (OPP2), the basic strategies of poverty eradication and societal restructuring have been maintained. The new dimensions are to “(a) shift the focus of the anti-poverty strategy towards the eradication of hard-core poverty while at the same time reducing relative poverty; (b) focus on employment and the rapid development of an active Bumiputera Commercial and Industrial Community (BCIC) as a more effective strategy to increase the meaningful participation of Bumiputera in the modern sectors of the economy; (c) rely more on the private sector to be involved in the restructuring objective by creating greater opportunities for its growth; and (d) focus on human resource development as a fundamental requirement for achieving the objectives of growth and distribution” (Malaysia 1991a: 4).

Hence, social objectives have been retained but the fixation with numerical targets on equity restructuring and ownership has been replaced by an emphasis on strengthening Bumiputera capacities to effectively manage, operate and own businesses and to retain their wealth. The 30 per cent Bumiputera share of corporate equity remains a target, but there is no specific time frame for its attainment. Overall, the NDP and OPP2 emphasize balanced development and reiterate the basic premise of development strategy, namely that the principle of growth with equity is fundamental.

V. CONCLUSIONS AND POLICY RECOMMENDATIONS

A major conclusion of the study is that, given the historical disparities between different segments of the multiethnic population, the role of the state was crucial to the achievement of social development objectives. This has been accomplished through massive social engineering affirmative programmes focused on developing human capital and investment in social infrastructure. The success of this strategy of social development with corrective equity was dependent on the availability of a growth dividend, the absence of which, for example during the several years of prolonged recession and public financial constraints, stalled public sector development programmes and exerted severe strains on inter-ethnic relations.

By and large, the economy has been resilient and the path of high growth has been resumed as a result of adjustment efforts undertaken by the government as well as a marked improvement in the external environment. This has prompted optimism that the long-term socioeconomic objectives of poverty eradication and societal restructuring can be maintained with a development strategy of growth based on rapid industrialization and combined with distribution. However, future policy under the NDP and the medium-term Sixth Malaysia Plan (1991-1995) development programmes have wisely retrenched from the fixation over numerical targets and a specific time-frame for equity restructuring and wealth accumulation by Bumiputeras; instead, efforts to correct socioeconomic imbalances will focus on absolute poverty eradication, provide more economic space and initiative to the private sector as the engine of growth, and emphasize capacity-building and human resource development to create a Bumiputera commercial and industrial community.

The lesson of the economic restructuring episodes, namely the oil shocks and the prolonged world recession, was that distributive goals could only be achieved if the economy expanded. While policy makers tend to see political stability as a necessary prerequisite for economic growth, the relationship, as demonstrated by the Malaysian experience, is a two-way street. In Malaysia, it might be possible to assert that the substantial dividend from economic growth over the past two decades helped to sustain inter-ethnic coexistence and the practice of governance by multi-ethnic power-sharing. Yet the logic of further rapid growth, hence expansion of opportunities and life-chances for its polymorphic population, requires more private sector initiative, greater competitiveness of its exports (primary products or manufactures), and greater productivity and efficiency of its labour force. The road to fully developed country status by the year 2020 will probably see a different mix between the roles of the public and the private

sector, with a downsizing of the former and a slant towards the latter. Despite denials by the government, distributive objectives have been achieved with some loss of economic efficiency, increased ethnic polarization, and wastage of human talent. Long-term social development policies will have to tackle the agenda of fostering national unity, because, paradoxically, to ensure targeting of distributive benefits, extant policies and programmes have had to create a separation between entitled and non-entitled groups.

The analysis of the sectoral social effects of economic restructuring above suggests a number of recommendations.

Ironically, policies in education, especially tertiary education, instituted to create national unity might have had the opposite effect of increasing polarization while the predominance of members of one ethnic group in tertiary institutions, although fulfilling an objective of increasing Bumiputra graduate manpower, might have tended to close the door of an important social institution for shared experiences and socialization. Nevertheless short-term or transitional costs may have not been avoidable, given the priority of redressal of historical Bumiputera disadvantage in education. The availability of local private colleges providing university-level education through "twinning" programmes or overseas education might have served as a safety-valve for pent-up resentment over blocked access to publicly funded local institutions, but clearly this bifurcated system, one a market-provided costly system for the education of non-bumiputeras and the other a public-provided system predominantly for bumiputeras, cannot be maintained over the long run. Apart from the unintended but nevertheless polarizing effect of higher education policy, of immediate concern is the decline in the quality of "products" from public tertiary institutions, the mismatch between the supply of humanities and social science graduates and the market demand for specialized fields, the shortage of technicians and engineers to support industrialization, and, generally, the low level of science, technology and research and development in the country. Clearly, a hard look at the human resource development strategy and the level of social absorptive capacity for technology-based industrialization is an urgent agenda.

The macro indicators show great strides being achieved in raising the standard of health in Malaysia. The curative emphasis in health management is increasingly being balanced by a preventive orientation, and the rural health infrastructure is one of the best among developing countries. Nevertheless, because poverty is closely related to health status, there are recurring problems of congestion in the urban hospitals and inadequate service delivery in the rural areas due to shortage of doctors and health workers. In view of the fact that private health (curative) services are adequately supplied in the urban centres, it

is recommended that government health service-provision concentrate on the rural areas where hard-core poverty households are more likely to be located. In addition, of course, to attempts at privatizing health services, given the changing nature of health problems, a more effective communication strategy should be devised to address the rising "modern life-style diseases" such as AIDS, drug addiction, cancer, heart ailments, and environmental epidemics.

There is a lop-sided influence of "footloose" industries, especially electrical and electronic firms, in Malaysia's export-oriented industrialization. The short-term employment creation effects of these industries may be outweighed by the long-term costs should there be industrial restructuring resulting in the mass retrenchment of the eighties in the FTZs. It is important that, in their rush to attract foreign direct investment into the country, the Ministry of Trade and Industry and the Malaysian Industrial Development Authority (MIDA) not only give emphasis to the "value-added" aspects but also the social impact as well.

Indeed, the government has placed emphasis on achieving economic development that is ecologically sustainable and balanced. There is, therefore, a need to guard against excessive industrialization which might result in irreparable social costs through degradation of the environment and lowering of the quality of life. Not only is it necessary for MIDA to analyze whether current investment trends (from the combination of export-oriented, resource-based, and small and medium-size industries) are beneficial in the long run from the "quality" viewpoint, but the regulatory mechanisms now dispersed between federal, state, and local government agencies will need to be better coordinated to ensure proper environment-related policies, strategies and programmes. In the face of rising environmental degradation and pollution, there is an urgent need for environment protection agencies, such as the Department of Environment, to play a stronger advocacy role through legislation and enforcement, by promoting greater public awareness and in cultivating the participation of NGOs and research institutions in environmental programmes.

BIBLIOGRAPHY

- Abu Bakar Jaafar (1985). "The state of the environment in Malaysia: public sector perspective", *Seminar Keadaan Kualiti Alam Sekeliling*, Kuala Lumpur.
- Anand, Sudhir (1983). *Inequality and Poverty in Malaysia: Measurement and Decomposition*, Oxford, Oxford University Press.
- Banuri, Tariq (1990). "Social dimensions of economic restructuring: terms of reference for country studies" (mimeo.), Bangkok, ESCAP.

- Brundtland Commission (1990). *Economic Policies for Sustainable Development*, Kuala Lumpur, Malaysian Institute of Economic Research (MIER).
- Fong Chan Onn (1990). "Industrialization in Malaysia: role of small and medium scale industries", in *The Malaysian Economy in Transition*, edited by Ambrin Buang, Petaling Jaya, INTAN.
- Fong Chan Onn and Lim Kok Cheong (1986). "Malaysian industrialization: problems and prospects towards an industrialized nation", *Kajian Ekonomi*, vol. 23, No. 1, June.
- Chee Peng Lim (1987). *Industrial Development*, Kuala Lumpur, Pelanduk Publications.
- Chee, Stephen (1988). "Political change and sociocultural pluralism", *Journal of Asiatic Studies*, vol. XXXI, No. 1.
- ____ (1989). "South-East Asia in 1988: portents for the future", in *Southeast Asian Affairs 1989*, Singapore, Institute of Southeast Asian Studies.
- ____ (1991). "Consociational leadership and ethnic security in Malaysia", in *Leadership and Security: Institutional Aspects*, edited by Stephen Chee, Singapore, Institute of Southeast Asian Studies.
- Evers, Hans-Dieter (1987). "The bureaucratization of Southeast Asia", *Comparative Studies in Society and History*, vol. 29, No. 4.
- Faaland, Just; Parkinson, J.R. and Rais Saniman (1990). *Growth and Ethnic Inequality: Malaysia's New Economic Policy*, Kuala Lumpur, Dewan Bahasa dan Pustaka.
- Hurst, Philip (1990). *Rainforest Politics*, Kuala Lumpur, S. Abdul Majeed & Co.
- Ismail Md. Salleh (1991). "Privatisation: the Malaysian experience", in *Malaysian Economy in Transition*, edited by Hisashi Yokoyama and Mokhtar Tamin, Tokyo, Institute of Developing Economies.
- Jamilah Ariffin (1987). "Female rural-urban migration and labour force participation trends in Peninsular Malaysia", *Seminar on Changing Malaysian Society and the Economy: The Role of Population*, Population Studies Unit, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur.
- Jomo, K.S.(1990). *Growth and Structural Change in the Malaysian Economy*, London, Macmillan.
- Jomo, K.S. and Chee Heng Leng (1985). "Public health expenditure in Malaysia", *Journal of the Malaysian Society of Health*, vol. 5, No. 1.

- Kamal Salih (1990). "The concept of sustainable development: the Malaysian perspective", *Conference on Environment and Development*, Petaling Jaya, INTAN.
- Kharas, H. and Bhalla, S. (1991). "Growth and equity in Malaysia: policies and consequences", paper presented at the *Eleventh Economic Convention*, Malaysian Economic Association, Kuala Lumpur.
- Khor Kok Peng (1989). *Housing for the Poor*. Penang, Consumer Association of Penang.
- Kusnic, Michael W. and Da Vonzo, Julie (1980). *Income Inequality and the Definition of Income*, Santa Monica, Rand Corporation for Agency for International Development.
- Lin See Yan (1990). "The flow of funds for national development: savings, investment and the mobilization of resources in Malaysia", in *Issues and Challenges for National Development*. Faculty of Economics and Administration, University of Malaya, Kuala Lumpur.
- Low Yok Lin (1986). "An analysis of the Dadah problem in Peninsular Malaysia with particular reference to the Dadah Rehabilitation Programme", unpublished M. Ec. Dissertation. Faculty of Economics and Administration, University of Malaya, Kuala Lumpur.
- Malaysia (1966). *First Malaysia Plan, 1966-1970*, Kuala Lumpur, Government Printers.
- Malaysia (1971). *Second Malaysia Plan, 1971-1975*, Kuala Lumpur, Government Printers.
- Malaysia (1973). *Mid-Term Review of the Second Malaysia Plan, 1971-1975*, Kuala Lumpur, Government Printers.
- Malaysia (1976). *Third Malaysia Plan, 1976-1980*, Kuala Lumpur, Government Printers.
- Malaysia (1981). *Fourth Malaysia Plan, 1981-1985*, Kuala Lumpur, Government Printers.
- Malaysia (1983). *Mid-Term Review of the Fourth Malaysia Plan, 1981-1985*, Kuala Lumpur, Government Printers.
- Malaysia (1986). *Fifth Malaysia Plan, 1986-1990*, Kuala Lumpur, Government Printers.

- Malaysia (1989). *Mid-Term Review of the Fifth Malaysia Plan, 1986-1990*, Kuala Lumpur, Government Printers.
- Malaysia (1991). *Sixth Malaysia Plan, 1991-1995*, Kuala Lumpur, Government Printers.
- Malaysia (1991a). *The Second Outline Perspective Plan*, Kuala Lumpur, Government Printers.
- Malaysia, Department of Environment, *Environmental Quality Report* (various issues), Kuala Lumpur, Government Printers.
- Malaysia, Department of Environment (1987a). "Environmental perspective to the Year 2000 and Beyond" (mimeo.), Kuala Lumpur.
- Malaysia, Department of Environment (1984a). "Environmental quality - issues and integrated development strategies" (mimeo.), Kuala Lumpur.
- Malaysia, Department of Statistics, *Social Statistics Bulletin* (various issues), Kuala Lumpur, Government Printers.
- Malaysia, Department of Statistics, *State/District Data Bank* (various issues), Kuala Lumpur, Government Printers.
- Malaysia, Department of Statistics, *The Labour Force Survey Report* (various issues) Kuala Lumpur, Government Printers.
- Malaysia, Department of Statistics (1983). *1980 Population and Housing Census of Malaysia*, edited by Khoo Teik Huat, Kuala Lumpur, Government Printers.
- Malaysia, Ministry of Finance, *Economic Report* (various issues), Kuala Lumpur, Government Printers.
- Malaysia, Ministry of Health (1988). *Annual Report 1988*, Kuala Lumpur, Government Printers.
- Malaysia Medical Association (1980). *The Future of Health Services in Malaysia*, A Report of Committee of the Council of the Malaysian Medical Association, Kuala Lumpur.
- Mehmet, Ozay (1986). *Development in Malaysia: Poverty, Wealth and Trusteeship*, London, Croom Helm.
- Mohamed Ariff (1991). *The Malaysian Economy: Pacific Connections*, Oxford, Oxford University Press.

- Mohamed Ariff, Tan Eu Chye and Norma Mansor (1990). "Malaysian economic development and development strategies: internal and external imperatives", *Forum on Development Strategies*, Singapore, Institute of Southeast Asian Studies.
- Nathan, L. and Woon, T.H. (1981). "Child abuse in an urban centre in Malaysia", *Child Abuse and Neglect*, vol. 5.
- Reynolds, Lloyd (1983). "The spread of economic growth to the Third World: 1850-1980", *Journal of Economic Literature*, vol. XXI (September).
- Rockman, Bert A. (1990). "Minding the state - or a state of mind? Issues in the comparative conceptualization of the state", *Comparative Political Studies*, vol. 23, No. 1.
- Siti Norazah Zulkifli, Low Wah Yun and Khairuddin Yusof (1987). "Measures towards better living conditions among the urban poor", in *Population and The Quality of Life in Malaysia*, Population Studies Unit, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur.
- Tey Nai Peng and Kok Kim Lian (1987). "Migration and urbanization in Malaysia", *Seminar on Changing Malaysian Society and Economy: The Role of Population*, Population Studies Unit, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur.
- United Nations (1990). *Restructuring the Developing Economies of Asia and the Pacific in the 1990s*, Bangkok, ESCAP.
- United Nations Development Programme (UNDP) (1991). *Human Development Report 1991*, Oxford, Oxford University Press.

SOCIAL COSTS OF ECONOMIC RESTRUCTURING IN PAKISTAN

by

*Aly Ercelawn**, *Moazam Mahmood***
and *Khalid Nadvi*

I. INTRODUCTION

A. STRUCTURAL ADJUSTMENT

This study examines the impact of structural adjustment and structural change on poverty in Pakistan, over the two decades of the 1970s and the 1980s. The economic regime of the 1970s is characterized as Keynesian populist, because of its policies of redistribution and social development. So this was a period of major structural change. The economic regimes of the 1980s are characterized primarily by structural adjustment policies, which certainly ignored and perhaps even aggravated social development. Hence this was a period of major structural adjustment, and some structural change. These two periods are very useful in comparing the impact of structural adjustment and structural change on poverty.

Structural adjustment (SA) is believed to be the cure for a developing economy vulnerable to exogenous shocks and endogenous reactive demand mismanagement. Such a developing economy is typically agrarian based, reliant on (non cartel) low value added primary production, internally and for export. The developing economy is vulnerable in its exports and imports to the world economy. The world economy has sent out a series of exogenous shocks to such developing economies beginning in the 1970s with the two oil shocks, the world recession, stagflation, market protectionism by the developed economies, and the changing pattern of world demand, production and technology.¹

* Senior Research Economist, Applied Economics Research Centre, University of Karachi, Karachi, Pakistan.

** Senior Research Economist, Pakistan Institute of Development Economics (PIDE), Islamabad, Pakistan.

¹ See cf. R. Kaplinsky, *Cambridge Journal of Economics*, 1989.

The exogenous shock creates a fiscal crisis in the domestic economy. Two fiscal deficits arise. The flagging value of exports and escalating value of imports multiply the usual balance of payments (BOP) deficit. The BOP deficit requires increased external credit whose repayment raises the state's expenditure on debt servicing. This creates or multiplies the usual domestic budget deficit.

The SA package offered to developing economies by the IMF, and adhered to by other multilateral donors like the World Bank and the Asian Development Bank, consists of a series of conditional credits. The conditionality is meant to affect both demand side management and supply side rigidities. Demand management requires fiscal expenditure cuts. Supply responses to the BOP deficit require liberalization of state intervention in foreign trade and domestic production. There are numerous implications of this SA policy for growth, and questions about its efficacy. This study however concentrates on the implications of SA policy for the distribution of this growth, especially for the poor.

On the demand management side, fiscal expenditure cuts are usually hard on the social sectors decreasing public access to services and utilities. Cuts also reduce employment and income.

On the supply side, boosting exports requires some effective devaluation via exchange rate reform, easing restrictions on critically needed imports, and increasing producer incentives. Decreased protection can shut down industries reducing employment and income. Increased producer prices for agricultural output, especially for wage goods, can increase poverty for the non agricultural sector.

This study attempts to determine the impact of such typical SA policy measures on poverty in Pakistan. However the following theoretical section shows that there is an ever present structural change whose impact on poverty must also be allowed for. So the study examines the impact of SA and structural adjustment on poverty.

B. THEORETICAL FRAMEWORK OF THE STUDY

To establish the impact of SA on poverty there is a need to depart from the methodology of the main debate. The usual debate on the relationship between SA and poverty is guided by the need to establish causality between the two. Causality requires the positing of an argument and testing it against a counterfactual argument. The debate then turns on the provision of counterfactuals.²

² See cf. L. Squire, "Poverty and adjustment in the 1980s", *The World Bank Economic Review*, vol. 5, No. 2 (1991).

The causality school argues that the coexistence of SA policies and an increase in poverty are sufficient to establish a relationship between the two. Milanovic shows that in Poland and Yugoslavia under SA policy urban poverty emerged.³ Behrman and Deolalikar show that Jamaica under an intense period of SA did experience one significant deterioration from trend, in child nutrition.⁴ Squire surveys the high social costs of SA in sub-Saharan Africa and Latin America over the 80s.⁵

The counterfactual school argues that poverty could have been higher had SA policies not been followed. The exogenous shock for the domestic economy would have been greater and the recovery slower. Bourguignon posits a theoretical tradeoff for the planner.⁶ External shocks decrease income and so increase the marginal value of income for the poor. This increases the social value of income transfers to the poor. On the other hand, new investment is needed for SA to increase income. This increases the marginal value and social imperative of new investment. Bourguignon resolves the tradeoff by showing the impact of both policy alternatives using an optimization model. His results show that the net social benefits from income transfers to the poor are lower than the social benefits of investment because of efficiency losses.

There is no point here in arguing against a normative policy prescription that worsens poverty to keep the economy on the production frontier. The normative policy debate is in any case easily solved through some compromise between the consumption and investment tradeoff. There is however a greater problem with the methodology used by both schools of thought.

To establish strict causality between SA and poverty, counterfactuals are needed. However there is a stage of analysis prior to posing counterfactual arguments. And that is the reposing of the initial argument. There is no a priori reason to assume a simple positive relationship between SA and poverty. On the contrary, there are two sets of factors that complicate the relationship between SA and poverty.

³ B. Milanovic, "Poverty in Eastern Europe in the years of the crisis 1978-1987: Poland, Hungary and Yugoslavia", *The World Bank Economic Review*, vol. 5, No. 2 (1991).

⁴ J.R. Behrman and A.B. Deolalikar, "The poor and the social sector during a period of macroeconomic adjustment: empirical evidence from Jamaica", *The World Bank Economic Review*, vol. 5, No. 2 (1991).

⁵ L. Squire, *op. cit.*

⁶ F. Bourguignon, "Optimal poverty reduction, adjustment and growth", *The World Bank Economic Review*, vol. 5, No. 2 (1991).

- (i) Assume that SA policies will tend to have a particular impact on the growth and distribution of an economy. This however will only be one particular dynamic with one particular impact. At any given time there will be another set of internal dynamics with another set of impacts. This means that there can be several possible outcomes, according to whether the impact of the SA dynamic is wholly or partially countered or reinforced by the impact of other internal dynamics. This internal dynamic can be categorized as structural change. Then the relationship that needs to be established is between SA and structural change on the one hand and poverty on the other.
- (ii) The notion of poverty cannot be a simple one. The convenient and popular notion of poverty is one of a population below a designated income and expenditure line. The major inadequacy of this notion is that it does not capture access to goods and services that do not enter the income and expenditure stream. Typically these are public goods and services provided by the state, and common goods provided by the environment. The poor depend on these goods the most.

The impact of SA policy through expenditure cuts will be felt more immediately on the provision of public goods and services and the maintenance of common goods. The impact of SA policy on employment and income will be lagged, and may be countered or reinforced by internal dynamics. In the long run the shortage of public goods and services and common goods will also have an adverse impact on employment, productivity, and income, again with a lag. So there is a need to establish a relationship between different notions of poverty, poverty of income, poverty of public goods, poverty of common goods.

Therefore the relationship between SA and poverty is complicated by the coexistence between SA and the impact of other internal dynamics. And it is complicated by the variation of the SA impact on different notions of poverty. So there is a need to establish a relationship between SA and structural change on the one hand and different notions of poverty on the other.

C. THE EMPIRICAL FRAMEWORK OF THE STUDY

The theoretical framework requires an examination of the impact of the SA dynamic and the internal dynamic of the economy on poverty. It also requires an examination of the SA and structural change impact on different notions of poverty.

Accordingly, chapter II carries out a macro analysis of growth in the Pakistani economy over the two decades of the 1970s and the 1980s. It establishes

two things. One, that the economic regime for most of the 1970s followed Keynesian populist policies. While the subsequent regime followed SA policies from the late 1970s to the mid-1980s and then in the late 1980s. The apparently contrasting economic regimes are useful for comparing the impact on poverty. Two, the chapter also establishes however that the Keynesian populist dynamic, and the later SA dynamic both coexisted with other internal dynamics. Notably migration to the gulf and remittances were high in both periods. And agrarian structural change created landlessness in the first period.

Chapters III and IV then examine change in the different notions of poverty over the 1970s and 1980s. Chapter III analyses trends in the poverty of income and expenditure over time. Chapter IV analyses trends in the poverty of public goods and services. The two notions of poverty show contrasting trends. Poverty of income decreases over the two decades though at different rates. Access to critical public goods and services like health and primary education however declines over the SA period. The coexistence of different dynamics, SA and internal, are used to explain the differential in poverty trends.

So the study establishes a complex relationship between SA structural change and poverty. SA is seen to be immediately harmful to public goods and services in Pakistan. This prompts the question in the fifth chapter on policy, as to why the state is perverse in its behaviour towards provision of public goods and services. The chapter briefly explores three elements of an answer to this question. The state is arguably pursuing an agenda of comprehensive privatization of social sectors. It counters no opposition because of institutional failure in civil society. And the state is using the role of NGOs as a source of public goods rather than as a delivery system.

II. STRUCTURAL ADJUSTMENT AND STRUCTURAL CHANGE IN PAKISTAN

The decades of the 1970s and the 1980s provide a very good time frame to observe the impact of SA and structural change on poverty in Pakistan. They provide two contrasting economic regimes. The Keynesian populist regime of Bhutto spans the years 1970/71 to 1977/78. The macro policies of this regime broke with the past policies of inegalitarian growth and distribution. So they can be considered to be relatively favorable towards social development and poverty alleviation.

The successor economic regimes of General Zia, from 1978/79 to 1988/89, Benazir 1989/90, and Nawaz Sharif 1990/91, can be categorized as one regime. They revoked the populist policies of the Bhutto regime. And they followed SA

policies, economy wide from 1979/80 to 1983/84 and 1988/89 onwards, and sectoral conditionality in the intervening years.

So the impact of the populist and SA regimes on poverty can be contrasted. This chapter sets out the policy and growth characteristics of the two economic regimes so that their impact on poverty can be compared in the following chapters. The analysis of growth also establishes that the SA dynamic coexisted with the internal dynamic of the economy. Principally migration, remittances, the emergence of the informal sector, and agrarian sector landlessness were major features of the two decades.

A. THE POPULIST ECONOMIC REGIME

Pakistan's growth and distribution policies since independence in 1947, and particularly over the decade of the 1960s, have been strongly inegalitarian. Growth over this period has been relatively high with GNP per capita growing at 3.7 per cent as table 1 shows. This growth was based partly on the agricultural sector which table 2 shows grew at 4.9 per cent. But it was largely based on manufacturing which grew at 9.4 per cent to become a significant sector by the

Table 1. GNP growth rates

	GNP (Rs million)	Per capita GNP (Rs)	Growth rates		Population growth (per cent)	
			GNP (per cent)	Per capita GNP (per cent)	Population (million)	Population (per cent)
Old method (1959/60 FC)						
1959/60	16 803	373.2			45.03	
1964/65	23 299	450.1	6.5	3.7	51.76	2.8
1969/70	32 339	542.0			59.70	
1974/75	40 188	574.0			69.98	
1976/77	43 696	588.0	5.0	1.9	74.33	3.1
1977/78	48 354	631.0			76.60	
1979/80	54 888	675.0			81.36	
1984/85	75 586	798.0	6.1	3.0	94.73	3.0
1987/88	88 887	856.0			103.82	
New method (1980/81 FC)						
1987/88	402 516	3 877			103.82	
1990/91	458 845	4 033	4.4	1.3	114	3.1

Source: *Economic Surveys of Pakistan.*

**Table 2. Sectoral growth rates
(Rs million)**

	Agriculture	Manufacturing			Construction	Transport	Trade	Administration defence	Services	Remittances
		All	Large	Small						
(a) Gross domestic product at factor cost										
Old method										
1959/60	7 711	2 018	1 159	859	427	952	2 105	1 048	1 411	-23
1969/70	12 574	5 187	4 043	1 144	1 357	2 026	4 457	2 080	2 169	2
1977/78	14 399	7 392	5 362	2 030	2 248	3 029	6 454	4 657	3 319	2 657
1987/88	21 124	17 201	12 654	4 547	4 820	6 322	12 836	8 715	6 137	2 721
New method										
1987/88	99 108	67 622	50 043	17 579	16 563	39 293	63 932	27 666	28 212	17 100
1990/91	114 360	78 576	56 184	22 392	18 278	43 678	73 609	31 271	34 108	12 622
(b) Annual growth rate										
(Per cent)										
1959/60-1969/70	4.9	9.4	12.5	2.9	11.6	7.6	7.5	6.9	4.3	-
1969/70-1977/78	1.7	4.4	3.5	7.2	6.3	5.0	4.6	10.1	5.3	89.9
1977/78-1987/88	3.8	8.4	8.6	8.1	7.6	7.4	6.9	6.3	6.1	0.2
1987/88-1990/91	4.8	5.0	3.9	8.1	3.3	3.5	4.7	4.1	6.3	-10.1

Source: *Economic Surveys of Pakistan.*

end of the decade, accounting for 16 per cent of the GDP and 16 per cent of the labour force, (tables 3 and 4). This growth however was very concentrated, with 40 families coming to own 60 per cent of the industrial assets and 80 per cent of banking and insurance.⁷ Whereas real wage rates, urban and rural had remained constant over the decade.

Violent reaction to the policies of the 1960s brought in the Bhutto regime. This economic regime can be characterized as a Keynesian populist. (a) It was populist in changing the structure of the economy from a private concentrated economy to a mixed economy. (b) It was Keynesian in its policy of vastly increasing state expenditure, for the growing public sector, for employment, and for some social sector development. (c) There was also an unplanned internal dynamic over this period of rural outmigration, remittance income from the Gulf, the emergence of the informal manufacturing sector, and agrarian sector landlessness.

- (a) The Bhutto regime transformed the private and concentrated structure of the economy into a mixed economy through two steps, nationalization of some manufacturing assets, and land reforms.

Approximately 30 per cent of manufacturing assets were nationalized, primarily light engineering and sick units. All of banking and insurance was nationalized. The major growth subsector of textiles was not touched. A new subsector of long gestation capital goods was begun within the public sector, with a steel mill and heavy metal fabrication units.

In agriculture land reforms halved ownership ceilings to 300 unirrigated acres and 200 irrigated acres. However only 2 per cent of the total area was redistributed.

The impact of these asset redistribution policies on growth was disastrous. Table 1 shows that real GNP per capita grew at 1.9 per cent over this period. Table 2 shows that agriculture pulled GNP down. However private industrial capital now fought shy and grew only 1 per cent above the massive population growth rate of 3.1 per cent. As a result, the share of manufacturing in GDP stayed constant over the period (table 3), and the share of manufacturing in employment decreased marginally (table 4).

- (b) The Bhutto regime multiplied state expenditure for public sector investment, employment, consumption and production subsidies, and social services.

⁷ R. Armjad, *Private Investment and Industrial Concentration in Pakistan* (Cambridge University Press, 1981).

**Table 3. Sectoral composition of GDP
(Percentage)**

	<i>Agriculture, forest, mining</i>	<i>Manufacturing</i>			<i>Con- struction</i>	<i>Transport</i>	<i>Trade</i>	<i>Admini- stration defence</i>	<i>Services</i>	<i>Other</i>	<i>Total</i>
		<i>All</i>	<i>Large</i>	<i>Small</i>							
Old method (1959/60 FC)											
1949/50	53.4	7.8	2.2	5.5	1.4	5.0	11.9	7.0	7.7	5.8	100
1959/60	46.1	11.7	6.7	5.0	2.7	6.3	12.5	6.2	8.4	6.4	100
1964/65	40.2	15.0	10.8	4.2	4.4	6.8	13.6	6.3	7.4	6.3	100
1965/66	37.6	15.2	11.1	4.1	4.3	6.7	13.7	9.1	7.2	6.2	100
1969/70	39.4	16.0	12.5	3.5	4.2	6.3	13.8	6.4	6.7	7.2	100
1974/75	33.2	16.3	12.2	4.1	4.4	6.5	14.5	9.9	7.0	8.2	100
1976/77	33.5	15.8	11.4	4.4	4.9	6.2	13.9	9.8	7.2	8.7	100
1979/80	31.1	17.0	12.4	4.6	5.1	6.8	14.3	10.1	7.2	8.5	100
1984/85	26.4	19.2	14.2	3.0	5.3	7.2	14.7	10.2	7.0	9.9	100
1987/88	25.2	20.0	14.7	5.3	5.6	7.3	14.9	10.1	7.1	9.8	100
New method (1980/81 FC)											
1990/91	26.2	17.6	12.6	5.0	4.1	9.8	16.5	7.0	7.6	11.2	100
1989/90	26.3	17.6	12.7	6.9	4.1	9.5	16.5	7.3	7.6	11.1	100

Source: *Economic Surveys of Pakistan.*

**Table 4. Sectoral composition of employment
(Percentage)**

<i>Proportion of employed persons of 10 years age and above</i>								
	<i>Agrical- ture</i>	<i>Manu- facturing</i>	<i>Con- struction</i>	<i>Trans- port</i>	<i>Trade</i>	<i>Services</i>	<i>Others</i>	<i>Total</i>
1963/64	60.5	13.6	1.4	2.0	7.6	n.a.	14.5	100
1969/70	57.0	15.6	3.9	4.7	9.9	8.2	0.2	100
1974/75	54.8	13.8	4.2	4.9	11.1	10.5	0.3	100
1977/78	53.2	14.4	4.7	4.8	11.1	n.a.	11.2	100
1978/79	52.7	14.6	4.9	4.7	11.1	11.0	0.3	100
1979/80	52.7	14.4	4.9	4.7	11.3	11.0	0.3	100
1980/81	52.7	14.1	4.9	4.7	11.5	11.0	0.3	100
1981/82	52.7	13.8	4.8	4.6	11.7	11.0	0.3	100
1982/83	52.7	13.5	4.8	4.6	11.9	11.0	0.3	100
1983/84	51.6	13.7	5.2	4.9	11.7	11.0	0.9	100
1984/85	50.6	13.8	5.6	5.2	11.5	12.0	0.6	100
1985/86	54.0	13.4	5.2	4.4	11.4	11.0	0.1	100
1986/87	49.2	14.2	6.0	5.3	12.1	12.0	0.5	100
1987/88	51.2	12.8	6.4	4.9	11.9	12.1	0.1	100

Source: Labour Force Surveys of Pakistan.

Table 5 shows that the Bhutto regime inherited a balanced budget and plunged it irrevocably into Keynesian deficits. By the end of the regime, expenditure had multiplied to drive the deficit to 9 per cent of the GDP. The budget deficit was financed primarily externally and through bank credit.

The increased expenditure was partly for development. Table 6 shows that the regime inherited a negligible development share in total expenditure, and raised it to 38 per cent. The increase in current expenditure went to subsidies, social services and debt servicing. Table 6 shows that the regime began a new experiment of state subsidies, and increased them to 8 per cent of expenditure. The regime also inherited a negligible share of social services in total expenditure, and raised it to 5 per cent. Debt servicing also crept up with the deficit to 8 per cent.

State subsidies were engineered by the regime as a major instrument for growth and welfare. Table 7 shows that production subsidies had a two-thirds share. Of this, the agricultural input subsidies were the highest, for fertilizer, pesticides, and marginally tubewells. Outside agriculture petroleum had the major share of production subsidies. This was critical for cushioning the oil shock on production costs and consumption.

**Table 5. Budget deficits
(Rs million)**

	Revenue	Expenditure		Deficit/ surplus	Of which financing domestic			Ratio of deficit to GDP (per cent)
		Total	Develop- ment		External	Non- Bank	Bank	
1959/60	1 978	1 847	15	131	-	-	-	
1969/70	6 665	5 109	4	1 556	-	-	-	
1971/72	6 926	7 165	117	-239	-	-	-	0.5
1975/76	19 264	32 329	13 404	-12 480	6 769	1 810	3 901	9.5
1976/77	21 910	35 171	15 958	-12 838	5 860	969	6 009	8.6
1977/78	26 482	40 898	15 353	-13 893	6 129	2 817	4 947	8.0
1978/79	30 704	48 994	18 494	-17 315	6 711	2 108	8 502	8.9
1979/80	38 502	54 629	19 082	-14 663	6 951	1 407	6 305	6.3
1980/81	47 002	63 639	23 321	-14 618	6 977	5 286	2 355	5.3
1981/82	51 937	71 013	24 643	-17 174	5 345	6 313	5 516	5.3
1982/83	59 181	87 121	27 435	-25 654	5 162	14 368	6 124	7.1
1983/84	72 290	100 002	26 591	-25 147	5 001	12 280	7 866	6.0
1984/85	77 403	116 819	33 050	-36 777	5 169	12 873	18 735	7.8
1985/86	89 877	134 463	39 777	-41 644	8 584	26 962	6 098	8.1
1986/87	103 873	152 402	36 160	-46 710	8 424	27 371	10 915	8.2
1987/88	117 021	180 373	46 728	-57 563	12 691	30 931	13 941	8.5
1988/89	139 108	201 176	48 110	-56 879	18 195	37 865	819	7.4
1989/90	154 267	218 733	55 000	-58 917	24 592	30 791	3 534	6.7
1990/91	179 389	246 506	63 000	-58 050	21 149	29 541	7 360	5.9

Source: *Labour Force Surveys of Pakistan.*

The consumption subsidies were for wheat and sugar. The state procured wheat at fixed prices, sold it at fair price shops, subsidizing the consumers and the flour mills. Sugar prices were similarly controlled, sugar rationed, and consumers subsidised.

With the high expenditures, budget deficits, and state borrowing, inflation increased considerably as the GDP deflator shows in table 8. Cotton based exports were sluggish while imports for the public sector soared. So the BOP deficit doubled to reach \$US 1 billion, and the State Banks' foreign exchange reserves dropped to \$US 0.4 billion, as table 9 shows.

- (c) Over this period there was also an unplanned internal dynamic of rural outmigration, remittances from the Gulf, growth of the informal sector in manufacturing, and agrarian sector landlessness. Some of this dynamic supported the Keynesian populist policies of the Bhutto regime, while some of the dynamic worked against it.

The Labour Force Surveys show that rural outmigration was significant. Domestic rural urban migration alone was 1.3 per cent.⁸ Added to migration to

⁸ Government of Pakistan, *Labour Force Surveys*, various issues.

Table 6. Government expenditure

	Total expenditure	Development expenditure	Total	Defence	Interest	Subsidies	General administration	Social services	Other
1971/72	100	1.6	98.4	52.0	20.7 ^{a/}	0	9.4	n.a.	16.3
1975/76	100	38.3	61.8	25.1	7.6	9.2	4.5	1.3	14.1
1976/77	100	42.8	57.3	23.1	7.9	6.9	4.5	1.6	13.3
1977/78	100	37.5	62.5	23.7	8.2	8.0	5.7	5.2	25.5
1978/79	100	37.7	62.3	21.0	8.1	12.3	5.4	2.0	12.0
1979/80	100	34.9	65.1	23.2	8.8	12.9	5.5	2.2	11.8
1980/81	100	37.3	62.7	24.5	9.4	8.6	4.6	2.6	14.4
1981/82	100	34.7	65.3	26.2	10.7	3.5	4.8	3.7	16.4
1982/83	100	33.7	66.3	26.7	12.6	3.2	4.7	2.4	16.6
1983/84	100	28.0	72.0	26.8	14.1	4.7	6.1	2.8	17.6
1984/85	100	28.3	71.7	27.3	14.1	4.6	5.6	9.0	11.1
1985/86	100	29.6	70.4	26.5	14.7	4.2	5.5	9.2	10.3
1986/87	100	23.7	76.3	27.1	15.7	3.8	6.8	10.1	12.8
1987/88	100	25.9	74.1	26.1	18.4	4.4	4.7	9.6	10.9
1988/89	100	23.9	76.1	25.4	18.9	6.6	5.1	9.6	10.5
1989/90	100	25.1	74.9	26.5	20.7	5.1	4.7	9.0	8.9
1990/91	100	25.6	74.4	25.7	22.3	3.6	4.8	8.1	9.9

Source: *Economic Surveys of Pakistan*.

^{a/} Debt servicing.

Table 7. Government subsidies

	Total (Rs million)	Consumption subsidies (percentage of total)				Production subsidies (percentage of total)							Total
		Wheat	Sugar	Edible oil	Fertilizer	TW	Pest	Exports	KESC	Petroleum	Steel mill	Other	
1972/73	0												
1973/74	2 243	-	n.a.		n.a.								
1974/75	2 819	-	n.a.		n.a.								
1975/76	2 981	39.7	-	-	20.4	0.8	12.8	-	-	8.3	-	18.0	100
1976/77	2 428	45.0	0.2	-	15.7	2.0	20.0	-	-	0.2	-	16.9	100
1977/78	3 290	49.9	0.6	-	18.8	0.6	15.9	-	-	12.2	-	2.8	100
1978/79	6 030	41.7	0.2	9.6	28.1	0.4	4.4	8.3	-	7.0	-	0.3	100
1979/80	6 544	25.0	0.3	12.5	34.9	0.3	3.1	7.8	-	6.8	-	8.9	100
1980/81	5 378	19.6	1.5	10.8	45.7	0.4	-	13.1	-	8.4	-	0.5	100
1981/82	4 333	30.1	-	-	41.4	0.6	-	26.6	-	-	-	1.3	100
1982/83	4 779	23.5	0.8	-	40.8	0.5	-	28.9	-	-	-	5.5	100
1983/84	6 134	20.7	0.2	24.2	23.9	-	-	27.6	-	-	-	3.4	100
1984/85	6 861	8.7		21.6	21.8	-	-	24.7	-	-	-	13.2	100
1985/86	8 130	47.0		-	29.6	0.2	-	22.5	-	-	0.6	0.1	100
1986/87	6 933	40.2		-	16.2	-	-	22.2	-	-	20.3	1.1	100
1987/88	10 130	38.7		-	21.4	0.1	-	19.2	1.1	-	12.0	7.5	100
1988/89	15 700	46.4		18.1	15.4	-	-	-	3.0	-	15.5	1.6	100
1989/90	12 315	61.0		9.5	10.4	-	-	-	7.3	-	10.1	1.7	100
1990/91	10 183	37.0		13.2	12.3	-	-	2.9	9.7	-	12.4	12.5	100

Sources: *Annual Budgets of Pakistan*; and *Economic Surveys of Pakistan*.

Table 8. Prices

<i>Domestic electricity rates (Rs/KW hour)</i>			
	<i>Minimum</i>		<i>Maximum</i>
1979	0.31		0.35
1980	0.34		0.70
1985	0.37		0.77
1987	0.39		0.89
1988	0.49		0.99
1989	0.51		1.24
1990	0.54		1.34
1979-1990 annual growth rate	5 per cent		12 per cent

<i>GDP deflator 1959/60 = 100</i>			
		<i>Annual change (per cent)</i>	
1959/60	100		
1969/70	133		2.9
1969/70	133		
1977/78	353		9.8
1980/81	456		
1990/91	912		9.5

<i>Diesel price (Rs/litre)</i>		<i>Diesel price (Rs/litre)</i>	
1959/60	0.2	1977/78	0.9
1969/70	0.3	1990/91	4.0

Source: Economic Surveys of Pakistan.

the Gulf, this created some peak and bottleneck labour shortages despite the high population growth rate of 3.1 per cent. These pressures contributed to real wage increases over the period of about 60 per cent in manufacturing, and 40 per cent in agriculture, as table 10 shows.

Migration to the Gulf sent back remittances to add to domestic income. Table 9 shows that official remittances rose to \$US 0.5 billion annually over this period. Remittances sent through quicker and preferred unofficial channels are estimated to be at least equal to official levels.⁹

⁹ A. Khan, "Rural migration and the moral economy of the Barani peasantry", *Pakistan Development Review* (1991), forthcoming.

**Table 9. Current account balance
(SUS million)**

	<i>Net current account balance</i>	<i>Remittances</i>	<i>SBP reserves</i>	<i>Merchandise</i>	
				<i>Exports</i>	<i>Imports</i>
1969/70	-469	101	299	829	1 399
1970/71	-663	64	287		
1971/72	-443	93	199		
1972/73	-131	145	285		
1973/74	-549	150	463		
1974/75	-1 168	212	403	978	2 114
1975/76	-948	334	486		
1976/77	-1 051	578	614		
1977/78	-605	1 156	431	1 283	2 751
1978/79	-1 114	1 397	1 010		
1979/80	-1 140	1 748	904	2 341	4 857
1980/81	-1 037	2 095	2 019		
1981/82	-1 534	2 225	1 866		
1982/83	-517	2 886	1 460		
1983/84	-997	2 737	2 758	2 457	6 009
1984/85	-1 680	2 446	2 489		
1985/86	-1 236	2 595	1 190		
1986/87	-719	2 279	1 638		
1987/88	-1 682	2 013	1 784	4 362	6 919
1988/89	-1 934	1 897	1 326		
1989/90	-1 891	1 942	1 227		
1990/91	-1 057	1 021	1 402	2 663	3 923

Source: Economic Surveys of Pakistan.

Table 10. Trends in real wages

	<i>Large manufacturing</i>	<i>Urban construction</i>			<i>Agriculture</i>
		<i>Unskilled</i>	<i>Carpenters</i>	<i>Masons</i>	
1970	100	100	100	100	100
1976	122	129	110	105	121
1979	157	160	143	129	138
1980	-	154	152	145	145
1981	165	149	142	141	191
1984	191	129	126	126	-
1987	-	149	132	132	224

Source: World Bank, Pakistan: Employment Issues and Prospects, April 1989.

Note: Real wages use the consumer price index as deflator.

Because large scale manufacturing registered low growth over this period, some labour supply led pressure, and some demand for output, created a significant informal sector. The growth of this informal sector is very visible in the growth of the small scale manufacturing sector at 7.2 per cent in table 2. It's growth is also visible in the services sector at 5.3 per cent. Growth of these sectors reinforced the Keynesian employment and income policies of the regime.

One dynamic militated against the Keynesian populist trend of the period - agrarian landlessness. The Green Revolution of the late 1960s, based on High Yielding Variety (HYV) seeds and fertilizer, increased profitability per acre. This created a powerful incentive for landlords to evict their share tenants and increase their own profitability. The profitability incentive combined with landlords' fear of land to the tiller reforms generated in the populist regime, to evict share tenants. The eviction of share tenants was so high that it polarized the distribution of operated area over the 1970s.¹⁰ This eviction has created a large landless labour force growing at the rate of 4.1 per cent per annum over the period, as table 11 shows. This landlessness tends to depress wage rates and income. So it works against the Keynesian populist policies and the other unplanned dynamics of rural outmigration.

Table 11. Agricultural labour force

		1972	1980	Total increase (per cent)	Growth rate per annum (per cent)
Rural ^{a/}	(No.)	47 368	58 641	23.8	2.7
Farm ^{b/}	(No.)	26 446	29 751	12.5	1.5
Non-farm	(No.)	20 917	28 890	38.1	4.0
Non-farm live- stock holder	(No.)	9 459	12 768	35.0	3.7
Non-farm non- livestock holders	(No.)	11 458	16 123	40.7	4.3
> 10 years	(per cent)	65.2	64.3		
> 10 years	(No.)	7 471	10 367	38.8	4.1
> 10 years-males	(per cent)	52.8	52.7		
> 10 years-males	(No.)	3 945	5 463	38.5	4.1
Permanently hired labourers	(No.)	470	359	-23.6	-3.4

^{a/} Population Census of 1972, 1980/81. ^{b/} Agricultural Census of 1972, 1980/81.

¹⁰ M. Mahmood, "The change in land distribution in the Punjab - empirical application of an exogenous-endogenous model for agrarian sector analysis", *The Pakistan Development Review*, vol. 29, Nos. 3 and 4 (Autumn-Winter 1990), pp. 249-289.

B. THE STRUCTURAL ADJUSTMENT REGIMES

The Keynesian populist regime left somewhat of a growth crisis, and a huge fiscal crisis. Growth had been low because of the transformation from a private to a mixed economy, and public investment in long gestation projects. However, growth had also been low because private capital no longer felt secure in expanding its manufacturing base.

The fiscal crisis was based on the twin deficits. The BOP deficit was high, and foreign exchange reserves low. The budget deficit was high. Subsidies and debt services were spiralling. With low growth and high deficits, there was double digit inflation.

The Zia regime overthrowing the Bhutto regime in late 1977, confronted the crisis for the 1978/79 budget, and called in the IMF. Since then, IMF SA conditionality in return for loans has been present in some form, through the Zia regime to 1988, Benazir's regime for 1989/90, and the succeeding Nawaz Sharif regime. These regimes also share a reaction to the populism of the Bhutto regime.

Pakistan and the IMF signed a Trust Fund Loan for 1979/80. In the following year Pakistan negotiated a 3 year Extended Fund Facility (EFF) for 1980/81 to 1982/83.

In 1983/84 the IMF offered another Structural Adjustment Loan (SAL) which Pakistan refused because its foreign exchange reserves had recovered to over \$US 2 billion. Pakistan wanted to avoid the IMF imposed conditionality on the total size of its budget. As an alternative, Pakistan negotiated a series of sectoral loans with the World Bank (WB). These loans were for the agricultural, industrial, energy, and financial sectors. Each loan was conditional upon its sector's reforms, with no cross conditionality across sectors. Of course, aggregating across the sectoral loans, aggregate conditionality on the budget came in anyway.

Finally, the outgoing Zia regime signed another agreement with the IMF for 1988/89 onwards. WB and the Asian Development Bank (ADB) loans were also secured against the IMF conditionality. The succeeding regimes of Benazir and Nawaz Sharif ratified the IMF agreement. Pakistan is now expecting the IMF to release the 3rd tranche of its EFF, subject to satisfaction of the current stage of conditionality.

The SA regimes can be examined in terms of (a) the conditionality imposed on them, (b) the impact of the conditionality on the state's macro policy, and (c) the continuation of other internal dynamics.

1. Conditionality

IMF conditionality for Pakistan divides into measures for (i) Demand management, and (ii) Supply response.¹¹

(a) Demand management

Demand management measures are used primarily for reduction of the budget deficit. Deficit reduction requires reduction in total expenditure whether current or development.

In current expenditure, subsidies are to be wound down, especially consumption subsidies. This requires allowing the prices of key wage goods like flour and sugar to rise. Since consumption and production subsidies keep water and energy prices low, removal of subsidies requires increasing user charges for these utilities. So the prices of water, gas, electricity, and petroleum have to be increased. Removal of production subsidies in addition requires increasing the prices of key inputs like fertilizer, water, and cement.

Removal of production subsidies also requires privatization of whole manufacturing units that are not profitable. This implies reduced employment and income. Public sector investment is to be steered away from capital intensive, long run gestation projects. This also requires that key energy corporations like the Water and Power Development Authority (WAPDA) finance a larger proportion of its own expansion. This adds to the pressure on user charges.

The other major cut in current expenditure, which is not mandatory but probable is in the soft social sectors. These sectors also comprise much of the development expenditure. Again, development expenditure cuts are not mandatory but probable. Unmet target cuts in the harder sectors like administration are traded off for over fulfilled target cuts in the social sectors. So education, health, housing, potable water, sanitation, roads, electrification, gas, and the communal environment suffer. Access is reduced through cuts in both current expenditure which degrades existing facilities, and development expenditure which reduces expansion.

In addition to cuts in expenditure, reduction in budget deficits also require increases in revenue. However, increase in taxes, especially direct income taxes, for instance on agriculture, threaten the ruling regimes. So only indirect taxes are

¹¹ This section on conditionality is based on: F.B. Feroze, *The Origins of Inflation in Pakistan 1959-1982*, Ph. D. dissertation University of Manchester, 1986; and IMF Middle Eastern Department, *Pakistan: Recent Economic Developments*, 1988.

relied upon, which raise the cost of living. In spite of this, the rigidity of the revenue system puts more pressure on expenditure cuts.

(b) Supply response

Supply response measures are used primarily to reduce the BOP deficit, (which in turn affects the budget deficit through reduction of debt servicing expenditure). They are designed to reduce rigidities in supply especially of exports.

The favourite measure for export promotion is devaluation, making exports more competitive. This takes the form of allowing the exchange rate mechanism to work more freely. Of course, devaluation also raises the value of imports and the foreign debt.

Since exports require some imports, export promotion requires import liberalization. Import liberalization and reduction in tariff protection is also needed to increase domestic production efficiency. This increase in competition can however also reduce domestic production, employment and income. And import liberalization increases the import bill.

An increase in domestic production efficiency also involves privatization of the public sector. The state is an inefficient producer and merely ends up subsidizing this inefficiency. By privatizing the public sector, the state can gear up supply, decrease its expenditure, and earn some money.

Export promotion and a general increase in supply response require an increase in producers incentives. This requires an increase in agricultural output prices to equal border prices. This will however decrease the purchasing power of non-agricultural producers, and increase the input costs of the agro-processing industry.

An increase in supply response needs an increase in private investment. This requires that private capital increase its access to credit. Since state bank borrowing has crowded out private borrowing, the state should switch to non-bank borrowing financial instruments.

Higher investment also requires higher savings which have been stagnant. A greater incentive to save requires raising the rate of interest. However, higher interest rates can especially drive out domestic production, and reduce employment and income.

2. The impact of conditionality on macro policy

Growth under the SA regimes has been higher than under the Keynesian populist regime. Table 1 shows that annual growth in GNP per capita rose from 2 per cent to 3 per cent. Agricultural growth rates shot up to 4 per cent and manufacturing growth rates to 8 per cent (table 2). Feroze, however, attributes this pick up in growth not to the SA policies but better weather improving cotton based agriculture and industry.¹² Clearly however, the lapse of populism encouraged private capital to expand the large scale manufacturing sector from 12 per cent to 15 per cent of GDP (table 3). Though much of this expansion was capital intensive so that the share of employment in manufacturing remained constant at 14 per cent (table 4).

Reduction of the budget deficit has proved difficult. Table 5 shows that during the EFF1 years of 1979/80 to 1982/83, the deficit dropped from 9 per cent of GDP to 5 per cent. But in post EFF1 it crept back up to 8.5 per cent by 1987/88. EFF2 from 1988/89 onwards is attempting to bring it down to 6 per cent.

Decrease in the deficit has been through a decrease in expenditure, because revenues have kept their share in GNP. The major source of decrease in expenditure has been development expenditure. Table 6 shows that the share of development in total expenditure peaked by 1980/81 at 37 per cent. After this it has continuously declined to its present level of 25 per cent.

The second source of decrease in expenditure has been in current expenditure, in subsidies. Table 6 shows that share of subsidies peaked at 13 per cent in 1979/80. Under EFF1 they dropped down to 3 per cent. During post EFF1 they had crept up to 6 per cent till EFF2 has brought them down again.

The third source of decrease in expenditure has been social services. These peaked under the populist regime at 5 per cent. Over EFF1 they dropped down to 2 per cent. In 1984/85 however WB sectoral conditionality itself directed investment into social services. They jumped up to 9 per cent under the Junejo regime, and remained constant.

Therefore, social sector allocations have suffered the most under SA, particularly under EFF1 when even maintenance of existing facilities declined. Conversely, the share of defense in total expenditure has risen under EFF1 from 21 per cent to 27 per cent as table 6 shows. And it has remained there subsequently. Nor has administration taken a cut, revolving around 5 per cent

¹² F.B. Feroze, *op. cit.*

throughout SA. And with the mounting debt, the share of debt servicing in the total budget has increased throughout the SA regimes.

The decrease in consumption subsidies and energy subsidies shown in table 7 will also tend to decrease purchasing power, unless countered by other factors. Wheat and sugar rationing has been removed. As table 8 shows there have been regular increases in electricity and petroleum prices. Gas prices have increased by 20 to 40 per cent. In fact some major increases in utility prices have come in the latest period of EFF2, during 1989/90, whose impact cannot yet be observed. In any case, the overall GDP deflator has grown at 10 per cent through the SA regimes.

Finally the BOP deficit, like the budget deficit has proved difficult to control. Under EFF1 the deficit dropped from \$US 1 billion to \$US 0.5 billion as table 9 shows. However, in post EFF1 it crept up to near \$US 2 billion till EFF2. Foreign exchange reserves under EFF1 rose from \$US 1 billion to \$US 2.7 billion. But post EFF1 they have halved.

At the end of the 1980s, conditional loans from multilateral agencies and the IMF Trust Fund accounted for over a half of total annual loans (table 12).

**Table 12. Total foreign loans
(\$US million)**

	<i>Consortium</i>					<i>Total</i>
	<i>Bilateral</i>	<i>WB, IFC, ADB, IDA, IFAD multilateral</i>	<i>Non- consortium</i>	<i>Islamic countries</i>	<i>IMF trust fund</i>	
1959/60	49.0	24.7	—	—	—	73.7
1969/70	400.7	57.9	22.3	—	—	480.9
1976/77	466.1	237.6	13.5	210.2	—	927.4
1977/78	425.7	261.2	25.2	67.7	47.8	827.5
1979/80	496.4	453.1	6.5	289.7	157.4	1 403.0
1987/88	653.0	1 249.1	96.1	24.9	—	2 023.1
1988/89	1 126.5	1 425.4	6.5	8.0	146.5	2 712.9
1989/90	911.0	1 515.9	117.6	17.7	216.6	2 778.8
1990/91	442.1	599.9	75.6	59.2	—	1 176.8

Source: Economic Surveys of Pakistan.

3. Other internal dynamics

Some of the unplanned internal dynamic from the populist era continued into the 1980s. Rural outmigration, remittances, and growth of the informal sector worked with Keynesian populist policies to enhance welfare in the 1970s. Their continuation into the 1980s implies that here they worked counter to SA policies.

Table 10 shows that rural outmigration continued to raise agricultural wage rates in the 1980s, in fact at a higher rate than in the 1970s. Migration to the gulf also continued to raise wage rates in large scale manufacturing in the 1980s, though at a lower rate than in the 1970s.

Migration to the gulf continued to pour in remittances over the 1980s. Table 9 shows that these remittances doubled to peak at \$US 2.7 billion in 1983/84 before dropping to \$US 2 billion at the end of the decade.

The informal sector continued to expand in the 1980s. In fact this expansion was more broad-based than in the 1970s. The small scale manufacturing sector increased its share of GDP from 4 per cent to 5 per cent despite the expansion in the large scale manufacturing sector, as table 3 shows. Construction, transport, and trade all expanded their shares of GDP by about 1 per cent. And in keeping with this, they also expanded their shares in total employment by about 1 per cent as table 4 shows. The services sector became more labour intensive and increased only its share in total employment by 1 per cent.

Finally agrarian landlessness which worked against populism and welfare in the 1970s, probably decreased over the 1980s. By the 1980s landlords had probably adjusted their land, labour and capital ratios to the HYV profitability conditions. And with the lapsing of populism, the threat of land to the tiller reforms also receded. Both these factors have probably decreased the incentive to evict tenants, and actual evictions. The only evidence on this is indirect, but supports the decrease in evictions. Agricultural wage rates as seen have grown at a faster rate in the 1980s compared to the 1970s. So the decrease in this dynamic of landlessness also works counter to SA and in favour of welfare.

So the Keynesian populist regime of the 1970s and the subsequent SA regimes allow a good comparison of the impact of SA and structural change on poverty. SA macro policies are seen to have decreased social sector allocations, and had a negative impact upon real income and possibly upon employment. However, the SA dynamic has been countered by an internal dynamic of real wage increases, remittances, and informal sector employment expansion. The

following chapters assess the impact of the SA dynamic and the internal dynamic on poverty of income and poverty of public goods and services.

III. TRENDS IN POVERTY OF INCOME

A. POVERTY AND UNDERNOURISHMENT

One of the most critical aspects of poverty is the inability to afford adequate nourishment. For most developing countries, including Pakistan, low calorie intake is given the most emphasis in nutritional deprivation. The standard approach is then to regard a household as poor if its income is below a poverty line - poor because its income would not enable food expenditure sufficient to purchase required calories. Households above the poverty line do not necessarily meet other nonfood needs. The difficulty of specifying minimum levels of nonfood needs is, however, such that almost all poverty lines focus on food requirements.¹³

The obvious way of gauging trends in poverty is to look at changes in the proportion of poor population. As has been discussed earlier, for purposes of this paper the relevant comparison in poverty trends is between the 1970s and the 1980s. Unfortunately, data on poverty is available at discrete intervals, and also does not go beyond 1987/88. The exclusion of recent years probably conceals adverse poverty trends, since there was a substantial slow-down in economic growth in the late 1980s.

The next section briefly discusses the data base and poverty lines for Pakistan. Following that we present estimates of trends in poverty incidence, separately for rural and urban areas. A subsequent section discusses changes in economic growth and distribution that are plausible explanations of poverty trends.

B. DATA BASE

Virtually all poverty studies for Pakistan must rely upon the Household Income and Expenditure Surveys conducted by the Federal Bureau of Statistics. Household level data for 1984/85 has been used here to construct the base poverty line. We first estimated a relationship between household expenditure and calorie consumption. This function was used to derive the (typical) expenditure per adult corresponding to required calorie intake of 2,550 calories daily per adult

¹³ This is, of course, not to deny the difficulties in specifying even nutritional norms, given inter-personal and intra-personal variations. For a review of the debate see S. R. Osmani, "Controversies in nutrition and their implications for the economics of food", *Working Paper*, No. 16 (Helsinki, WIDER, 1987).

equivalent. Separate poverty lines were estimated for rural and urban Pakistan, each based upon the expenditure-calorie relationship in the respective location.¹⁴

At the nutritional norm the urban poverty line is substantially higher than the rural poverty line. This difference reflects not only higher prices but also "superior" consumption patterns in both food and nonfood items. A conservative urban poverty line could be based upon rural consumption patterns, adjusted for price differences. An approximation to this "standardized" poverty line may be taken as 80 per cent of the full (upper) urban poverty line.¹⁵

Surveys for years other than 1984/85 are available to us only in published form. These do not give information on household composition. We have therefore estimated poverty lines on a per capita basis, using the average ratio of adults to persons in each year (approximately 0.8). Poverty lines in current prices are estimated as follows. For 1979 and later years we have computed food prices in the published Household Surveys; for nonfood expenditure we use Consumer Price Indices. For 1969/70, data constraints suggested that we simply use the general Consumer Price Index.

The resulting poverty lines imply a rather low rate of inflation after the mid-1980s. A second set of poverty lines therefore appears advisable. An upward adjustment of ten per cent to the first (low) poverty line estimates for 1987/88 is therefore made to reflect probable higher inflation (table 13). This is a modest correction, which adds only about one percentage point to the annual rate of inflation over the entire decade. For example, change in the rural poverty line between 1979 and 1987/88 implies an annual inflation rate of 7 per cent. After adjustment to the poverty line for 1987/88, this implied inflation rate becomes about 8 per cent per year.

Consumption expenditure is taken here as the preferred proxy for "regular" or "permanent" income. The distribution of expenditure per capita is approximated from data on mean household expenditure and the distribution of household size.¹⁶ For 1969/70 the data permit only a crude approximation to the

¹⁴ For further details of the approach see Aly Ercelawn, *Absolute Poverty as Risk of Hunger* (Karachi, Applied Economics Research Center, University of Karachi, 1990). Poverty lines used in the present paper are different from those in the above study due to a number of other differences: per capita versus per adult, including versus excluding durable expenditure, and urban versus towns and cities separately.

¹⁵ This is based on the assumption that the urban-rural differential in food prices also holds for the differential in nonfood prices. The assumption is likely to give a downward bias to the standardized urban poverty line.

¹⁶ Some aggregation and grouping error is involved because mean household expenditure is given for groups ranked by household income rather than expenditure.

**Table 13. Poverty lines
(Rs/month)**

	<i>Expenditure per capita</i>		
	<i>Rural</i>	<i>Urban</i>	
		<i>Lower</i>	<i>Upper</i>
1969/70	32	42	52
1979	99	125	156
1984/85	154	197	246
1987/88: Low inflation	174	227	284
1987/88: High inflation	191	250	312

Notes: 1. High inflation poverty line reflects an upward adjustment to official inflation rate between 1984/85 and 1987/88.

2. The lower urban poverty line approximates the rural consumption standard.

3. Expenditure includes food and non-food consumption; the expenditure norm corresponds to a nutritional norm of 2050 calories daily per capita.

distribution; for later years available provincial disaggregation allowed a better approximation to the size distribution of expenditure per capita.

C. POVERTY TRENDS

1. Rural poverty

Our estimates suggest that rural poverty decreased substantially over the two decades - the proportion of poor persons was only half as much in 1987/88 as it was in 1969/70 (table 14). The pace of poverty reduction seems to differ between the two decades. For the 1980s we find a much faster decline in incidence as compared to the rate of reduction in the 1970s (table 15). This conclusion, however, needs to be qualified. The data base for 1969/70 is quite weak in comparison to other years - the sample size is much smaller, and the expenditure distribution is a much cruder approximation. As a consequence, poverty estimates for 1969/70 are extremely sensitive to the poverty line. It is therefore possible that our estimates of poverty reduction in the 1970s may be on the conservative side.¹⁷ Other studies are available for the 1970s, and these also

¹⁷ If the rural poverty line for 1969/70 is raised from Rs 32 to Rs 33, poverty incidence increases from 46 per cent to 53 per cent. The annual rate of reduction over the 1970s then goes from 2.5 per cent to 3.9 per cent, as compared to the annual reduction of 5.6 per cent in the 1980s.

**Table 14. Poverty incidence
(Percentage)**

	<i>Poor as a proportion of population</i>		
	<i>Rural</i>	<i>Urban</i>	
		<i>Lower</i>	<i>Upper</i>
1969/70	46	51	67
1979	36	34	57
1984/85	28	30	44
1987/88: Low inflation	16	21	40
1987/88: High inflation	23	29	48

Notes: 1. High inflation poverty line reflects an upward adjustment to official inflation rate between 1984/85 and 1987/88.

2. The lower urban poverty line approximates the rural consumption standard.

3. Poverty estimates are based on rural and urban data from Household Income and Expenditure Surveys as published, except for 1979 which has been reconstructed to correct for unweighted published data. Rural and urban expenditure distributions are pooled province-level distributions for all years except 1969/70.

show a much higher poverty reduction than our estimates for the same period.¹⁸ Hence rural poverty reduction in the 1980s may be only marginally more rapid than that in the earlier decade.

2. Urban poverty

Survey data also suggest a significant drop in urban poverty during the two decades. At the upper poverty line - corresponding to urban consumption patterns - urban incidence of poverty at the end of the 1980s was about one-third of that at the beginning of the 1970s (table 2). Using a lower poverty line - approximating rural consumption standards - the decrease in poverty was more rapid, with poverty being nearly halved over the two decades.

¹⁸ See M. Irfan and Rashid Amjad, "Poverty in rural Pakistan", in A. R. Khan and Eddy Lee, eds., *Poverty in Rural Asia* (Bangkok, ARTEP-ILO, 1983); Muhammad Hussain Malik, "Some new evidence of poverty in Pakistan", *Pakistan Development Review*, vol. 27, No. 4 (1988), pp. 509-515. Both report rural poverty declines of over 4 per cent per year in the 1970s.

**Table 15. Changes in poverty incidence
(Percentage)**

	<i>Annual rate of change</i>		
	<i>Rural</i>	<i>Urban</i>	
		<i>Lower</i>	<i>Upper</i>
Poverty line			
1969/70-1979	11.3	10.9	11.0
1979-1987/88: Low inflation	7.0	7.5	7.5
1979-1987/88: High inflation	8.2	8.7	8.7
Incidence			
1969/70-1979	-2.5	-4.1	-1.6
1979-1987/88: Low inflation	-10.1	-6.0	-4.4
1979-1987/88: High inflation	-5.6	-2.0	-2.1

Notes: 1. High inflation poverty line reflects an upward adjustment to official inflation rate between 1984/85 and 1987/88.

2. The lower urban poverty line approximates the rural consumption standard.

Comparing urban poverty reduction between the 1970s and 1980s, we find that urban poverty changes were complex (table 15). At first glance, poverty declined much more rapidly in the 1980s as compared to the 1970s. The picture changes when a (modest) upward adjustment is made to the rate of inflation in the 1980s. At the upper poverty line the 1980s continue to show a more rapid rate of reduction, but the difference between the decades is now slight. Using lower poverty lines results in a completely opposite picture: it is now the 1970s, rather than the 1980s, which appear as the more favourable decade for urban poverty reduction.

A conservative conclusion would be that the 1980s were somewhat better in reducing urban poverty. However, for the poorest in urban areas the situation was quite different. At best the Keynesian Bhutto regime and the SA regime had similar effects on poverty reduction.¹⁹ But it is quite probable that it was the decade of the 1970s which had more favourable effects on the poorest of urban households.

¹⁹ Malik, *op. cit.*, uses poverty lines which are close to our lower urban poverty lines. The study estimates incidence upto 1984/85. The results suggest that poverty reduction in the 1970s was the same as in the early 1980s.

Finally, we may draw attention to the very disturbing possibility of stagnation or even increase in urban poverty during the late 1980s (table 14). Comparing 1987/88 to 1984/85 at the more realistic (higher inflation) poverty lines, incidence was same for the lower poverty line, and higher in 1987/88 for the upper poverty line. More recent years are quite likely to have witnessed an intensification GNP of urban poverty because of a substantial slow down in per capita GNP growth - from 3 per cent per year to less than half as much (table 1).

D. EXPLANATIONS FOR RURAL POVERTY TRENDS

1. Rural poverty

Let us first consider possible explanations for rural poverty trends in the seventies.²⁰ Factors that worked towards reducing poverty were as follows. First, there was large-scale migration to the Middle East during the late seventies, much of it from rural areas. This generated substantial remittances, at least some part of which would have gone directly to the poor (table 16).

Table 16. Annual official remittances
(\$US million)

	<i>Middle East</i>	<i>Total</i>
1972/73	35	136
1977/78	938	1 156
1982/83	2 408	2 886
1984/85	2 069	2 446
1986/87	1 676	2 279
1988/89	1 356	1 897

Source: *Economic Survey 1990/91*.

Second, there was substantial growth in the nonagricultural sectors - rural nonagricultural employment grew at twice the rate of growth in rural agricultural employment over the seventies.²¹ This is reflected in the changing composition of employment (table 17). In part this was due to the demand generated by

²⁰ For an elaboration of some of these points, see Irfan and Amjad, *op. cit.*

²¹ See M. Irfan, "Rural employment and wages in Pakistan", *Working Paper* (New Delhi, ARTEP-ILO, 1990).

**Table 17. Distribution of employment by sector
(Percentage)**

Proportion of employed persons 10 years age and above

	<i>Agriculture</i>	<i>Non-agriculture</i>	<i>Manufacturing</i>	<i>Construction</i>	<i>Commerce^{a/}</i>	<i>Transport^{b/}</i>	<i>Services^{c/}</i>	<i>Other^{d/}</i>	<i>Sum</i>
Rural									
1969/70	71.8	28.2	11.3	3.1	5.4	2.9	5.2	0.3	100
1974/75	72.1	27.9	9.3	3.4	5.8	2.9	5.8	0.7	100
1978/79	67.4	32.6	11.0	4.2	6.9	3.1	6.6	0.8	100
1984/85	66.7	33.3	9.5	5.2	6.4	3.4	7.7	1.1	100
1987/88	67.5	32.5	8.3	6.1	6.8	3.4	7.1	0.8	100
Urban									
1969/70	6.9	93.1	29.7	6.8	25.2	11.1	18.6	1.7	100
1974/75	6.2	93.8	25.7	6.4	25.9	10.3	23.6	1.9	100
1978/79	5.6	94.4	25.7	7.1	24.3	9.9	25.1	2.3	100
1984/85	7.4	92.6	24.9	6.7	25.3	9.9	23.2	2.6	100
1987/88	6.0	9.4	24.7	7.2	29.9	8.9	25.9	1.4	100

Source: Labour Force Surveys, various years.

^{a/} Commerce includes trade, restaurant and hotels. ^{b/} Transport includes storage and communication.

^{c/} Services includes business, community and personal services. ^{d/} Other includes mining, utilities, and undefined sectors.

overseas remittances. A shift in the labour force towards the nonagricultural sectors, particularly in construction and services, would have been more favourable to wage employment - and hence to the poorest - as compared to growth in the agricultural sector.

Third, wage rates increased during this period (table 18). This occurred despite a decrease in permanent farm labour employment and tenant evictions. Clearly it was overseas migration that played a major role in preventing major unemployment and a consequent decrease in wage rates. Mechanization may have also been a factor in increasing labour demand for services and for casual agricultural labour. Hence even as there were negative effects of mechanization through displacement of permanent labour and tenant evictions, the increase in casual labour employment may have had some positive effects for the poorest. Migration to urban areas was important during the 1970s and this may have helped the poor in escaping rural unemployment; it would also have been a factor in allowing rural wages to move upwards along with urban wage increases.

The rapid decrease of rural poverty during the 1970s continued into the 1980s. Some of the conditions that favored poverty reduction in the earlier decade also remained present during the 1980s. Overseas remittances peaked in

Table 18. Trends in real wages

	<i>Large manufacturing</i>	<i>Urban construction</i>			<i>Agriculture</i>
		<i>Unskilled</i>	<i>Carpenters</i>	<i>Masons</i>	
1970	100	100	100	100	100
1976	122	129	110	105	121
1979	157	160	143	129	138
1980	–	154	152	145	145
1981	165	149	142	141	191
1984	191	129	126	126	–
1987	–	149	132	132	224

Source: World Bank, *Pakistan: Employment Issues and Prospects*, April 1989.

Note: Real wages use the consumer price index as deflator.

**Table 19. Trends in gross product per capita
(Rs/year)**

<i>Gross product at constant prices</i>							
<i>Agriculture</i>	<i>Large manufac- turing</i>	<i>Small manufac- turing</i>	<i>Con- struction</i>	<i>Trade</i>	<i>Transport</i>	<i>Services^{a/}</i>	
Old series at 1959/60 prices ^{b/}							
1969/70	211	68	19	23	75	34	46
1972/73	195	71	21	20	75	36	51
1974/75	187	70	23	25	83	37	54
1979/80	195	79	29	32	91	43	62
1980/81	196	85	31	33	94	45	61
New series at 1980/81 prices ^{b/}							
1980/81	911	327	119	138	445	285	282
1984/85	931	416	146	139	548	345	339
1987/88	955	482	169	160	616	378	363
1989/90	986	486	187	158	633	365	381

Source: *Economic Survey, 1990/91*.

^{a/} Services includes banking and insurance and excludes public administration and defence, and utilities. ^{b/} Old and new refer to different methodology and differences in factor prices used.

the early 1980s, but despite the later decline the level of remittances by the late 1980s was still substantially higher than that in the late 1970s (table 16). In addition, there probably has been a great deal of turnover among migrant labour, so that remittances are likely to have had continued positive direct effects upon poverty reduction.

The indirect effects of large remittance inflows also continued to generate substantial demand in the non-agricultural sectors. Consequently, rural employment continued to increase rapidly in construction and services (table 17).

The evidence on wages has, however, mixed implications for poverty. Real wages for casual farm labour rose during the 1980s, but those for construction workers declined (table 18). The drop in real wages for unskilled labour was slight, and may have been more than compensated for by increased employment.

Tenant evictions were probably less widespread in the 1980s since there was no fear of reforms in the agrarian structure under the post-Bhutto regimes.

Agricultural growth is of much more importance in the 1980s than in the earlier decade. Over the 1970s agricultural output growth could not keep pace with population growth (table 19). On the other hand, over the 1980s there was a modest but distinct increase in agricultural output per capita - 5 per cent upto the mid-1980s, and around 8 per cent by the end of the decade.

Finally, one should not overlook initial conditions at the outset of the 1980s. The substantial decrease in poverty during the 1970s brought rural poverty down to a relatively low level around which most of the poor were concentrated. Subsequent growth in the rural economy could then make a substantial impact upon reducing the incidence of poverty. We must also bear in mind that the populism of the Bhutto regime in the 1970s had increased the legitimacy of expecting greater equity in growth. This awareness among the poor would have helped in preventing serious maldistribution of growth in the 1980s.

2. Urban poverty

For overall urban poverty reduction, there may have been little difference between the two periods. However, at the lower end of the urban income distribution it is more likely that the incidence of poverty fell at a somewhat lower rate during the 1980s as compared to the 1970s (table 15). It may be of further interest to note that during the 1970s the decline in poverty among the very poor - i.e. under the lower poverty line - was much faster than among the urban poor as a whole. In contrast, for the 1980s both groups had a similar rate of decline in the incidence of poverty.

Consider the likely explanation for urban poverty reduction in the 1970s. First, migration to the Middle East during the late 1970s would have been no less important for urban areas as it was for rural areas. Direct increases in income was one positive effect upon the urban poor, given that much of the migration consisted of construction and service workers. Indirect positive effects came through the boost to domestic demand for labour in construction and services (table 17).

Second, growth in the informal sector as a whole was quite rapid, allowing the poor to benefit from growth in the economy. Third, a major factor in poverty reduction was public sector employment. Nationalization of many industrial enterprises and the major banks was effected in the early 1970s. As part of the populist theme of the Bhutto regime, there were increases in both employment and wages in the public sector. Fourth, there was a general upward trend in real wages influenced both by the initially pro-labour climate (upto the mid-1970s) and by overseas migration (in the late 1970s).

Finally, consider the role of growth in the domestic economy. The large scale manufacturing sector was quite sluggish upto the mid-1970s. It picked up later to provide a modest increase of about 15 per cent in the sector's gross output per capita over the decade (table 19). The small scale manufacturing sector - so much more favorable to the poor because of its higher labour intensity - grew much more rapidly throughout the 1970s. By the end of the decade, gross output per capita had risen by 50 per cent. While this growth data is on a national basis, there is no doubt that this dynamism of the small scale sector was very much applicable to the urban economy.

Overall urban poverty reduction in the 1980s was only marginally more rapid as that in the 1970s. However, for the very poor it was most likely slower in the later decade (using inflation rates that are more realistic than those officially acknowledged). Let us consider some reasons for the slow-down.

Overseas remittances did peak in the early 1980s, but still continued at much higher levels than the late 1970s (table 16). Perhaps there was less migrant turnover among urban households.

Large scale manufacturing in the 1980s grew at almost twice the rate for the earlier decade (table 19). Much more modest increases in growth rates were, however, present in more labour intensive sectors such as small scale manufacturing, transport and services. The construction sector is extremely important for the very poor, but this sector recorded only half as much growth in the 1980s as compared to the 1970s. Adversely affecting poverty reduction was

also a continuing decrease in labour intensity within large scale manufacturing. This change may well have occurred in most sectors, though to a lesser degree.

Wage rates in large scale manufacturing increased upto the mid-1980s (table 18). It is not obvious that low-skilled employees benefited as much as skilled labour if we take into account the increasing capital intensity in large scale manufacturing. The upward trend in wages also may not have continued later because of the increasing use of contract labour - both directly as "temporary" labour and indirectly through subcontracting production to the informal sector. Adverse wage trends also appeared for the construction sector - only a slight drop for unskilled labour but significant decreases for skilled workers (table 18).

Finally, a factor in the slackening of urban poverty reduction could be the dispersion of the urban poorest over a wide range of incomes. Even rapid economic growth could not then move a relatively large proportion of the urban poor out of poverty (i.e. reduce the incidence of poverty). It is quite plausible that there may be a rather wide spread of incomes at the lower tail of the urban distribution. There is a multiplicity of skills and occupations even in the informal sector, leading to considerable variations in income both among and between wage earners and self-employed. During the 1980s there seems to have been greater rural-urban migration towards small towns as compared to the earlier rapid growth of cities. The rural poor are likely to have also followed this changed pattern of migration. Since income levels in small towns are generally lower than those in cities, we should then expect a wider spread of incomes among the urban poor (even as the opposite may be happening for the rural poor).

E. CONCLUSIONS

This chapter has looked at a single, but critical, aspect of absolute poverty - that of the risk of hunger because of inadequate income. The evidence for the 1970s and the 1980s points to different patterns of poverty reduction. Rural areas experienced substantial declines in rural poverty over the 1970s, and the decline has been even more rapid during the 1980s. For urban poverty, on the other hand, there is little to show that higher economic growth was more advantageous to poverty reduction. In fact, for the urban poorest the evidence suggests that the 1970s led to much more rapid poverty reduction than was achieved in the 1980s.

Furthermore, the declines in urban poverty over the 1980s appear primarily to be those in earlier years of the decade. Towards the late 1980s there is an ominous indication of urban poverty stagnating, and most probably even increasing. We have no poverty data after 1987/88, but it is these recent years in which structural adjustment conditionalities have led to sizeable increases in consumer

prices. There has also been a slowdown in economic growth. Remittances, which played a significant part in poverty reduction during the post-Bhutto regimes, have also dropped substantially. At the very least we would expect a slow down in rural poverty reduction, and an increase in urban poverty.

Poverty analysis in this chapter has a narrow focus. It has looked only at one dimension of absolute poverty - nutritional deprivation - and has considered only determinant of such poverty - low incomes. However, even with a limited focus on nutritional deprivation our analysis of income trends ignores other factors which also determine nutritional capability - such as education, health care, water, and sanitation. Furthermore, by themselves education and health are important dimensions of welfare. Public provisioning of such basic needs is an important part of reducing poverty. The next chapter is therefore devoted to examining trends in public services.

IV. TRENDS IN POVERTY OF PUBLIC ACCESS

A. INTRODUCTION

This chapter deals with the impact on the social sectors as a result of the economic restructuring programmes undertaken in Pakistan. As mentioned earlier the Pakistan analysis is broadly split into two macroeconomic phases. The first, from 1972 to 1977, consists of the Z.A.Bhutto government. It was characterized by a neo-Keynesian state interventionist approach geared towards extensive nationalization in the manufacturing and financial sectors and efforts at increasing employment and developing physical infrastructure. The second phase, broadly from 1977 to the present date includes the Zia-ul-Haq military regimes as well as the short-lived Benazir Bhutto government and the current IJI administration. This period has been marked by a relatively conservative approach with effective reductions in state expenditure, a growing emphasis and reliance upon the private sector in areas which had formerly been the domain of the state, reductions in consumer subsidies and more recently liberalization in trade policies and foreign exchange controls. While it is still too early to gauge the full effect of the most recent IMF structural adjustment package, initiated in July 1988 for a three year period, there appear to be some preliminary indications that suggest it also has begun to have repercussions on the social sectors.

The main focus of the discussion is upon health and education, the leading social sectors and the primary area of concern in human resource development. Brief mention is made of other social sectors of housing, sanitation and water supply, yet due to limitations of data these sectors cannot be as thoroughly analysed as health and education for which information is somewhat better.

The chapter is structured as follows. Section (B) outlines changes in fiscal allocations to the social sectors over the past two decades. Section (C) details the levels of delivery of health and education services. This section also outlines changes in overall human resource development in the country, as crudely gauged from health and education standards, during this period. The final section turns to issues within the social sectors which have a bearing both on the process of restructuring, on the efficiency of delivery of social sector services, and upon the important subject of equity and access to social sector services. The emphasis in this discussion is upon the effective privatization of service delivery in health and education and its implications in particular for the poor.

B. FISCAL ALLOCATIONS TO THE SOCIAL SECTORS

Expenditure by the state on the social sectors aimed at human resource development in Pakistan has been consistently low. Government statistics reveal that total state expenditure on education, at both provincial and federal levels, accounted for only 1.3 per cent of the GNP in 1972/73 and 2.3 per cent in 1989/90. In the case of federal and provincial spending on health the levels were even lower ranging from 0.39 per cent of GNP in 1972/73 to 0.78 per cent in 1989/90.²²

The UNDP *Human Development Report 1991* indicates that Pakistan had one of the lowest levels of "human expenditure per capita" amongst developing countries in 1988.²³ In contrast military expenditure accounted for 6.7 per cent of the GNP in 1986 whereas the average for all "low human development economies" (according to the UNDP classification) was 3.5 per cent of GNP in 1986. Furthermore, the ratio of military expenditure to combined education and health expenditure for the year 1986 was 279 as compared to an average for all developing economies of 109.²⁴

Time series data on nominal per capita government expenditure on health and education (figure 1) suggest a sustained increase in state expenditure in both sectors during the 1970s and 1980s. It is only in health that expenditures have declined in nominal terms over the last two years. However, when turning to real expenditure levels (using the GDP deflator at market prices) the picture appears somewhat altered. Figure 2, which details levels of real per capita government

²² Government of Pakistan, *Economic Survey 1990/91* (Islamabad, Economic Adviser's Wing, May 1991), pp. 144-145.

²³ This is a measure of the share of public expenditure allocated to the social sectors and in particular to social priority areas as a product of per capita GNP. UNDP, *Human Development Report 1991*, p. 42.

²⁴ UNDP, *op. cit.*, pp. 157, 169.

Figure 1. Public expenditure per capita on health and education in current prices

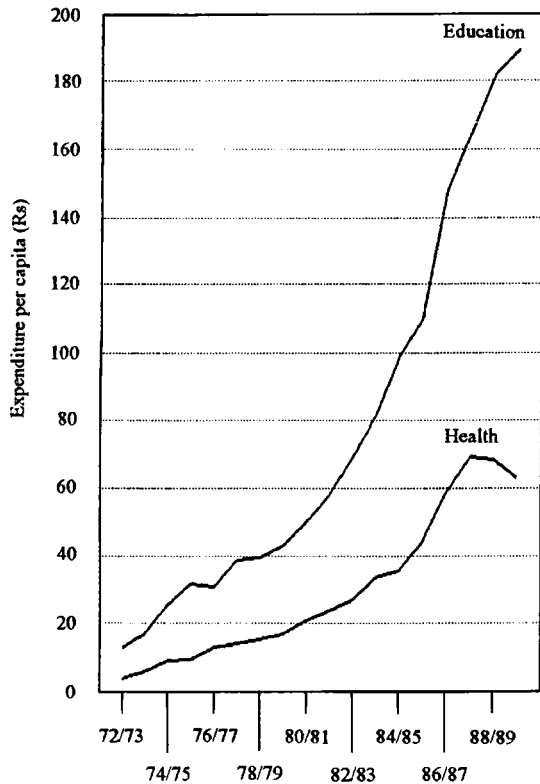
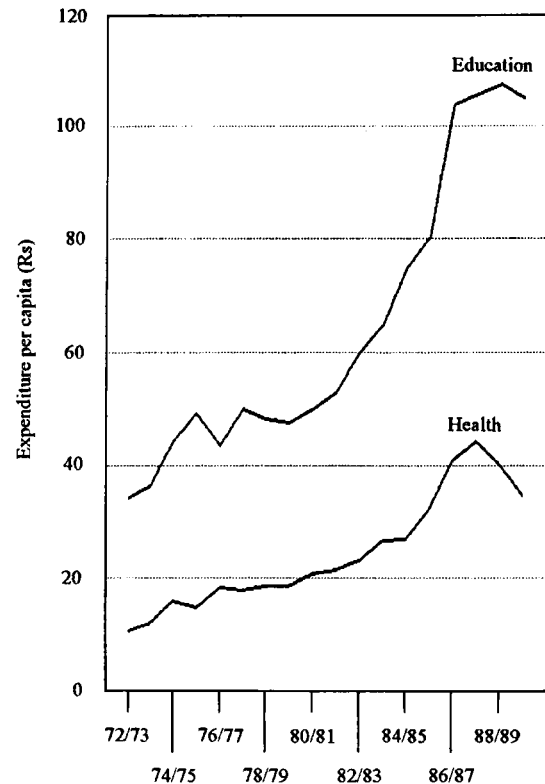


Figure 2. Public expenditure per capita on health and education in constant prices



expenditure on health and education between 1972 and 1989, shows clearly that while levels of spending have increased approximately threefold over this time period, the rate of increase in spending on the social sectors has been far from uniform.

Four broad periods can be distinguished from this. It would seem that spending grew most rapidly between 1972-1976 and between 1981-1987. The intervening period of 1976-1981 was marked by almost constant levels of real expenditure growth. On the other hand the most recent experience, 1987-1989, clearly underline that real per capita expenditures have declined, and in the case of health sector allocations declined rapidly. State expenditure on health fell in absolute nominal terms by Rs 371.71 million (or 5 per cent) between 1988/89 and 1989/90. As table 20 suggests these patterns also appear to have some connection with per capita income growth as well as with exogenous policy initiatives and external pressures.

The 1972-1976 period of the Bhutto regime was not noted for an extensive emphasis upon the social sectors despite its popular slogan of "food, clothing and shelter". As noted earlier the People's Party government underlined the need to nationalize segments of the heavy industrial, manufacturing and financial sectors. Having said that there was some effort at raising expenditures on health and education. One of the most important of these was the decision by the PPP government to nationalize the vast majority of private schools in the country. While this may not have substantially increased the quantum of educational facilities available, it definitely raised the payroll of the state. A number of medical colleges were constructed and the rural based health care network

Table 20. Growth rates in real per capita GNP and real per capita expenditure on health and education (Percentage)

	<i>Per capita GNP</i>	<i>Per capita expenditure</i>	
		<i>Health</i>	<i>Education</i>
1972/73-1976/77	1.87	13.65	5.93
1976/77-1981/82	4.58	2.93	3.88
1981/82-1987/88	2.69	12.06	11.53
1987/88-1989/90	1.68	- 11.89	- 0.36

Source: Estimated from Government of Pakistan, *Economic Survey 1990/91*.

(consisting of rural health units and basic health centres) were begun. Furthermore, given its emphasis on employment generation there was an attempt at raising the numbers of teachers and medical personnel in these sectors. These policy measures were undertaken in an unstable macroeconomic environment with the economy having to sustain the shocks of physical dismemberment (with the birth of Bangladesh), the after effects of the first oil shock, and the severe loss of confidence in the regime from the private sector which in fear of further nationalization began to curtail private investment. Consequently, annual growth rates in per capita GNP were low.

During the period 1976-1981, the first four years of the Zia-ul-Haq military government, growth rates of per capita GNP rose significantly at 4.58 per cent per annum while real per capita expenditure growth in the social sectors were below the GNP growth rates. The relatively low level of increase in funding on the social sectors during this phase reflected the priority of the regime, of consolidating state expenditures on the social sectors and raising defence spending.

By 1981/82 the emphasis shifted once again. Partly in reflection of the military regime's desire to consolidate its rule in the medium-term there began to be an increasing recognition that state expenditure on the social sector had to be raised in order to forestall public discontent and to meet the growing concerns of the donor community regarding Pakistan's exceptionally low standards of human resources.

This shift in state policy was most clearly articulated in the Sixth Five-Year Plan 1983-1988 which emphasized increased flows to health and education. It stated that the "basic approach [of the Plan] is to help the poor emerge from poverty ... The main instrument [for this] is the rapid spread of public services to all sections of society, particularly education and health ... There will be accelerated development of human resources potential through a fivefold increase in the expenditure on health and education"²⁵ Growth rates in state financing of the social sectors again rose to levels similar to that of the early 1970s with real per capita flows increasing by over 10 per cent per annum.

Since 1987/88 there have been signs of a sustained and significant decline in government spending on health and education, the timing of which appears to be tied closely to the 1988 SAL agreement with the Fund and the World Bank.

²⁵ Planning Commission, Government of Pakistan, *The Sixth Five-Year Plan 1983-1988*, Islamabad, pp. 10, 12, 13.

C. LEVELS OF PUBLIC DELIVERY OF HEALTH AND EDUCATION AND STATUS OF HUMAN RESOURCES

The levels of availability of public delivery systems of health and education to some degree match the patterns in state financial allocations described above. Taking the education sector first, it would appear from table 21 (and figure 3) below that net primary enrolment rates rose during the early to mid-1970s, declined somewhat during the early 1980s and came down significantly during the latter part of the 1980s. Despite the substantial increases in allocations to education, the net primary enrolment rate in 1988 was identical to that in 1965. On the other hand, secondary enrolment rates increased gradually as also have tertiary rates during the late 1980s.

If one focuses upon primary enrolment, the most important indicator of the overall coverage of the education delivery system, it would appear that the early (and yet relatively moderate) emphasis on human resource development during the 1970s did result in some gains in both the aggregate and the female primary enrolment rates. During this phase primary enrolment rates in Pakistan were comparable with the average for other low income economies (51 per cent for Pakistan and 52 per cent for all low income economies in 1975).²⁶

**Table 21. Education enrolment rates
(Percentage)**

	<i>Primary</i>		<i>Secondary</i>	<i>Tertiary</i>
	<i>Total</i>	<i>Female</i>	<i>Total</i>	<i>Total</i>
1965	40	20	12	2
1977	51	32	17	2
1983	49	33	16	2
1986	44	32	18	5
1988	40	28	19	5

Source: World Bank, *World Development Report*, various issues.

Note: Enrolment is proportion of age group in school.

²⁶ World Bank, *World Development Report 1980*.

Figure 3. Enrolment rates

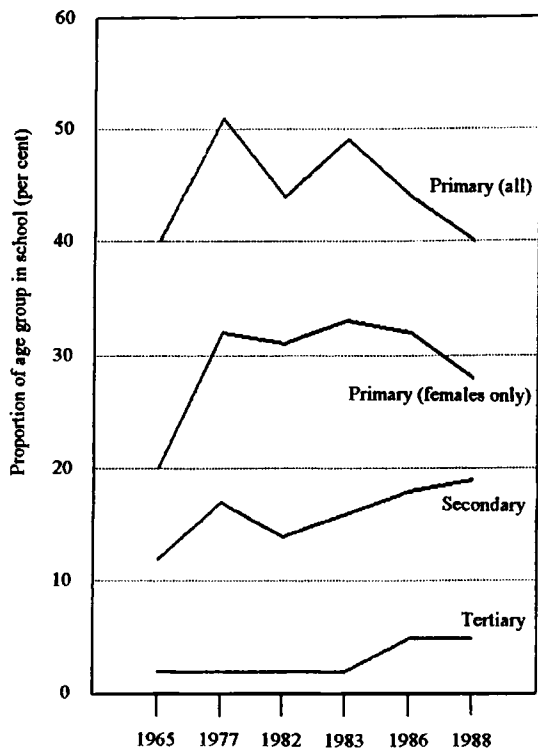
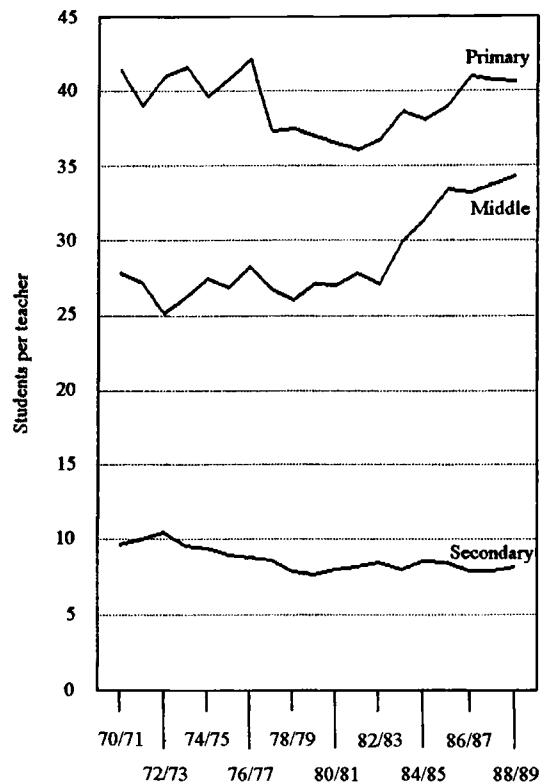


Figure 4. Student - teacher ratio



During the 1980s, the primary enrolment rate began to fall at first gradually and later more rapidly. Consequently, whereas the average net primary enrolment rate for low income economies (barring India and China) was 75 per cent in 1988, the Pakistan level was only 40 per cent. Again, this seems to be linked to the deceleration in levels of real per capita expenditure increases in education from the early 1980s and to the expanding cohort of primary school age children. According to the 1981 Population Census, 16.0 per cent of Pakistan's population was aged between 5 and under 10 years whereas this age bracket accounted for 12.5 per cent of the national population in the 1972 Census. Such demographic changes underline the fact that during this period, and subsequently since given the population growth rate of 3.3 per cent, real expenditures on primary education would need to be raised in order to sustain existing levels of primary enrolment. Furthermore, the developments in female primary enrolment in the latter part of the 1980s suggest that the wide gap between male and female primary school enrolment in the country is not narrowing.

Interestingly, Pakistan's educational priorities also appear to be somewhat mismatched. In 1988 the Pakistani primary enrolment rate was 65 per cent below that for all low income economies, the secondary enrolment rate was 18 per cent below the average for low income economies, while the tertiary enrolment rate was well above the average for the low income group of economies. This dichotomy between primary and tertiary levels and its consequences are discussed in greater detail later.

In addition to the enrolment rates, the primary level student-teacher ratio is also indicative of the level of coverage of education services in terms of teaching personnel. Figure 4 details the student-teacher ratio for the primary, middle and secondary levels of education in Pakistan between 1970/71 and 1988/89. Two points emerge from this. The first, and the most important with respect to the coverage of educators, is that the student-teacher ratio appears not to have improved in this period. In fact there was a slight decline in the primary level student-teacher ratio between the mid-1970s to the early 1980s (going from 42 in 1976/77 to 36.7 in 1982/83) but this was subsequently lost in the latter part of the 1980s with the ratio rising to 40.65 in 1988/89. At the middle school level the student-teacher ratio also increased significantly from the early 1980s onwards. The second point is the wide gap in the student-teacher ratio across the three levels, again underlining the dichotomous priorities in Pakistan's education sector. Again the same points emerge as found with the enrolment rates. There seems to be improvements in levels of educational coverage at the primary level during the mid-1970s to early 1980s. This being the period where the earlier attempts to increase educational coverage under the first PPP regime began to have a discernable and measurable impact. However, subsequent to the early

1980s demographic shifts (with the rise in the share of the potential primary school going age population) and the failure to maintain increases in real per capita educational expenditure during the latter half of the 1980s led to declines in both enrolment and teacher-student ratios.

A similar picture emerges with the health sector. Delivery of health services can best be gauged from the data on coverage of hospital beds, doctors and nurses. It should be noted that clearly such medical services and personnel are not provided solely by the state. Most doctors, including many of those engaged by state-run hospitals, do work privately either through their own clinics or within private hospitals. Amongst nurses public sector employment is more significant and hospital beds are concentrated in government hospitals. This is on the grounds that the state dominates over the private sector with respect to large hospitals where such personnel and beds are dominant.

Table 22 lists the coverage of medical personnel during the 1970s and 1980s. This is further highlighted in figures 5, 6 and 7. It would transpire that the coverage of all three "aspects" of health provision (namely beds, doctors and nurses) has improved during this period. Having said that it also emerges that the improvement is most marked with respect to the coverage of nurses, by as much as a factor of greater than 10 between 1974 and 1990. This is, however, more a reflection of the very low numbers of nurses in 1974 than an indication of a sustained and marked increase in the coverage of nurses as opposed to doctors during this period. The improvement in the coverage of hospital beds, the

Table 22. Health coverage in Pakistan

	<i>Population per</i>		
	<i>Hospital bed</i>	<i>Doctor</i>	<i>Nurse</i>
1972/73	1 792	13 190	...
1974/75	1 893	12 164	71 775
1976/77	1 843	11 133	28 551
1978/79	1 804	9 526	19 681
1980/81	1 716	7 549	15 247
1982/83	1 717	5 033	12 651
1984/85	1 714	3 584	11 108
1986/87	1 692	2 870	8 130
1988/89	1 610	2 422	7 407
1990/91	1 535	2 127	6 511

Source: Government of Pakistan, *Statistical Yearbook 1990*.

Figure 5. Population per hospital bed

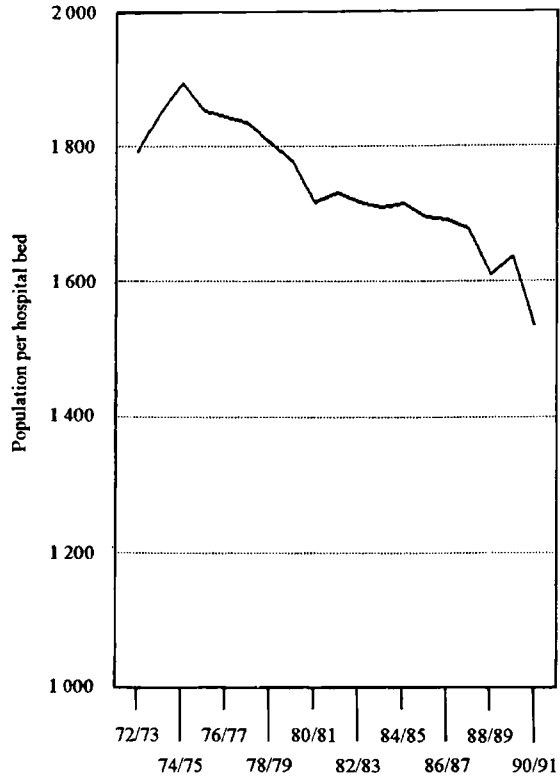


Figure 6. Population per doctor

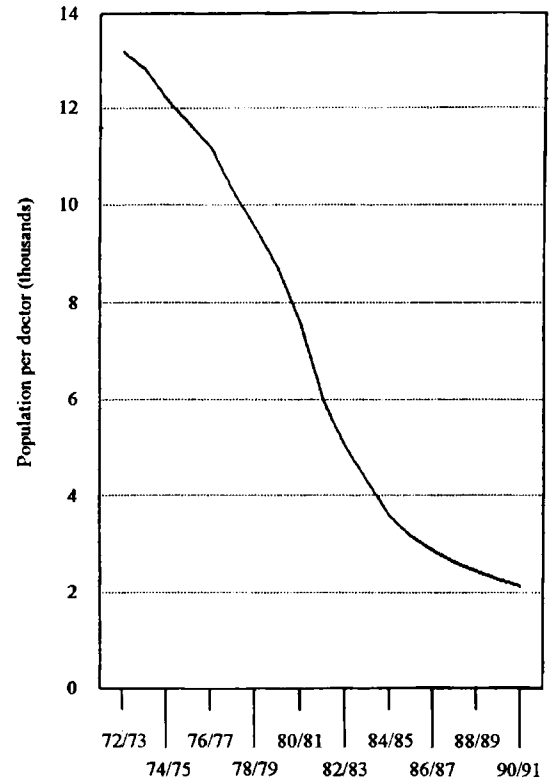


Figure 7. Population per nurse

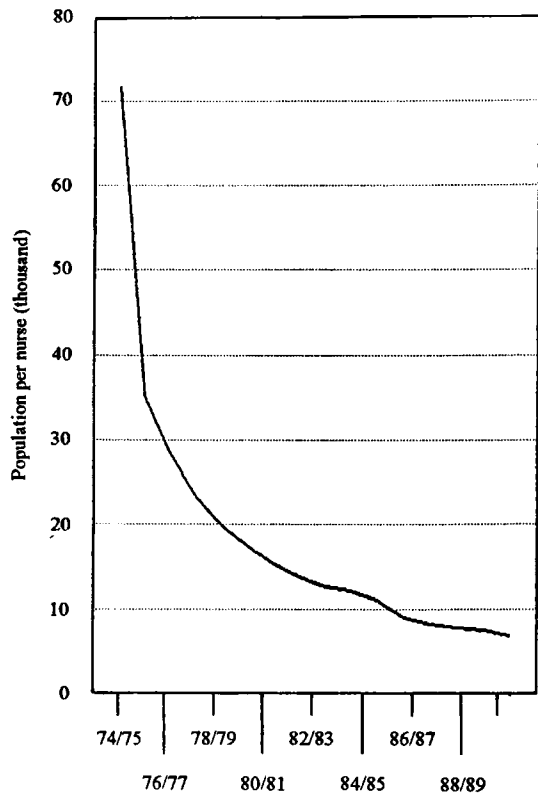
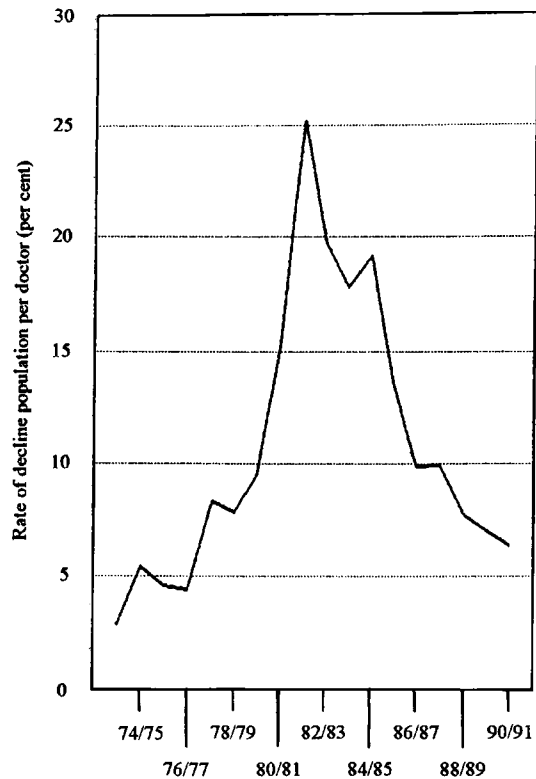


Figure 8. Annual rate of decline in population per doctor



medical “sub-sector” where the public sector is likely to be most predominant, appears relative to that of medical personnel to have been marginal.

Figure 5 presents a graphic indication in the extremely gradual, albeit sustained, increase in the coverage of hospital beds, the bulk of which were provided by the state. Figures 6 and 7 also suggest that there has been a sustained and substantial increase in the coverage of medical personnel, although the rate of decline in the level of population per nurse is less substantive than that for doctors during the early to mid-1980s. This is further borne out by figures 8 and 9 which indicate the annual rate of decline of population per doctor and nurse respectively. During the period 1979-1984 the rate of decline for doctors was high whereas that for nurses was relatively lower suggesting that the coverage of doctors was improving at a more rapid pace than the coverage of nurses.

The distinction between nurses and doctors is an important one in understanding the structure of curative health delivery, and as a crude pointer to the relative weights of the private and public delivery systems. While we have no statistics on this it can be safely said that in Pakistan the majority of doctors are primarily engaged in private health care delivery whereas a greater proportion of nurses tend to find employment with the public sector health care system. Furthermore, as noted elsewhere “nursing care, while not qualitatively similar to that of physicians, is often a reflection of paramedical coverage ... [and] an inadequate supply of nurses could lead to an underutilisation of the skills of well trained doctors”.²⁷ A proper mix of nurses with doctors therefore allows for not only a more efficient use of curative health resources, but also emphasizes the importance of less skilled paramedical nursing care within the curative structure. In the industrialized world the nurses per doctor ratio for 1984 was 4.2. In the South Asian region as a whole the ratio was 1.5 nurses per doctor.²⁸ In Pakistan, on the other hand the ratio has rarely exceeded 0.5. This is well illustrated by figure 10 below where it can be seen that while the nurses per doctor ratio rose during the 1970s, it fell markedly during much of the 1980s. While this reflects an acute shortage of nursing professionals within the Pakistani health care system, it is also indicative of the contradictions within the curative health care structure of the country and a proxy for the more rapid increase of private sector doctors.

²⁷ United Nations, ESCAP, *Economic and Social Survey of Asia and the Pacific 1990* (New York 1991), p. 168.

²⁸ UNDP, *Human Development Report 1991* (New York, Oxford University Press, 1991), p. 167.

Figure 9. Annual rate of decline in population per nurse

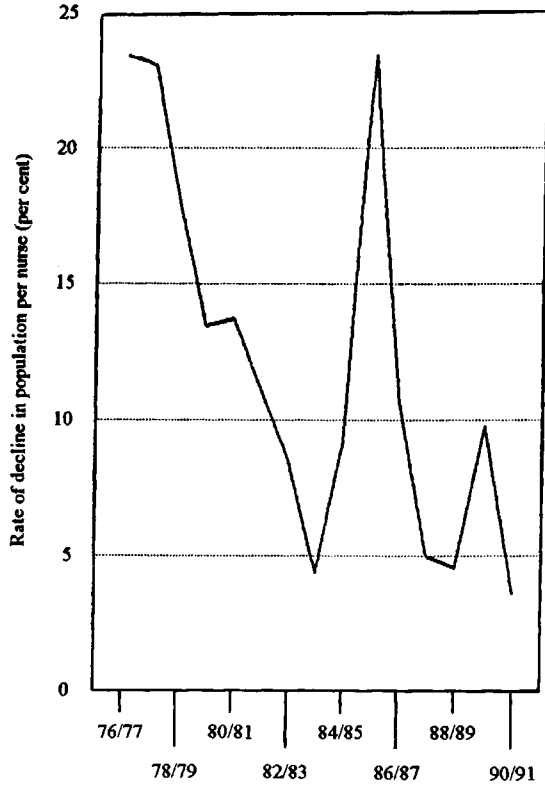


Figure 10. Nurses per doctor

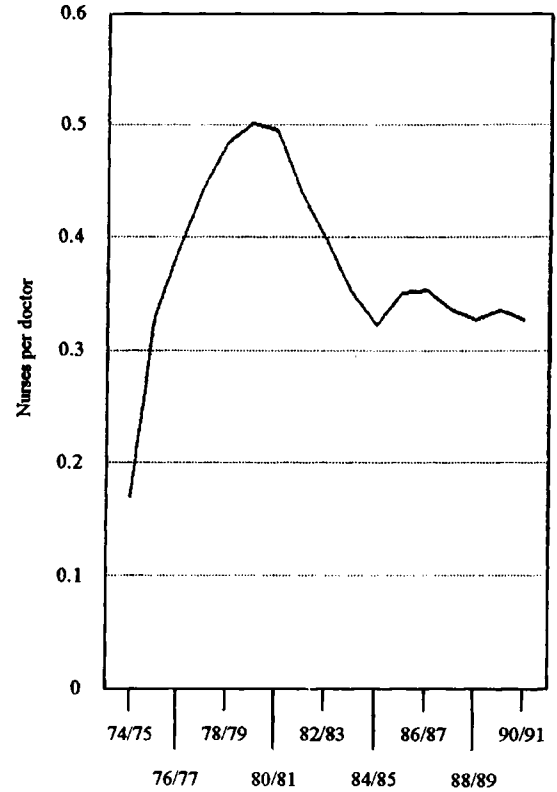


Figure 11. Share of primary and secondary education in public education expenditure

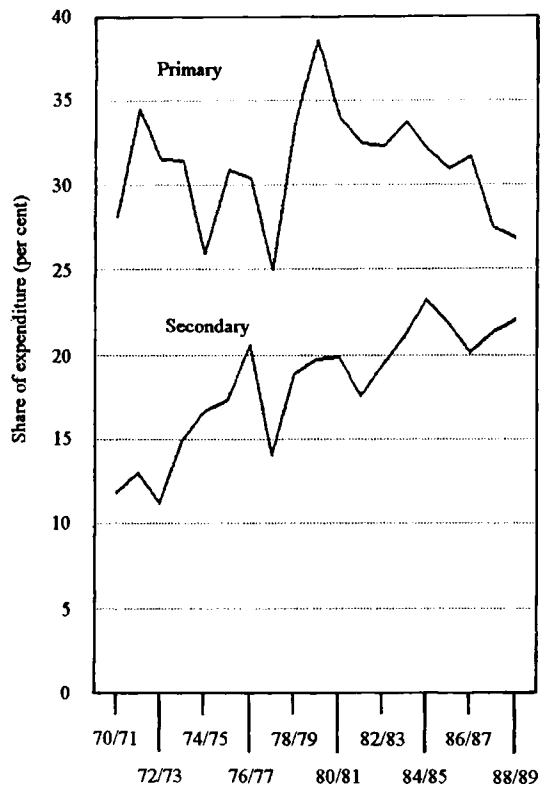
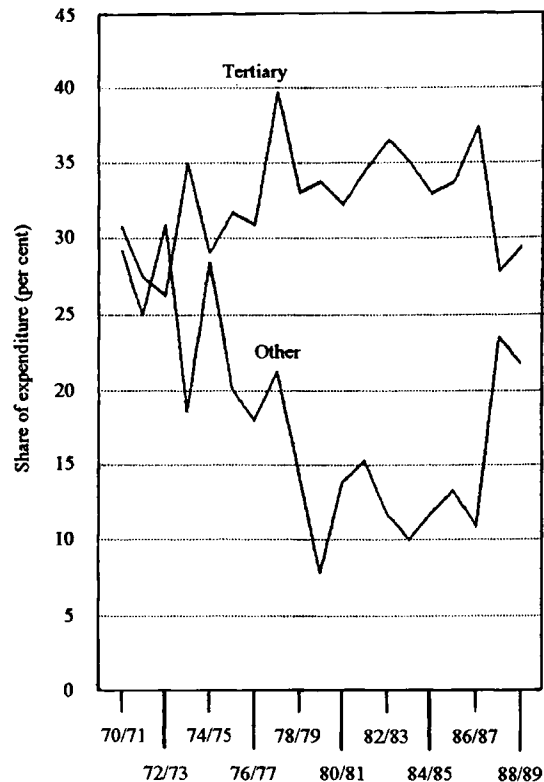


Figure 12. Share of tertiary and other education in public education expenditure



Given the pattern of delivery of health care and education over the past two decades, and its relationship to overall shifts in macroeconomic strategies, it is important to evaluate the effect on human resources in Pakistan. There are few adequate measures of human development status for which reliable time-series data is available and which can be used to gauge the effect of changes in social sector coverage on the populace. Infant and child mortality figures provide some idea of the overall health and nutrition status of the country. It is also influenced by standards of sanitation, safe water supply and access to knowledge (particularly amongst mothers on improved child care). Coupled with figures on life expectancy at birth data these indicate overall health status. It must be remembered that the data we have is at best patchy, nevertheless, it does indicate a trend over the past three decades.

On education status over time we have information only on literacy rates. According to the Population Censuses literacy rates in Pakistan, amongst those aged 10 years and above, was 21.7 per cent in 1972 and 26.2 per cent in 1980.²⁹ By 1985 UNDP estimated Pakistan's adult literacy rate at 31 per cent. In contrast adult literacy rates in the South Asian region as a whole averaged 42 per cent in 1985.³⁰

Using mortality rates and life expectancies as proxies for overall human resource status, table 23 suggests that there has been improvements on all counts between the 1960s and 1980s in Pakistan. On the other hand when comparing the Pakistan record with that of the average for all low income economies (the World Bank income category of nations of which Pakistan is a part) a more clearer perspective emerges. Again table 23 allows us to evaluate Pakistan's track record on human resource status with that of its peers.

As shown in the table there has been an improvement in infant and child mortality rates as well as in adult life expectancy in Pakistan in the past three decades. Having said that what is more apparent and important is that while Pakistan compared favourably with the average for all low income economies in the 1960s, by the mid- to late 1980s it was well below the average for the low income group in all three indicators. This is a clear reflection of the relatively low priority attached to the social sectors and human resource development in Pakistan's macroeconomic policy planning, particularly during the 1980s.

²⁹ Government of Pakistan, *Economic Survey 1990/91*.

³⁰ UNDP, *Human Development Report 1991* (New York, Oxford University Press, 1991), pp. 127 and 166.

Table 23. Health status

	<i>Mortality rates</i>				<i>Adult life expectancy</i>	
	<i>Infant^{a/}</i>		<i>Child</i>		<i>Years</i>	
	<i>Pakistan</i>	<i>All LI^{b/}</i>	<i>Pakistan</i>	<i>All LI^{b/}</i>	<i>Pakistan</i>	<i>All LI^{b/}</i>
1960	142	142	27	30	42	36
1965	150	122	23	19	—	—
1975	113	122	—	—	51	44
1978	—	—	17	20	52	50
1983	119	75	16	9	—	—
1985	115	72	—	—	51	60
1988	107	72	—	—	55	60

Source: World Bank, *World Development Report*, various years.

^{a/} Deaths per 1,000 live births of infants under 1 year. ^{b/} All low income economies.

D. ISSUES IN THE SOCIAL SECTORS

This section focuses upon the following concerns regarding social sector delivery. First, the issue of equity in access to social sector services, particularly in the context of the “biases” against rural consumers and women. Second, it brings into the discussion issues regarding the appropriateness and quality of the package of services being delivered. In this context it questions the current relative priorities attached to the primary versus tertiary (in the case of education) and curative (for health) sectors. Third, it evaluates the implications, particularly with respect to equitable access, of the process of effective privatization of social sector service delivery systems in recent years.

Equity has been a central concern in the state provision of social services. In actual practice delivery of education and health services have usually tended to be inequitable with the poor, rural dwellers and women facing significant structural and societal barriers to access.

The bulk of the state based network of health care, education, water supply and sanitation is located within urban areas whereas two-thirds of the national population resides in rural localities. In the mid-1980s almost all (99 per cent to be exact) of the urban population had “access” to health services as compared to only 35 per cent of the rural population. Similarly, 83 per cent of the urban population and only 27 per cent of those residing in rural areas had “access” to

potable drinking water.³¹ Pakistan's degree of "rural bias" is exceptional even within the regional context. The rural-urban disparity ratio with regards to access to potable water (100 = parity of access between rural and urban areas) was 33 as compared to an overall South Asian average of 61.³² We have no evidence on the actual breakdown of coverage of health facilities (such as hospital beds) or educational institutions (e.g., primary school seats) by urban and rural areas in the country. Nevertheless, the limited data available on human resource status provides some indication of the disparity. According to the 1981 Population Census, literacy rates (amongst those aged 10 years and above) was 47.1 per cent in urban areas and 17.3 per cent in rural areas.³³

The setting up of rural health centres and basic health units from the early 1970s onwards has been one attempt to address the lack of health facilities faced by rural communities. By 1990 there were a reported 455 rural health centres functioning in Pakistan.³⁴ Despite this effort the gap between urban and rural coverage, at least at the level of state provision, does not seem to be narrowing. As increased efforts are made to privatize the delivery of such services the differential is likely to widen in favour of higher income urban communities.

Women as a distinct group also face acute difficulties in availing access to social services, particularly education. Social biases, which have acquired a dubious religious legitimation (and are often coupled with legislative biases), have ensured that women remain particularly disenfranchised with respect to social services. Access to education is extremely poor for girls. Female primary school enrolment rates in 1988 was only 28 per cent. The average in the South Asian region as a whole was 89 per cent. Female literacy rates were markedly below those of men (16 per cent as opposed to 35 per cent for men in 1981). In rural areas female literacy rates were well below 10 per cent (7.3 per cent). Maternal mortality rates (pregnancy related deaths of women per 100,000 live births) in Pakistan in the 1980-1987 period averaged 500. In Sri Lanka, a country with high female literacy and good primary health care coverage, the maternal mortality rates over the same period were only 60.³⁵

³¹ Ibid., p. 137.

³² Ibid., p. 167.

³³ Government of Pakistan, *Economic Survey 1990-91* (Islamabad, 1991).

³⁴ Ibid.

³⁵ UNICEF, *State of the World's Children 1990* (Oxford University Press), pp. 88-89.

The implications of the poor status of women in Pakistani society are severe. Even if we turn away from the larger subjects related to female emancipation (such as the question of power in patriarchal societies), increased female literacy is one of the most important measures for raising overall human resources status. Female literacy allows for raising awareness regarding family planning, child spacing, breast feeding, early child care, improved sanitation and household nutrition. All these functions being "traditionally" seen as the responsibility of women in Pakistani society. Most importantly improved literacy empowers women with greater control over their own bodies and over reproductive choices.

If one takes primary enrolment rates again it would appear that female enrolment rates in the latter half of the 1980s have declined. As shown in table 21 the female primary enrolment in 1988 was well below that in 1977. This serves to suggest that despite the incorporation of the broad issue of women and development in the policy formulation process (the subject has been particularly emphasized in the sixth and seventh five-year plan documents), the overall impact has been poor.

In part the failure in rapidly increasing access to social sector services to both the rural poor and to women is a reflection of the lack of an appropriately targeted strategy. It also brings into question the content of the package of services provided by the state within these sectors and their appropriateness to actual needs of those who are most deprived. It is widely acknowledged that for a country with as poor a record in human resource status as Pakistan the emphasis in policy should be on the primary sector in education (to effectively raise literacy) and on preventive care in health (to reduce the incidence of water borne diseases the number one killers in the country), combined with an attempt to target such programmes primarily at women.

Table 24 outlines the distribution of education expenditure by levels of education. What is apparent is that the share of total education expenditure flowing to the primary sector has barely changed over time. If anything it can be seen that it has tended to decline marginally since 1980/81 from 34 per cent to 26.9 per cent in 1988/89. On the other hand, the share of education expenditure allocated to both the secondary and tertiary levels have increased significantly over this period.

In the case of health care we have already mentioned the sharp distinction in the medical profession between the coverage of doctors as opposed to nurses. This we suggest emphasizes not only the relative share of the private sector in health care delivery, but also the weight attached to curative as opposed to preventive medicine. Zaidi has also underlined the need to evaluate the content

**Table 24. Distribution of education expenditure by level
(Percentage)**

	<i>Primary</i>	<i>Secondary</i>	<i>Tertiary</i>	<i>Other^{a/}</i>
1972/73	31.5	11.2	26.2	30.9
1974/75	25.9	16.6	29.1	28.4
1976/77	30.4	20.6	30.9	18.8
1978/79	33.7	18.9	33.0	14.4
1980/81	34.0	19.9	32.3	13.8
1982/83	32.3	19.4	36.5	11.8
1984/85	32.1	23.2	32.9	11.7
1986/87	31.7	20.1	37.4	10.9
1988/89	26.9	22.0	29.4	21.7

Source: Government of Pakistan, *Pakistan Statistical Yearbook*, various issues.

^{a/} Includes scholarships, administration, general and miscellaneous works.

of medical education to assess its appropriateness to real medical needs in the country. He argues that the current specialized skills in medical training being imparted in Pakistan's medical colleges is aiding the brain drain of doctors to countries which have both a high incidence of coronary, respiratory, immune system and cancer related diseases (the most common health ailments in the developing world) and the facilities to treat them. At the same time the output of Pakistan's medical colleges, Zaidi points out, are by and large illsuited to handling the more common ailments found in Pakistan's rural communities, lack any incentive or social commitment to practice in rural areas and do not place much emphasis upon preventive measures.³⁶

E. CRITICAL TRENDS IN POVERTY OF PUBLIC ACCESS

This survey shows that four critical indicators of public access to goods and services display worsening trends over the SA regimes. Over the Keynesian populist regime of the 1970s critical education and health indicators improved. Primary school enrolment increased to 51 per cent, and female primary enrolment increased with it to 32 per cent. The number of nurses per doctor, an indicator of access to public health facilities, increased to 0.5. Infant mortality dropped to 113 per 1,000 live births. And life expectancy increased to 52 years.

³⁶ S.A. Zaidi, "Why medical students will not practice in rural areas: evidence from a survey", *Social Science and Medicine*, vol. 22, No. 5 (1986).

Over the SA regimes, these critical education and health indicators worsened. Primary enrolment decreased from 51 per cent to 40 per cent. And female primary enrolment decreased from 32 per cent to 28 per cent. The number of nurses per doctor dropped from 0.5 to 0.3. Over the first SA period of EFF1, infant mortality actually increased from 113 to 119. And life expectancy actually dropped by one year over this period.

Therefore the Keynesian populism of the 1970s, increasing the development and maintenance expenditure shares for social services, is seen to have lowered poverty of public access. And the SA policies of continual share reduction in development expenditure and even share reduction of maintenance expenditure over EFF1, is seen to have worsened poverty of public access.

V. CONCLUSIONS

A. STRUCTURAL ADJUSTMENT, STRUCTURAL CHANGE, AND POVERTY

The theoretical framework of this study has shown that there cannot be a simple relationship between SA and poverty. There are two reasons for this.

One, the implementation of SA policies will not be the only dynamic at work in the economy. The SA dynamic will co-exist with a set of internal dynamics of the economy. Therefore if we posit an expected negative relationship between SA and poverty, this need not be the only empirical outcome. Some of the internal dynamics can reinforce the negative impact of SA on poverty. While other internal dynamics can counteract the negative impact of SA on poverty.

The set of internal dynamics of an economy can be categorised as structural change in the economy. Hence structural change and SA will both affect poverty. And there will be no simple relationship between SA and poverty. There will be a complex relationship between structural change and SA on the one hand, and poverty on the other.

Two, the complexity of the relationship is added to, because there is no single dimension of poverty. Different aspects indicators measure different aspects of poverty. Measurements of household expenditure are used to indicate poverty of income. However there can be goods and services consumed by the very poor which do not enter into the expenditure stream. Access to public and common goods and services can be used to indicate another notion of poverty of public access.

These two notions of poverty will be sensitive to different policies. Some aspects of the SA dynamic like changes in employment, consumption subsidies, and prices will affect poverty of income more directly, and poverty of public access more indirectly. Other aspects of the SA dynamic like changes in development expenditure and current expenditure on social services will affect poverty of public access more directly, and poverty of income more indirectly.

Similarly, some aspects of structural change like migration, wage rates, sectoral shifts in employment, and agrarian landlessness will affect poverty of income more directly, and poverty of public access more indirectly. Other aspects of structural change like institution building, and social pressure for public institutions will affect poverty of public access more directly, and poverty of income more indirectly.

In Pakistan the Keynesian populist regime of Bhutto and the subsequent anti populist SA regimes of Zia, Benazir, and Nawaz Sharif allow a good comparison of the impact of SA and structural change on poverty.

The survey of Bhutto's economic regime in chapter II shows three aspects of structural change at work. Populist policies redistributed industrial and financial assets, transforming a private economy into a mixed economy. This would tend to increase employment and income, and reduce poverty of income. Keynesian policies increased development expenditure, current expenditure on social services, and consumption subsidies. This would tend to increase public access to goods and services, reducing poverty of public access. The unplanned internal dynamic of migration, remittances, increased wage rates, and informal sector employment growth in manufacturing would again tend to reduce poverty of income. The unintended consequence of land reforms, of agrarian landlessness would tend to increase poverty of income.

So under the Keynesian populist regime, the overwhelming impact of structural change would tend to be a reduction of both kinds of poverty, of income and public access.

The survey of the SA regimes in chapter II shows the coexistence of SA and structural change. Supply side policies have primarily reduced consumption subsidies and increased prices which would tend to increase poverty of income, especially in urban areas. Demand side policies have continually reduced the share of development expenditure, and even reduced the share of maintenance expenditure on social services from 1984/85 to 1988/89. This would tend to increase poverty of public access. The unplanned aspects of structural change persisted from the previous regime to the SA regime. Migration, remittances,

increased wage rates, and informal sector employment growth would tend to reduce poverty of income. If anything, remittances were higher, rural wages grew faster, informal sector employment expansion was more broad based, and agrarian landlessness unexpectedly lower, in the second period, so the reduction in poverty of income would tend to be greater.

Therefore during the SA regimes, the negative impact of supply side measures on poverty of income can be countered by the positive impact of unplanned structural changes. However demand side measures would tend to increase poverty of public access.

Analysis of the actual impact of SA and structural change on both kinds of poverty, income and public access, broadly conforms to these expectations.

Chapter III shows that poverty of income, as measured by household expenditure, decreased over the 1970s and the 1980s. The decade of the 1970s largely represents the impact of the Keynesian populist regime. And the decade of the 1980s largely represents the impact of the SA regimes.

Over the 1970s, poverty of income, both in rural and urban areas, decreased at roughly the same rate. So all aspects of structural change had a positive impact on poverty of income during this period.

Over the 1980s, poverty of income also decreased in both areas. So, aspects of structural change like migration, remittances, higher wage rates, and informal sector growth over rode the negative impact of SA supply side decrease in subsidies and increase in prices.

Over the 1980s, however, urban poverty reduction was much slower than the decline in rural areas. Therefore SA supply side increases in agricultural prices had a negative impact on non producer urban incomes. And this reduced the positive impact of structural change on urban poverty of income relative to rural.

Chapter IV shows that over the Keynesian populist regime, critical indicators of poverty of public access improved. Total primary school enrolment, and female primary enrolment increased. The number of nurses per doctor increased. Infant mortality dropped and life expectancy rose. So the Keynesian aspects of structural change had a positive impact on poverty of public access.

Over the SA regimes however, a number of critical indicators of poverty of public access worsened. Total primary enrolment and female primary enrolment

dropped over the period. The number of nurses per doctor also dropped. Infant mortality actually increased and life expectancy actually decreased over the EFF1 years. These were the years when the shares of both development and maintenance expenditure decreased. Therefore SA demand side measures of reduction in development expenditure and current expenditure on social services, have had an observable negative impact on poverty of public access.

So these findings support the complex relationship between SA and structural change on the one hand and different notions of poverty on the other. In Pakistan, various planned and unplanned aspects of structural change have mitigated the negative impact of SA supply side measures on poverty of income. However SA demand side measures have had an observable negative impact on poverty of public access.

B. WHY IS STATE BEHAVIOUR AVERSE TOWARDS SOCIAL SECTOR DEVELOPMENT?

There is a crisis in social sector development in Pakistan. This study has given a number of indicators of the crisis. Social sector development in Pakistan compares badly with other low income countries. The share of development expenditure has decreased over the 1980s. The share of maintenance expenditure in current expenditure decreased till World Bank sectoral conditionality pushed for it's increase in the mid-1980s. The share of defence expenditure, despite SA deficit reduction policy, increased over the 1980s. This raises the question of why the state in Pakistan behave perversely towards social sector development? Social sector development cannot be dictated from the outside. The imperative must be domestic. The state not only ignores the imperative, given a choice, it behaves perversely.

Our explanation for the behavior of the state is based on three elements. The state has an agenda for comprehensive privatization of the social sectors. The state is able to pursue this agenda because of the failure of local institutions to militate against it. And the state is using Non Governmental Organizations (NGOs) to privatize by enhancing their role from a delivery system to a major source of inputs.

1. Privatization

The state in Pakistan is not motivated by domestic imperatives. The Bhutto regime was strongly influenced by the Keynesian role of the state in managing growth and distribution. This ideology was prevalent in developed countries during the period of sustained growth called the 'Long Wave of Capitalism' stretching from the 1930s to the 1970s. The state's role was enabled by the

stability in the world and domestic economies - stability in demand, long range off shore production, dedicated technology, deskilled labour use, low raw material prices, and fixed exchange rates. Subsequent volatility in the global system has made the state's response time much too slow. This has eroded the state's role for managing growth in both the capitalist and socialist economies.

The state's role for managing growth is influenced by the world economy. But the state's role in managing distribution is more strongly influenced by domestic imperatives. Domestic imperatives are based on the values attached to welfare, and equity, and their integration into the strategy of growth.

So there are global and efficiency grounds for the state's abdication from the role of managing growth. But there are domestic imperatives for the state's retaining the role of managing distribution. The Pakistani state is abdicating from both roles, managing growth and distribution. It has a comprehensive agenda for privatizing social sector development. And it will not redistribute income through increasing direct taxes.

2. Institutional failure

The state's role in managing distribution is determined by domestic imperatives. Domestic institutions articulate the values attached to welfare and equity, and the role of welfare and equity in the growth strategy. The base of the institution, the degree of consensus, and the level of articulation, will determine the strength of the constraint on the state.

In the developed economies, the welfare state was run on the basis of sustained growth till the recession of the 1970s. Subsequently the state is attempting to cut back welfare with a rationale. The state argues that the upper and middle classes pay taxes to provide welfare benefits for the poor. Taxes however need to be cut to raise growth. Tax cuts can be enabled through welfare cuts. Welfare cuts will decrease the quality of social services. But the upper and middle classes can use their tax cuts to substitute private services for public welfare.

However, in developed economies, the state is constrained in its agenda of privatizing the social sectors by dissenting institutions like political parties, trade unions, and social forums. In other middle and low income countries that may lack these overt democratic rights, the state is constrained from privatizing the social sectors by the threat of a strong mass based political alternative.

Pakistan lacks both kinds of dissenting institutions, existing forums, and the pressure of a political alternative. So the state faces virtually no constraint in privatizing welfare.

3. The political economy of NGOs

The state is helped in its agenda of privatizing the social sectors by substituting its role with NGOs. NGOs specialize in delivering a set of key inputs. Their efficiency and impact vary considerably in Pakistan, from the good with high efficiency and impact, to the bad with low efficiency and impact, to the ugly which are just businesses.

Good NGOs in Pakistan like the Aga Khan Rural Support Program (AKRSP), and the urban Orangi Pilot Project (OPP), have a number of strong points.³⁷

- (i) They are aimed at a community rather than an individual.
- (ii) They identify a set of integrated needs, rather than one.
- (iii) They base their programme on participation to decrease dependence.

These NGOs like AKRSP and OPP however cannot also be replicated for a number of reasons. They have emerged in very specific political circumstances. Their capital costs are very high. And they cannot go to scale within the existing centralized power structure. However the state influenced by external SA policies is increasingly expanding the role of NGOs from experiments in delivery systems to sources of key inputs.

³⁷ See cf. K. Nadvi, "Poverty alleviation programmes in Pakistan", Report for the World Bank, 1990; and M. Mahmood, "A macro appraisal of the impact of poverty alleviation programmes", Report for the World Bank, 1990.

SOCIAL DIMENSIONS OF ECONOMIC RESTRUCTURING: THE CASE OF PAPUA NEW GUINEA

by

Nimal A. Fernando and Wari Iamo***

I. INTRODUCTION

Papua New Guinea is the largest island economy in the developing Pacific region with a land area of some 460,000 square kilometres. It has a population of approximately 3.6 million according to the latest 1990 census. About 85 per cent of this population live in the rural sector. It has an extraordinarily diverse culture and a society with over 700 different languages or dialects being used in different areas. The administrative system of the country is also largely fragmented due to the existence of 19 provincial governments, in addition to the national government.

The country gained self-government status in 1973, and political independence from Australia in 1975, with a parliamentary democratic system of government. The provincial government system was also introduced in 1977 with a view to decentralizing political and economic management.

It is the richest developing country in the region in terms of natural resources. Its known resources of copper and gold are large; oil deposits are also substantial, according to recent confirmed discoveries; a fertile, vast land resource is perhaps the most valuable asset of the country; forest cover is enormous; most of the fishery resources have not yet been tapped; farmers are enterprising, as evident both from the rapid growth in a smallholder cash crop economy without much state assistance and a strong subsistence agricultural sector.

The topography of the country is rugged and access to, and communication with most of the remote rural areas is difficult and costly. The small population of the country is geographically fragmented and in many areas population density is very low which makes development of markets and monetized activities difficult.

* Head, Economic Studies Division, The National Research Institute, Boroko, Papua New Guinea.

** Director, The National Research Institute, Boroko, Papua New Guinea.

Approximately 95 per cent of the country's land resources is held under a complex system of customary land tenure which restricts free access to land for people outside clans. While the tenure system offers numerous advantages such as prevention of emergence of a landless agriculture labour class and share tenancy, it imposes a multitude of constraints on mobilizing land for development purposes quickly and at times leads to serious conflicts within clans regarding rights of usage. However, the system appears to have the capacity to accommodate a moderate demand pressure for land without serious friction.

The country's annual per capita income was estimated at \$US 900 in 1987. Hence, it falls into the lower middle-income category. As may be seen from table 1, agriculture, including forestry and fisheries, is the dominant sector accounting for about 33 per cent of GDP, 30 per cent of total export earnings 25 per cent of the total wage employment and the bulk of the non-wage employment. Major export crops include coffee, cocoa, oil palm and coconut. Prior to the closure of the Bougainville Copper Mine in May 1989, mining and quarrying accounted for 16 per cent of the GDP while manufacturing and service sectors accounted for 11 per cent and 40 per cent, respectively [World Bank 1989]. Before the closure of the Bougainville Copper Mine due to internal problems, the mining sector accounted for about 69 per cent (1988) of the total export earnings of the country. Since the early 1980s, log exports have also become a growing source of foreign exchange.

Since independence in 1975, the degree of monetization of the economy has increased from the pre-independence level. In the late 1980s the ratio of total money supply to GDP was around 40 per cent. Significance of foreign trade has also risen considerably, strengthening further the integration with international markets, relative share of agriculture in GDP has declined from about 40 per cent in the late 1960s to 32 per cent in the late 1980s; relative share of mining in GDP has risen sharply and of manufacturing slightly (Jarrett and Anderson 1989).

However, despite these, the record of economic growth and development over the past 15 years tends to indicate a multitude of problems. The social sector is one of the areas in which such serious problems appear to exist. While there have been some notable achievements in certain areas, the overall picture of development appears to be disturbing and the emerging trends do not foretell that the economy is likely to experience equitable growth — growth which would provide a better quality of life for the masses of the country in the foreseeable future.

The purpose of this paper is to discuss the development trends in the social sector in qualitative as well as quantitative terms in relation to economic growth

**Table 1. Real GDP by economic activity at constant 1983 prices
(Million kina)**

<i>Economic activity</i>	<i>1985</i>		<i>1986</i>		<i>1987</i>		<i>1988</i>		<i>1989</i>		<i>1990</i>	
	<i>Amount</i>	<i>Per cent</i>	<i>Amount</i>	<i>Per cent</i>	<i>Amount</i>	<i>Per cent</i>	<i>Amount</i>	<i>Per cent</i>	<i>Amount</i>	<i>Per cent</i>	<i>Amount</i>	<i>Per cent</i>
Agriculture, forestry and fishing	699.9	31.5	711.5	31.1	750.2	31.6	777.7	31.8	790.9	32.9	785.4	33.2
Mining and quarrying	274.6	12.4	365.8	16.0	356.7	15.0	367.0	15.0	233.9	9.7	243.7	10.3
Manufacturing	242.4	10.9	222.3	9.7	225.6	9.5	236.0	9.7	263.4	10.9	268.2	11.4
Electricity and other services	34.4	1.5	34.3	1.5	36.2	1.5	36.4	1.5	37.4	1.6	35.8	1.5
Construction	87.8	4.0	92.0	4.0	87.2	3.7	109.4	4.5	131.5	5.5	136.0	5.7
Commerce, transport, finance	410.0	18.5	381.0	16.6	417.4	17.6	411.2	16.8	393.0	16.3	372.3	15.7
Community and social services	377.8	17.0	379.1	16.6	381.4	16.1	382.6	15.7	404.3	16.8	396.4	16.7
Import duties	93.4	4.2	103.3	4.5	117.3	5.0	121.8	5.0	151.7	6.3	129.8	5.5
Total GDP	2 220.3	100.0	2 289.3	100.0	2 372.0	100.0	2 442.1	100.0	2 406.1	100.0	2 367.6	100.0

Source: Department of Finance and Planning.

and highlight social dimensions of economic restructuring since independence. The paper is organized in the following manner: Section II will provide a brief picture of the economic growth performance, and section III will present social development. Section IV discusses institutional aspects of development while section V presents conclusion and policy recommendations.

II. DEVELOPMENT RECORD

The overall growth performance of the country during much of the post-independence period has not been impressive, despite the emphasis placed on the "growth" objective in practice by the policy makers. As may be seen from table 2 the average annual growth rate of real GDP (at constant 1983 prices) was only 1.7 per cent during the 1971-1980 period while it was only marginally better at 2.0 per cent during the 1981-1990 period. As the population growth rate during the period is assumed to have been around 2.3 per cent per year, per capita income must have fallen during the post-independence period.¹

**Table 2. Growth rate of real GDP
(At constant 1983 prices)**

Year	Per cent per annum							
	1985	1986	1987	1988	1989	1990	1971-1980	1981-1990
Growth rate	4.5	3.1	3.6	3.0	-1.5	-1.6	1.7	2.0

Source: Asian development Bank, *Asian Development Outlook*, 1991.

The closure of the Bougainville Copper Mine in May 1989 due to internal problems together with the depressed prices of agricultural commodity exports had a significant adverse impact on growth performance of the economy in 1989 and 1990. In contrast to earlier years, real GDP growth rate turned out to be negative 1.5 per cent and 1.6 per cent in 1989 and 1990, respectively. The economic crisis triggered by the above two events also led to balance of payments problems and compelled the government to introduce a structural adjustment programme in 1990 supported by the World Bank and the International Monetary Fund (IMF), among others. This is one of the most significant economic events in recent history. In response to the crisis, under the structural adjustment programme, the government introduced the following key policy measures:

¹ There are different estimates of the population growth rate which range from 2.3 per cent to 2.7 per cent per year, for this period.

- (1) Devaluation of the kina by 10 per cent in January 1990;
- (2) Restraint on wage increase;
- (3) A more restrictive monetary policy over the first half of the year; and
- (4) Reduction in government recurrent expenditure.

Although the package of measures includes a “Special Intervention Programme” to protect the vulnerable groups from adverse social effects, it is likely that the adjustment programme will have some adverse effects on such groups as will be discussed later.

Another significant macro-aspect of the development record is heavy dependency on the growth of the mining sector. It is the mining sector which has expanded considerably over the post-independence period. Mining and quarrying which accounted for only a very small share of GDP in the early 1970s now account for about 15 per cent of GDP. As mining is largely an economic enclave and it relies heavily on capital intensive technology, its development effects are very much limited and dependent upon the government’s expenditure policies and pattern. Although the agriculture sector would have had a relatively broad-based development effect, its growth rate was sluggish except in one or two years and its share in GDP stagnated around 33 per cent. Unfortunately, much of the sluggish agricultural growth was also confined to the tree crop sector which is characterized by high geographical concentration in a few provinces where infrastructure is relatively developed and hence returns on agricultural investments are likely to be higher. Both these factors – that is, dependency of growth on the mining sector and the tree crop based sluggish agriculture growth – appear to have a significant bearing on social sector developments.

Unlike many other developing countries, Papua New Guinea maintained a relatively low rate of inflation during the 1971-1990 period. The average annual rate of inflation, as measured by the Consumer Price Index (CPI), was 9.5 per cent during 1971-1980 and only 5.5 per cent during 1981-1990. The inflation rate rose from 4.5 per cent in 1989 to 7 per cent in 1990, mainly due to the devaluation of the kina in January 1990. Thus, price stability appears to have been a significant aspect of the macroeconomic picture during the period.

III. SOCIAL DEVELOPMENTS

After Papua New Guinea obtained self-government status, the government announced the following “Eight National Goals” in 1973:

1. A rapid increase in the proportion of the economy under the control of Papua New Guinea individuals and groups and in the proportion of personal and property income that goes to Papua New Guineans.

2. More equal distribution of economic benefits, including movement towards equalisation of incomes among people and towards equalisation of services among different areas of the country.
3. Decentralisation of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade, and more spending channelled to local and area bodies.
4. An emphasis on small-scale artisan, service and business activity relying where possible on typically Papua New Guinean forms of business activity.
5. A more self-reliant economy, less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production.
6. An increasing capacity for meeting government spending needs from locally raised revenue.
7. A rapid increase in the equal and active participation of women in all forms of economic and social activity.
8. Government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development.

The goals emphasize social justice and broad-based, participatory, self-reliant development which include the social sector as well. One of the goals makes special reference to “participation of women” in all forms of economic and social activities. These objectives were restated in different words in the Preamble to the 1975 Constitution of the Independent State of Papua New Guinea and the five national goals. The latter includes integral human development and equality and participation. Accordingly, all citizens should have an equal opportunity to participate in and benefit from the development of the country [DOFP 1990:2]. It appears from the Eight National Goals and the Five National Goals of the Constitution that the country has placed considerable emphasis on broad-based development incorporating the well-being of the people. Therefore, it is important to discuss the social sector development within this framework of national goals.

However, at the outset, it must be noted that there is a serious lack of appropriate data on the social sector in the country on a time series basis. Available data for certain years suffer from quality problems and have to be put together from a variety of different sources. This makes analysis of trends a

particularly difficult task. However, in the absence of continuous time series statistics and information one does not seem to have a choice other than to rely on such data. Although, a comprehensive coverage of social sector development is not feasible under this constraint, a reasonably broad picture may be constructed.

A. HEALTH

Records on the health sector suggest significant improvements during the post-independence period. Some of these are shown in table 3. The crude death rate has declined from 17 over 1,000 in 1971 to 11 in 1989. However, there still exists a significant gap in death rates between urban and rural areas. In 1980 the crude death rate in the rural sector was 14.2 — almost double that of the urban sector (7.7). Perhaps, one of the most important indicators of social development is the infant mortality rates (IMRs). Data show that the IMR declined from 134 in 1971 to 72 in 1980 and to 58 in 1989, indicating a remarkable improvement over a short time span of about two decades. Although the national averages certainly mask regional variations, available provincial data also reveal that the improvement was shared to a varying degree by all provinces.

UNICEF uses the under five mortality rate (U5MR) as a more appropriate measure of the level of child well-being and its rate of change over time in part due to the fact that the rate is known to be the result of a wide variety of inputs: the nutritional health and the health knowledge of mothers; the level of immunization and ORT use; the availability of maternal and child health services; income and food availability in the family; the availability of clean water and safe sanitation; and the overall safety of the child's environment. [UNICEF, 1991:117]. In Papua New Guinea, U5MR declined from 112 in 1980 to 83 in 1989, showing an average annual reduction rate of 3.3 per cent.

Immunization coverage figures provide further evidence on post-independence development in the health sector. Although data in table 4 reveal some disturbing aspects, the trend has been one of improvement over time. Despite the lack of hard data for the pre-independence period, it is known that immunization was at very low levels even until the late 1970s. Thus, the progress in this area during the last decade may be considered substantial.

Improvements in life expectancy also reflect progress in the health sector. As may be seen from table 3, life expectancy has improved significantly from 40 years in 1971 to 50 years in 1980. It further improved to 55 years in 1989. If we use a shortfall measure to assess the progress in life expectancy and consider 70 years as the target for calculating shortfalls, between 1971 and 1980 there has been a 33 per cent reduction in shortfall. Between 1980 and 1989, reduction in shortfall works out to 25 per cent.

Table 3. Social development indicators, selected years, 1971-1989^{a/}

	1971	1974	1980	1987	1989
Infant mortality rate (per 1,000 live births)	134	—	72	62	58
Life expectancy (yrs)	40	—	50	55	55
Crude death rate (per 1,000)	17	16	13	12	11
Crude birth rate (per 1,000)	45	44	—	39	34
Child death rate (per 1,000) ^{b/}	91	—	45	—	—
Under 5 mortality rate (per 1,000)	—	—	112	—	83
Maternal mortality rate (per 100,000)	—	—	1 000	—	900
Population growth rate (per cent)	2.3	2.3	2.7	2.7	—
Adult literacy rate (per cent)	—	—	32	45	47
— Male	39	—	—	60	—
— Female	24	—	—	32	—
Gross primary enrolment ratio (per cent) ^{c/}	55	56	58	—	71 ^{d/}

Sources: World Bank 1989; Goodman *et al.* 1985; Department of Health 1988; UNDP 1990; UNICEF 1991; and Bureau of Statistics 1977.

^{a/} All these indicators are crude estimates. Different sources give different values for some of the indicators for the same year. Therefore, these should be interpreted very cautiously. ^{b/} Children between 1-5 years. ^{c/} Gross primary enrolment ratio is Grades 1-6 enrolment as a percentage of the 7-12 year age population in a given year. ^{d/} 1988.

While considerable progress has been achieved in several areas, the maternal health area continues to be a relatively neglected area in the country. Maternal mortality rate, although it declined from 1,000 per 100,000 in 1980 to 900 in 1989, continues to be high. Although, most urban women now have supervised deliveries, unlike in the early 1970s, these essential services remain unavailable for the majority of rural women. In some remote areas, only 10 per cent of pregnant women receive at least one antenatal consultation while in other areas where maternal and child health (MCH) patrols have not been functioning, pregnant women receive no antenatal care. As Gillett (1990, p. 28) noted "often antenatal care is superficial and little effort is made to identify high-risk pregnant women or to persuade them to deliver at a hospital or a health centre".

One may, in general, observe three types of inequalities in the health sector developments: first, is the significant gap between the urban sector and the rural sector in health indicators. The 1980 census data reveal considerable gaps in

**Table 4. Immunization coverage in Papua New Guinea, 1980-1988
(Percentage of children immunized)**

<i>Year</i>	<i>Polio 3rd dose</i>	<i>TA 3rd dose</i>	<i>Measles</i>	<i>BCG</i>
1980	29	32	—	62
1981	32	32	—	64
1982	27	29	—	49
1983	27	27	1	58
1984	32	34	26	66
1985	34	40	27	73
1986	42	44	39	76
1987	44	44	37	74
1988	48	48	46	80
1989	52	53	52	82

Source: Department of Health, Port Moresby, Papua New Guinea.

IMR, crude death rate and child mortality between the urban and rural sectors, the highlands region and the islands region. The National Capital District which represents the urban sector reported an IMR of 35, a much lower rate than the national average of 72. Similarly, as may be seen from table 5, the average IMR for the islands region was only 52 while the same for the highlands region was 85 — much higher than the national average rate. Similar or even more glaring disparities exist within provinces, with remote rural areas reporting much higher rates than those near provincial towns, though hard data are not readily available to cite.

The same pattern of intersectoral inequality holds true for crude death rate, child mortality rate, maternal mortality rate and life expectancy. Data presented in table 6 show that while life expectancy in 1980 was 56.7 in the National Capital District, it was only 43.8 in Southern Highlands Province. Unfortunately, more recent sectoral data are not available on any of these indicators. However, available evidence tends to suggest that sectoral as well as regional disparities continue to exist.

Data on infrastructure facilities tend to suggest that the rural sector also has access to such facilities. As at the end of 1988, for example, there were 19 hospitals, 32 urban clinics, 192 health centres, 279 health subcentres and 2,325 aid-posts in the country, most of which were providing access to rural people. Yet, only a few rural people have access to relatively better facilities confined to provincial hospitals and the General Hospital in Port Moresby. Most of the others have to be satisfied with health subcentres or aid-posts which are very poorly equipped in terms of drugs and trained manpower. For example, most aid-posts

Table 5. Infant mortality rates/1,000 live births, by sex and province, 1971 and 1980

Province	Male		Female		Total	
	1971	1980	1971	1980	1971	1980
Papuan region	115	60	101	56	108	58
Western	128	92	131	73	129	93
Gulf	194	70	188	71	191	71
Central	90	61	81	55	85	59
NCD ^{a/}	—	37	—	33	—	35
Milne Bay	111	47	86	53	98	50
Oro	108	70	81	64	94	67
Highlands region	160	95	141	74	151	85
S. Highlands	171	136	147	94	159	116
Enga ^{b/}	—	100	—	81	—	91
W. Highlands	164	88	142	72	153	81
Simbu	149	85	149	86	149	87
E. Highlands	152	64	128	43	141	55
Momase region	147	80	134	72	141	76
Morobe	130	64	116	59	123	62
Madang	130	69	114	55	122	62
East Sepik	190	96	177	91	183	94
West Sepik	146	112	138	96	143	104
Islands region	86	53	75	49	81	52
Manus	91	57	81	51	86	55
New Ireland	78	68	69	56	74	62
E.N. Britain	83	57	71	56	77	57
W.N. Britain	96	64	78	53	88	60
N. Solomons	88	31	78	33	83	33
PNG total	142	78	125	66	134	72

Source: National Statistical Office.

^{a/} In 1971, NCD was part of Central Province. ^{b/} In 1971, Enga was part of Western Highlands Province.

are neither equipped nor have trained staff who can help a women experiencing problems in labour. The quality of services provided in most rural facilities appears to be questionable. Thus, Gillett (1990, p. 105) noted that although two out of three pregnant women attend an antenatal clinic at least once during their pregnancy, often this care is superficial.

The underdeveloped nature of infrastructure is shown by the fact that most Papua New Guineans do not, for example, have access to safe drinking water,

Table 6. Life expectancy at birth by sex and province, 1971 and 1980

Province	Male		Female		Total	
	1971	1980	1971	1980	1971	1980
Papuan region						
Western	39.1	46.2	37.8	49.5	38.5	47.7
Gulf	29.1	47.8	29.1	46.9	29.1	47.3
Central	43.1	50.9	44.3	51.9	43.7	51.3
NCD ^{a/}	—	56.1	—	57.3	—	56.7
Milne Bay	41.1	58.3	44.9	55.8	43.0	57.1
Oro	40.2	48.8	44.5	49.6	42.3	49.2
Highlands region						
S. Highlands	35.7	41.1	38.0	47.2	36.8	43.8
Enga ^{b/}	—	45.8	—	48.8	—	47.1
W. Highlands	39.5	50.8	40.9	53.6	40.5	51.9
Simbu	43.6	51.0	42.9	49.9	43.3	50.2
E. Highlands	43.0	51.0	45.9	56.3	44.3	53.1
Momase region						
Morobe	42.1	50.7	43.5	51.5	42.7	50.9
Madang	39.5	49.4	41.0	52.3	40.2	50.7
East Sepik	32.6	49.1	33.2	49.4	32.8	49.3
West Sepik	36.4	41.2	36.7	43.1	36.5	42.1
Islands region						
Manus	43.3	51.4	44.6	52.5	43.7	51.8
New Ireland	45.2	51.6	46.7	53.7	45.9	52.7
E.N. Britain	46.2	53.2	48.1	52.8	47.1	52.8
W.N. Britain	43.1	50.5	45.8	52.7	44.3	51.3
N. Solomons	46.2	60.2	47.5	59.3	46.9	59.6
PNG total	39.6	48.7	41.1	50.7	40.4	49.6

Source: National Statistical Office.

^{a/} In 1971, NCD was part of Central Province. ^{b/} In 1971, Enga was part of Western Highlands Province.

which is considered essential for a healthy life. More than 60 per cent of the population in rural areas obtained their water from natural unimproved sources such as streams or rivers in 1979 (Townsend 1985, p. 50). In 1985, only about 10 per cent of the rural population had access to reliable water supplies within easy reach of their homes. "Drinking water in much of the rest of countryside is often contaminated by pig and human faeces and other pollutants, and has to be fetched by village women over difficult terrain and long distances" (Goodman *et al.* 1985, p. 167).

Although more recent data are not available to judge the trends, given the rapid growth in rural population, the possible increase in chemicals and other types of pollution of rivers and streams due to expansion of pig population, mining activities, processing of oil palm in certain areas and lack of effective broad-based programmes to improve the situation, it can be safely assumed that the situation has not improved over the last five years. Lack of easy access to safe drinking water continues to be a major problem affecting the health and well-being of the rural people. In 1983, about 96 per cent of the rural population also lacked adequate sanitation. The number of persons in that category was about 2.1 million in 1985-1987 (UNDP 1990, p. 132).

The second type of inequality in the health sector is across socio-economic groups. These inequalities are produced not so much by the lack of physical infrastructure, but by the uneven access created by the income and educational differentials. As in other countries, better educated and those in the high income groups have much better access to improved health facilities. Those employed in the formal sector also belong to this privileged category.

The third type of inequality is gender-specific. The high maternal mortality rate in the country suggests the extent of deprivation to which women are subjected. In 1986, about 62 per cent of the births took place without the assistance of health personnel while this has risen to about 80 per cent in 1988 (Department of Health 1989), indicating the fragility of moderate achievements in certain years. It is even more disappointing to note that 80 per cent of all rural births are not supervised by a trained person (Cox and Daure 1991, p. 72). Referring to women's health status, Gillet (1990, p. 9) writes:

“Despite the fact that the Papua New Guinea National Health Plan 1986-1990 identified maternal care and family planning services as priority areas (particularly for women in rural areas) in practice the health needs of women are poorly understood and given low priority in the provision of health services. For example, maternal and child health services are overwhelmed with the needs of children and are not able to deal effectively with the needs of the mothers.”

Although, birth spacing is one of the most important means by which reduction in child deaths could be achieved and health of mothers could be improved, access to family planning is very poor in most rural areas. Partly as a result of this, only 3 per cent of all rural women use family planning (Cox and Daure 1991, p. 12). This has significant adverse effects on not only children's but also mothers' health status.

An immunization programme against selected diseases has made considerable progress in part due to efforts of UNICEF and the increased policy emphasis on the programme over the years. Yet, in East Sepik Province, the coverage has been substantially low – 26 per cent against polio, tetanus, whooping cough, diphtheria and measles. High drop-out rates are also a serious problem of the programme in many provinces. Although about 85-90 per cent of the children receive their first dose of polio or triple antigen series, only 50-55 per cent receive their third dose which is essential for full protection against these diseases. These problems tend to suggest that in certain areas either output is not proportionate to the inputs or the programme implementation is fragile for various reasons.

Another area in which a significant progress has been achieved in the social sector is education. The achievements cover expansion of primary and secondary education in particular in many parts of the country where such facilities either did not exist or were at very poor levels at the time of Independence.

The literacy rate has improved from 32 per cent in 1980 to about 45 per cent in 1985 (UNDP 1990). However, it is the rapid expansion in primary enrolments which better indicates the achievements in this area. The compound annual rate of growth in gross primary enrolments in community schools has been estimated at 3.9 per cent between 1973 and 1983 (Goodman *et al.* 1985, p. 174). As may be seen from table 7, the gross primary enrolment ratio rose from 57 per cent in 1975 to 67 per cent in 1985 and then to 71 per cent in 1988.

As shown in table 8, total enrolments in Grade 1 rose from 41,300 in 1972 to 98,232 in 1990, while female enrolments rose from 14,932 to 44,473 between the same years. The enrolment rate of girls in Grade 1 increased from 44 per cent in 1972 to 64 per cent in 1980 and then 76 per cent in 1984. Similarly, enrolments in Grade 6 also increased sharply from 25,184 in 1972 to 47,862 in 1990 while female enrolment in the same grade rose from 8,429 to 20,859 during the same period. Although actual attendance has been lower and there have been early drop-outs these data suggest a remarkable expansion in primary education throughout the post-independence period.

This expansion was made possible mainly by the growth in number of community schools which rose from 1,792 in 1975 to 2,045 in 1980 and 2,580 in 1990. As in the area of health, churches also played a supportive role through their agency schools in the expansion of primary education, particularly in the rural sector. At the end of 1990, there were 70 such church-run primary schools in the country. The goal of a community school was to educate the majority of children “for useful lives in their communities and only a minority for further studies in high school” (Department of Education 1985, p. 33).

Table 7. Gross enrolment rates grades 1 to 6 by province, 1975-1988

<i>Province</i>	<i>Gross enrolment rate</i>			
	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1988</i>
Papuan region				
Western	62.0	66.1	80.8	87.7
Gulf	61.7	60.7	69.6	71.4
NCD	59.4	81.9	76.4	81.8
Central	68.0	66.2	81.4	87.2
Milne Bay	74.4	67.6	73.4	74.5
Oro	59.5	58.3	69.4	72.2
Highlands region				
SHP	45.7	43.9	54.5	51.9
EHP	36.3	53.2	64.9	75.1
Simbu	48.4	54.3	61.7	91.7
WHP	45.1	44.9	52.3	63.5
Enga	33.8	41.8	54.8	58.4
Momase region				
Morobe	51.9	48.9	62.4	66.1
Madang	55.8	52.9	60.8	63.9
WSP	54.9	56.1	61.1	65.9
ESP	59.4	59.8	74.7	72.1
Islands region				
Manus	59.7	75.7	88.7	89.3
New Ireland	82.3	72.8	88.8	86.5
ENB	105.1	89.2	80.6	82.9
WNB	73.3	73.9	78.2	75.1
NSP	85.3	71.5	74.2	74.0
PNG total	56.5	57.6	66.8	71.3

Source: Tawaiyole and Gibson 1989.

Notes: 1. The gross enrolment rate (GER) is grades 1-6 enrolment as a proportion of the 7-12 year age population. Population data come from National Statistical Office projections for the citizen population of Papua New Guinea.

2. For 1975 and 1980 South Fly and North Fly are included in Western Province.

3. A GER of more than 100 per cent is possible because many primary school students fall outside the 7 to 12 year-old range.

During the post-independence period, secondary education also expanded rapidly. Between 1975 and 1985, 35 new provincial high schools were opened, bringing the total number of such schools to 113. By the end of 1990, there were 121 provincial high schools.

Most of the new schools were opened in 'disadvantaged' provinces where such facilities were poor at independence. As in the case of primary education,

Table 8. Growth in enrolments in grades 1 and 6, 1972-1990

Year	Grade 1		Total	Grade 6		Total
	Male	Female		Male	Female	
1972	26 368	14 932	41 300	16 755	8 429	25 184
1973	30 633	17 337	47 970	17 391	9 109	26 500
1974	27 712	17 433	45 145	19 894	10 237	30 131
1975	32 212	19 700	51 912	20 724	11 490	32 214
1976	31 680	20 782	52 462	20 969	10 892	31 861
1977	35 849	23 982	59 831	19 176	10 370	29 546
1978	31 806	22 508	54 314	22 046	12 416	34 462
1979	37 177	26 713	63 890	19 904	12 159	32 063
1980	35 472	26 465	61 937	21 519	14 627	36 146
1981	39 054	29 481	68 535	21 029	14 062	35 091
1982	37 813	30 735	68 548	23 390	16 063	39 453
1983	42 271	32 732	75 003	21 725	15 427	37 152
1984	43 761	33 969	77 730	25 094	18 362	43 456
1985	44 676	35 813	80 489	23 103	17 980	41 083
1986	45 754	36 525	82 279	25 592	19 552	45 144
1987	46 662	37 158	83 820	23 958	18 844	42 802
1988	49 406	40 172	89 578	26 242	20 350	46 592
1989	-	-	-	-	-	-
1990	53 759	44 473	98 232	27 010	20 852	47 862

Source: Department of Education.

churches played an important role in the 1970s in secondary education as well by operating more than 20 provincial high schools which declined to four by the end of 1990. The total enrolments in high schools rose from about 28,500 in 1975 to about 48,000 in 1985 and then 52,555 in 1990.

However, the expansion in education has not been even between the urban and rural sector and within the rural sector. Available evidence suggests that there are significant inequalities in access to education. According to 1980 census data, the population with no schooling was about 90 per cent in rural provinces such as Enga, Simbu, Eastern Highlands, Western Highlands and Southern Highlands, while in the NCD it was 36 per cent. There is also a wide disparity between the highlands region and the islands region, the former reporting a much higher population with no schooling.

Perhaps, the percentage of children in the age group 7-12 years who are not in school in a given year better illustrates the extent to which certain segments of the child population has not been able to participate actively in the human development process. The 1980 census data revealed that 64 per cent of children in the age group 7-12 years were not in schools in the country as a whole, and the

percentage was even higher in the highlands provinces such as Enga (83 per cent) and Southern Highlands (80 per cent). These data undoubtedly hide wide interprovincial disparities. The 1980 census data also revealed that 55 per cent of the population in the age group 12-25 years have had no schooling at all (Townsend 1985, p. 103). In 1985, there were about 1.2 million illiterate adults in the country while the number of children out of school was 600,000 during 1986-1988 (UNDP 1990).

Gross primary enrolments (GPE) also differ widely between the rural and urban sectors and among provinces. In 1985, the NCD reported a GPE ratio of 75 per cent and more remote highlands provinces with rugged terrain reported a ratio of about 50 per cent. In the same year, East New Britain, Central and Western Provinces also reported a GPE ratio of 77 per cent. Although a substantial improvement in GPE has been recorded by Eastern Highlands, Western Highlands and Simbu Provinces between 1985 and 1988, the situation has deteriorated in Southern Highlands, while Enga has reported only a marginal improvement. It appears that much greater disparities exist now between the latter two provinces and the rest of the highlands provinces than in the early 1980s. The provincial averages, however, conceal significant intraprovincial inequalities which have received rather less attention. Bray's (1985) analysis of East New Britain Province's situation is illustrative in this respect. He showed that most of the developments in the province are confined to the Gazelle Peninsula and, that other areas have lagged behind. Although, the province's average enrolment rate was about 82 per cent in 1983, the rate in the West Pomio census division was only 17 per cent and in Central Pomio it was 52 per cent.

The high drop-out (wastage) rates at primary level grades illustrate another facet of the problem. In a sustainable system one should observe a declining trend in drop-out rates. However, in Papua New Guinea, this has not been the case. As shown in table 9, in 1976, the primary school drop-out rate was 27 per cent. In the 1980s about one-third of the students dropped out every year. The rate in 1988 was 38 per cent, which when adjusted for underestimations, is about 42 per cent [Tawaiyole and Gibson 1989]. Between 1987 and 1988, more than 32,000 children dropped out of primary schools. Regionally, the problem has been most acute in the highlands provinces where the education status of parents has been extremely low and travel to schools is very difficult (Bray 1985). Between 1976 and 1988, the number of provinces with a wastage rate of over 40 per cent increased from two to six. Five of the six are highlands provinces (Tawaiyole and Gibson 1989). Another most unfortunate aspect is that the highest rate of drop-outs occurs between grades 1 and 2. This implies that a large proportion of the students who enrolled leave schools without any worthwhile education.

**Table 9. Wastage between grades 1 and 6, by province, 1971-1988
(Percentage)**

<i>Province</i>	<i>1971 to 1976</i>	<i>1972 to 1977</i>	<i>1973 to 1978</i>	<i>1974 to 1979</i>	<i>1975 to 1980</i>	<i>1976 to 1981</i>	<i>1977 to 1982</i>	<i>1978 to 1983</i>	<i>1979 to 1984</i>	<i>1980 to 1985</i>	<i>1981 to 1986</i>	<i>1982 to 1987</i>	<i>1983 to 1988</i>
Papuan region													
Western	19.3	21.1	35.4	31.9	24.4	26.8	24.3	30.6	24.3	20.7	25.0	27.4	28.4
Gulf	30.0	30.4	39.3	40.3	36.1	34.6	37.6	27.9	27.5	37.8	32.1	36.3	34.0
NCD	in	Central		0.8	8.4	12.2	11.9	11.6	12.1	13.1	12.2	15.3	10.7
Central	18.8	20.3	16.9	16.9	38.5	31.6	28.7	31.3	26.2	32.5	22.9	22.4	28.4
Milne Bay	20.6	29.5	27.4	23.9	9.1	18.9	18.2	27.8	29.3	25.7	27.7	29.6	30.7
Oro	30.1	33.7	23.5	35.1	32.3	21.3	23.9	27.5	33.4	26.3	22.7	35.9	39.6
Highlands region													
SHP	33.0	35.8	39.0	37.2	42.1	46.6	45.4	45.9	43.9	43.2	46.8	52.9	53.2
EHP	43.6	36.7	33.4	38.4	28.4	44.5	50.6	30.1	46.6	46.0	37.5	46.8	44.1
Simbu	40.4	48.5	46.4	48.0	54.0	43.1	55.4	51.2	57.0	58.5	49.0	44.9	49.2
WHP	21.1	24.3	28.4	38.3	44.2	41.2	53.7	43.8	39.2	43.5	43.6	40.8	53.4
Enga	in	WH'lands		31.0	25.6	27.3	49.9	48.2	50.7	58.9	57.2	59.3	61.4
Momase region													
Morobe	17.6	21.6	28.3	22.9	39.7	31.0	29.3	27.4	5.2	28.8	34.6	45.9	37.0
Madang	28.9	28.6	29.0	29.1	29.3	41.0	25.4	18.2	29.0	25.7	30.0	28.0	32.8
WSP	29.3	18.7	24.8	17.9	29.3	30.1	29.8	32.3	27.6	37.2	39.7	38.9	36.6
ESP	22.3	22.6	18.5	30.9	19.6	27.8	22.1	25.6	28.5	24.5	22.8	27.1	23.4
Islands region													
Manus	24.1	15.5	4.9	15.9	15.2	5.3	3.7	0.8	3.9	0.7	12.2	21.8	9.5
New Ireland	38.6	31.7	25.9	29.7	28.8	28.3	35.4	27.2	23.2	26.2	32.1	30.1	47.1
ENB	25.2	30.7	22.8	10.9	18.5	28.5	19.7	30.0	31.9	25.3	31.5	31.4	28.9
WNB	15.2	10.9	16.5	34.2	16.9	29.4	30.1	25.8	24.8	32.2	28.1	29.9	33.4
NSP	34.7	34.1	29.3	25.3	25.5	27.4	19.2	25.5	26.8	19.9	32.2	34.2	29.0
PNG total	26.9	28.5	28.2	30.0	31.4	33.1	33.9	31.6	32.0	33.7	34.1	37.1	37.6

Sources: Bray 1984, Department of Education, 1977-1988.

Also, it has been shown that the education system discriminates against rural children who attend small schools in remote areas and favours those who attend large schools, particularly in urban areas. According to Gibson (1990, p. 8), "there are many children attending schools in rural areas who fail to be selected for high school not because they lack the ability to excel academically but because they have never been given the chance". The system "actually favours the social groups who are already advantaged and penalises those who are disadvantaged and is serving to augment and reinforce imbalances between the rich and poor urban and rural and educated and illiterate" (Gibson 1990). In a micro-level study in Southern Highlands Province, Weeks (1987) also noted that "considerable social differentiation has occurred" within the rural sector due to unequal access to primary schools. According to Weeks (1987, p. 132), "the way districts are developing now will only serve to increase the gap between the centre and the periphery". In another study, Weeks (1985, p. 108) concluded that the education system "favoured the children of higher socio-economic groups and blocked the progress of children from rural areas and uneducated parents".

As Gibson (1990, p. 2) noted "the basic issue of unequal opportunity is one that affects a large percentage of the nation's schools and, accordingly, a large percentage of the nation's school children". This is particularly reflected in the facilities at the community schools. Although primary schools may be considered the backbone of the educational system in a developing economy such as Papua New Guinea for a variety of reasons the bulk of such schools in the country suffer from inadequate facilities. In 1988, for example, 42 per cent of the 2,531 community schools fell into the category of schools with less than four teachers, and 19 per cent of all primary students attended such schools. Another 40 per cent of the primary students attended schools with four to six teachers (Gibson 1990, p. 2).

Thus, the evidence suggests a disturbing trend: although education has expanded during the post-independence period, it has not provided equal opportunities for all socio-economic groups in the rural and urban populations. The unequal access to education appears to have been a major factor contributing to socio-economic differentiation in independent Papua New Guinea. The imbalances which the country inherited as a legacy of colonialism have grown over time and education has functioned mostly to reproduce the prevailing socio-economic order (Bray and Smith 1985).

B. EMPLOYMENT

Data on employment are scanty and official statistics refer only to formal sector employment while hardly any data exist on employment in the smallholder agriculture sector which accounts for almost the entirety of food production and

about 75 per cent of the tree crop production. Therefore, the formal sector employment statistics cannot be used even as a proxy to discuss the trends in aggregate employment.

The labour force in the country is estimated at around 1.85 million. Only about 12 per cent (225,000) of them are employed in formal wage labour. Formal sector employment grows annually by about 7,000-10,000 while the labour force grows by 40,000-50,000. Thus, the growth in the labour force and the low labour absorptive capacity of the formal wage sector together have placed a considerable burden on the non-formal sector for labour absorption. However, available scattered evidence tends to suggest that employment creation in the agriculture sector has been disappointing, relative to the demands placed on the sector. The employment situation has deteriorated further during 1989/90 period with the sharp fall in export prices of several major crops where smallholder involvement in production is extensive. Agriculture growth rate dropped from 3.7 per cent in 1988 to 1.7 per cent in 1989 and to a negative rate of 0.7 per cent in 1990, with consequent adverse effects on employment. As smallholder agriculture in the country is largely dependent on family labour, short-term fluctuations do not result in serious open unemployment. Nevertheless, the poor record of labour absorption over the years in the sector appears to have led to rising unemployment in the rural sector which is reflected to some extent in the poor law and order situation in many rural areas and the continuing and rising urban drift.

Youth unemployment is one of the most serious problems faced by the country at present. Although hard data are not available on this phenomena, the gravity of the problem is widely recognized by policy makers. The Prime Minister recently made a policy declaration calling for the creation of 30,000 jobs within the next three years. The new Public Investment Programme (PIP) presently being prepared is explicitly focused on increased employment and income generation. The seriousness of the current unemployment problem suggests that past policies have failed in this area. Perhaps, this could be considered one of the most disappointing development failures in the country.

C. OTHER AREAS

In addition to health, education and employment, social sector covers a wide array of other areas, including housing, transport and communication, and environmental protection. However, it is difficult to discuss the developments in these areas due to lack of data, particularly in relation to the rural sector where 80 per cent of the population live. Yet, the general picture is somewhat disturbing. Except in oil palm settlement schemes and to a lesser extent in rubber, much of the rural housing is of poor quality and most houses lack basic amenities. In

urban areas, squatter settlements have grown not only in the National Capital District, but also in provincial towns where people live under very poor conditions. Recently government has begun to pay greater attention to housing problems in urban areas, but most of the measures appear to benefit only those with regular or stable income from formal sources. However, these recent policies reflect a positive approach to some of the problems in this area.

Water supply and sanitation are other areas where past developments have been mediocre. It has been the government's policy that the entire population will have access to clean and safe water supplies and hygienic sanitation, whether they live in rural or urban areas. However, as noted elsewhere in the paper most of the rural people suffer from a lack of a stable supply of clean safe water. In some rural areas, water supply has improved in part due to projects implemented by non-governmental organizations (NGOs), although the number of beneficiaries from such projects has been small. Although government makes an effort to improve the situation with external aid, it is unlikely that there will be a significant dent made in the problem unless a much greater commitment is made by the government for the purpose.

The preservation of the natural environment and natural resources is one of the explicitly acknowledged objectives of the Constitution which states that, "Papua New Guinea's natural resources and environment should be conserved and used for the benefit of future generations". Although environmental concerns have been built into national goals, such concerns have been accorded low priority in development strategies. Mining as well as forest projects in different parts of the country have had considerable adverse effects on environment (DOFP 1991, p. 58). Practices adopted by a large number of logging companies have been questioned seriously by both internal and external institutions that are concerned with environmental protection. In response to some of these criticisms, the government has prepared a Tropical Forests Action Plan in association with the World Bank to reduce the adverse effects of forest utilization on the environment. However, environmental damage, most of which is irreversible, done by logging companies represents one of the most serious social costs of economic restructuring in Papua New Guinea.

D. IMPACT OF STRUCTURAL ADJUSTMENTS ON SOCIAL DEVELOPMENT

Owing to the closure of the Bougainville Copper Mine in May 1989 and the sharp fall in export commodity prices, several imbalances emerged in the economy in 1989. In response to this, the government introduced a structural adjustment programme (SAP) in late 1989 to stabilize the economy and bring about structural

changes. The stabilization phase was designed to achieve stability through the monetary, fiscal and exchange rate policy measures and to provide the foundation for structural adjustment. Under this programme, government has reduced government expenditure, devalued the kina by 10 per cent in January 1990, restrained growth in real wages and followed a restrictive monetary policy by reducing the growth in credit to the private sector by the commercial banking system during 1990. The Government has also taken measures to hold its expenditure steady in real terms compared to 1990 (DOFP 1991, p. 6). As a part of the programme, the government also took steps to reduce the size of the public sector work force by retrenching some employees.

In line with current trends in the developing world, the government, however, explicitly recognized that SAP is likely to have adverse effects on the most vulnerable groups in the economy and introduced the following measures to mitigate such effects:

- (a) With the support of several international donors initiated a Special Intervention Programme (SIP) designed to minimize the negative social effects of SAP. This package represents an investment of about K55 million over the 1991/92 period; and
- (b) Cuts in basic services and other areas which particularly affect low income or disadvantaged groups, have been minimized or prevented.

However, these measures were insufficient and unsuitable to have a tangible positive impact on the social sector to offset the adverse effects of SAP. As may be observed from table 10, the SIP includes only one project which can potentially have an immediate effect to mitigate the adverse social effects of SAP in low income groups. That is the health facilities and supplies project. Contrary to official expectation, other components are potentially incapable of exerting an immediate counteracting effect on the social and economic conditions of the poor. The government also expected that, under this programme, funds would be disbursed quickly to carry out the planned activities. However, this turned out to be a highly unrealistic expectation. Poor project development and implementation and over-complex and restrictive disbursement procedures of donor agencies as well as the government resulted in very low disbursement of funds for these projects. Up to mid-1991, only K7.5 million has been disbursed. Ironically, the areas in which expenditure reductions under SAP were most successful were in the social sector, especially health and education. Thus, the SIP failed to offset the adverse consequences of SAP on the social sector.

Devaluation of the kina in January 1990 led to a rise in prices and the inflation rate increased from 4.5 per cent in 1989 to 7.0 per cent in 1990.

**Table 10. Special intervention programme
(Million kina)**

<i>Project</i>	<i>Allocation</i>		
	<i>1990</i>	<i>1991</i>	<i>Total</i>
Housing infrastructure and finance	6.0	6.7	12.7
Urban water supply and sewerage	1.7	4.7	6.4
Road drainage and maintenance	5.2	8.3	13.5
Health facilities and supplies	8.3	7.4	15.7
Small industry development	2.0	3.8	5.8
Police housing	1.5	3.2	4.7
Agricultural commodity research	5.4	8.0	13.4
Total	30.1	42.1	72.2

Source: Department of Finance and Planning.

However, the food prices, as measured by the Consumer Price Index (CPI), rose by a larger 9.6 per cent. In Papua New Guinea many low income groups both in the urban and rural sectors now consume rice and tinned fish, as evident from the very high import figures of these items. The devaluation led to an increase in prices of these items by about 15 per cent in 1990. This caused hardships to many in low income groups both in the informal and formal sectors. As the devaluation was implemented with a wage restraint in 1990, real minimum wages declined by 3.9 per cent in 1990. As a result, real incomes of formal sector wage earners dropped from 1989 levels. It is estimated that more than 40,000 low wage-earning households have been seriously affected by the adjustment programme. However, it is not known to what extent these factors led to a deterioration of health status of low income groups. Yet, it is likely that their health status deteriorated. It is possible that women and children were compelled to eat less food or inferior food due to lower real incomes. The pressure to earn more cash may have increased the work burden of women with consequent negative effects on child care, children's health and the health of women themselves (Macpherson, 1990). Malnutrition among vulnerable groups may have increased, because there were no publicly supported feeding programmes to prevent such effects.

Evidence indicates that cuts in public expenditure had a significant adverse impact on the delivery of health services particularly in the remote rural areas, where such services were already at low levels. It was reported in mid-1990 that budget cuts have significantly affected the child immunization programme in rural areas. Provincial hospitals in Mount Hagen and Lae reported a serious deterioration in the quality of services that they could provide due to lack of

medicines and staff. These problems acutely affected the poorest in the area as they did not have access to private sector facilities. Cuts in budgetary allocation to provincial governments also had adverse consequences on health services in provincial towns and rural areas.

Significant deterioration in the quality of services has occurred in education and transport as well. The expenditure cuts made rural community schools worse off and the maintenance of provincial road networks in satisfactory conditions, problematic. Regular repairs to roads have not been undertaken by many provincial governments particularly in remote rural areas where such facilities have always been poor. Deterioration in rural transport has made the marketing of agricultural produce a more difficult task in such areas with consequent adverse effects on rural farm incomes and the farmers' quality of life.

It is difficult to quantitatively show the impact of SAP on education. However, again one could argue that the cut in budgetary resources under the programme may have contributed to the process of deterioration in quality of education particularly in rural areas and primary level, as people in such areas enjoy little power to resist such developments.

E. CONSTRAINTS ON SOCIAL DEVELOPMENT

It can be argued that the overall record of health does not appear to be impressive, particularly in relation to the per capita income level of the country and also in relation to the record of achievements in countries such as Sri Lanka, the Philippines and Indonesia where per capita income levels are much lower. However, such comparison of Papua New Guinea with other countries, particularly in Asia, may be misleading for at least two major reasons. First, initial conditions in Papua New Guinea were extremely unfavourable at the time of independence. Rural infrastructure, particularly all-weather roads, was highly inadequate, underdeveloped and confined to major plantation and mining areas and a few urban areas; the per capita incomes of nationals were very low; administrative capacity and skills of nationals were low and the number of nationals with secondary and tertiary educational qualifications was extremely low.

Second, the country is vast and the population is scattered thinly in many areas, making provision of public services difficult and quite costly. This is further aggravated by the extraordinarily diverse cultures and rugged terrain — both of which are hostile to rapid social progress — particularly in the highlands region. In this context, the achievements in the social sector, particularly during the early post-independence period, cannot be underestimated. When due weight is given to the unfavourable "initial conditions", post-independence developments revealed by the indicators already discussed may be considered remarkable.

However, it is possible to identify several specific constraints on the pursuit of social development objectives of the country. Of these, lack of human capital appears to be perhaps the most binding. This could be seen not only in health and education but also in environmental protection and planning and the implementation of development projects. On the one hand, lack of domestic human capital limits what government can do in the social sector. On the other, it raises the cost of what government can do in part due to the need to rely on expatriate labour which is expensive. Thus, human capital constraint seems to have a dual effect on social development.

Lack of an adequate number of teachers has been a continuing problem in the country, in particular in remote rural schools. The quantitative expansion in primary education has not seen a parallel expansion in qualitative terms, as a result.

The same holds true for the health sector. While physical infrastructure has increased, manpower problems limit both the quantity and quality of services that could be extended from such facilities. An important aspect of the manpower problem in this area is the gender-bias towards men. For example, most health subcentres have all male nurses and almost all aid-post orderlies are men. This discourages many rural women from using these facilities. Also many aid-posts do not operate well because their activities are not supervised or adequately supported. Thus, manpower constraints result in underutilization of available physical infrastructure.

Impact of the human capital constraint could be seen in the case of environmental protection, too. Although successive governments have recognized the importance of environmental protection and a separate department – the Department of Environment and Conservation – has been set up for the purpose, inadequate capacity of the department to monitor activities relating to the environment and enforcement of environmental legislation has constrained achievements in this area. The government has recognized this constraint and is now making a serious attempt to upgrade the capacity of the department.

Another significant set of constraints on social development, particularly the improvement of the health status of rural people, has been the “tradition-boundness” of the people, the extreme diversity of the rural culture, and the low level of adult education. Low level of child immunization, non-use of family planning services, non-utilization of health facilities for childbirth and inadequate spacing of childbirths are partly results of such constraints. The low level of adult education reinforces traditional beliefs and works to the detriment of improving the health status of both women and children who constitute the most vulnerable

groups in the rural society. Child malnutrition in some areas is largely a result of old customs rather than a lack of adequate food. Still high maternal and infant mortality rates and high population growth rates can be significantly reduced within a reasonable time span by reaching uneducated women more effectively.

Male domination in the family in rural society further aggravates the difficulties in achieving social development objectives centred on women. Rural women are not only overburdened with work relating to food crop cultivation and a variety of household chores but also lack freedom to decide about the number of children and the spacing of childbearing. Too often customs such as wife-beating and preventing women from eating some nutritional food may be observed.

An extremely high degree of cultural diversity also acts as a constraint on social development. In a country where culture is homogeneous, reaching rural people in different parts of the country may be relatively easy. However, in a country where complex and diverse cultures exist, implementing social development projects aimed at changing attitudes, ways of life, customs and the behaviour of people poses a serious challenge to social planners. This tends to reduce achievement rates and raise costs of implementing such projects. Understanding these different cultures and designing effective ways and means of reaching them is an immensely difficult task.

Undoubtedly, another significant obstacle to the pursuit of social development objectives has been the lack of financial resources. While the human capital constraint referred to earlier is also related to this, there are other adverse effects of the financial constraint. The areas of education and health are perhaps the most affected by this factor. The growing student population demands expansion of physical infrastructure and qualitative improvements in education. Yet, financial constraints have reduced the ability to make such improvements, to a large extent. For example, lack of high school facilities prevents, every year, large number of eligible Grade 6 graduates from continuing their education into high schools. Similarly, lack of funds seriously limits the number of teacher trainees. As a result, many community schools continue with an inadequate number of teachers. Except in one province – Simbu – primary education is not free in the country. Inability to pay school fees due to low cash incomes is a contributory factor to dropout rates. It also reduces re-enrolments. Nevertheless, the government is reluctant to make primary education free due to financial constraints.

A similar picture could be seen in the health sector. Although the government has maintained its expenditure on health services at about 9-11 per cent of total government expenditure, the expenditure has declined in real terms between

1986 and 1988. Inability to increase per capita expenditure with rising demand for health services appears to have been a serious problem in the recent past. Although it is true that the country has achieved significant reductions in IMR and child mortality rates during the 15 years, it is important to bear in mind that further reductions from a relatively lower level than in the past is more difficult. This remains particularly true with respect to maternal mortality rate in the country. Also, the country is faced with new challenges such as sexually transmitted diseases (STDs) which were not acute problems several years ago (Department of Health 1991). As a result, more financial resources (in real terms) appears to be essential to achieve the health sector objectives.

However, more recent estimates suggest a significant shortfall in financial resources to achieve the objectives of the National Health Plan. According to these estimates the annual financial resources gap is likely to vary between K12.4 million (at constant 1983 prices) in 1991 and K6.6 million in 1993 (Department of Health 1991, p. 95).

While the lack of financial resources acts as a constraint, it is important to note that inefficient allocation and utilization of financial resources also acts as an obstacle to achieving considerable progress in health indicators. It has been shown that in many developing countries preventive health care and rural primary health care receive less priority than curative health and urban health care. This holds true for Papua New Guinea as well. Of the total government health expenditure during the 1978-1986 period, about 42 per cent was spent on hospitals, despite the fact that they benefit only a small proportion of the total population. It appears that much better results could have been obtained if a part of these resources were reallocated to improve primary health care in rural areas. The "hospital-bias" in health expenditure is likely to increase in future partly due to the new modern hospital built in the capital city of Port Moresby, with Japanese aid, in 1991.

Primary educational facilities in the rural areas also seem to suffer from the same syndrome. Allocation of government expenditure in education has also become increasingly more biased towards tertiary education partly at the expense of primary education. In view of the greater political power of urban classes, this problem is likely to continue and primary education is likely to suffer to some extent, as a result. The evidence available from Papua New Guinea tends to suggest that not only the quantum of financial resources, but also the policy approaches which lead to particular patterns of allocation of that quantum of resources operate as obstacles to the pursuit of social development objectives in the areas of health and education.

The deteriorating law and order situation in the country constitutes another important obstacle to the pursuit of social development objectives. This also has a dual effect: it prevents the smooth implementation of social development activities in many remote areas and increases the funding constraints by diverting resources away from sectors such as health and education. The Bougainville crisis in North Solomons Province is a good example in this respect. The civil unrest on the island since mid-1989 has had a considerable adverse effect on social development and in many areas it has caused a great deal of damage to infrastructural facilities. According to one estimate, about 4,000 people have died due to the disruptions caused to the provision of health services and food supply during the two years from mid-1989 (Post-Courier 1991). The government also had to withdraw provision of normal health facilities in affected areas with consequent adverse effects on the health of vulnerable groups in particular.

In the highlands region, frequent tribal fights also exert an adverse effect on social development. While such fights themselves represent a deterioration in social development, they cause considerable difficulties in providing services such as health care and education. It has not been uncommon for the government to temporarily suspend the provision of public services in some highlands areas due to poor law and order situation created by such fights. The national government, for example, closed a health centre in Western Highlands Province in mid-1990 due to law and order problems, leaving about 30,000-40,000 people without basic medical services for several weeks.

IV. GOVERNANCE AND INSTITUTIONS

Success or failure in providing social services by different types of institutions depends to some extent on the nature of the underlying decision-making process and arrangements. To the extent that such arrangements and processes can effectively translate the societal needs for the services into effective delivery mechanisms through private or public sector programmes, a country may be able to move towards a higher level of social development both in quantitative and qualitative terms.

In Papua New Guinea, a wide array of institutions carries out social development functions in different areas. Broadly, these institutions may be divided into two types:

- (a) Government-owned or controlled institutions; and
- (b) Non-governmental organisations.

A third type is private profit-oriented institutions. However, they are not significant in the social sector in Papua New Guinea. As there is a wide variety of

institutions and many are involved in the social sector, it is difficult to discuss each of them in the detail. Therefore, the following analysis focuses chiefly on health and education and to a lesser extent on environmental conservation.

Government institutional structure in the health sector is administered by the Department of Health which is the apex administrative body in this sphere. The task of the department as endorsed by the national government is:

“...to monitor the physical, social and mental well-being of people in their communities, and to promote and encourage the maintenance of community health at an acceptable level by planning and delivering preventive and curative medical and other health services” (Department of Health 1991, p. xii).

Prior to independence, the provision of health services was centrally controlled by the department. However, as health services expanded and the provincial government system came into place with political and administrative decentralization, the government pursued a policy of decentralizing responsibility for the delivery of health services to the 19 provincial governments. Under the decentralized system, responsibilities were divided between the national government and the provincial authorities. Provincial governments were given the responsibility of operating aid-posts, health centres and sub-centres and family health services. Responsibility for provincial hospitals, malaria control and health extension services were delegated to the provinces, with the department retaining the ultimate responsibility. Thus, in effect, health services affecting the bulk of the population came under the decentralized provincial government system.

The basic public services in health are delivered by the following institutions:

- (i) Main hospital in the capital city;
- (ii) Provincial hospitals located in provincial towns;
- (iii) Urban clinics;
- (iv) Rural hospitals;
- (v) Health centres;
- (vi) Health subcentres; and
- (vii) Aid-posts.

A basic weakness in this institutional structure and the delivery mechanism has been the poor coordination between the national department and the provincial health divisions and the lack of community participation in planning and delivering services. Health programmes begin under this system of institutions primarily as technocratic exercises and are implemented under top-down approaches. Until very recently, no significant effort had been made to identify the health development

needs from the point of view of the target groups and get communities involved in addressing those needs. Still, decisions relating to what, how and when to deliver services are taken chiefly through normal bureaucratic processes. Participatory and representative approaches are lacking in the decision-making processes.

It is this bureaucratic and technocratic approach relying on excessive professionalism which restricts the ability to achieve a greater level of health development in rural areas of the country. Although rhetoric is different, this approach in effect considers health as a "product of medicine" rather than a "condition of life". As a result, the solutions are professionalized and community involvement is kept at minimal levels. This leaves large segments of rural populations in particular behind health developments and results in excessively costly health care systems, despite the poor level of outreach.

The same structure and decision-making process which is highly compartmentalized or segmented results in delinking health planning from economic planning largely due to the false assumption that the primary objective is not human development, but economic well-being defined in terms of narrow per capita income growth. The effect of delinking health and economic planning is that many health programmes implemented in isolation of real economic improvements do not produce satisfactory results. Short-run achievements become unsustainable and highly fragile.

In Papua New Guinea, churches of different denominations have historically played a very important and active role in delivery of primary health care. Their activities were supported by the colonial administration through "grants-in-aid". In 1966, the Churches Medical Council was formed to coordinate the health work of the different churches. Since 1972, following a comprehensive review of church health services, several steps have been taken to integrate and rationalize church health services with those of the government. Church health services were allowed to nominate representatives for provincial health boards and the Church Medical Council was also allowed to make representations on policy-making and implementing bodies.

Currently, church services are mainly confined to the provision of primary health care in rural areas and the training of nurses and community health workers. Churches run one provincial hospital, 27 per cent of the health centres, 64 per cent of health sub-centres and 5 per cent of aid-posts. All community health workers are trained by them. Details of the significance of church health institutions are shown in table 11.

The achievements in the health sector over the post-independence period are, to a significant extent, attributable to the role played by the churches which

Table 11. Church health institutions and staff

<i>Institution</i>	<i>1982</i>	<i>1984</i>	<i>1986</i>	<i>1989</i>
Training schools				
Aid-post orderlies and nurse aides	18	17	—	—
Community health worker	—	—	13	13
Nurses	10	10	7	7
Institutions				
Health centres	49	53	46	46
Health subcentres	169	172	178	178
Aid-posts	105	110	120	115
Staff				
Medical officers ^{a/}	15	22	27	19
Health extension officers	3	7	10	10
Nurse tutors	74	86	81	86
Nursing officers ^{a/}	624	641	731	707
Nurses aides	643	609	716	697
Other staff	68	128	268	260
Health secretaries	47	47	47	47

Source: Churches Medical Council.

^{a/} Includes only government subsidized staff.

have been closer to many isolated rural communities in different parts of the country. This model of “government supported church network of health facilities” shows that better outreach programmes can be implemented through participatory arrangements between the government and different types of well-established, non-governmental institutions. While government institutional structure has been more responsive to the political articulation of needs, the churches have been more responsive to felt needs of isolated communities in different parts of the country where people are less capable of translating their needs into demands to which politicians are compelled to respond.

A major weakness in the existing church-based structure is its vulnerability to funding from government sources. Self-generated revenue and institutional fees are insufficient to maintain and expand the service with acceptable quality levels. As a result the system relies initially on state funds together with provincial government subsidies of various kinds. The provincial government subsidies cover four main areas:

- Salaries;
- Institutional running costs;
- Health extension costs; and
- Supplies.

In 1985, consequent to a review of church health services, the Department of Finance of the central government issued a circular to provinces and church health secretaries specifying the basis of subsidies. In this circular, it was also recommended that church health staff be paid at the same levels as equivalent government employees. Over the years, particularly since the early 1980s, the church health system has also become increasingly bureaucratic in part due to the dependency on government funds.

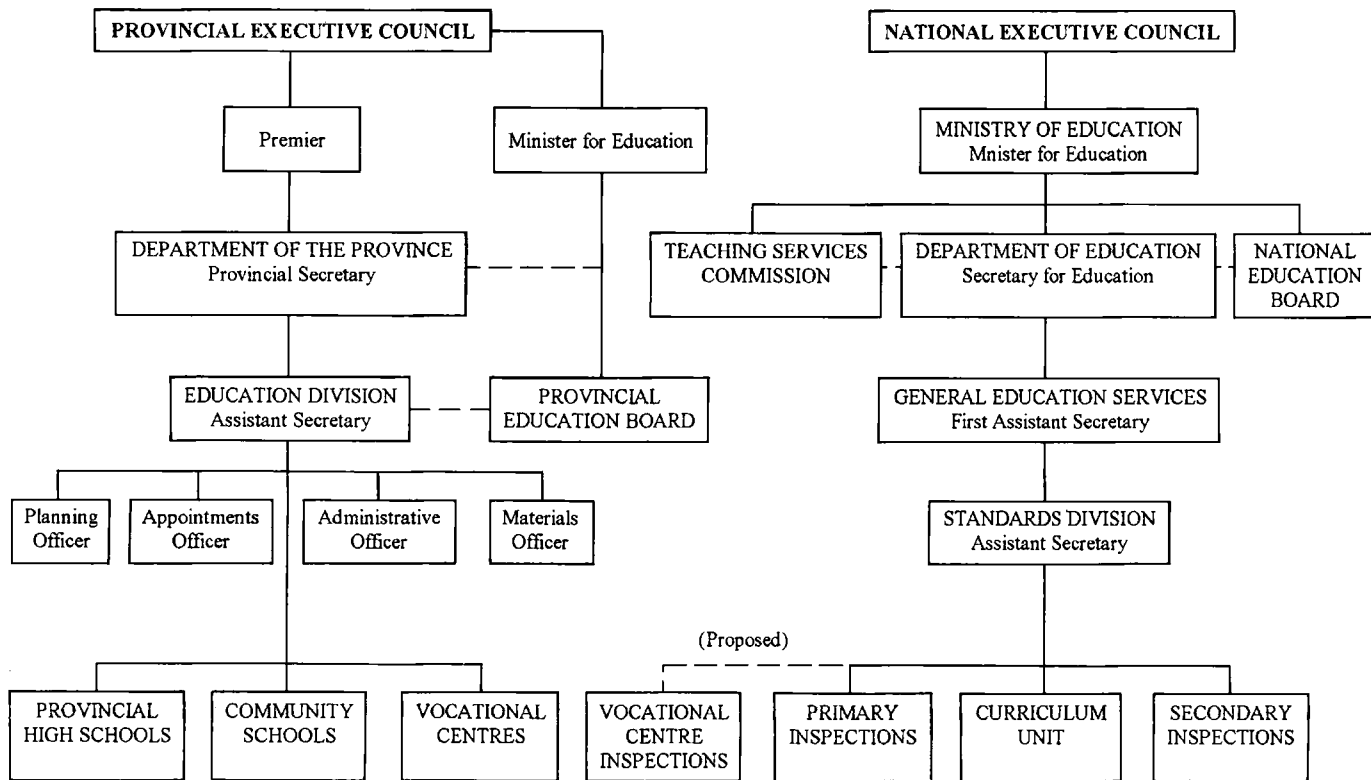
In addition to health delivery services, churches also carry out the training of community health workers and nurses, which are national government functions. The national Department of Health provides subsidies for these activities by meeting running costs of institutions, student allowances and tutors' salaries.

Churches have made a concerted effort to liaise with government to improve their services. In 1983, the Churches Medical Council appointed an executive officer for the purpose. In addition, provincial and regional councils were also set up to deal closely with their respective provincial governments. At present, in each province, a liaison officer oversees provincial issues while each church or mission is represented by a health secretary. There are 47 such secretaries (Department of Health 1991, p. 37).

More recently, the church health services have been negatively affected by government expenditure reduction programmes associated with structural adjustment. The churches have found it extremely difficult to maintain the quality of their services, expand them further, make necessary salary adjustments to maintain staff morale, particularly to make salaries consistent with those of government employees, and to upgrade the management and technical skills of the staff. Also, a number of subsidies have not been revised upwards since 1983 despite the increased rate of utilisation of their services due to increase in population. As a combined result of these factors, the quality of services has deteriorated over the past several years. However, further improvement in health indicators in the country, particularly in rural areas depends a great deal on centres and provincial high schools. The structure of the decentralized system is illustrated in figure 1.

It is argued that the decentralized system expedites the decision-making process and facilitates implementation of decisions. Also, provincial public servants are assumed to be in a better position than national level staff to identify local needs and coordinate the required services. However, whether decentralization has led to a greater participation of people as opposed to provincial bureaucrats is highly doubtful, though it has certainly allowed provincial level politicians to play a much more active role in the sphere of education in their respective provinces.

Figure 1. The structure of decentralization



The decentralized system is also faced with several serious problems. One is its inability to provide adequate skills to educational planners and policy makers on a sustainable basis. Another is to provide an adequate number of qualified and trained personnel to the schools they manage in order to maintain quality amidst physical expansion and increase in utilization rate of educational facilities. The decentralized system has come under an increasing pressure of rapidly rising demand for the services in the rural sector. However this cannot be solely attributed to the decentralized system *per se*, because there appears to be several other contributory factors.

A major problem with the educational institutions has been the lack of community involvement on a sustainable basis. The existing institutional structure and its operation heavily depends almost entirely upon governmental and bureaucratic support and very little on peoples participatory mechanisms. Perhaps the apparent popular belief that education is the primary responsibility of the State may have contributed towards this pattern. Also, it may be a result of lack of efforts to find innovate approaches to achieve educational development goals with peoples participation. This may be particularly true with respect to improvement of adult literacy and non-formal education.

The significance of people's participation in the pursuit of social development objectives may be seen in the areas of environmental protection and conservation. As stated earlier, this is one of the major goals of development in the country. Yet, the environmental damage caused particularly by forestry activities has been substantial and the bureaucratic institutional and numerous legislative provisions have been largely ineffective in dealing with the problem. How can the national government and the provincial governments ensure that effective monitoring and supervision of forestry activities are undertaken? Given the institutional constraints of Papua New Guinea in this sphere, it is very difficult, if not impossible, to implement an effective system of monitoring and supervision for the purpose of environmental protection, without a high component of community participation (Fernando 1991, p. 12). The present mechanisms leave very little room for such participation. It is the same factor which delays responsiveness of institutions to the felt social development needs of the society at large.

V. CONCLUSION AND POLICY RECOMMENDATIONS

Despite severe natural barriers to rapid progress, Papua New Guinea has reported considerable progress in social development over the post-independence period since 1975. While achievements are commendable, what remains to be achieved is much more difficult and challenging.

Amidst progress, considerable inter-sectoral and intra-sectoral inequalities have emerged in social development. Although one cannot expect a perfectly even record of achievements, particularly in a diverse country such as Papua New Guinea, the extent of inequalities tends to suggest that they need to be addressed without delay to preserve the past achievements and make further progress in the improvement of human development which may be considered the ultimate goal of development.

Further improvements in the social sector may be greatly facilitated if the current policy framework is changed in several ways. National targets have been set for both the primary health and primary education sectors. But there appears to be no broad-based political commitment of national leaders for these targets. The goals of the government will have to be translated into those of the society as a whole. While specific targets and strong political commitments are necessary, regular monitoring of progress should be made an integral part of the social sector programme. It is absolutely essential to take urgent measures to improve the information and data-base on the social sector, particularly on health and unemployment. Achievements of health among low income groups are characterized by a high degree of vulnerability to many factors such as income level and rate of inflation in food prices. Therefore, regular monitoring systems are required to judge the changes within a reasonable time span. Such monitoring systems will also enable the policy makers to get correct signals to make appropriate changes in the programmes being implemented.

The significance of an adequate and up-to-date data base on the social sector became very clear during the last two years with the introduction of the structural adjustment programme (SAP) in early 1990. Although, it was widely accepted that the programme would have adverse consequences on several vulnerable groups, it is difficult to show how and to what extent it resulted in a deterioration of their social and economic conditions. Also, it is partly the lack of such up-to-date data which hindered government efforts at designing an effective intervention programme. In the absence of reliable data, the targeting of specific social intervention programmes also becomes almost impossible.

With greater and stronger political commitment with specific targets to be achieved, it is necessary to make significant reallocations in budgetary resources. More funds need to be allocated to improve social infrastructure in the rural sector where the bulk of the population lives. Unlike two decades ago, a number of low-cost technologies exist for the achievement of better health indicators. However, delivery of such technologies and the better knowledge of improving health status among the majority of rural people and urban poor depend, to a large extent, on the availability of minimum infrastructure of health services. To make

vaccines available for the children, and to provide better family planning advice to a large majority of persons, considerable strengthening of the existing infrastructure is required. It is widely recognized that aid-posts play a major role in the delivery of health services in the rural sector. Yet, in recent years many of these aid-posts have deteriorated physically and this has prevented health workers from effectively performing their work. Also, lack of suitable housing for community health workers has affected their performance. Infrastructural improvements in these areas are crucial for social sector development. Considerable expansion in the community health service system is another essential factor for rapid improvement of health indicators. It is necessary to train community health workers well, supervise their work effectively and increase the number of such workers so that every family has easy access to them.

Improvement of rural roads also deserves much greater emphasis than what it has received in the past particularly due to its multiple impact on social development. It makes the delivery of services easier and less costly; contributes to improvement of incomes of rural people; has positive effects on school enrolments; and makes rural life less troublesome and relatively more attractive. However, adequate resources have not been spent on the improvement of rural roads. As a result, the quality of roads in many provinces has deteriorated in the past. In order to achieve social sector development goals, it is necessary to improve rural roads in the medium term.

It is also important to introduce measures to improve people's participation in social development activities. This is particularly significant for broad-based achievements in health, adult literacy, and environmental protection and in the improvement of the law and order situation. There are no shortcuts to increase people's participation. Nor is there a universally applicable method for the purpose. Ways and means by which such participation can be increased depend on a variety of factors including the socio-cultural situation of a given area. It is necessary to attempt innovative ways to increase people's involvement due to the fact that sustainability of short-run achievements can be ensured by such measures.

In the past, it was widely believed that financial resources were the binding constraint on social development. This assumption does not seem to be valid any longer. States such as Kerala and many countries such as Sri Lanka, Uruguay and Costa Rica, to name a few, have shown clearly that better social development is possible with low per capita income levels. Though one of the poorest states in the country, Kerala has the highest levels of life expectancy, literacy and utilization of health services, as well as the lowest levels of infant and child mortality. The determining factor appears to be not the quantum of financial resources, but how efficiently a country allocates available resources to achieve the targets and, the

degree of commitment to the achievement of those targets. In Papua New Guinea, it is necessary to improve the efficiency with which resources are utilized to achieve social development goals.

Target group specific special intervention programmes appear to be necessary in several areas to address critical social development issues of low income vulnerable groups such as pregnant women, children under five years in age, urban poor and primary school students from poor families. A nutrition intervention programme for pregnant women and preschool children is likely to have a significant effect on low income groups. Similarly, provision of free education for primary school students from low income, poor families will have an impact particularly on the education of girls. Such programmes may be financed through the reallocation of existing budgets and the improvement of efficiency with which resources are utilized. The high ratio of health expenditure on hospitals tends to suggest that possibilities exist for restructuring health expenditure in the medium-term, as was done in Bangladesh during the 1980s. Similar possibilities exist in the area of education as well. Although primary education brings highest economic returns, the under investment situation continues in this area. Thus, fiscal reforms are a necessary condition for further social development in the medium term. However, such reforms should be directed to improve the allocation of resources in favour of priority areas such as primary health care, primary education, adult literacy, rural water supply and sanitation, and family planning rather than to restrict provision of basic facilities to the majority.

An essential component of such reforms should be the utilization of foreign aid. As in many other countries, very little of foreign aid brings direct and sustainable benefits to the low income groups, particularly in rural areas. Even social sector foreign aid is not directed mostly to priority areas and grassroot needs. While economic efficiency of foreign aid has to be improved considerably, the proportion of social sector aid allocation to priority areas needs to be increased considerably. However, a change in the approach of the donor agencies is also required to achieve this objective.

Finally, one should not forget the significance of broad-based economic improvements for better social development. In Papua New Guinea, considerable inequalities exist in economic growth and development. Although, the per capita income of the country is about \$US 900, the majority of the population has much lower incomes. Cash income levels are high only in those areas where tree crop agriculture is developed and mining activities continue. In other areas, subsistence living with poor infrastructure facilities is the general condition. Lack of employment opportunities, and low cash incomes in such areas seem to have a considerable adverse effect on social development. Also, it is in such areas that

the delivery of public social services is often extremely poor. Tangible improvements in the social sector in those areas can be achieved, if employment oriented, broad-based economic development programmes reach them. While government can deliver social services in the short to medium term, sustainable improvements would very much depend on such economic improvement.

REFERENCES

- Bray, M. (1985). "Social stratification and geographical disparities in access to education in East New Britain", in Bray and Smith, eds., *Education and Social Stratification in Papua New Guinea*.
- Bray and Smith, eds. (1985). *Education and Social Stratification in Papua New Guinea* (Melbourne, Longman Cheshire).
- Central Planning Office (1976). *The Post-Independence National Development Strategy* (Port Moresby, Government Printer).
- Cox E. and M. Daure (1991). *Changes, Challenges and Choices: Women in Development in Papua New Guinea* (Wainai, Department of Home Affairs).
- Department of Education (1985). *Growth of Education Since Independence 1975-1985* (Port Moresby, Department of Education).
- Department of Finance and Planning (1990). *Development Policies and Strategies*, vol. I (Waigani, Department of Finance and Planning).
- Department of Finance and Planning (1991). *Development Policies and Strategies*, vol. I (Waigani, Department of Finance and Planning).
- Department of Health (1988). *Handbook on Health Statistics: Papua New Guinea, 1986* (Port Moresby, Ministry of Health).
- Department of Health (1989). *Handbook on Health Statistics: Papua New Guinea 1988* (Port Moresby, Ministry of Health).
- Department of Health (1991). *Papua New Guinea National Health Plan* (Hohola, Department of Health).
- Fernando, N.A. (1990). "Some forestry issues in Papua New Guinea", in Fernando, N. and T. Nen, eds., *Towards a National Forest Plan*, IASER report (Boroko, IASER).
- Gibson, M. (1990). "Equity for the nation's smallest schools", *Papua New Guinea Journal of Education*, vol. 26, No. 1 (forthcoming).

- Gillet, J.E. (1990). *The Health of Women in Papua New Guinea* (Goroka, Papua New Guinea Institute of Medical Research).
- Goodman, R. et al. (1985). *The Economy of Papua New Guinea: An Independent Review* (Canberra, Australia National University).
- Macpherson, S. (1990). "The social effects of structural adjustment in Papua New Guinea" (mimeo.) (Waigani, University of Papua New Guinea).
- Post-Courier*, 13 May 1991.
- Tawaiyole and M. Gibson (1989). "Survey of enrolments and wastage in Papua New Guinea community schools, 1971-1988" (mimeo.) (Boroko, IASER).
- Townsend, P.K. (1985). *The Situation of Children in Papua New Guinea* (Boroko, IASER).
- UNDP (1990). *Human Development Report 1990* (New York, Oxford University Press).
- UNICEF (1991). *The State of the World's Children 1991* (Oxford, Oxford University Press).
- Weeks, S. (1985). "Students and social backgrounds: a literature review", in Bray and Smith, eds., *Education and Social Stratification in Papua New Guinea*.
- Weeks, S. (1987). "Education and change in Pangia, Southern Highlands Province", *ERU Report*, No. 56 (Waigani, University of Papua New Guinea).
- World Bank (1989). *World Development Report 1989* (New York, Oxford University Press).

STATISTICAL APPENDIX

Table 1. Population characteristics in Papua New Guinea, 1980^{a/} and 1990^{b/}

Region/province	Area	Population in 1980			1990	Population density (per sq km)	
	Sq km	Urban	Rural	Total	Total	1980	1990
Highlands	62 400	54 287	1 066 971	1 121 258	1 260 000	18	20
Southern highlands	23 800	4 746	231 306	236 052	273 000	10	11
Enga	12 800	2 380	162 154	164 534	234 000	13	18
Western highlands	8 500	16 969	248 687	265 656	280 000	31	33
Chimbu	6 100	6 223	172 067	178 290	184 000	29	30
Eastern highlands	11 200	23 969	252 757	276 726	289 000	25	26
Islands	57 500	57 001	385 995	442 996	557 000	8	10
Manus	2 100	5 409	20 627	26 036	33 000	12	16
New Ireland	9 600	5 386	60 642	66 028	85 000	7	9
East New Britain	15 500	18 015	115 182	133 199	184 000	9	12
West New Britain	21 000	5 283	83 658	88 941	126 000	4	6
North Solomons	9 300	22 908	105 886	128 794	129 000	14	14
Momase	142 600	125 405	732 368	857 773	984 000	6	7
Morobe	35 500	72 484	238 138	310 622	355 000	9	10
Madang	29 000	22 590	188 479	211 069	264 000	7	9
East Sepik	42 800	23 892	197 998	221 890	230 000	5	5
West Sepik	36 300	6 439	107 753	114 192	135 000	3	4
Papuan	200 340	156 438	432 262	588 700	730 000	3	4
Western	99 300	9 642	68 933	78 575	90 000	1	1
Gulf	34 500	6 179	57 491	63 670	68 000	2	2
Central	29 500	4 242	112 722	116 964	127 000	4	4
NCD	240	123 642	–	123 642	194 000	515	808
Milne Bay	14 000	6 322	121 653	127 975	157 000	9	11
Northern	22 800	6 429	71 053	77 482	94 000	3	4
PNG	462 840	393 131	2 617 596	3 010 727	3 531 000	7	8

Source: ^{a/} National Statistical Office. ^{b/} 1990 – National Population Census – preliminary figures.

THE SOCIAL CONSEQUENCES OF ECONOMIC RESTRUCTURING IN THE PHILIPPINES

by

*Norma B. Bernal**

I. INTRODUCTION

The Philippine experience in the eighties best exemplify the human costs of economic restructuring. The government imposed a harsh economic adjustment programme which wrought tremendous havoc not only on the economic life but the very social fabric of Philippine society.

This paper is meant to review the social consequences of economic restructuring with the final intention of suggesting policy directions to minimize the human costs associated with such a process. While the paper adopts the ESCAP definition of economic restructuring or adjustment (it covers medium to long-run adjustment as well as short-term stabilization measures),¹ it will highlight the country's experience following the implementation of the stabilization programme in the early 1980s as this most dramatically illustrates the negative externalities of adjustment. Generous reference however will be made *vis-à-vis* medium and long-term adjustment measures to place the Philippine experience in a more appropriate context. It is the contention of this paper that it is precisely the failure of medium and long-term efforts to institute durable changes in the economic and social structure which precipitated the crisis in the mid-1980s. When the contractionary programme was therefore imposed to remedy the economic imbalances, the country was in its weakest position to absorb the impact of such a disabsorption and protect itself from the social ills that followed.

The paper is organized in the following manner: chapter (II) outlines the country's development record with emphasis on the economic adjustment

* Chief Economic Development Specialist, National Development Office, National Economic and Development Authority, Manila, the Philippines.

¹ Citing ESCAP 1990: 3-5, Tariq Banuri noted in his paper "Social dimension of economic restructuring: terms of reference for country studies" (October, 1990), that the terms structural change and restructuring are used in three different but related senses: (a) short-term, i.e., macroeconomic policies to adjust to external shocks; (b) medium-term, i.e., changes in incentives systems and institutional arrangements; and (c) long-term, i.e., the process of structural transformation of production and exchange.

programme implemented in the early 1980s; chapter (III) reviews the human dimension of adjustment in the areas of employment, poverty, income distribution and the various social sectors; chapter (IV) describes the mechanisms for governance and decision-making in the Philippines, analyzes how these have facilitated the attainment of socio-economic objectives, and discusses how they were in turn affected by adjustment; chapter (V) concludes and suggests directions for policy.

II. ECONOMIC DEVELOPMENT RECORD WITH EMPHASIS ON ADJUSTMENT POLICY

A. SIGNIFICANT ECONOMIC AND POLITICAL EVENTS

The Philippines underwent a crisis in the mid-1980s, an economic nadir it has never gone through in the whole of its post-war history, and from which it has yet to fully recover. The severe dislocations that transpired following the harsh adjustment instituted were the cumulative interplay of the external and internal shocks experienced by the country, already weakened by a precarious economic, social, and political structure (table 1).

Given its historico-economic and political experience, the Philippines has always been vulnerably open to international disturbances and domestic pressures. In the last two decades, the Philippines was affected by important changes in the international scene. The world inflationary pressures that transpired at the onset of the 1970s were subsequently followed in late 1973 by a large increase in the price of oil. The country has not yet gotten over the impact of these events when another round of oil price hike occurred in 1979. The impact of the second oil shock was more profound than the first one as it set off a long and deep recession in the developed world in 1980/82 that resulted in lower export earnings for developing countries and less loanable funds in the international market as these countries adopted tighter monetary policies. The effects of these trends were exacerbated by domestic turmoil following the assassination of political oppositionist the erstwhile Senator Benigno Aquino, Jr. in 1983 and the loss of international credibility mainly as a result of the Central Bank's overstatement of reserves level. Compounding these of course were the destabilizing effects of natural and man-made calamities to which the country have been subjected to.

The country had a bad time weathering the impact of these events given its weak economic base and its fragile social and political situation. In the pre-crisis period and for that matter, even up to now, the economic structure is characterized by: highly protected industries; the existence of a large traditional agriculture and

Table 1. Summary table tracing the effects of the stabilization programme implemented in the Philippines in the early 1980s and which contributed to the worst economic crisis that occurred by the middle of the decade

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
I. MACROECONOMIC INDICATORS																						
A. Financial balances																						
1. Current account deficit as a percentage of GNP	-0.8	-0.04	0.1	5.0	-1.2	-5.6	-5.8	-3.6	-4.6	-5.1	-5.4	-5.4	-8.1	-8.1	-3.5	-0.3	3.3	-1.3	-1.0	-3.3	-5.8	-
2. Budget deficit as a percentage of GNP	-	-	-	-	-	-	-1.8	-1.9	-1.2	-0.2	-1.4	-4.3	-4.6	-2.1	-2.0	-2.0	-5.2	-3.0	-2.9	-2.2	-3.5	-
3. Inflation (per cent)	-	-	-	-	34.5	6.9	9.7	9.8	7.2	17.5	18.2	13.1	10.2	10.0	50.3	23.1	0.8	3.8	8.8	10.6	12.7	18.9 ^f
B. Real economy																						
1. Real GNP growth (per cent)	-	-	5.4	9.3	5.6	5.8	7.4	6.3	5.8	6.9	5.0	3.5	1.9	1.1	-7.1	-4.1	1.9	5.8	6.8	5.7	3.1	-
2. Real per capita GNP (in peso)	-	-	1 437.0	1 527.6	1 569.5	1 615.8	1 689.5	1 752.3	1 801.1	1 874.2	1 915.1	1 932.4	1 920.7	1 894.5	1 717.8	1 607.3	1 598.2	1 651.2	1 721.6	1 778.0	1 791.5	-
3. Real per capita PCE (in peso)	106.7	1 022.7	1 027.9	1 057.7	1 079.4	1 100.7	1 125.2	1 153.2	1 181.3	1 205.8	1 226.7	1 244.1	1 251.1	1 255.4	1 237.7	1 206.9	1 189.2	1 228.0	1 271.0	1 313.0	1 363.0	-
II. PROXIMATE INDICATORS																						
A. Employment																						
1. Unemployment rate (per cent) ^{b/}	7.2	-	-	-	-	4.1	-	-	-	-	8.1	9.1	9.5	10.5	10.6	12.5	11.8	11.2	9.6	9.2	8.4	8.8 ^f
2. Educated unemployed (per cent) ^{d/}	-	-	-	-	-	-	-	-	-	-	30.0	32.5	33.5	35.9	35.3	39.5	39.0	-	-	-	-	-
3. Underemployment rate (per cent) ^{e/}	-	-	-	-	-	-	-	-	-	-	20.9	23.9	25.5	29.8	36.4	22.2	25.6	22.0	23.6	-	-	-
4. Labour force participation rate (per cent) ^{f/}	-	59.0	60.2	59.3	59.4	59.9	60.7	56.6	60.6	63.1	59.7	61.9	60.6	63.5	63.2	63.1	63.8	65.5	66.1	66.0	64.4	64.6
5. Number of laid-off workers	-	-	-	-	-	-	-	-	-	-	69 611	78 466	49 557	75 428	92 167	76 416	46 159	32 129	31 655	33 800	-	-
B. Wages																						
1. Daily wage rates for major agriculture crops (in peso)	-	-	-	-	-	-	-	-	10.39	9.11	8.06	7.90	8.05	8.63	7.44	7.79	8.43	9.10	-	-	-	-
2. Real average industrial earnings (in peso)	-	-	-	-	-	-	-	-	-	-	859	867	969	830	763	691	631	-	-	-	-	-

Table 1 (continued)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
C. Availability and access to basic services																						
1. Real per capita expenditures on social development as a percentage of GNP (in peso)	-	-	-	-	-	-	174.88	167.21	189.64	195.91	197.47	221.97	210.71	196.28	134.38	140.15	187.92	220.67	223.23	243.54	306.56	-
2. Other specific indices																						
a) Proportion of deaths with medical attendance (per cent)	-	-	-	-	-	-	-	33.0	-	-	31.2	-	-	29.8	-	-	-	-	-	-	-	-
b) School participation rate (per cent) ^{8/}	-	-	-	-	-	-	-	-	-	-	-	-	-	93.1	87.9	89.6	88.9	88.9	89.8	95.0	-	-
c) Nutrition data																						
- Per capita food	-	-	-	-	-	-	-	-	37.0	-	-	-	42.0	-	-	-	-	22.0	-	-	-	-
- Per capita nutrient intake adequacy (per cent) ^{9/}	-	-	-	-	-	-	-	-	88.6	-	-	-	89.0	-	-	-	-	87.1	-	-	-	-
III. OUTCOMES INDICATORS																						
A. Distributive indicators																						
1. Poverty incidence (per cent) ^{1/}	-	49.3	-	-	-	-	-	-	-	-	-	-	-	-	-	59.0	-	-	49.5	-	-	-
2. Gini ratio ^{2/}	0.465	0.453	-	-	-	-	-	-	-	-	-	-	-	-	-	0.446	-	-	0.441	-	-	-
	(1965)																					
B. Social development indicators																						
1. Health																						
a) Infant mortality rate	93.2	-	-	-	-	60 ^{4/}	-	-	-	-	56.9	-	-	-	62.8	-	-	-	-	-	-	-
b) Communicable disease incidence ^{11/}	877.3	-	-	-	-	-	-	-	-	-	427.3	-	-	-	1 140.9	1 072.7	1 076.4	1 120.6	-	-	-	-
c) Prevalence of anemia (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	26.6	-	-	-	-	-	37.2	-	-	-

Table 1 (continued)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
2. Nutrition																						
a) Proportion of under-weight preschoolers (per cent)	-	-	-	-	-	-	-	-	21.9	-	-	-	17.2	-	-	-	-	17.7	-	-	-	-
b) Proportion of wasting preschoolers (per cent)	-	-	-	-	-	-	-	-	13.8	-	-	-	9.5	-	-	-	-	12.7	-	-	-	-
c) Proportion of under-weight schoolers (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	18.5	-	-	-	-	11.7	-	-	-	-
d) Proportion of stunted school children (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	24.6	-	-	-	-	13.9	-	-	-	-
e) Proportion of households with inadequate energy intake (per cent)	-	-	-	-	-	-	-	-	67.9	-	-	-	67.0	-	-	-	-	69.2	-	-	-	-
3. Education																						
a) Literacy rate (per cent)	83.0	-	-	-	-	-	-	-	-	-	89.0	-	-	-	-	86.0	-	-	-	-	89.9	-
b) Drop out rate (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	2.75	2.72	2.02	2.00	1.70	1.80	1.76	-	-
c) Cohort survival rate (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	66.5	65.2	64.3	64.1	63.7	64.1	65.3	-	-

^{a/} Refers to April. ^{b/} 1970 figure came from the Census while 1980 data refer to October. ^{c/} Refers to January, unemployment rate for April 1991 is 15 per cent. ^{d/} Refers to proportion of unemployed who reached college. ^{e/} Underemployment in terms of desire for more work; 1988 data refer to April. ^{f/} 1975 figure refers to average of February and August; 1976 figure refers to average of August and October; 1977 figure refers to October; 1979 figure refers to January; 1980 figure refers to October; 1991 figure refers to January. ^{g/} Participation at the elementary level. ^{h/} Specifically, the consumption of starchy roots and tubers, a major food group with the highest decline. ^{i/} Specifically for the nutrient energy. ^{j/} Official figures with 1988 data still preliminary. ^{k/} As published by the National Statistics Office (NSO). ^{l/} Sources cited in table 32. ^{m/} Refers to the incidence of bronchitis, emphysema and asthma which showed the largest increase between 1980 and 1984.

a low-productivity service sector; and a continuing dependence on imports and external finance. On the other hand, the incidence of poverty continues to be very large, the distribution of income and wealth remains inequitous, and many areas of social and political life are still wanting. Moreover, population continued to grow quite rapidly.

B. ADJUSTMENT POLICY REGIME ADOPTED

In the 1970s, wide-ranging policy reforms were implemented. Agrarian reform supported by a massive agricultural credit was implemented. Export development and diversification were pushed vigorously through a combination of fiscal, financial and technical incentives. An aggressive public investment programme was pursued to develop alternative energy sources, and to build up the infrastructure.

In 1980, a structural adjustment programme was embarked by the government to make the economy more internationally competitive, raise domestic savings and enhance incentives for investment and growth. Reforms were introduced in the areas of trade, industry and energy. Structural reforms were similarly instituted in the agriculture sector by the end of 1985 towards the liberalization of pricing, trade and marketing. The specific programme intents were to further spur manufactured exports, accelerate domestic substitution of imported energy, and reduce the implicit penalties imposed by macro policies on agriculture.

But despite these reforms, the structural character of the economy remained weak. The incentives system remained biased against labour, agriculture and the rural sector. Low repayment rate plagued the agricultural credit programme and limited coverage was the main drawback of the agrarian reform programme. Industries continued to be highly protected, very inefficient, internationally uncompetitive and failed to forge durable links with the rest of the economy. The intractable problems of deteriorating terms of trade, high debt service ratio and overvalued exchange rate remained, all of which made the balance of payments (BOP) crisis inevitable.

Thus, when the combined forces of international and domestic pressures blew in the early 1980s, the country had little choice but to adjust. Restrictive and deflationary measures were then instituted in late 1982 to arrest inflation, improve the balance of payments position, and narrow down the budget deficit. The government discouraged imports, devalued the exchange rate, taxed foreign exchange transactions, curtailed the growth of government expenditures, and pursued similar demand-reducing policies. Adjustment entailed the fulfillment of stringent external, monetary and fiscal targets.

C. MACROECONOMIC PERFORMANCE

On the whole, the stabilization programme was quite successful in balancing the conventional macro accounts. The current account deficit was slashed from 8 per cent in 1982/83 to 0.3 per cent in 1985; A surplus was achieved in 1986. This was brought about mainly by the drastic cut in the importation of consumer goods and raw materials. Total budgetary deficit was pared down from almost 5 per cent in 1982 to 2 per cent in 1984 and 1985. Deficit management was accomplished primarily through the imposition of austerity measures. Deflationary monetary and fiscal policies also moderated inflation. Inflation initially hit a historical high of 50 per cent and then moderated to a one-digit level in 1986.

The above were achieved however at extreme costs in the real economy. Real Gross National Product (GNP) fell by 7 and 4 per cent in 1984 and 1985, respectively after experiencing a gradual decline since 1980 (table 2). Real per capita GNP dipped to an all-time low of P=1,600 in 1985 and 1986, a level which the country has already successfully attained more than a decade ago. Real personal consumption expenditures (PCE) per capita declined beginning 1984 (table 3). All of the above had consequent effects on standard of living and welfare.

Table 2. Trends in macroeconomic indicators in the Philippines, 1972-1990
(At constant 1972 prices)

<i>Year</i>	<i>Real GNP growth rate (per cent)</i>	<i>Real GNP per capita (in pesos)</i>	<i>Year</i>	<i>Real GNP growth rate (per cent)</i>	<i>Real GNP per capita (in pesos)</i>
1972	5.36	1 437.0	1982	1.90	1 920.7
1973	9.26	1 527.6	1983	1.11	1 894.5
1974	5.60	1 569.5	1984	(7.07)	1 717.8
1975	5.80	1 615.8	1985	(4.12)	1 607.3
1976	7.40	1 689.5	1986	1.86	1 598.2
1977	6.34	1 752.3	1987	5.81	1 651.2
1978	5.76	1 801.1	1988	6.75	1 721.6
1979	6.89	1 874.2	1989	5.70	1 778.0
1980	4.96	1 915.1	1990	3.08	1 791.5
1981	3.45	1 932.4			

Source: National Income Accounts (NIA), National Statistical Coordination Board (NSCB).

Table 3. Per capita personal consumption expenditures in the Philippines, 1970-1990
(At constant 1972 prices)

<i>Year</i>	<i>Level (in pesos)</i>	<i>Percentage change</i>	<i>Year</i>	<i>Level (in pesos)</i>	<i>Percentage change</i>
1970	1 016.7	-0.1	1981	1 244.1	1.4
1971	1 022.7	0.6	1982	1 251.1	0.6
1972	1 027.9	0.5	1983	1 255.4	0.3
1973	1 057.7	2.9	1984	1 237.7	-1.4
1974	1 079.4	2.1	1985	1 206.9	-2.5
1975	1 100.7	2.0	1986	1 189.2	-1.5
1976	1 125.2	2.2	1987	1 228.0	3.3
1977	1 153.2	2.5	1988	1 271.0	3.6
1978	1 181.3	2.4	1989	1 313.0	3.3
1979	1 205.8	2.1	1990	1 363.0	3.8
1980	1 226.7	1.7			

Source: National Income Accounts (NIA), National Statistical Coordination Board (NSCB).

III. SOCIAL DEVELOPMENT RECORD WITH EMPHASIS ON THE IMPACT OF ADJUSTMENT POLICY ON SOCIAL CONCERNS

A. EMPLOYMENT

The Philippine industrial structure in the 1990s remained basically how it was two decades ago. As one might expect, there was a very slow structural transformation in terms of employment. While industry generated almost a third of total output, it employed only 15 per cent of total employment as of January 1991; manufacturing employed a mere 10 per cent of the total (tables 4 and 5). This leaves the bulk of the employed in the agriculture sector which provided 44 per cent of employment, and services which produced 40 per cent of total jobs. In fact, industrial employment has been decreasing instead of increasing so that its share now is less than what it was in 1970. This is the offshoot of the growth of manufacturing employment which has been faltering through the years. The movement of labour was from agriculture, whose share has been declining slowly, to the generally low-paying service sector. Services' share in employment grew by around 10 percentage points in the last 2 decades. Such growth more than made up for the decline in the proportion of agricultural employment, implying reverse transformation or a net transfer of labour from industry to services.

Table 4. Sectoral distribution of gross national product (GNP) in the Philippines, 1970-1990 at constant 1972 prices (Percentage)

<i>Sectors</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1990</i>
Agriculture, fishery, forestry	29.73	26.84	25.57	29.88	26.89
Industry	31.27	34.16	36.17	33.00	32.88
Mining and quarrying	2.19	2.12	2.42	2.01	1.45
Manufacturing	24.81	25.35	25.05	24.52	24.75
Construction	3.49	5.80	7.72	4.85	4.68
Utilities	0.79	0.89	1.00	1.63	2.00
Services	40.80	39.23	38.29	39.44	39.99
Transport and communications	4.73	5.29	5.22	5.64	5.43
Trade	13.89	12.83	13.21	16.01	15.75
Finance and housing	8.37	7.79	7.70	4.88	6.54
Other services	13.80	13.32	12.17	12.91	12.27

Source: National Income Accounts (NIA), National Statistical Coordination Board (NSCB).

Table 5. Distribution of employment in the Philippines, by sector, 1970-1991

	<i>Employment share (per cent)</i>					
	<i>1970</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1990</i>	<i>1991^{a/}</i>
Agriculture	52.3	52.7	51.6	49.4	44.9	44.1
Industry	17.2	15.1	15.5	14.0	15.4	15.6
Mining and quarrying	0.5	0.4	0.7	0.7	0.6	0.6
Manufacturing	12.3	11.2	10.9	9.4	10.1	10.2
Construction	4.1	3.3	3.5	3.6	4.4	4.4
Electric, gas, and water	0.3	0.3	0.3	0.4	0.4	0.4
Services	30.5	32.2	32.9	36.5	39.7	40.3
Trade	7.6	11.6	10.3	13.1	14.2	14.4
Transport, commerce and storage	4.6	3.8	4.3	4.5	4.9	5.2
Other services	18.3	16.8	18.3	19.0	20.5	20.8

Source: Integrated Survey of Households (ISH), National Statistics Office (NSO).

^{a/} January.

Structural unemployment was aggravated by conjunctural unemployment resulting from the adoption of short-term economic management and adjustment measures to external and internal shocks. The unpleasant impact of short-term stabilization policies on employment was most pronounced during the economic crisis in the mid-1980s.

The most telling sign of the inability of the economy, particularly of modern manufacturing, to generate productive employment is the underemployment rate. This can be seen from two interrelated measures: underemployment in terms of time and underemployment in terms of desire (to seek more employment).

Using the first measure, underemployment has never fallen below 20 per cent from 1970 up to the present (table 6). Underemployment with respect to time was substantially higher in the eighties, averaging 35 per cent of total employed, compared to only 22 per cent in the preceding decade. Although this measure began to taper off with the fragile economic recovery in 1986, underemployment was still more than 30 per cent in the early nineties. This is the legacy not only of the lack of medium to long term structural transformation but the stringent monetary and fiscal policies adopted in the mid-1980s.

Underemployment in terms of desire for more work tells essentially the same story. Underemployment from this indicator has been growing through the years, with the harshest increases occurring during the economic crisis because of the conjunctural impact of deflationary policies. Although underemployment, using wanting additional work as an index, has been increasing continuously since 1980, it has affected more than a third of the workforce only in 1986. This has been falling since then but very gradually so that underemployment is still above 20 per cent in 1988.

The Philippines is far from fully employing its massive labour force as it did through the years because of its weak structural base. From 1970 onwards, open unemployment has always been above 4 per cent, a crude indicator of full employment (table 7). It was during the crisis years however when the country began to experience double digit unemployment. National unemployment has been increasing from 10.5 per cent in 1983 to 11.2 per cent in 1987, with record-high unemployment reaching 12.5 per cent in 1985. At the height of the employment crisis, unemployment reached 14 per cent in April 1985, closely approximating the highest unemployment recorded in the country of 14.7 per cent in April 1978.

Table 6. Underemployment rates in the Philippines, 1971-1991

Year	Underemployment rates (per cent)	
	In terms of time ^{a/}	In terms of desire ^{b/}
1971	22.3	-
1972	23.4	-
1973	22.8	-
1974	21.1	-
1975	21.0 (February)	-
1976	21.3 (August)	-
1977	-	-
1978	-	-
1979	-	-
1980	34.5 (October)	20.9
1981	37.4	23.9
1982	36.4	25.5
1983	37.1	29.8
1984	36.4	36.4
1985	37.9	22.2
1986	35.6	25.6
1987	33.6	22.0
1988	32.7	23.6 (April)
1989	31.2	-
1990	31.4	-
1991	31.7 (January)	-

Source: *Integrated Survey of Households* (ISH), National Statistics Office (NSO).

^{a/} Defined as the ratio of the number of employed working less than 40 hours in a week over the total employed. ^{b/} Defined as the ratio of the number of employed wanting additional work to the total employed.

The above was the result of the contraction of output brought about by successive devaluations and stringent monetary and fiscal policies coupled with limited flow of intermediate inputs as the government tried to curtail imports.

Unprecedented closure and retrenchment in industries that took place with concomitant massive lay-off of workers contributed to double digit unemployment and net declines in employment. Massive quarterly lay-off was cited by Montes (undated) as one of the short-term cost of stabilization measures. He observed that the number of workers laid-off from work rose so rapidly following the October 1983 depreciation of the Philippine peso that the 4th quarter level was more than half the full-year total.

Table 7. Open unemployment in the Philippines, 1970-1991

<i>Year</i>	<i>Unemployment level (in '000)</i>	<i>Unemployment rate (in per cent)</i>
1970 (Census)	832	7.2
1975	574	4.1
1980 (October)	1 364	8.1
1981	1 613	9.1
1982	1 714	9.5
1983	2 032	10.5
1984	2 104	10.6
1985	2 566	12.5
1986	2 513	11.8
1987	2 518	11.2
1988	2 244	9.6
1989	2 212	9.2
1990	2 377	8.4
1991 (January)	2 182	8.8
(April)	-	15.0

Source: *Integrated Survey of Households* (ISH), National Statistics Office (NSO).

Afterwards, the number of establishments resorting to shutdown and retrenchment due to economic reasons rose markedly by 80 per cent between 1984 and 1985 (table 8). The number of workers terminated grew to a record-breaking level of 92,167 or by 22 per cent in 1984. These were quite apart from those firms that opted to reduce worktime because of the economic squeeze which affected 307 establishments and 28,878 labourers in 1984 alone. The number of establishments and workers adversely affected increased by 101 and 92 per cent, respectively.

The most severely hit sector by the large-scale contraction in production was industry, predominantly in urban areas where most of the manufacturing firms concentrate. Industry showed the highest absolute decline in employment from 1984 to 85 (table 9). The decline continued in 1986 although to a lesser degree. Agriculture was likewise adversely affected almost all through the 1980s but this was more due to the long-standing bias of policies against this sector. Only services was unaffected, serving as an outlet valve for excess labour. It had greater potential for work sharing though this same feature had a downward pressure on earnings in the sector.

An important dimension of the problem of unemployment is the large pool of educated unemployed (Arcelo and Sanyal, 1987). This basically is a structural

Table 8. Number of establishments and workers affected by lay-offs/retrenchment in the Philippines, 1981-1989

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
A. Shutdown/retrenchment:										
1. Establishments resorting to shutdown/retrenchment because of economic reasons	-	831	638	1 267	2 280	1 478	1 013	697	504	-
Permanent shutdown	-	55	74	115	226	168	164	172	-	-
Temporary shutdown/retrenchment	-	776	564	1 152	2 054	1 310	849	525	-	-
2. Workers terminated due to shutdown/retrenchment because of economic reasons	69 611	78 466	49 557	75 428	92 167	76 416	46 159	32 129	31 655	33 800
Permanently separated	16 803	15 023	14 412	18 047	41 244	34 543	22 764	21 926	-	-
Temporarily laid-off	44 069	51 199	24 257	46 862	27 982	30 135	14 767	5 839	-	-
Average duration (week)	-	10.39	7.61	8.96	11.65	10.62	11.92	7.37	-	-
Indefinite	-	-	-	-	8 479	5 280	4 725	387	-	-
Not stated	8 739	12 244 ^{a/}	10 888 ^{a/}	10 519 ^{a/}	14 462	6 458	3 903	3 977	-	-
B. Reduced worktime:										
1. Establishments resorting to reduce worktime because of economic reasons	-	138	106	152	307	199	100	43	39 ^{b/}	-
2. Workers affected by reduced worktime because of economic reasons	-	34 560	18 283	15 057	28 878	21 691	9 728	4 001	8 364 ^{b/}	-

Source: Department of Labour and Employment (DOLE).

^{a/} Includes termination of indefinite duration. ^{b/} Refer to January-September only.

Table 9. Growth and net absolute change in employment in the Philippines, by sector, 1980-1988

	<i>Agriculture</i>		<i>Industry</i>		<i>Services</i>	
	<i>Growth rate (per cent)</i>	<i>Absolute change ('000)</i>	<i>Growth rate (per cent)</i>	<i>Absolute change ('000)</i>	<i>Growth rate (per cent)</i>	<i>Absolute change ('000)</i>
1980/81	5.6	475	-0.03	-9.0	10.2	553
1981/82	-0.1	-8.0	-0.03	-73.0	0.1	40
1982/83	10.8	960	11.8	292	9.7	580
1983/84	-1.4	-140	5.2	145	6.5	425
1984/85	-0.4	-42	-3.3	-97.0	4.4	390
1985/86	6.1	591	-2.3	-66	3.7	269
1986/87	-3.4	-349	10.9	229	3.3	249
1987/88	-0.2	-20	10.0	303	8.1	619

Source: E.A. Reyes and M.C. Sanchez, "An assessment of labour and employment policies in the Philippines, 1986-1988", *PIDS Working Paper Series*, No. 90-09, January 1990.

problem arising mainly from the dualistic nature of the economy. There was an increasing preponderance of the educated unemployed especially after the Philippines experienced economic setbacks in 1983/84 (table 10). The proportion of unemployed persons who had college education was at least a third of total unemployed since 1980. This declined marginally in 1984 but rose markedly in 1985. In fact, the 4.24 percentage points rise in this indicator was the highest yet since 1980 that by 1985, the proportion of educated people without jobs reached almost 40 per cent. This was accounted for by the significant increase in the number of undergraduate unemployed whose share upped by more than 3 percentage points between 1984 and 1985. The growth in the share of those unemployed who actually graduated was not as marked, though there has been a continuous upward trend here since 1980. In the Philippines, college graduates are more likely to be employed than undergraduates but having a degree is not a guarantee for getting a job.

Another aspect of the employment issue was a decline in overseas employment, resulting in a hosts of other economic and social problems. The number of Filipino overseas (land-based) contract workers fell by 14 per cent between 1984 and 1985 (table 11). Women were especially vulnerable considering that they predominate the migration streams abroad and account for almost half of overseas contract workers. (Republic of the Philippines, 1989).

Table 10. Educated unemployed in the Philippines, number and as a proportion of total unemployed, 1980-1986^{a/}

	1980	1981	1982	1983	1984	1985	1986
Unemployed who reached college:							
- Number ('000)	257	328	363	360	517	520	561
- Percentage of total unemployed	30.00	32.54	33.49	35.86	35.27	39.51	39.01
a. Undergraduate unemployed							
- Number ('000)	158	190	208	207	254	272	284
- Percentage of total unemployed	18.46	18.85	19.19	20.62	17.33	20.67	19.75
b. Graduate unemployed							
- Number ('000)	99	138	155	152	263	248	277
- Percentage of total unemployed	11.57	13.69	14.30	15.14	17.94	18.85	19.26

Source: *Integrated Survey of Households (ISH)*, National Statistics Office (NSO).

^{a/} Data refers to the fourth quarter.

Table 11. Number and growth rate of Filipino overseas land-based contract workers, 1984-1989

Year	Number	Growth rate (per cent)	Year	Number	Growth rate (per cent)
1984	371 065	-	1987	382 219	18.2
1985	320 494	-13.6	1988	385 117	0.8
1986	323 493	0.9	1989	355 346	-7.7

Source: Department of Labour and Employment (DOLE), *Yearbook of Labour Statistics 1989*, Manila, Philippines.

Despite these setbacks, overall employment managed to increase through the years except in 1977 and 1980 (table 12). However, employment growth was less robust in the 1980s compared to the 1970s because of the contraction in production base during the period. Moreover, the growth of employment could barely catch up with the growth of labour force, a disturbing phenomenon given the very large pool of unemployed and the unrelenting growth of the population, particularly the working-age cohort.

Table 12. Trends in employment and labour force in the Philippines, 1971-1991

Year	Employment		Labour force		
	Level ('000)	Growth rate (per cent)	Level ('000)	Growth rate (per cent)	Participation rate (per cent)
1971	11 584	-	12 222	-	59.0
1972	12 091	4.4	12 937	5.9	60.2
1973	12 706	5.1	13 380	3.4	59.3
1974	13 078	2.9	13 650	2.0	59.4
1975 (February and August)	13 443	2.8	14 016	2.7	59.9
1976 (August and October)	14 252	6.0	15 118	7.9	60.7
1977	13 267	-6.9	14 595	-3.5	56.6
1978	14 503	9.3	16 022	9.8	60.6
1979 (January)	15 920	9.8	17 135	6.9	63.1
1980 (October)	15 491	-2.7	16 855	-1.6	59.7
1981	16 193	4.5	17 806	5.6	61.9
1982	16 270	0.5	17 984	1.0	60.6
1983	17 395	6.9	19 427	8.0	63.5
1984	17 832	2.5	19 936	2.6	63.2
1985	17 937	0.6	20 503	2.8	63.1
1986	18 855	5.1	21 369	4.2	63.8
1987	20 050	6.3	22 568	5.6	65.5
1988	21 205	5.8	23 449	3.9	66.1
1989	21 908	3.3	24 120	2.9	66.0
1990	22 212	1.0	24 244	0.5	64.4
1991 (January)	22 551	3.0	24 733	2.0	64.6

Source: *Integrated Survey of Households* (ISH), National Statistics Office (NSO).

Indeed, the economic difficulties in the 1980s brought forth rapid increases in labour force participation, particularly among those who are traditionally less active in the labour market such as women and children. The pattern of work participation was quite erratic in the 1970s but in the whole of the 1980s, there was an almost continuously rising trend in the labour force participation rate (LFPR). LFRP grew from 59.7 per cent in 1980 to 66 per cent in 1989. It was during this period when the peak LFRP of more than 69 per cent was reached in April 1989.

Nuqui, et al. (1987) brought forward evidence of heightened labour force participation of women in the latter half of the 1970s and into the early 1980s. Female LFPR rose from 34 per cent in 1975 to 42 per cent in 1980 and 47 per cent in 1985. Specifically, UNICEF-Manila (1987) observed a sharp rise in women's work participation between 1982 and 1984. Women's participation increased in

the 1970s largely because of increasing educational and work opportunities. In the mid-1980s, the motivating factor was not the availability of employment opportunities but the expediency of fielding more labour power in the market.

The economic crisis then exacerbated the double burden of women. Women had to make ends meet with lesser income, making household operation and management more difficult. At the same time, there was tremendous pressure on them to engage in more income-generating opportunities to augment the family coffer.

There was actually some evidence presented by Tidalgo-Miranda (1986) on the increasing participation among the 15-19 year olds, the youngest age cohort captured by the labour force survey. It was argued that had there been data on the economic activities of the younger ages, one could have seen an increasing incidence of child labour. The evidence discussed in Cornia (1987) on the growing number of street children and the data presented in Nuqui, et al. (1987) on the rising number of abandoned children corroborate this observation. If so, such could have resulted in a substantial proportion of children and youth not attending school and being exposed to occupational accidents and work-related hazards. With respect to the last point, Tidalgo-Miranda (1986) noted that while rising participation of both husband and wife in the labour market may have meant more income for the family, it may likewise have led to a deterioration in family and child care given that these functions were relegated to poorer substitutes such as elder siblings and elderly grandparents. As there was no discernible and parallel expansion in child care structures, the situation meant less attention to the care and rearing of children.

The weak structural base has contributed to the long-term decline in productivity. Total labour productivity has actually been declining from 1982 to 1986. Productivity in agriculture was almost stagnant through the years with sharp falls occurring during the crisis. Both industry and services sustained big declines from 1983 to 1986 (table 13).

Looking at specific indicators of earnings and compensation instead of general productivity measures would show that the improvements in the late 1970s and the early 1980s which to begin with, were not enough to arrest the structural long-term fall, were interrupted during the crisis. This has been the case in both the private and public sectors.

Real daily minimum wages for all type of workers has been increasing since the middle of the 1970s up to 1981 (table 14). The 1982 to 1987 period however sustained decreases in this indicator. Gains in improving the daily wage rates, in

Table 13. Labour productivity in the Philippines, by sector, 1980-1989
(In pesos at constant 1972 prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 ^{a/}
Philippines	5 512	5 457	5 502	5 287	4 880	4 551	4 450	4 555	4 784	4 891
Agriculture, fishery and forestry	2 728	2 719	2 726	2 580	2 660	2 694	2 659	2 657	2 788	2 923
Industry	12 904	13 808	13 962	13 176	11 196	10 306	10 182	10 180	10 201	10 135
Mining and quarrying	19 964	25 291	26 526	15 728	13 295	13 705	11 243	9 854	10 088	9 304
Manufacturing	12 650	13 355	13 525	13 521	12 209	11 278	11 323	11 446	11 581	11 609
Electricity gas and water	16 464	15 609	19 018	16 803	17 205	19 107	27 790	22 447	23 470	23 484
Construction	12 018	13 294	13 244	11 374	7 668	6 083	5 055	5 375	5 234	5 314
Services	6 417	6 060	6 186	5 983	5 326	4 815	4 755	4 851	5 067	5 019

Source: Department of Labour and Employment (DOLE), *Yearbook of Labour Statistics 1989*, Manila, Philippines.

Note: Average employed persons for each year was used. From 1980 to the 1987 Second Quarter Labour Force Survey data were based on the past quarter reference period while data from the July 1987 Labour Force Survey to 1989 were based on the past week reference period.

^{a/} Advanced.

real terms, for major agricultural crops in the mid 1970s were also stalled in the 1980s that even by 1987 the highest level achieved in the seventies has not yet been regained (table 15). Average quarterly earnings declined from 1983 onwards after growing between 1980 and 1982 (table 16). The decline in industrial earnings occurred earlier than in the other sectors. Lastly, real average national government compensation per employee declined in 1984 (table 17).

B. POVERTY

Short term adjustment policies, delayed improvements in, or at worst, aggravated the poverty situation. Findings from numerous studies and secondary data bear out this observation. In the Philippines, there were two main channels through which poverty groups were unfavourably affected by adjustment policies, especially the short-term contractionary type. Through the market, both factors and commodities markets; and via government expenditures. Both negatively impinged on the real resources at the disposal of poor households.

Employment decline, particularly in the formal sector was one of the inevitable though unintended impact of the adjustment programme. Scarcity of employment in formal establishments raised the supply of labour and therefore increased competition for less jobs in the unorganized sector. Employment in this sector which includes the self-employed (or own-account workers net of the employers) plus unpaid family workers actually declined in 1984 (table 18). These developments were especially hurting to the poor whose only asset is their

**Table 14. Trends daily minimum legislated wages, 1972-1991
(In pesos at constant 1978 prices)**

Year	Agriculture		Non-agriculture	
	Plantation	Non-plantation	NCR ^{a/}	ONCR ^{b/}
1972	10.30	10.30	16.23	17.35
1973	8.91	8.91	14.04	15.01
1974	7.76	7.76	11.59	12.28
1975	9.31	9.31	12.94	13.90
1976	10.33	9.48	13.94	13.42
1977	11.95	10.79	15.40	14.28
1978	12.48	11.40	15.74	14.65
1979	14.19	12.08	17.17	16.55
1980	16.39	12.30	19.36	19.00
1981	16.49	12.39	19.77	19.32
1982	15.17	11.38	18.06	17.81
1983	14.75	11.05	17.52	17.48
1984	13.90	10.48	16.63	16.60
1985	13.23	10.11	16.22	15.87
1986	13.25	10.12	15.41	15.90
1987	13.11	10.04	14.73	15.74
1988	14.84	11.95	15.93	17.58
1989	16.49	12.65	17.37	18.97
1990	—	—	18.15	19.83-20.24
1991 (April)	—	—	20.19	17.83-20.13

Source: National Wages and Productivity Council (NWPC) as cited in N.B. Bernal, "The Philippines in the twenty-first century: alternative planning and policy scenarios for integrated socio-economic development", Philippine Institute for Development Studies (PIDS), July 1990, Makati, Metro Manila. Paper submitted to Social Development Division, ESCAP Bangkok.

^{a/} National Capital Region (NCR). ^{b/} Outside NCR.

labour power, and who, more often than not, are employed in low-productivity jobs such as those available in the informal sector.

Poverty groups have also been hurt disproportionately by the fact that wages and productivity have fallen in real terms. Data on wages in formal establishments have declined for all types of compensation. While there are no available data to back up this claim, theory suggests that the combined pressure of dwindling employment and depressed wages in the formal sector have a depressant effect on earnings in unorganized activities. Urban poor groups particularly the unemployed and partially employed; workers in the low-productivity informal sector; and minimum wage earners in formal business enterprises, albeit to a lesser extent, were the worst-affected. Rural labourers and landless workers in

Table 15. Daily wage rates without meals in the agricultural sector by crop, 1974-1989
(In pesos at constant 1978 prices)

Year	Palay		Corn		Coconut		Sugarcane		All crops	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
1974	50.56	7.74	5.56	7.74	6.46	9.00	5.88	8.19	-	-
1975	62.59	8.60	6.41	8.37	7.33	9.57	7.78	10.16	-	-
1976	80.97	10.59	8.77	10.35	9.17	10.83	7.90	9.33	-	-
1977	90.86	10.57	9.35	10.02	9.95	10.66	9.96	10.68	-	-
1978	10.42	10.42	9.96	9.96	10.18	10.18	11.00	11.00	10.39	10.39
1979	10.70	9.14	10.38	8.86	10.62	9.06	11.50	9.81	10.68	9.11
1980	11.00	7.95	10.66	7.70	11.59	8.37	11.97	8.65	11.15	8.06
1981	11.91	7.60	10.80	6.89	13.45	8.58	12.88	8.21	12.38	7.90
1982	13.42	7.78	12.74	7.38	15.60	9.04	15.80	9.15	13.90	8.05
1983	15.85	8.37	15.20	8.03	17.75	9.38	18.95	10.01	16.33	8.63
1984	22.64	7.93	18.65	6.53	24.00	8.41	21.40	7.50	21.24	7.44
1985	30.20	8.56	22.07	6.26	28.18	7.99	26.75	7.58	27.46	7.79
1986	31.80	9.03	27.04	7.68	31.00	8.80	28.90	8.20	29.69	8.43
1987	32.44	9.10	28.01	7.86	35.36	9.92	33.93	9.52	32.43	9.10
1988	36.31	-	32.46	-	41.04	-	36.22	-	35.96	-
1989	39.74	-	35.83	-	45.60	-	40.77	-	39.58	-

Source: Bureau of Agricultural Statistics (BAS), Department of Agriculture (DA) as cited in N.B. Bernal, "The Philippines in the twenty-first century: alternative planning and policy scenarios for integrated socio-economic development", Philippine Institute for Development Studies (PIDS), July 1990, Makati, Metro Manila. Paper submitted to Social Development Division, ESCAP, Bangkok.

**Table 16. Average earnings of employed persons
by type of industry, 1980-1986
(In pesos)**

	1980		1981		1982		1983		1984		1985		1986	
	No- minal	Real	No- minal	Real	No- minal	Real	No- minal	Real	No- minal	Real	No- minal	Real	No- minal	Real
All industries	1 193	859	1 362	867	1 678	969	1 582	830	2 186	763	2 437	691	2 243	631
Agricultural	643	465	704	449	894	518	760	401	1 305	457	1 489	422	1 341	381
Industrial	1 742	1 254	2 039	1 298	2 623	1 514	2 276	1 195	2 634	920	3 230	916	2 859	805
Services	1 792	1 290	2 057	1 309	2 457	1 419	2 527	1 326	3 228	1 127	3 392	962	3 246	914
Not reported	1 225	882	2 159	1 374	1 981	1 144	-	-	697	243	-	-	596	168

Source: Department of Labour and Employment, *Employment Report 1988*, Manila, 1989 as cited in N.B. Bernal, "The Philippines in the twenty-first century: alternative planning and policy scenarios for integrated socio-economic development", Philippine Institute for Development Studies (PIDS), July 1990, Makati, Metro Manila. Paper submitted to Social Development Division, ESCAP, Bangkok.

Note: Real earnings in constant 1978 prices.

**Table 17. Trends in compensation of national government employees,
1982-1988
(Obligation basis in pesos per day)**

Year	Total compensation at minimum wage level	Average national government compensation per employee	Real value of column A	Real value of column B
1982	20.44	42.65	20.44	42.65
1983	24.99	54.91	22.71	49.90
1984	34.08	66.04	20.60	39.92
1985	35.98	88.75	17.67	43.58
1986	48.66	95.43	23.71	46.50
1987	51.93	108.32	24.38	50.86
1988	67.02	136.18	29.14	59.21

Source: Department of Budget and Management (DBM).

plantation farms planted to crops affected by falling international prices like sugar were harmed as badly.

The unfavourable events in the factors market were accompanied by adverse prices faced by poor households in the commodities market. The inflation rate

Table 18. Informal or unorganized sector employment in the Philippines,^{a/} 1980-1986

	Own-account workers			Unorganized employment ^{b/}			
	No. of self-employment ('000)	No. of employer ('000)	Total ('000)	No. of self-employment ('000)	No. of unpaid family workers ('000)	Total	
						Number ('000)	Percentage of total employed
1980	5 721	604	6 325	5 721	3 558	9 279	-
1981	5 969	765	6 734	5 969	3 689	9 658	4.1
1982	6 108	866	6 973	6 108	4 158	10 266	6.3
1983	6 736	731	7 467	6 736	4 100	10 836	5.5
1984	7 072	518	7 590	7 072	3 075	10 147	(6.4)
1985	7 318	545	7 863	7 318	3 351	10 669	5.1
1986	7 677	559	8 235	7 677	3 732	11 409	6.9

Source: *Integrated Survey of Households* (ISH), National Statistics Office (NSO).

^{a/} Refers to the 4th quarter. ^{b/} Includes own-account workers less the employers plus unpaid family workers.

has risen by two-digit levels. Perhaps the most critical since majority of the poor in the Philippines are net food buyers and many of them are still consuming only 80 per cent² or less of their requirements is unprecedented increase in food prices which rose faster than those of all other items (table 19). Between 1983 and 1984, the inflation rate for food, beverage and tobacco grew from 8.6 to 53.8 per cent, historically the highest ever recorded. On a month-on-month basis, inflation rate for food and related commodities reached an all-time high of 68.3 per cent in October 1984 (table 20). General inflation at this time was lower at 63.8 per cent. The rate of increase in food prices was still double digit by 1985 as was that for all items.

Unlike majority of rural households who were relatively insulated because of subsistence production, the effect of inflation was severest among the large urban poor. Among them, those in Metro Manila suffered most as overall and food-specific inflation were generally higher in this area than outside of it.

Adjustment policies in the Philippines often involved cutbacks in government expenditures. While countercyclical policy was employed in the late 1970s up to

² 80 per cent of food consumption is just enough to maintain normal bodily functions.

**Table 19. Inflation rate in the Philippines, 1974-1991
(Percentage)**

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 ^{a/}
Philippines:																		
All items	34.5	6.9	9.7	9.8	7.2	17.5	18.2	13.1	10.2	10.0	50.3	23.1	0.8	3.8	8.8	10.6	12.7	18.9
Food beverages and tobacco	49.2	5.4	9.6	10.2	5.9	15.6	15.0	12.8	8.4	8.6	53.8	22.3	-0.9	4.2	10.9	12.9	10.4	15.2
Metro Manila:																		
All items	33.5	8.1	5.3	7.8	7.0	19.3	18.6	12.2	11.0	10.9	49.3	20.7	5.3	6.8	10.1	9.6	14.9	20.0
Food beverages and tobacco	-	-	-	-	-	-	-	12.3	8.0	8.3	55.7	17.7	4.1	6.5	12.4	10.9	12.8	15.2
Outside Metro Manila:																		
All items	34.5	6.8	10.6	10.2	7.2	17.2	18.1	13.2	10.1	9.9	50.5	23.6	-0.1	3.2	8.5	10.8	12.2	18.7
Food beverages and tobacco	-	-	-	-	-	-	-	12.8	8.5	8.7	53.5	23.1	-1.6	3.8	10.7	13.3	10.0	15.1

Source: National Statistics Office (NSO).

^{a/} April.

**Table 20. Month-on-month inflation rate in the Philippines
at the height of the economic crisis of 1984
(Percentage)**

1984	January	February	March	April	May	June	July	August	September	October	November	December
Philippines												
All items	33.3	36.6	39.3	40.7	42.1	49.2	58.9	60.4	63.6	63.8	60.5	50.8
Food, beverages and tobacco	35.4	39.8	43.2	44.4	45.8	52.9	61.4	63.4	68.2	68.3	64.7	52.8
Clothing	32.8	37.4	41.7	45.1	47.8	56.7	64.6	69.7	72.7	73.2	69.0	58.2
Housing and repairs	21.3	22.1	22.7	23.0	23.3	24.8	42.5	43.0	43.8	43.8	42.7	41.1
Fuel, light and water	38.7	41.4	41.1	41.6	42.3	49.4	56.0	60.5	62.5	62.9	59.7	55.5
Services	33.6	33.6	34.6	35.8	36.3	46.6	56.5	51.7	52.1	51.9	49.7	40.8
Miscellaneous	30.8	35.3	40.3	43.4	46.3	55.2	64.5	68.8	71.1	71.3	65.8	52.1
Metro Manila	37.5	40.0	40.6	40.7	43.2	52.6	59.6	60.5	62.9	58.6	51.6	42.9
Areas outside Metro Manila	32.5	36.0	39.0	40.7	41.9	48.6	58.8	60.3	63.8	64.8	62.3	52.4

Source: National Statistics Office (NSO).

1980, the experience after that best exemplify the human consequences of massive falls in public expenditures, especially on social spending.

After showing a substantial rise of more than 16 per cent in 1980/81, total budgetary expenses were on a declining trend upto 1985. The cut of almost 18 per cent was most pronounced in 1984 (table 21). The government was constrained to pare down its expenditures given the huge budgetary deficit. It was politically inexpedient to expand revenues at time of economic difficulties, either by raising tax rates or introducing tax measures. At the same time, tax administration continued to be weak.

The social sectors were among the most heavily-hit in the government's austerity measures. Social services sustained the second heaviest budgetary cut of almost 30 per cent at the peak of the crisis, next to defense whose allocation fell by 34 per cent. Among the social sectors, housing and health had the largest decreases in allocations in 1984 of 57 per cent and 39 per cent, respectively. It should be noted however that compared to these 2 subsectors, the budget of education, social security and labour, and other social services had been falling for 3 continuous years. Thus, these sectors were affected as much as housing and health.

The economic sector's budget declined substantially in 1983/84 although to a less extent (22 per cent). In contrast, the outlays of net lending and debt service showed hefty increases in part due to higher interest payments.

On a real per capita basis, allocation for the social sector has fallen significantly since 1982, hitting a rock-bottom level of ₱ 134.38 in 1984 (table 22). Per capita expenditures have fallen precipitously to lowest levels for almost all social subsectors. The budget for productive activities channeled to the economic sector also reached an all-time low level, as it was for other major expenditure items which suffered declines. In contrast, per capita allocations for debt service and net lending were increasing since 1982 and during the crisis years. The per capita allocations for them, in fact, rose to new heights at that time.

There was an effort to protect the social sectors in 1985 and its real level of allocation grew positively from that time on. But because of the deterioration experienced in the preceding years, it took 3 more years to regain the highest level of per capita social development expenditure achieved in 1981.

Furthermore, this setback in the social sector is an alarming development considering that the Philippines devotes already a relatively small proportion of

Table 21. Growth rates of the expenditure programme of the national government, by sector, 1976-1990 at constant 1982 prices (Percentage)

<i>Particulars</i>	<i>1976/77</i>	<i>1977/78</i>	<i>1978/79</i>	<i>1979/80</i>	<i>1980/81</i>	<i>1981/82</i>	<i>1982/83</i>
Economic services	-9.96	21.51	3.57	-5.13	25.19	-20.33	-13.15
Agriculture, agrarian reform, and natural resources	-28.26	46.66	-48.29	1.02	30.26	10.70	-17.22
Trade and industry	-4.82	21.68	11.09	112.44	123.86	-33.58	-31.41
Tourism	-27.86	83.11	41.21	-34.75	26.17	12.25	-40.04
Power and energy	-14.11	86.08	16.32	-24.47	9.02	-46.67	-43.02
Water resource development and flood control	9.87	-21.83	36.41	39.05	9.42	-3.87	-51.22
Communication, roads, other transportation	-2.44	10.08	35.81	-17.53	5.26	-15.73	-0.17
Other economic services	7.93	-28.44	-23.24	63.20	86.86	-40.46	29.42
Social services	-1.98	16.17	5.76	4.56	15.25	-2.69	-4.50
Education, culture, and manpower development	-1.78	21.40	-4.78	4.59	15.89	-1.03	-12.10
Health	2.86	-8.92	12.47	-0.78	16.82	7.27	4.18
Social security and labour welfare	-13.89	23.23	-8.54	-20.22	15.16	-27.33	-11.83
Land distribution (CARP)							
Housing and community development	116.78	65.70	159.32	1.50	25.43	-1.65	22.50
Other social services	-79.84	22.07	-10.12	726.37	-37.21	-85.18	-10.45
Defense	-0.69	-7.59	-4.43	-10.95	4.65	-1.93	-0.62
Domestic security	-0.77	-24.80	-0.68	-15.99	5.49	-1.73	-3.60
Peace and order	0.10	152.90	-14.83	5.35	2.49	-2.47	7.35
General public services	-5.25	7.76	3.99	-4.08	14.79	19.27	-10.38
General administration	-14.55	5.84	13.07	-9.75	17.67	25.32	-21.40
Public order and safety	-4.61	7.91	7.81	-2.23	17.79	-6.24	12.66
Other general public services	11.32	10.38	-8.86	4.77	10.01	16.66	2.78
Net lending	-58.10	384.23	211.01	-31.54	24.04	120.22	-3.38
Debt service	58.58	1.49	20.84	9.50	-1.98	15.79	54.64
Interest payments	12.55	15.82	40.63	7.90	-4.66	35.19	25.70
Debt amortization	160.97	-12.26	-4.23	12.47	2.80	-16.31	132.01
Total	-2.77	11.51	5.60	-3.54	16.17	-3.89	-2.28

Table 21 (continued)

<i>Particulars</i>	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Economic services	-21.68	-19.48	38.11	-17.69	-8.60	42.71	22.12
Agriculture, agrarian reform, and natural resources	-36.00	11.36	7.57	34.52	2.90	39.73	15.63
Trade and industry	-63.10	13.41	-38.15	52.61	-17.97	20.00	-14.19
Tourism	-51.03	13.79	-11.38	6.07	49.73	-4.99	-18.30
Power and energy	-47.67	26.84	0.74	20.19	-89.17	324.25	540.76
Water resource development and flood control	-51.97	80.49	7.55	-19.07	-7.58	27.28	67.98
Communication, roads, other transportation	-41.72	1.67	-4.90	4.43	18.85	30.12	-11.87
Other economic services	96.51	-67.47	252.69	-65.57	-54.16	122.58	43.14
Social services	-29.84	6.87	37.35	20.28	3.56	12.24	27.79
Education, culture, and manpower development	-19.13	13.49	36.99	5.96	18.10	12.24	13.75
Health	-38.54	14.74	13.59	5.92	24.16	5.44	17.15
Social security and labour welfare	-28.18	4.51	32.79	-1.36	15.99	32.02	92.03
Land distribution (CARP)							
Housing and community development	-57.05	-51.78	128.80	-73.57	22.55	-5.02	-3.62
Other social services	-35.42	-23.87	-59.65	38.26	-65.22	22.82	92.71
Defense	-34.09	9.19	14.00	0.15	33.04	-2.32	3.31
Domestic security	-35.47	11.91	5.70	2.51	33.63	-4.49	-2.04
Peace and order	-30.79	3.10	34.18	-4.36	31.85	2.18	13.70
General public services	-27.86	10.13	-1.41	10.37	20.29	-6.16	11.11
General administration	-31.60	17.66	0.82	7.21	8.71	20.09	3.89
Public order and safety	-16.03	8.22	14.94	11.37	13.82	23.80	8.68
Other general public services	-25.88	1.98	-8.80	14.65	38.27	-42.56	28.76
Net lending	23.35	-67.91	794.15	-56.80	-30.19	-73.47	-125.95
Debt service	18.47	5.77	48.23	129.68	-6.63	4.46	0.56
Interest payments	39.02	19.07	46.10	57.91	13.39	7.63	3.84
Debt amortization	-11.28	-24.42	55.83	370.18	-29.16	-1.25	-5.88
Total	-17.94	-5.66	48.30	24.61	-0.78	7.29	10.29

Source: Department of Budget and Management (DBM). As of 7 December 1990.

**Table 22. Real per capita national government expenditures,
by sector, 1976-1990
(In pesos at constant 1982 prices)**

<i>Particulars</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>
Economic services	400.20	351.51	416.99	421.85	385.78	471.05	366.13
Agriculture, agrarian reform, and natural resources	117.50	82.22	117.73	59.46	57.91	73.57	79.46
Trade and industry	9.80	9.10	10.81	11.73	24.02	52.46	33.99
Tourism	3.08	2.17	3.87	5.34	3.36	4.14	4.53
Power and energy	50.83	42.59	77.37	87.91	64.01	68.06	35.41
Water resource development and flood control	23.64	25.33	19.33	25.76	34.53	36.85	34.56
Communication, roads, and other transportation	153.89	146.44	157.38	208.77	165.98	170.41	140.09
Other economic services	41.46	43.65	30.50	22.87	35.97	65.56	38.09
Social services	174.88	167.21	189.64	195.91	197.47	221.97	210.71
Education, culture, and manpower development	114.16	109.37	129.63	120.57	121.56	137.41	132.67
Health	37.73	37.86	33.67	36.98	35.38	40.31	42.18
Social security and labour welfare	16.13	13.55	16.30	14.57	11.20	12.58	8.92
Land distribution (CARP)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Housing and community development	2.65	5.59	9.05	22.93	22.43	27.44	26.33
Other social services	4.21	0.83	0.99	0.87	6.90	4.22	0.61
Defense	204.89	198.49	179.07	167.16	143.50	146.47	140.13
Domestic security	185.20	179.26	131.60	127.67	103.39	106.38	101.99
Peace and order	19.69	19.23	47.47	39.49	40.11	40.09	38.14
General public services	126.17	116.62	122.69	124.63	115.24	129.03	150.14
General administration	74.21	61.86	63.92	70.60	61.42	70.49	86.18
Public order and safety	10.67	9.93	10.46	11.01	10.38	11.93	10.91
Other general public services	41.29	44.84	48.32	43.01	43.44	46.61	53.05
Net lending	4.34	1.77	8.38	25.46	16.80	20.33	43.68
Debt service	46.98	72.26	111.72	112.74	105.71	91.26	96.34
Interest payments	32.23	35.38	48.02	63.78	63.21	54.97	70.11
Domestic	25.85	29.43	26.69	32.36	27.33	31.62	45.53
Foreign	6.38	5.95	13.31	22.60	29.82	21.53	24.58
Debt amortization	14.49	36.88	39.75	35.22	35.33	33.47	26.23
Domestic	9.06	16.00	18.03	15.04	15.83	16.11	10.65
Foreign	5.42	20.88	13.56	14.51	16.21	16.02	15.58
Total	957.46	907.86	1 095.78	1 091.77	985.95	1 087.78	1 007.13

Table 22 (continued)

<i>Particulars</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
Economic services	310.17	237.05	186.26	251.13	201.81	180.17	249.93	300.65
Agriculture, agrarian reform, and natural resources	64.16	40.07	43.54	45.73	60.05	60.36	81.98	93.38
Trade and industry	22.74	8.19	9.06	5.47	8.15	6.53	7.62	6.44
Tourism	2.65	1.27	1.41	1.22	1.26	1.84	1.70	1.37
Power and energy	19.68	10.05	12.44	12.23	14.35	1.52	6.26	39.52
Water resource development and flood control	16.44	7.71	13.57	14.25	11.26	10.17	12.58	20.81
Communication, roads, and other transportation	136.42	77.58	76.97	71.46	72.86	84.59	106.98	92.87
Other economic services	48.08	92.19	29.27	100.77	33.87	15.17	32.81	46.27
Social services	196.28	134.38	140.15	187.92	220.67	223.23	243.54	306.56
Education, culture, and manpower development	113.75	89.77	99.42	132.97	137.56	158.69	173.13	193.99
Health	42.87	25.71	28.79	31.92	33.01	40.03	41.03	47.35
Social security and labour welfare	7.67	5.38	5.48	7.11	6.85	7.76	9.95	18.83
Land distribution (CARP)	0.00	0.00	0.00	1.97	2.98	0.00	0.59	14.38
Housing and community development	31.46	13.18	6.20	13.86	3.58	4.28	3.95	3.75
Other social services	0.53	0.34	0.25	0.10	36.71	12.47	14.89	28.26
Defense	135.84	87.36	93.09	103.61	101.05	131.66	125.00	127.20
Domestic security	95.90	60.39	65.95	68.05	68.11	88.90	82.53	79.64
Peace and order	39.94	26.97	27.14	35.55	33.19	42.75	42.46	47.56
General public services	131.25	92.39	99.29	95.57	122.97	121.00	122.21	107.98
General administration	66.07	44.10	50.64	49.84	52.17	55.39	64.66	66.17
Public order and safety	11.99	9.82	10.38	11.64	12.66	14.07	16.94	18.13
Other general public services	53.19	37.47	38.28	34.09	38.15	51.53	28.77	36.49
Net lending	41.16	49.55	15.52	135.45	57.13	38.96	10.05	-2.57
Debt service	131.21	117.91	126.82	185.65	348.18	327.62	0.00	323.68
Interest payments	81.67	95.76	115.41	166.77	242.95	273.14	0.00	286.45
Domestic	44.98	64.80	94.88	140.21	195.55	231.55	0.00	252.46
Foreign	40.97	51.80	40.60	53.03	102.37	98.44	0.00	100.65
Debt amortization	55.32	37.06	22.56	37.71	227.25	128.94	0.00	110.25
Domestic	20.69	15.77	6.88	17.7	194.96	89.28	0.00	83.36
Foreign	38.67	35.62	31.02	39.97	69.74	93.87	0.00	79.64
Total	932.20	671.20	598.42	866.63	864.86	833.43	750.73	949.11

Source: Department of Budget and Management (DBM). As of 7 December 1990.

its resources to basic services. Compared to other countries, the country has one of the lowest expenditure per capita, in \$US terms, in Asia (table 23). It was also one of the worst with respect to the proportion of GDP committed to social development.

Real per capita government expenditure has decreased much faster than real per capita GDP, indicating much worse conditions for those who depend on public services. In 1984, real GDP, on a per capita basis, diminished by only 8.2 per cent. Social sector expenditures absorbed a decline of as much as four times what was sustained by per capita GDP (table 24).

As for sectoral shares, a similar picture emerges. The proportion of the budget earmarked to social services has been increasing since 1976 up to 1983, averaging to about 20 per cent. In 1984, there was an abrupt decline to 17 per cent (table 25). This decline took place alongside that of economic services while those of debt service and net lending grew. The percentage of the budget paid to service debt obligations rose phenomenally, reflecting the heavily-indebted path the country has been pursuing. Its share has been increasing continuously since

Table 23. Inter-country comparison of social development expenditures^{a/} per capita and as a percentage of GDP

<i>Country</i>	<i>Percentage of GDP</i>	<i>Per capita (\$US)</i>	<i>Country</i>	<i>Percentage of GDP</i>	<i>Per capita (\$US)</i>
Singapore (1987)	10.8	819.05	India ^{b/} (1987)	1.9	6.28
Republic of Korea (1987)	4.9	143.22	Pakistan (1986)	3.0	10.32
Malaysia (1988)	9.4	193.63	Sri Lanka (1987)	7.9	32.24
Thailand (1987)	5.7	50.99	Bangladesh ^{c/} (1985)	3.1	4.65
Philippines (1988)	3.8	25.05			

Sources: IMF, *Government Finance Statistics Yearbook* (various years); IMF, *International Financial Statistics* (various years); and Department of Budget and Management for Philippine Data.

^{a/} Refers to Central Government expenditures and include expenditures on: (1) education; (2) health; (3) social security and welfare; (4) housing and community amenities; and (5) recreational, cultural and religious affairs. ^{b/} Includes only education; health; and housing and community amenities. ^{c/} Includes only education; health; social security and welfare; and housing and community amenities.

Table 24. Growth rates of real per capita national government expenditures, by sector, 1976-1990 (Percentage)

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
Economic services	-12.2	18.6	1.2	-8.6	22.1	-22.3	-15.3
Agriculture, agrarian reform, and natural resources	-30.0	43.2	-49.5	-2.6	27.1	8.0	-19.3
Trade and industry	-7.2	18.8	8.5	104.8	118.3	-35.2	-33.1
Tourism	-29.6	78.8	37.9	-37.1	23.1	9.5	-41.5
Power and energy	-16.2	81.7	13.6	-27.2	6.3	-48.0	-44.4
Water resource development and flood control	7.2	-23.7	33.2	34.0	6.7	-6.2	-52.4
Communication, roads, other transportation	-4.8	7.5	32.7	-20.5	2.7	-17.8	-2.6
Other economic services	5.3	-30.1	-25.0	57.3	82.3	-41.9	26.2
Social services	-4.4	13.4	3.3	0.8	12.4	-5.1	-6.8
Education, culture, and manpower development	-4.2	18.5	-7.0	0.8	13.0	-3.4	-14.3
Health	0.3	-11.1	9.9	-4.3	13.9	4.6	1.6
Social security and labour welfare	-16.0	20.3	-10.7	-23.1	12.3	-29.1	-14.0
Land distribution (CARP)	-	-	-	-	-	-	-
Housing and community development	111.5	61.8	153.3	-2.2	22.3	-4.1	19.5
Other social services	-80.3	19.2	-12.2	696.6	-38.8	-85.5	-12.7
Defense	-3.1	-9.8	-6.7	-14.2	2.1	-4.3	-3.1
Domestic security	-3.2	-26.6	-3.0	-19.0	2.9	-4.1	-6.0
Peace and order	-2.4	146.9	-16.8	1.6	0.0	-4.9	4.7
General public services	-7.6	5.2	1.6	-7.5	12.0	16.4	-12.6
General administration	-16.6	3.3	10.5	-13.0	14.8	22.3	-23.3
Public order and safety	-6.9	5.3	5.3	-5.8	14.9	-8.5	9.9
Other general public services	8.6	7.8	-11.0	1.0	7.3	13.8	0.3
Net lending	-59.1	372.7	203.8	-34.0	21.0	114.8	-5.8
Debt service	53.8	54.6	0.9	-6.2	-13.7	5.6	36.2
Interest payments	9.8	35.7	32.8	-0.9	-13.0	27.5	16.5
Domestic	13.9	-9.3	21.2	-15.5	15.7	44.0	-1.2
Foreign	-6.7	123.8	69.8	32.0	-27.8	14.1	66.7
Debt amortization	154.6	7.8	-11.4	0.3	-5.3	-21.6	110.9
Domestic	76.5	12.7	-16.6	5.2	1.7	-33.9	94.2
Foreign	285.1	-35.1	7.0	11.7	-1.2	-2.8	148.2
Total	-5.2	20.7	-0.4	-9.7	10.3	-7.4	-7.4

Table 24 (continued)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Economic services	-23.6	-21.4	34.8	-19.6	-10.7	38.7	20.3
Agriculture, agrarian reform, and natural resources	-37.5	8.7	5.0	31.3	0.5	35.8	13.9
Trade and industry	-64.0	10.7	-39.6	49.0	-19.9	16.6	-15.5
Tourism	-52.2	11.0	-13.5	3.6	46.3	-7.6	-19.5
Power and energy	-48.9	23.8	-1.7	17.3	-89.4	312.4	531.2
Water resource development and flood control	-53.1	76.1	5.0	-21.0	-9.7	23.7	65.5
Communication, roads, other transportation	-43.1	-0.8	-7.2	2.0	16.1	26.5	-13.2
Other economic services	91.8	-68.3	244.3	-66.4	-55.2	116.3	41.0
Social services	-31.5	4.3	34.1	17.4	1.2	9.1	25.9
Education, culture, and manpower development	-21.1	10.8	33.7	3.5	15.4	9.1	12.0
Health	-40.0	12.0	10.9	3.4	21.3	2.5	15.4
Social security and labour welfare	-29.9	2.0	29.6	-3.7	13.3	28.3	89.2
Land distribution (CARP)	-	-	-	51.4	-	-	2 344.6
Housing and community development	-58.1	-52.9	123.4	-74.2	19.7	-7.7	-5.1
Other social services	-37.0	-25.7	-60.6	37 219.7	-66.0	19.4	89.8
Defense	-35.7	6.6	11.3	-2.5	30.3	-5.1	1.8
Domestic security	-37.0	9.2	3.2	0.1	30.5	-7.2	-3.5
Peace and order	-32.5	0.6	31.0	-6.6	28.8	-0.7	12.0
General public services	-29.6	7.5	-3.8	28.7	-1.6	1.0	-11.6
General administration	-33.2	14.8	-1.6	4.7	6.2	16.7	2.3
Public order and safety	-18.1	5.6	12.2	8.7	11.2	20.3	7.1
Other general public services	-27.7	-0.5	-11.0	11.9	35.1	-44.2	26.8
Net lending	20.4	-68.7	772.9	-57.8	-31.8	-74.2	-125.6
Debt service	-10.1	7.6	46.4	87.5	-5.9	-	-
Interest payments	17.2	20.5	44.5	45.7	12.4	-	-
Domestic	44.1	46.4	47.8	39.5	18.4	-	-
Foreign	26.4	-21.6	30.6	93.0	-3.8	-	-
Debt amortization	-33.0	-39.1	67.1	502.6	-43.3	-	-
Domestic	-23.8	-56.4	157.2	1 001.7	-54.2	-	-
Foreign	-7.9	-12.9	28.8	74.5	34.6	-	-
Total	-28.0	-10.8	44.8	-0.2	-3.6	-9.9	26.4

Source: Department of Budget and Management (DBM). As of 7 December 1990.

Table 25. Distribution of the expenditure programme of the national government, by sector, 1976-1990
(Percentage)

<i>Particulars</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>
Economic services	41.81	38.72	42.19	41.38	40.69	43.85	36.35	32.31
Agriculture, agrarian reform, and natural resources	12.28	9.06	11.91	5.83	6.11	6.85	7.89	6.68
Trade and industry	1.02	1.00	1.09	1.15	2.53	4.88	3.37	2.37
Tourism	0.32	0.24	0.39	0.52	0.35	0.39	0.45	0.28
Power and energy	5.31	4.69	7.83	8.62	6.75	6.34	3.52	2.05
Water resource development								
flood control	2.47	2.79	1.96	2.53	3.64	3.43	3.43	1.71
Communication, roads, other transportation	16.08	16.13	15.92	20.48	17.51	15.86	13.91	14.21
Other economic services	4.33	4.81	3.09	2.24	3.79	6.10	3.78	5.01
Social services	18.27	18.42	19.19	19.22	20.83	20.66	20.92	20.45
Education, culture, and manpower development	11.93	12.05	13.12	11.83	12.82	12.79	13.17	11.85
Health	3.94	4.17	3.41	3.63	3.73	3.75	4.19	4.47
Social security and labour welfare	1.69	1.49	1.65	1.43	1.18	1.17	0.89	0.80
Land distribution (CARP)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Housing and community development	0.28	0.62	0.92	2.25	2.37	2.55	2.61	3.28
Other social services	0.44	0.09	0.10	0.08	0.73	0.39	0.06	0.06
Defense	21.41	21.86	18.12	16.40	15.14	13.64	13.91	14.15
Domestic security	19.35	19.75	13.32	12.52	10.91	9.90	10.13	9.99
Peace and order	2.06	2.12	4.80	3.87	4.23	3.73	3.79	4.16
General public services	13.18	12.85	12.41	12.22	12.16	12.01	14.91	13.67
General administration	7.75	6.81	6.47	6.92	6.48	6.56	8.56	6.88
Public order and safety	1.11	1.09	1.06	1.08	1.10	1.11	1.08	1.25
Other general public services	4.31	4.94	4.89	4.22	4.58	4.34	5.27	5.54
Net lending	0.45	0.20	0.85	2.50	1.77	1.89	4.34	4.29
Debt service	4.88	7.96	7.24	8.29	9.41	7.94	9.57	15.14
Interest payments	3.37	3.90	4.05	5.39	6.03	4.95	6.96	8.95
Debt amortization	1.51	4.06	3.20	2.90	3.38	2.99	2.60	6.18
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 25 (continued)

<i>Particulars</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
Economic services	30.84	26.32	24.51	16.19	14.91	19.84	21.97
Agriculture, agrarian reform, and natural resources	5.21	6.15	4.46	4.82	5.00	6.51	6.82
Trade and industry	1.07	1.28	0.53	0.65	0.54	0.60	0.47
Tourism	0.16	0.20	0.12	0.10	0.15	0.14	0.10
Power and energy	1.31	1.76	1.19	1.15	0.13	0.50	2.89
Water resource development							
flood control	1.00	1.92	1.39	0.90	0.84	1.00	1.52
Communication, roads, other transportation	10.09	10.88	6.97	5.84	7.00	8.49	6.78
Other economic services	11.99	4.14	9.84	2.72	1.26	2.60	3.38
Social services	17.48	19.80	18.34	17.70	18.48	19.33	22.40
Education, culture, and manpower development	11.68	14.05	12.98	11.04	13.13	13.74	14.17
Health	3.34	4.07	3.12	2.65	3.31	3.26	3.46
Social security and labour welfare	0.70	0.77	0.69	0.55	0.64	0.79	1.38
Land distribution (CARP)	0.00	0.00	0.19	0.24	0.00	0.05	1.05
Housing and community development	1.72	0.88	1.35	0.29	0.35	0.31	0.27
Other social services	0.04	0.04	0.01	2.94	1.03	1.18	2.06
Defense	11.36	13.15	10.11	8.13	10.90	9.92	9.29
Domestic security	7.86	9.32	6.64	5.46	7.36	6.55	5.82
Peace and order	3.51	3.83	3.47	2.66	3.54	3.37	3.47
General public services	12.02	14.03	9.33	8.26	10.02	8.76	8.83
General administration	5.74	7.16	4.86	4.18	4.59	5.13	4.83
Public order and safety	1.28	1.47	1.14	1.02	1.16	1.34	1.32
Other general public services	5.00	5.41	3.33	3.06	4.27	2.28	2.67
Net lending	6.45	2.19	13.22	4.58	3.22	0.80	-0.19
Debt service	21.85	24.50	24.49	45.14	42.47	41.35	37.71
Interest payments	15.17	19.14	18.86	23.90	27.31	27.40	25.90
Debt amortization	6.69	5.36	5.63	21.23	15.16	13.95	11.91
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Department of Budget and Management (DBM). As of 7 December 1990.

1982 that it ate almost half the total budget in 1987. The portion devoted to debt payment has been hitherto falling but it still commands the highest share of budgetary allocation.

The index of vulnerability to fiscal squeeze has been high in the social sector. The sector was most affected in 1984, when it showed a vulnerability index of almost 2.0, the second largest among the major sectoral categories (table 26). There were moves to rectify this shortfall turning it into a highly protected concern in 1985 but many believe that it was a belated move on the part of the government since 1984 was the height of the recession. The average index of vulnerability in 1983-1985 shows that 4 of the 5 social subsectors remained vulnerable despite efforts to prop them up in 1984. The badly affected sectors were health; social security and labour welfare; housing and community development; and other social services.

In 1985, the index of vulnerability was highest in the economic sector at 3.44. All through the crisis years, economic services were vulnerable. In 1983-1985, 4 out of the 7 economic subsectors were vulnerable.

Debt service was always highly protected. Net lending started as a highly protected sector but later turned vulnerable.

With the unfavourable impact of budget declines on both the social and economic sectors, adjustment policies hurt not only the (immediate) real consumption but also the (long-term) productive capacity of the whole population. Misplaced priorities, and the urban and non-poor biases of most services have somewhat minimized the adverse impact of belt-tightening measures on the poor.

The incidence of absolute poverty increased during the crisis years. Based on both objective and subjective surveys, poverty incidence was at its peak in 1985 (table 27). Estimates of Philippine authorities show that the proportion of families below the poverty line was 59 per cent in 1985, 10 percentage points more than the figure in 1971. The Social Weather Station, Inc. also calculated the extent of poverty from a survey of people's perception and though the results are not exactly the same, the trends are broadly similar with official data: poverty was at its highest in 1985.

C. INCOME DISTRIBUTION

While the stabilization programme worsened the situation of those in absolute poverty, in what way has it affected relative poverty? How has the poor fared compared to the rich and the middle income class? There is evidence to

Table 26. Index of vulnerability of sectoral expenditures in the Philippines during its worst post-war economic crisis, 1983-1985

Sector	Real growth rate of national government expenditures (in per cent), 1982=100			Index of vulnerability ^{a/}			Classification of expenditure change ^{b/}		
	1983/84	1984/85	Average 1983-1985	1983/84	1984/85	Average 1983-1985	1983/84	1984/85	Average 1983-1985
Economic services	-21.68	-19.48	-20.58	1.21	3.44	1.74	V	V	V
Agriculture, agrarian reform, and natural resources	-36.00	11.36	-12.32	2.01	-2.01	1.04	V	HP	V
Trade and industry	-63.10	13.41	-24.85	3.52	-2.37	2.11	V	HP	V
Tourism	-51.03	13.79	-18.62	2.85	-2.44	1.58	V	HP	V
Power and energy	-47.67	26.84	-10.42	2.66	-4.74	0.88	V	HP	P
Water resource development and flood control	-51.97	80.49	14.26	2.90	-14.20	-1.21	V	HP	HP
Communication, roads, other transportation	-41.72	1.67	-20.03	2.33	-0.30	1.70	V	HP	V
Other economic services	96.51	-67.47	14.52	-5.38	11.90	-1.23	HP	V	HP
Social services	-29.84	6.87	-11.49	1.66	-1.21	0.97	V	HP	P
Education, culture, and manpower development	-19.13	13.49	-2.82	1.07	-2.38	0.24	V	HP	P
Health	-38.54	14.74	-11.90	2.15	-2.60	1.01	V	HP	V
Social security and labour welfare	-28.18	4.51	-12.02	1.57	-0.80	1.02	V	HP	V
Housing and community development	-57.05	-51.78	-54.42	3.18	9.15	4.61	V	V	V
Other social services	-35.42	-23.87	-29.65	1.97	4.22	2.51	V	V	V

Table 26 (continued)

Sector	Real growth rate of national government expenditures (in per cent), 1982=100			Index of vulnerability ^{a/}			Classification of expenditure change ^{b/}		
	1983/84	1984/85	Average 1983/85	1983/84	1984/85	Average 1983/85	1983/84	1984/85	Average 1983/85
Defense	-34.09	9.19	-12.45	1.90	-1.62	1.06	V	HP	V
General public services	-27.86	10.13	-8.87	1.55	-1.79	0.75	V	HP	V
Net lending	23.35	-67.91	-22.28	-1.30	12.00	1.89	HP	V	V
Debt service	18.47	5.77	12.12	-1.03	-1.02	-1.03	HP	HP	HP
Total	-17.94	-5.66	-11.80	-	-	-	-	-	-

Source: Department of Budget and Management (DBM).

^{a/} Computed as the percentage change in the real government expenditures in a sector over the percentage change in the total government expenditures. This concept of index of vulnerability was taken from Jere Behrman, "The impact of economic adjustment programmes," in *Health, Nutrition and Economic Crisis* by Bell and Reich, eds., 1988. ^{b/} The classification defined as follows were drawn from P. Pinstrup-Andersen, *et al.*, "The impact on government expenditure," in *Adjustment with a Human Face*, vol. I. *Protecting the Vulnerable and Promoting Growth* by Jolly, *et al.*, eds. (Oxford, Clarendon Press, 1987).

- V (vulnerable) – Sectoral cut is greater than the overall expenditure cut.
- P (protected) – Sectoral cut is smaller than the overall expenditure cut.
- HP (highly protected) – Sector actually experiences an increase in expenditure while overall expenditure is cut.

Table 27. Poverty incidence in the Philippines from various sources, 1971-1990

Source	Poverty incidence (per cent)						
	1971	1985	1986	1987	1988	1989	1990
1. NEDA/NSCB/NSO							
Philippines	49.3	59.0	-	-	49.5 ^{a/}	-	-
Urban	38.4	52.0	-	-	-	-	-
Rural	55.6	63.2	-	-	-	-	-
NCR	33.3	43.9	-	-	31.8	-	-
Outside NCR	50.8	61.3	-	-	-	-	-
2. Social Weather Station, Inc.^{b/}							
Philippines ^{c/}	-	74.0	66.5	47.0	66.0	61.5	66.0
NCR ^{c/}	-	50.0	43.0	31.0	37.0	35.5	39.0
3. World Bank							
Philippines	52.0	52.0	-	-	-	-	-
Urban	38.0	42.0	-	-	-	-	-
Rural	58.0	58.0	-	-	-	-	-

Source: Norma Bernal, et al., *Poverty and Inequality Measures: An Application of the Empirically-fitted Dagum Income Distribution Model for Planning Purposes in the Philippines*, November 1990.

^{a/} Preliminary estimate; final figure being discussed by the Technical Working Group (TWG) on Poverty Determination being coordinated by NSCB. ^{b/} As assessed by all respondents. ^{c/} 1986, 1987 and 1989 incidences are the averages of semestral data while the incidences for 1985, 1988 and 1990 refer to the months of July, September and April, respectively.

show that the stabilization programme has not been neutral with respect to the distribution of income, wealth, and assets; and even of consumption/income-augmenting services such as health, education and housing.

The empirical study by Blejer and Guerrero (1990) disclosed that the deteriorating labour market conditions, indicated by falling productivity and increasing underemployment were the most important variables that contributed to the worsening income distribution during the economic crisis. They suggest that this could have been because productivity gains and higher underemployment had opposite effects on wages, with the former serving as a stimulant for real wage increases while the latter acting as a depressant. Low-income groups have been hurt disproportionately more than the upper and middle income classes because under an unfavourable labour market situation, the poor are the first ones

to be affected since they are usually the least schooled, least skilled and least productive.

The same study further revealed that inflation "has acted indeed as a regressive tax", the impact of which has been more acutely felt by the poorer classes whose only productive asset is their human capital and who, oftentimes, are unorganized and lack the clout for the effective indexation of their wages. Furthermore, protected assets whose worth rose *pari passu* with inflation, e.g., real and foreign assets, were not accessible to the poor the way they were to non-poor groups.

Indeed, wages and labour productivity which can be considered measures of the return on low-income groups' asset have fallen faster than the GDP per capita, an index of the well-being of the populace, on the average, and a usual benchmark in the calculation of wage and salary adjustments. Whichever index of wage is used, this conclusion seems to prevail. The decline of average earnings between 1982 and 1986 was more than 10 per cent, those of minimum wages was almost 5 per cent, while that of daily wage rate for all crops by 13.8 per cent in 1984 alone. These figures are really much more than the average fall in GDP per capita of only 4.3 per cent.

The poorer classes were inordinately burdened by the debilitating impact of inflation not only on their real assets and income, but directly on their consumption. As was pointed out already, food inflation rose faster than national inflation rate. To be sure, the impact of inflation was felt across all classes but the situation was most detrimental to low-income groups since food accounts for the largest proportion of their consumption basket compared to other income groups. The poorest 30 per cent of families in the country typically devotes two-thirds of their income on food while the richest 20 per cent spends only 45 per cent (table 28).

Blejer and Guerrero (1990) further revealed that government spending had a regressive effect on redistribution. The decline in public expenditures exacted a heavier toll on the high and middle income groups more than the poorer sections of society. The explanation for this finding which does not seem to conform with a priori expectation is the non-progressivity of the composition and targeting of social spending. The social sectors are replete with examples of the lack of poverty orientation in the provision and delivery of services.

In health, there was inappropriate intra-sectoral distribution of resources. As pointed out by Herrin (1989) the "inappropriate health service structure in the past" emphasized on urban-biased, hospital-based, physician-oriented curative medical care instead of promotive and preventive health services. Out of the government's total resources for health in 1981-1985, 58 per cent went to

Table 28. Proportion of total expenditures spent on food in the Philippines, by area and decile, 1985 and 1988

	1985	1988		1985	1988
Philippines	0.59850	0.57927	Decile 5	0.62811	0.60758
Urban	0.54151	0.52596	Decile 6	0.60158	0.58828
Rural	0.63319	0.61171	Decile 7	0.57836	0.56222
Decile 1 (poorest)	0.68581	0.67232	Decile 8	0.54556	0.53394
Decile 2	0.67370	0.65900	Decile 9	0.50002	0.48673
Decile 3	0.66076	0.64422	Decile 10 (richest)	0.40994	0.41541
Decile 4	0.64734	0.62299			

Source: Family Income and Expenditures Survey (FIES), National Statistics Office.

curative services while only 33 per cent was spent on preventive care. The health department's budget was more distortive, with 69 per cent going to curative care and not even a fourth of it's budget allocated to preventive programmes (table 29). UNICEF (1987) also indicated that "the subsidies to four sophisticated hospitals catering to the elite were nearly five times the total expenditures on primary health care." Health insurance continues to have a very limited coverage of the needy population. Such an allocation of resources was not only inappropriate, it was likewise cost-ineffective given the prevailing disease pattern especially of the large majority of the population in the countryside. The present government has recognized this problem and started to rectify the situation by improving the internal allocation of the health budget beginning in 1986.

In education, according to Blejer and Guerrero (1990), free public education continues to be regressive, with higher-income students and those living in urban areas benefiting more. Herrin (1989) noted the increasing exposure of government in secondary and tertiary education, particularly in subsidizing students in private schools when resources could have been more efficiently used for the improvement of the quality of elementary education. He argued that this expenditure pattern is not likely to improve equity considering the still very low cohort survival rates particularly in public elementary education. It is no surprise therefore that total expenditure in basic education was only a fraction of what was devoted to state colleges and universities in 1985 (UNICEF, 1987).

In housing, expenditures were noted by Blejer, et al. (1990) to have benefited mostly the high/middle-income groups.

In the case of nutrition and services to the disadvantaged, while these are the most progressive and poverty-oriented of all the public services, they nevertheless command very small portions of the budget.

Table 29. Distribution of health department and total government health resources, 1981-1985
(In million pesos)

	<i>Preventive care</i>	<i>Curative services</i>	<i>Training</i>	<i>Administrative services</i>	<i>Total</i>
DOH					
1981	437.4	1179.6	16.2	168.6	1801.8
1982	553.4	1401.8	14.2	180.0	2149.8
1983	616.2	1829.4	14.0	201.3	2660.9
1984	559.0	1492.1	14.1	206.4	2271.6
1985	337.4	1901.7	14.4	171.8	2425.3
Total	2503.4	7804.6	73.3	928.1	11309.4
Share (per cent)	22.1	69.0	0.6	8.2	100.0
GOP					
1981	954.0	1503.2	16.2	262.9	2736.3
1982	1212.7	1786.4	14.6	295.7	3309.4
1983	1263.0	2315.8	14.0	328.0	3920.8
1984	1234.0	2017.0	14.1	330.4	3595.5
1985	1071.0	2389.3	14.4	304.3	3779.0
Total	5734.7	10011.7	73.3	1521.3	17341.0
Share (per cent)	33.1	57.7	0.4	8.8	100.0

Sources: Intercare Research Foundation, "Health care financing in the Philippines: a country study", May 1987 as cited by F. Pante, Jr., "Health policy research and development in the Philippines", *Journal of Philippine Development*, PIDS, No. 30, 1st Semester 1990, vol. XVII, No. 1.

Even the remedial measures implemented by the government during the crisis failed to carry a preferential treatment for the poor (Cornia, 1987). For instance, the KADIWA food discount project and Barangay rolling stores were not implemented solely or mainly for the poor. As it turned out, it was the rich and the middle class who benefited most from these projects as they were the ones who had the wherewithal to stockpile food from these sources. Also, it was already noted that the government's activities in this regard were rather limited because of its own expenditure-cutting measures.

The regressivity of the expenditure system was aggravated by the regressivity of the taxation system (Blejer and Guerrero, 1990). The sources of revenues in the country continued to be mainly indirect taxes, with the tax burden falling more heavily on the lower income groups. Tax administration remained weak, which in itself is regressive given that the rich have more means and resources to evade taxation.

Real exchange rate was found in the same study by Blejer and Guerrero (1990) to improve distribution, suggesting that "the lack of a significant real devaluation during the stabilization programme had important negative effect on the poor."

Rising real interest rates were also found to redress inequity. The mechanism that Blejer and Guerrero (1990) identified through which its effect worked is the substantial decline that this together with the drop in government expenditures induced in economic activity.

These trends do not augur well for a country where extreme inequality in income and assets exists. A historical analysis of the movement of the Gini ratio indicates a negligible decline in this index. Within a span of 27 years, i.e., from 1961 to 1988, the fall in this measure was only 0.024 (Bernal, et al., 1990) (table 30).

The distribution of wealth and assets is actually more skewed than the dispersion of income (Blejer and Guerrero, 1990). Such a situation could have continued considering the disappointing performance of the Comprehensive Agrarian Reform Programme, purportedly the centerpiece of the government's redistribution policy, and the regressive impact of stabilization.

D. SECTORAL CONCERNS

A deterioration in all the social sectors followed suit. This is not surprising at all in view of trends cited earlier which can be summarized as follows: (a) the fall in the real resources of households brought about by declining growth, less employment opportunities, falling wages and other sources of income in the face of rising inflation, (b) declining real government expenditures in all sectors in general and in the social sectors in particular as the government's direct and immediate response to economic difficulties, and (c) weakening family support systems, given increasing labour force participation of parents and younger members of the household, in the absence of a countervailing rise in community support systems.

1. Health

The deterioration in health status, particularly in the first half of the 1980s, is one of the most frequently-cited cost of the stringent adjustment programme adopted in response to the 1984/85 economic crisis (see Cornia, 1987; Cornia and Stewart, 1987; UNICEF-Manila, 1987; Nuqui, et al., 1987; Herrin, 1989; and Mercado, 1990).

Table 30. Historical data on the Gini concentration ratios, 1961, 1965, 1971, 1985 and 1988

	1961	1965	1971	1985	1988
Published by NSO ^{a/}	0.4650	0.4650	0.4530	0.4460	0.4410 ^{b/}
Computed using partial technique ^{c/}					
(a) From deciles	0.4956	0.4948	0.4800	0.4466	0.4438
(b) From income classes	0.5022	0.4960	0.4810	0.4517	0.4485

Source: Norma Bernal, *et al.*, *Poverty and Inequality Measures: An Application of the Empirically-Fitted Dagum Income Distribution Model for Planning Purposes in the Philippines*, November 1990. (See paper for source of computed Gini).

^{a/} Published Gini used the following formula:

$$\text{Gini} = 10,000 - b_i (2a_i + c_i) / 10,000$$

where: b_i = percentage of families in the i th decile
 $= 10$

c_i = percentage share of income of families in the i th decile

a_i = $c_i + c_{i-1}$

^{b/} Preliminary.

^{c/} Computed Gini used the following formula:

$$\text{Gini} = 1 - \sum_{i=1} f_i (y_i + y_{i-1})$$

where: f_i = proportion of families within the i th income class

y_i = cumulative proportion of families upto the i th income class

One of the most immediate effect of the crisis is the increasing cost of medical and health care (Nuqui, *et al.*, 1987; Cornia, 1987). Many private and public hospitals and health facilities were in financial distress that they either had to increase their fees or to cut down on their charitable services in order to minimize their losses. This situation made the access to medical and health care services more prohibitive to the poor and the disadvantaged. Although the demand for health care services is price inelastic except for some regions, the impact from the income side could have worked quite strongly to depress actual health care utilization. An evidence of the decline in health service access and utilization presented by Herrin (1989) is the fall in the proportion of deaths with medical attendance, from 33 per cent in 1977 to 31.2 per cent in 1980 and further down to 29.8 per cent in 1983 (table 31). Another compelling though only limited and illustrative evidence comes from a survey of urban poor communities in Cebu and Davao conducted in 1985 as cited in Herrin (1986). The study

Table 31. Proportion of deaths with medical attendance in the Philippines, by region, 1977, 1980 and 1983 (Percentage)

<i>Region</i>	<i>1977</i>	<i>1980</i>	<i>1983</i>	<i>Region</i>	<i>1977</i>	<i>1980</i>	<i>1983</i>
NCR	66.1	57.9	55.0	VII	20.0	22.0	21.5
I	24.1	26.0	24.6	VIII	16.3	18.0	18.5
II	17.0	17.7	17.7	IX	32.0	34.0	35.5
III	32.0	32.0	30.7	X	26.1	26.1	24.7
IV	32.0	31.0	28.7	XI	34.1	33.3	29.4
V	21.0	22.0	20.4	XII	40.1	36.3	38.1
VI	28.3	28.7	26.7	Philippines	33.0	31.2	29.8

Source: Department of Health (DOH) as cited in A. Herrin, "Are children the hope of the future?", *Population, Child Health, Nutrition, Education and the Philippines in the Twenty-first Century* (Iloilo City, 8 December 1989).

revealed that among those surveyed households whose incomes have fallen, 54 per cent reduced their spending on both food and other items, 35 per cent maintained spending on food but minimized non-food expenses and only 11 per cent pared down expenditures on food but maintained their expenses on others.

The cumulative health impact of these trends was manifested in the slowing down of progress towards increasing infant and child survivals and generally, improving health status in the country.

Many authors cite either a deceleration in the fall of or an outright increase in the infant mortality rate (IMR). Using estimates based on the census, Nuqui, et al., (1987) and Cornia (1987) noted a slackening in the rate of decline of the IMR, from an average of 2 percentage points annually during the period 1975 to 1980 to only about 1 percentage point in the succeeding quinquennium. Herrin (1989 and 1990), on the other hand, citing data from independent studies, showed a discernible rise in the average IMR from 56.9 deaths per thousand live births in 1980 to 62.8 in 1984, after a continuous fall from 1975 to 1980, and even a decade earlier (table 32).

In either case however, i.e., whether there was an increase or just a slowing down in the fall of the IMR, this should be a cause of concern for the government considering that wide mortality differentials exist across regions and among income groups, with some having IMRs upwards of 100/thousand live births (table 33). Indeed, Cornia (1987) documented the marked increase in the IMR of Negros which is one of the poorest provinces and among those with the highest

Table 32. Trends in vital rates in the Philippines, 1948-1984

<i>Year</i>	<i>Infant mortality rate (per 1,000 live births)</i>	<i>Crude death rate (per 1,000 population)</i>	<i>Life expectancy (in years)</i>			
1948-1950	—	21.6	42.5			
1960	113.3	12.9	52.8			
1970	93.2	10.8	55.8			
1975	76.6	60.3	8.7	9.0 ^{a/}	59.4	61.3
1980		56.9		8.7 ^{a/}		62.3
1984		62.8		7.5 ^{a/}		62.9

Sources: From the following sources as cited in A. Herrin, "Are children the hope of the future?", *Population, Child Health, Nutrition, Education and the Philippines in the Twenty-first Century* (Iloilo City, 8 December 1989).

1. W. Flieger, *et al.*, *On the Road to Longevity*, Cebu City, San Carlos Publications, 1981.

2. E.A. de Guzman, "Fertility and mortality in the Philippines: estimates from recent data", University of the Philippines, Center for Integrative and Development Studies, 1989.

3. F.C. Madigan, "Some recent vital rates and trends in the Philippines: estimates and evaluations", *Demography*, No. 2, 1965, pp. 309-316.

^{a/} Refer to 1983.

Table 33. Trends in vital rates in the Philippines, by region, 1980

	<i>Infant mortality rate (per 1,000 live births)</i>	<i>Crude death rate (per 1,000 population)</i>	<i>Life expectancy (in years)</i>
NCR	44.0	5.7	66.1
I	57.0	9.9	63.0
II	78.3	10.6	58.3
III	48.2	7.1	65.1
IV	51.6	7.1	64.3
V	64.8	9.2	61.2
VI	60.5	9.0	62.2
VII	53.3	8.7	63.9
VIII	78.3	10.9	58.3
IX	112.8	14.3	51.3
X	94.5	12.3	55.0
XI	97.6	12.6	54.5
XII	112.8	14.3	51.5
Philippines	63.2	8.7	61.6

Sources: National Statistics Office (NSO); and National Economic and Development Authority (NEDA) as cited in A. Herrin, "Are children the hope of the future?", *Population, Child Health, Nutrition, Education and the Philippines in the Twenty-first Century* (Iloilo City, 8 December 1989).

IMRs. Negros' plight was the result of the depressed world prices of its major product (sugar), and other external and internal shocks the country was subjected to at that time.

The behaviour of the IMR during the country's worst post-war recession is consistent with the findings of Paqueo and Herrin (1984) on the determinants of IMR in the Philippines. Using time series data covering 1957-1977, they established that IMR is positively correlated with the real price of food while negatively associated with other important macroeconomic variables such as full-time employment equivalent, real per capita personal consumption expenditures (PCE), and real per capita health expenditures. Since all these variables deteriorated during the economic crisis, it was inevitable that IMR suffered the same fate.

Another health outcome of the economic decline and the subsequent adjustment policies instituted then was the rising preponderance of water-borne and communicable diseases (Cornia, 1987). The incidence of morbidity from bronchitis/emphysema/asthma, diarrheas, influenza, pneumonias, tuberculosis and measles increased from 1980 onwards. Except for influenza, all these diseases had the highest historical increases between the period 1980 and 1984. Bronchitis and related diseases, and diarrheas showed the most significant increases during the period with the former rising by 713.6/100 thousand population and the latter increasing by 623.9/100 thousand population (table 34).

As for the leading causes of infant mortality, communicable and water-borne diseases have likewise gained increasing prominence between 1984 and 1985 (table 35). Among these diseases, those related to respiratory condition of fetus and nervosarum, diarrhea, and measles showed the highest increases.

The prevalence of anemia increased in 1987 compared to 1982 for specific groups and areas (tables 36 and 37). The most critical increases were recorded for lactating mothers, the aged, and the elementary school-aged groups, some of the highly at-risk sections of the population. A critically high incidence of anemia was also present among babies in 1987. These trends brought the overall incidence to 37.2 per cent in 1987 from only 26.6 per cent in 1982.

While specific indicators such as IMR and morbidity from communicable diseases worsened, the more general vital statistics like life expectancy and crude death rate (CDR) continued to improve even up to 1984. It is worthy of note however that there was a general slowing down of such improvements after 1980, indicating that the economic crisis could have stalled what-ever headway has been achieved in the betterment of health welfare in the country.

**Table 34. Ten leading causes of morbidity in the Philippines
(Rate per 100,000 population)**

	1960	1965	1970	1975	1980	1984	1985	1986	1987
Bronchitis, emphysem and asthma	855.9 ^{a/}	843.3 ^{a/}	877.3 ^{a/}	—	427.3	1 140.9	1 072.7	1 076.4	1 120.6
Diarrheas	709.0 ^{b/}	638.0 ^{b/}	570.9 ^{b/}	476.2 ^{b/}	413.0	1 036.9	956.2	986.7	1 058.5
Influenza	630.0	631.7	1 055.0	578.7	419.9	853.4	818.7	710.2	863.3
Pneumonias	210.7	245.4	233.5	228.1	242.7	363.9	375.7	339.6	319.3
Tuberculosis	382.1	372.1	369.2	314.1	232.4	289.6	280.6	273.4	285.5
Malaria	198.9	89.7	77.6	63.7	82.1	202.1	223.1	221.7	211.1
Accidents	—	—	—	—	—	159.1	176.9	189.1	199.5
Diseases of the heart	—	—	—	—	—	132.7	128.5	140.2	138.1
Measles	72.9	66.8	55.5	66.3	55.4	141.5	115.2	106.0	142.8
Malignant neoplasms	—	—	—	29.5	59.8	45.5	44.4	48.2	47.4
Dysentery, all forms ^{c/}	50.0	62.5	32.4	47.5	56.7	—	—	—	—
Whooping cough	83.6	62.1	54.1	66.4	—	—	—	—	—
Tetanus	—	—	—	10.8	—	—	—	—	—
Beri-beri	174.2	106.2	48.1	—	—	—	—	—	—

Source: *Philippine Health Statistics*, Department of Health (DOH).

^{a/} Excludes emphysema and asthma. ^{b/} Reported as gastroenteritis and colitis. ^{c/} Dysentery, all forms and food poisoning were included in diarrheas from 1984 onwards.

Table 35. Trends in the leading causes of infant mortality in the Philippines, 1978-1984
(Rate per 1,000 live births)

	1978	1979	1980	1981	1982	1983	1984
Pneumonia	13.5	13.3	11.4	10.5	10.2	10.2	11.5
Respiratory condition of fetus and nervousarum	3.3	5.7	5.5	5.3	6.1	7.8	13.5
Diarrhea	4.9	5.1	4.0	4.7	3.4	4.0	8.7
Avitaminosis and other nutritional deficiencies	4.6	2.5	2.1	4.7	1.3	1.7	2.4
Congenital anomalies	1.7	2.1	2.4	2.0	2.1	1.9	4.4
Birth injury and difficult labour	-	1.7	1.5	1.5	1.1	1.1	-
Measles	1.3	1.2	1.0	1.0	0.8	0.7	3.9
Meningitis	1.1	1.1	1.0	1.3	1.2	1.5	1.0
Dysentery, all forms	0.7	0.6	0.6	0.5	0.5	0.6	0.1
Anoxia and hypoxia, conditions not elsewhere classified	3.8	-	-	-	-	-	-
Septicemia	-	-	-	-	-	-	-
Tetanus	1.9	-	-	-	-	-	2.3

Source: Department of Health (DOH).

Table 36. Prevalence of anemia in the Philippines by age, 1978, 1982 and 1987
(Percentage)

	1978	1982	1987		1978	1982	1987
Below 1 year ^{a/}	^{b/}	51.3	70.4	60 years and over	60.9	37.2	46.9
1 - 6 years	^{b/}	32.0	38.7	Pregnant women	85.0	48.6	45.2
7 - 12 years	59.7	^{c/} 31.0	^{c/} 41.2	Lactating mothers	62.5	20.2	50.6
13 - 19 years	^{c/}	^{c/}	31.5	All	-	26.6	37.2
20 - 59 years	^{c/}	^{c/}	29.8				

Source: National Nutrition Surveys, Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST).

^{a/} Refers to 6-11 months. ^{b/} For 0-6 years old, 55.8 per cent. ^{c/} Extent of anemia among 13-15 years (in per cent):

	1978	1982
- Males	33.3	14.9
- Females (excluding pregnant and lactating females)	51.5	27.0

Table 37. Prevalence of anemia in the Philippines by region, 1978, 1982 and 1987 (Percentage)

	1982	1987
Philippines	26.6	37.2
Luzon		
Ilocos	18.7	43.8
Cagayan Valley	19.2	45.2
Central Luzon	19.5	34.8
Metro Manila	20.3	27.7
Southern Luzon	31.3	30.7
Bicol	37.5	29.4
Visayas		
Western Visayas	25.4	61.3
Central Visayas	28.0	36.8
Eastern Visayas	24.5	24.2
Mindanao		
Western Mindanao	—	50.5
Northern Mindanao	29.2	33.7
Central Mindanao	—	36.1
Southern Mindanao	39.5	—

2. Nutrition

The adjustment programme which spawned the massive economic contraction from the early 1980s onwards was likewise detrimental to the country's nutritional status. This is recognized by several writers including Cornia, 1987; Cornia and Stewart, 1987; Nuqui, et al., 1987; Mercado, 1990; and Montes (undated). An examination of secondary data show that there are many evidences in this regard. The detrimental outcomes of the economic squeeze were felt at both the individual and household levels.

Among preschool children, aged 0-6 years, there were significant increases in the proportion of underweight and wasting³ between 1982 and 1987 just when the country achieved modest gains in this area after 1978. This is based on the Nationwide Nutrition Surveys done by the Food and Nutrition Research Institute (FNRI).

³ Underweight preschoolers are those whose weights are less than or equal to 75 per cent of standard weight for age while wasting pre-school children include those whose weights are less than 85 per cent of standard weight and height.

The proportion of underweight preschoolers rose from 17.2 per cent in 1982 to 17.7 per cent in 1987 after a marked decline from 21.9 per cent in 1978. While the increase may be small in terms of proportion, a big leap occurred in terms of absolute numbers in view of the still high birth rate in the country. Thus, because of the setback in nutritional welfare, there was an additional 200,000 underweight preschoolers in 1987 than 5 years earlier (table 38).

Table 38. Trend in nutritional status of preschoolers (0-6 years), 1978, 1982 and 1987

	1978	1982	1987
Underweight:^{a/}			
1. Number (million)	2.1	1.8	2.0
2. Proportion (percentage of total weighed)	21.9	17.2	17.7
Wasting:^{b/}			
1. Number (million)	1.3	1.0	1.4
2. Proportion (percentage of total weighed)	13.8	9.5	12.7

Source: Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST).

^{a/} With less than or equal to 75 per cent of standard weight for age. ^{b/} With less than 85 per cent of standard weight for height.

Out of the 10 regions for which FNRI has a continuous series of data, the percentage of moderately and severely underweight⁴ preschoolers increased in 6 regions and declined in only 4 between 1982 and 1987. The trend compares badly with the 1978 to 1982 period when the extent of underweight declined in 7 regions and rose in only 3. The most severely hit area is Region VI or Western Visayas, where the proportion of underweight preschoolers grew by 6.5 percentage points. It should be noted that previously, this region had the second largest decline in the extent of underweight preschoolers (table 39).

The proportion of wasting also grew from 9.5 per cent in 1982 to a double-digit level of 12.7 per cent in 1987, almost eliminating the progress attained earlier. As a result, the absolute number of preschool children suffering from wasting reached 1.4 million in 1987, even more than the total in 1978. This trend is based on the findings of FNRI and is verified by another source. The National

⁴ Moderately underweight include those who weigh between 60 per cent to 75 per cent of the standard weight for age while severely underweight include those weighing below 60 per cent of standard weight for age.

Table 39. Proportion of undernourished preschoolers^{a/} in the Philippines, by region, 1978, 1982 and 1987

<i>Region</i>	<i>1978</i>	<i>1982</i>	<i>1987</i>	<i>Region</i>	<i>1978</i>	<i>1982</i>	<i>1987</i>
Ilocos	18.0	18.0	17.5	Central Visayas	29.3	15.2	16.7
Cagayan	15.7	14.9	16.7	Eastern Visayas	28.5	20.1	19.8
Central Luzon	15.1	16.7	16.9	Northern Mindanao	16.1	16.6	14.4
Metro Manila	14.7	16.8	17.5	Southern Mindanao	27.7	20.0	-
Southern Tagalog	22.6	18.7	13.9	Western Mindanao	-	-	21.4
Bicol	24.0	15.5	16.6	Central Mindanao	-	-	20.4
Western Visayas	27.1	16.8	23.3	Philippines	21.9	17.2	-

Source: Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST).

^{a/} Refers to 0-6 years old using weight for age standard.

Nutrition Council (NNC), utilizing its National Nutrition Surveillance System, reported that the proportion of preschool children affected by wasting rose from 13.3 per cent in 1984 to 14.3 per cent in 1985 (Montes, undated and Herrin, 1990). Among the regions, Region VI or Western Visayas and the National Capital Region (NCR) or Metro Manila had the highest increases of 13.8 to 20.1 per cent and of 8.8 to 14.4 per cent during the said period, respectively. Region VI was the worst-affected region by the decline in sugar prices while NCR had the largest number of urban poor and the most acutely-hit area by the decline in manufacturing output and employment.

With respect to malnutrition trends for some subsets of the preschool group, Cornia (1987) reported that "the proportion of seriously underweight under-5's rose from 17 per cent in 1982 to 22 per cent in 1985." He moreover noted a worsening of the nutrition situation of the 6 to 23 month olds in the estate sector of the country.

Among school children or the 7-14 year old age cohort though, there was a discernible improvement. The proportion of underweight⁵ among them declined from 18.5 per cent in 1982 to 11.7 per cent in 1987. The same was true for the proportion of stunted⁶ which declined by 10.7 percentage points between 1982 and 1987 (table 40). That these data indicate that children in school are relatively more protected than those out of it is important especially since there were no

⁵ Underweight school children are inclusive of those weighing below 70 per cent of standard weight for age.

⁶ Stunted schoolers have weights less than 90 per cent of standard height for age.

Table 40. Trends in nutritional status of school children (7-14 years) in the Philippines, 1982 and 1987

	1982	1987		1982	1987
Underweight:^{a/}			Stunted:^{b/}		
1. Number (million)	2.0	1.3	1. Number (million)	2.7	1.6
2. Proportion (percentage of total weighed)	18.5	11.7	2. Proportion (percentage of total weighed)	24.6	13.9

Source: Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST).

^{a/} With less than 70 per cent of standard weight for age. ^{b/} With less than 90 per cent of standard height for age.

substantial increases in child care structures for the non school-going age population.

The number of households with inadequate energy intake rose astonishingly from 5.3 million in 1982 to 6.5 million in 1987. This brought the proportion of households not consuming enough calories to 69.2 per cent in 1987 from only around 67 per cent in 1982, a sad development after the country was able to painstakingly pare it down by 1 per cent since 1978 (table 41). In fact, considering the still very rapid growth in population and household formation, the proportion of inadequately-consuming households should fall much more rapidly in order to bring down the total number. For instance, notwithstanding the decline in proportion, the absolute number of households with inadequate consumption of energy still rose from 4.9 million in 1978 to 5.3 million in 1983.

Table 41. Trends in nutritional status of households in the Philippines, 1978, 1982 and 1987

	1978	1982	1987
Households with inadequate energy intake			
(a) Number (million)	4.9	5.3	6.5
(b) Proportion (percentage of total households surveyed)	67.9	67.0	69.2

Source: Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST).

The aforementioned trends seemed inevitable since all the macroeconomic and social indicators relevant to health and nutrition worsened during the period, resulting in a deterioration of the proximate indicators of nutrition.

For one, an overall decline in the real PCE was already noted. Parallel, if not worst, decreases were also experienced in the quantity and quality of food consumption, with consequent falls in the actual intake of essential nutrients.

A comparison of the mean one-day per capita food consumption shows that there were declines in the majority of food groups/sub-groups during the period 1982 to 1987. Marked decreases were in milk products (50 per cent); starchy roots and tubers (47.6 per cent); corn and corn products (29.4 per cent); beverages (25 per cent); green leafy and yellow vegetables (21.6 per cent); other vegetables (11.8 per cent); and poultry (10 per cent). Consumption for certain foods also declined from 1978 to 1983, but for lesser number of food groups and by lesser amounts of declines (table 42).

Cornia (1987) noted the declines in food intake in the Philippines and other countries. This was true on the average and for the intake of the bottom 20 to 40 per cent of the populace.

When income falls, food is a very vulnerable item of expenditure. Of the households which suffered income declines in the survey of Cebu and Davao low income communities, 65 per cent, all in all, reduced their expenses on food, with 11 per cent reducing their food consumption and retaining other items; 54 per cent paring down consumption on food and non-food expenditures; and a relatively smaller proportion (35 per cent) keeping current food consumption levels while cutting on others. Again, this is not a surprising reaction of households knowing that almost half (or more) of total expenditures is spent on food, on the average, with even greater proportions spent by families at the bottom of the income ladder.

Another set of limited evidence further suggests that the quality of diets has also deteriorated. This set of data was analyzed by Herrin (1987) from a survey conducted by the FNRI in the NCR during the period February to March 1984, precisely the year when the Philippines experienced the largest growth contraction and unprecedented general and food-based inflation rates. FNRI found that not only the quantity but the quality of the diets of Metro Manila households became inferior.

Actual nutrient consumption was set back significantly though the declines were certainly not multiplicative as suggested by some authors. The volume and

Table 42. Trend in mean one-day per capita food consumption in the Philippines, 1978, 1982 and 1987

<i>Food group/subgroup</i>	<i>Food consumption, g/day (in purchased form)</i>			<i>Change (per cent) 1982-1987</i>
	<i>1978</i>	<i>1982</i>	<i>1987</i>	
Cereals and cereal products	367	356	345	-3.1
Rice and products	308	304	303	-0.3
Corn and products	38	34	24	-29.4
Cereal products	21	18	18	-
Starchy roots and tubers	37	42	22	-47.6
Sugars and syrups	19	22	24	9.1
Fats and oils	13	14	14	-
Fish, meat and poultry	133	154	157	1.9
Fish and products	102	113	111	-1.8
Meat and products	23	32	37	15.6
Poultry	7	10	9	-10.0
Eggs	8	9	10	11.1
Milk and milk products	42	44	43	-2.3
Whole milk	31	30	36	20.0
Milk products	11	14	7	-50.0
Dried beans nuts, and seeds	8	10	10	-
Vegetables	145	130	111	-14.6
Green leafy and yellow	34	37	29	-21.6
Other vegetables	111	93	82	-11.8
Fruits	104	102	107	4.9
Vitamin C-rich fruits	30	18	24	33.3
Other fruits	74	84	83	-1.2
Miscellaneous	21	32	26	-18.7
Beverages	8	16	12	-25.0
Condiments and others	12	15	14	-6.7

Source: Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST).

adequacy of the mean one day per capita intake of 7 out of the 10 regularly-monitored nutrients by the FNRI declined during the period 1982-1987. These include energy, protein, calcium, thiamine, riboflavin, ascorbic acid, and carbohydrates. The trend is a complete reversal of the improvements attained from 1978 to 1982 when the intake of 8 nutrients increased (table 43).

3. Education

The decline in real capability to earn income at the individual and household levels has resulted further in the erosion of the state of education in the country. This is especially disturbing given that the capability of government to provide even the most basic services has declined as well. The movements of most of the key factors that denote the accessibility, quality and outcome of education attest to this situation.

Participation and retention rates in government elementary education sank from school year 1982/83 to 1983/84, with the former indicator having the largest drop for almost the whole period of the 1980s (table 44). The fall in the rate of school participation was so pronounced that it took 5 school years more to prop it up to the level (in the range of the 1990s) that has already been attained in 1982/83.

The cohort-survival, the main indicator of the capability of the system to keep children in school, diminished. In public elementary schools alone, survival rates fell continuously from 1982/83 to 1986/87. Survival in elementary education in general has been decreasing since 1982/83 and has not yet recovered the highest rate registered in 1978/79. A general deterioration in survival rate at the secondary level could likewise be discerned in the 1980s relative to the 1970s that up to now, the best performance achieved in 1976/77, in terms of survival of cohorts, has not yet been regained.

Repetition rate was more than 2 per cent only in 1982/83 and 1983/84. Drop out rate was generally higher (almost 3 per cent) in the early 1980s when this has been historically almost constant at 2 per cent. A very slight decline in 1984/85 can be discerned in the transition rate among elementary pupils although UNICEF-Manila (1987) provides data that the rate of transition from elementary to high school plunged by 30.5 per cent from 1981/82 to 1983/84.

The above conclusions derived mainly from secondary data bolster the earlier findings of other authors on this topic (See Cornia, 1987; Nuqui, et al., 1987; UNICEF-Manila, 1987; Herrin, 1989; and Mercado, 1990). Furthermore, Cornia (1987) disclosed proofs of falling completion rates and enrolment at the

Table 43. Trends in mean one-day per capita nutrient intake and percentage of adequacy in the Philippines, 1978, 1982 and 1987

<i>Nutrient/adequacy</i>	<i>1978</i>	<i>1982</i>	<i>1987</i>	<i>Percentage change 1982-1987</i>
Energy				
Intake	1 804	1 808	1 753	-3.0
Percentage of adequacy	88.6	89.0	87.1	-2.1
Protein				
Intake	48.0	50.6	49.7	-1.8
Percentage of adequacy	93.2	99.6	98.2	-1.4
Iron				
Intake	10.6	10.8	10.7	-0.9
Percentage of adequacy	88.3	91.5	91.5	-
Calcium				
Intake	0.44	0.45	0.42	-6.7
Percentage of adequacy	78.6	80.4	75.0	-6.7
Thiamine				
Intake	0.73	0.74	0.68	-8.1
Percentage of adequacy	70.7	71.8	66.7	-7.1
Riboflavin				
Intake	0.53	0.58	0.56	-3.4
Percentage of adequacy	50.9	56.3	54.4	-3.4
Niacin				
Intake	15.3	16.4	16.3	-0.6
Percentage of adequacy	115.5	119.7	119.9	0.2
Ascorbic acid				
Intake	66.8	61.6	53.6	-13.0
Percentage of adequacy	99.2	91.1	80.0	-12.2
Fats				
Intake	28.0	30.0	30.0	-
Carbohydrates				
Intake	332.0	327.0	313.0	-4.3

Source: Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST).

Table 44. Enrolment indicators in government elementary schools in the Philippines, 1982/83 to 1988/89 (Percentage)

	1982/83 ^{a/}	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Participation rate	93.08	87.91	89.60	88.90	88.91	89.81	95.01
Retention rate	91.10	90.65	90.90	91.15	91.79	91.96	92.24
Cohort-survival rate	66.45	65.23	64.25	64.11	63.67	64.06	65.25
Repetition rate	2.31	2.32	1.82	—	1.85	1.94	1.96
Drop out rate	2.78	2.72	2.02	2.00	1.70	1.80	1.76
Transition rate	92.41	92.67	92.29	92.32	93.10	93.75	94.40
Completion rate	—	61.14	61.16	61.38	60.36	61.48	61.94

Source: *Statistical Bulletins*, Ministry of Education, Culture and Sports (MECS).

^{a/} May refer to both government and private.

primary level. Mercado (1990) pointed out the slackening of enrolment expansion in the 1980s compared to the 1970s. Herrin (1989) called attention to declining enrolment ratios in public schools given that there were no compensating increases in private school enrolment. Nuqui, et al. (1987) noted that “due to reduced affordability to send children to school, only 88 per cent of the 7-12 school-going age population enrolled in public schools in 1984 compared to 92 per cent in 1981.”

Similar deductions may be gleaned from complementary indicators. The number of out-of-school youth (OSY) increased significantly from 756 thousand in 1980 to 1.2 million in 1983 (table 45). There is limited evidence to show that the phenomenon of increasing OSYs was brought forth directly by the economic decline. Findings of the survey on poor urban communities cited before reveal that 52 per cent and 57 per cent of the 13-16 year olds of Cebu and Davao were OSYs, respectively. Seventy-four per cent of the OSYs in Cebu and 49 per cent of the OSYs in Davao were not attending school due to financial constraints.

The immediate negative effect of economic difficulties has been manifested in the rising child and youth labour discussed previously. Fielding more labour assets has been one of the coping mechanisms employed especially by poor households in minimizing the opportunity cost or income foregone in sending children to school. Moreover, the number of street children has increased as documented by Cornia (1987) and Nuqui, et al. (1987). Higher admission rate for abandoned children in government child institutions and those neglected who are provided with welfare services; and increased number of children doing odd jobs in the streets were revealed by Nuqui, et al. (1987). Without the positive and

Table 45. Number of out-of-school youth by age group and region in the Philippines, 1980 and 1983 (In thousand)

	7-10 years		11-12 years		7-12 years	
	1980	1983	1980	1983	1980	1983
Philippines	559.93	854.79	226.53	394.70	756.38	1 249.49
NCR	63.79	112.65	24.29	28.12	88.08	140.77
Ilocos	36.56	53.95	15.73	20.12	52.29	74.07
Cagayan Valley	22.17	15.13	10.19	38.91	32.36	54.04
Central Luzon	49.54	76.76	21.60	35.81	71.14	112.57
Southern Tagalog	62.01	113.78	30.50	40.79	92.51	154.57
Bicol	54.20	69.96	19.82	37.18	74.02	107.14
Western Visayas	57.76	98.42	18.83	47.41	76.59	145.83
Central Visayas	60.29	114.94	20.65	28.23	80.94	143.17
Eastern Visayas	62.45	52.82	24.41	33.45	86.86	86.27
Western Mindanao	20.13	42.20	16.32	23.00	36.45	65.20
Northern Mindanao	25.38	43.05	11.50	22.86	36.88	65.91
Southern Mindanao	37.79	38.09	8.24	11.67	46.03	49.76
Central Mindanao	7.76	23.04	4.45	27.15	12.21	50.19

Source: Pedroza and Arandia, "Situation analysis on education" as cited in RP/UNICEF, *Situation of Children and Women in the Philippines* (Manila, 1987).

moderating influence of basic social institutions such as the school and the home, which themselves were severely weakened by the economic decline, these children became increasingly prone to crime, juvenile delinquency, drug abuse, prostitution and other social problems.

The aforementioned trends contributed to the erosion of the literacy rate in the mid-1980s. Adult literacy rate has dropped from 89 per cent in 1980 to 86 per cent in 1985 (table 46). Within a span of 5 years, the Philippines lost 3 percentage points in literacy, half of what it gained in the decade previously. Preliminary estimate in 1990 shows that simple literacy reached almost 90 per cent, a level that was nearly attained as early as 10 years before.

The persistent inequity in educational opportunities was made more glaring by the declines experienced in the mid-1980s. Even before the economic crisis, cohort survival rates already varied quite largely among the regions. Metro Manila and the other more urbanized and developed regions were consistently ahead in terms of these indicators. In school years 1983/84 and 1985/86, the largest declines in survival rates occurred in the lagging regions (table 47).

Table 46. Adult literacy^{a/} rates in the Philippines, by sex, selected years, 1960-1990 (Percentage)

	1960	1970	1980	1985	1990 ^{b/}
Total	71.9	83	89	86	89.9
Male	74.2	84	90	86	--
Female	69.5	81	88	85	--

Sources: UN/ESCAP, *Economic and Social Survey of Asia and the Pacific 1990* (New York 1991) except 1960 data which was sourced from NCSO, *Census of Population and Housing*.

^{a/} Percentage of total 15 years old and over. ^{b/} Estimates.

Table 47. Cohort survival rates in government elementary education in the Philippines, by region, 1982/83-1988/89 (Percentage)

Region	1982/83 ^{a/}	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 ^{b/}
NCR	85.15	82.17	84.50	86.87	85.24	86.09	83.93
I	86.66	82.58	77.12	78.44	73.37	77.28	78.95
II	61.38	60.25	60.99	61.49	62.97	61.66	65.64
III	77.43	76.12	76.51	76.50	75.08	74.66	76.67
IV	76.68	77.63	74.82	74.81	76.94	71.84	74.43
V	66.75	58.59	62.57	63.34	64.97	65.74	63.90
VI	62.61	61.32	62.39	59.96	60.37	60.01	63.63
VII	57.97	57.55	56.32	55.87	58.61	59.72	62.25
VIII	54.40	52.36	53.95	54.78	52.60	55.07	55.25
IX	50.63	48.04	49.16	47.85	49.24	49.26	51.12
X	60.61	60.52	59.38	56.85	59.26	58.02	57.99
XI	60.21	59.84	57.77	59.02	59.36	59.61	59.09
XII	48.58	54.24	43.88	45.80	47.80	45.11	46.04
Philippines	66.45	65.23	64.25	64.11	65.12	64.06	65.25

Source: *Statistical Bulletins*, Ministry of Education, Culture and Sports (MECS).

^{a/} May refer to both government and private schools. ^{b/} For the Cordillera Autonomous Region (CAR), the rate is 60.39 per cent.

Region V, one of the poorest areas in the country, had the highest decline of 8.2 percentage points in cohort survival in 1983/84. Region XII, a backward region in Mindanao, was the only place which showed a two-digit percentage points fall in the survival rate in 1984/85.

The decline in elementary participation among the regions was not as disproportionate as that of the cohort survival rate (table 48). The backward regions were not the worst-affected but they were badly affected nevertheless.

Table 48. Participation rates in government elementary education in the Philippines, by region, 1982/83-1988/89 (Percentage)

Region	1982/83 ^{a/}	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 ^{b/}
NCR	72.80	71.40	79.91	79.74	78.43	76.42	80.14
I	98.00	94.54	92.72	92.85	94.28	96.84	99.42
II	97.35	88.08	91.78	92.38	91.54	91.77	89.14
III	102.08	90.93	91.42	90.87	91.20	91.28	96.72
IV	88.64	89.94	93.26	92.39	92.14	91.27	99.71
V	93.95	93.01	92.37	91.80	90.79	93.08	95.76
VI	100.94	88.74	91.27	85.51	88.47	86.07	94.78
VII	88.75	79.93	82.43	80.86	81.68	84.20	91.72
VIII	95.93	93.56	85.59	84.65	84.44	87.10	96.87
IX	93.41	90.29	88.99	91.45	92.94	96.93	99.34
X	96.80	88.75	91.10	89.55	90.58	91.25	98.75
XI	96.22	92.37	90.68	91.51	91.54	95.82	98.52
XII	99.96	91.03	94.74	93.98	91.82	96.45	99.65
Philippines	93.08	87.91	98.60	88.90	88.91	89.81	95.01

Source: *Statistical Bulletins*, Ministry of Education, Culture and Sports (MECS).

^{a/} May refer to both government and private schools. ^{b/} For the Cordillera Autonomous Region (CAR), the rate is 96.46 per cent.

Much of what has been discussed was on the immediate impact of adjustment policies but though too early to tell, there are important long-term effects of these short-term reversals on future human capital and labour productivity. As has been pointed out, the deterioration in education, no matter how short-term and especially as this came with declines in other aspects of human welfare, is extremely critical in the case of the at-risk groups, vulnerable and those who already lead marginal existence.

Another long-run cost identified by Cornia (1987) is on "the level and skills of future mothers." This is so, he argues because "young girls are normally the first to be withdrawn from school in order to save on school fees and books or because they are needed to work in the fields, to take care of younger siblings, or to perform various domestic tasks in the absence of their mothers who have increased their labour supply to compensate for the decline in income of the heads of the households."

4. Other social concerns

The production of housing units under government-administered and government-financed programmes was drastically cut as housing and community development expenditures showed a sharp decline in budgetary allocation. While the budget is not the only source of financing for the housing sector, funds from the Secondary Mortgage Market Programme also fell due to the tight money situation experienced in the mid-1980s. The implementation of several housing projects including those for sites and services development, and slum upgrading were either delayed or scrapped because of lack of funds. The economic crisis rendered the chronic housing problem more serious.

The government instituted a number of stop-gap measures to alleviate the severe housing shortage, the most important of which was the restructuring of the Pag-ibig Home Lending Programme emphasizing on lower loan values that were made more accessible for low-cost housing units. Nevertheless, less beneficiaries were served because interim financing for the Pag-ibig loans were suspended given the scarce credit situation. There was also a sharp drop in Pag-ibig members and contributions. It may be recalled that many firms either closed shop or implemented drastic retrenchment measures.

The most severely affected were the low-income in urban areas, especially Metro Manilans who can only look up to the government for their housing needs. The middle and high-income groups were affected as well but they had the option of competing in the open housing market.

Budgetary cuts, particularly the government's counterpart contribution, contributed to the slowing down of the implementation of the family planning programme. Between 1982 and 1983 alone, national allocation to family planning declined by almost half according to Nuqui, et al., 1987. The direct effect of this downward readjustment were manifested in two things: first, the contraceptive prevalence rate (CPR) fell by 7 percentage points within a 3-year period, 1980 to 1983; and second, the country's targeted CPR was not attained (Nuqui, et al., 1987). This development is very disturbing given the high demand for contraceptive methods and services in the country.

There was a slowing down in the decline of Crude Birth Rate (CBR) during the 1980-1985 period compared to the preceding quinquennium. CBR decreased by about 1 percentage point per year in the 1975-1979 period while its decline was just a fraction in 1980-1985. The economic crisis could have stalled the initial progress in fertility moderation from the post-war period up to about the middle of the 1970s. The net effect is a population that continues to grow rapidly

up to now. Based on the results of the latest census, Philippine population grew by 2.35 per cent reaching a total of 60.7 million in May 1990.

The above surely has disturbing long-term implications not only on population growth but on requirements for social infrastructure and basic services.

IV. GOVERNANCE AND DECISION-MAKING IN SOCIAL DEVELOPMENT

A. DESCRIPTION OF GOVERNANCE AND DECISION-MAKING IN SOCIAL DEVELOPMENT

1. Mechanism for decision-making with focus on social development

(a) Executive branch

Within the executive branch of government, the National Economic and Development Authority (NEDA) is the central economic and social development planning body. NEDA is a coordinative and non-implementing agency mandated with the tasks of: (a) formulating short, medium and long-term economic and social development plans, and (b) monitoring and evaluation of the implementation of national, sectoral and regional development programmes and projects.

The powers and functions of the NEDA are vested in its Board, a high-level policy-making body chaired by no less than the President, and composed of selected cabinet members and heads of other executing agencies of the development agenda. The NEDA Secretariat, which is headed by a Director General who also serves as the Cabinet Secretary for Socio-economic Planning, provides technical and administrative support to the NEDA Board. The Secretariat coordinates the drafting of the development plans, conducts policy studies, evaluates programme and policy proposals, and monitors implementation which become the basis for the decisions arrived at in the Board.

The NEDA Board is backstopped by 6 Cabinet level, interagency and policy-making committees on: Social Development, Investment Coordination, Tariff and Related Matters, Official Development Assistance, Infrastructure, and Development Budget Coordination.

Specifically, the Social Development Committee (SDC) is chaired by the Labour and Employment Secretary, co-chaired by the NEDA Director General and draws its membership from the following social development agencies: the

departments of education, culture and sports; health; social welfare; agrarian reform; agriculture; local government; and the office of the Executive Secretary. It is in charge of: (a) advising the NEDA Board on matters concerning social development, including education, manpower, health and nutrition, population and family planning, housing and human settlements, and delivery of other social services; (b) coordinating the activities of government agencies concerned with social development; and (c) recommending policies, programmes and projects on social development consistent with national development objectives.

In addition, the NEDA Director General is vested with the power to create appropriate inter-agency committees. The Director General usually exercises this power in the formulation of the development plans. For the purpose of coordinating the drafting of the most recent medium-term Philippine development plan, the Director General convened the development planning committees: the Steering Committee, the Coordinating Committee, and the Technical Committees. The Steering Committee which is headed by the Director General and composed of Cabinet secretaries in charge of the execution of the plan, and non-government representatives provided the overall direction for the formulation of the plan. The Coordinating Committee composed of Cabinet undersecretaries coordinated the work of the different Technical Committees which are the real work horses in the plan formulation process. There were thirteen Technical Committees, each in charge with a chapter in the plan. For social concerns, 4 Technical Committees are relevant: Education and Manpower Development; Health, Nutrition and Family Planning; Housing; and Social Services and Community Development.

The Regional Development Councils (RDCs), one for each of the 13 administrative regions in the country are responsible for the coordination of plan/policy formulation and of programme/project monitoring and evaluation at the regional and sub-regional levels. The local leaderships, i.e., governors and mayors; officials of government agencies at the regional level; and representatives from the private sector compose the RDCs. The NEDA Regional Offices (NROs) serve as the RDC Secretariat.

(b) *Legislative branch*

One of the most important innovations of the 1987 Philippine Constitution with respect to the composition of the House of Representatives or the Philippine Congress is the inclusion of non-elective sectoral representatives. To date, there are 12 such representatives on the following sectors: women; youth; the disabled; veterans and the elderly; farmers and peasants; the fisherfolk; the labour sector; and the urban poor. They are an attempt to counterbalance the influence of the regularly-elected congressmen, most of whom either come from elite families or represent rich and powerful groups such as the landed, the industrialists, etc.;

The Philippine Legislature has internally organized itself into various committees whose tasks include the deliberation of proposed bills and other legislations.

In the Lower House or Congress, there are 45 standing committees of which 16 are directly related with social concerns. These are the committees on: population and family relations; labour and employment; education and culture; health; housing; social services; economic affairs; agriculture and food; agrarian reform; rural development; ethics; justice; civil, political and human rights; peoples power and participation; youth and sports development; and urban planning and development. Specifically, the Committee on Economic Affairs is further subdivided into sub-committees, the most relevant of which are those concerned with social policy; and rural, agricultural and regional policy. There is another subcommittee that also deals with an important social concern - the sub-committee on overseas Filipinos, considering that the phenomenon of expatriate labour and overseas migration are quite important in the Philippines.

Of the 35 standing committees in the Upper House or the Senate, 15 are involved in social policy-making though these are not organized exactly along the lines of their congressional counterparts. They include the committees on: labour, education, health, public services, economic affairs, agriculture and food, agrarian reform, rural development, ethics, justice, social justice, cultural communities, urban planning, women, and youth.

(c) Linkages between the two branches of government

While the plan normally contains a policy agenda in pursuit of development objectives, such an agenda is not fully implementable without enabling legislation. Some policy recommendations may not require legislative action such as those that can be deliberated on by the different planning committees and adopted through executives orders and other measures. But many of the important policies can only be instituted through legislative fiat. Such require the passage of important pieces of legislation for which close executive-legislative networking becomes essential.

The institutional linkage between the two arms of government is forged through the legislative liaison office. The NEDA and each of the departments have their liaison offices. Their main activity is coordination with the legislature on legislative proposals/ measures, and other matters of mutual concern.

The working linkage is done mainly through consultation. In the process of plan formulation, representatives from both houses are usually invited to participate

in consultative meetings and public hearings. Legislators or their representatives are encouraged to participate in almost all stages of the planning process - from issue identification, to objective setting to the determination of policy/programme package. In turn, representatives of the NEDA and relevant government agencies are invited during public consultation on legislative proposals. In fact, as early as the formulation of a proposed legislation, NEDA's and other government agencies' comments and respective positions are already solicited by Congress. In most cases deliberations on preliminary or final positions on certain recommended bills, that either emanated from Congress itself or certified as an urgent or important piece of legislation by the executive, are done in the context of the different NEDA or Cabinet coordinating committees. The final decisions on these matters rest with either the Cabinet itself or the NEDA Board.

2. Mechanism for the implementation of social development programmes

The implementation of government programmes rests with the line departments. In the case of social programmes, the ones responsible are the Departments of Labour and Employment (DOLE), Education, Culture and Sports (DECS), Health (DOH), and Social Welfare and Development (DSWD). There are, of course, the other departments whose concerns are closely related with social development. These are the departments of: Agriculture (DA), Agrarian Reform (DAR), Environment and Natural Resources (DENR), etc. In addition, there are bodies in charge of other social concerns though not at the departmental level. For housing, the body in charge of the provision of social housing is the National Housing Authority (NHA) although the policy and programme coordination of all housing matters (including the generation of economic and open-market housing) is assigned to the Housing and Urban Development Coordinating Committee (HUDCC).

Still other services are thought to be best provided through inter-departmental efforts. Nutrition; manpower development; and population and family planning services are integrated in the programmes of the different agencies. For instance, school feeding and nutrition education are handled by the DECS, under-6 clinics are run by the DOH, supplementary feeding and day care centres are operated by the DSWD, and food production for nutrition is the main responsibility of the DA. To ensure policy and programme coordination, there are various councils established for this purpose: the National Nutrition Council (NNC) which is under the DA, the National Manpower and Youth Council which is attached to the DOLE, and the Population Commission, organizationally a part of the DOH.

Each of the departments are pretty much independent in the implementation of the respective programmes although there are some efforts to improve the

coordination of the delivery of services. All departments also have their regional and sub-regional offices which are in charge of the implementation of programmes and the delivery of services at the regional and sub-regional levels. It should be noted however that the budgeting and implementation of programmes are still very much centrally directed. Moreover, all of the agencies have a clear idea of their own objectives, targets and clientele albeit there was a recent directive (through the implementation of the Pro-Poor Programme) to focus their resources and efforts on the poverty groups.

B. ISSUES IN GOVERNANCE THAT LIMIT THE ATTAINMENT OF SOCIAL DEVELOPMENT OBJECTIVES

As was pointed out already, both planning and implementation are still very centralized. While it has always been claimed that the planning process is a top-to-bottom and bottoms up approach, the actual process is really more of the latter than the former. Plan formulation commences with the issuance of broad planning guidelines in the form of objectives, strategies and targets. These then become the basis for the formulation of the sectoral, regional and sub-regional plans. Even planning tools and techniques and the existing data base are still very much in support of centralized planning. The budgeting and implementation of programmes are directed from the central offices. Most crucial decisions are done in Metro Manila and very little authority is delegated to the local levels.

The need for greater decentralization is clearly expressed in the current 1987-1992 medium-term development plan. To wit, the plan states that: "While great strides were made toward formal-legal decentralization, such efforts have not been completely successful in granting substantive powers, authorities and requisite resources to regional institutions and local government units. This is partly explained by the manner in which decentralization has been carried out. Past decentralization has been marked by conflicting tendencies. For instance, while regional offices of national ministries were established supposedly to deconcentrate national powers and authority, such offices merely served as extensions of the national government. Local governments, on the other hand, suffered from centralization or recentralization of important local functions (e.g., police and fire services) and restrictions in the exercise of local fiscal, personnel and administrative powers". This observation was made 5 years ago and several attempts to improve decentralization were made since then but it still very much applies to the present set-up.

A second issue with respect to governance that undermines the attainment of social objectives is the lack of political power of the poor. In the first place,

poverty groups are poorly represented in both houses of legislature. Some of the country's millionaires are in Congress. Other members of congress are powerful landowners and represent big interest groups. It is true that there is an attempt to widen the representation of Congress through the sectoral representative system. But as observed by Carino (1990), "The process of choosing these representatives lacked transparency, especially if one takes note of the fact that the role of mass organizations in these sectors does not seem to be prominent."

The first and second issues flow into the third issue which is the inability of most public programmes to get down and reach out to the most needy. Improvements in the structure of the government's administrative machinery, processes and procedures have been undertaken but the delivery of front line services to the poor is still wanting. As has been shown earlier, most services are still availed of mostly by the middle, if not the high income groups. Admittedly, there are independent efforts by the various departments to improve the responsiveness of their programmes to the needs of the poor. For instance, the DOH in recent years has institutionalized a system of allocating its budget on the basis of regional poverty incidence. More innovative measures however need to be implemented broadly to make the expenditure programme a more progressive instrument of social policy.

A related problem, of course, is the perennial issue of the need to further professionalize the civil service. The difficulties that continue to plague the bureaucracy are: inappropriately large size, low pay and lack of incentives, lack of an effective accountability system, and continuing overlaps and duplication in spite of efforts to streamline the system. These translated to inefficiency and ineffectiveness. Corruption has also become endemic in government and has affected some of the key programmes of the administration, e.g., the Comprehensive Agrarian Reform Programme (CARP).

C. IMPACT OF ADJUSTMENT POLICY ON GOVERNANCE AND DECISION-MAKING

One of the most profound impact of the adjustment programme which wrought tremendous hardship on the population is that it further weakened the capability of the government to implement programmes and deliver services. To begin with, civil servants are some of the most underpaid workers in the Philippines. It was not surprising therefore when some sectors of government took to the streets to demand for more pay which, in turn, affected their ability to perform their tasks. For instance, public school teachers constitute one of the most militant sector in government. They took to the streets during the economic crisis and boycotted their classes resulting in the loss of a substantial amount of

school hours. Also, as a result of government's inability to grant substantial pay increases, other income-augmenting activities of public servants such as selling of goods in the office were tolerated, again resulting in the erosion of service efficiency. Lastly, austerity measures resulted in the drastic cutting of the logistical support which surely has weakened manpower efficiency.

Another likely effect of economic difficulties is that it could have increased the rent-seeking behavior of bureaucrats, exacerbating existing ills of governance such as massive corruption, red tape, etc. This most possibly could have resulted not only in the decline of efficiency but the flow of tremendous leakage from the system that those who are supposed to be served were not served at all.

Another effect is a change in the government's style of management and decision-making which switched to a perennial crisis mode. The need to respond to the exigencies of the times required contingency and adhocery planning. In the process, the importance of planning from a longer-term perspective was relegated to the background, if not entirely forgotten. The emphasis recently is on short and medium-term planning. Planning in the Philippines goes only as far as five years. Beyond that, not much has been said by the government on its vision regarding the Philippine future. The country lacks a long-term or a perspective plan to concretize such a vision. This really is a cause for much concern considering that most of the fundamental social, economic and political difficulties that ail Philippine society today are long-term in nature.

The contingency orientation of policy-making in the country precluded the participation of social agencies in the design of stabilization policy. Traditionally, among those directly involved in the delivery of basic services, only the labour department has been involved and only marginally. The DOLE is consulted on the employment implications of adjustment policy but employment outcomes are seldom considered critical factors in the determination of adjustment policy packages. The other agencies have not been involved at all especially in the pre-crisis period. With the increasing clamour for more consideration of social factors in adjustment and with the awareness-raising value of human-face researches in recent years, these agencies were inevitably drawn into the process. But their participation was a little more than just a window dressing. They did not have any clout at all in the setting of conditionalities and the identification of policies as had the economic agencies who were traditionally involved in the process like the Central Bank, Departments of Finance and Budget, and the NEDA.

V. CONCLUSIONS AND RECOMMENDATIONS

It is clear from the above analysis that the adjustment programme implemented by Philippine authorities in the early 1980s in response to the

conglomeration of external and internal events had a clear and unambiguous negative impact on the well-being of the population. This was made worst by the fact that adjustment came at that time when the country was structurally weakest, economically, politically and socially, in absorbing its detrimental outcomes. Structural weaknesses were the result not only of delayed adjustment and inadequate policy reforms but the very system of governance and decision-making which tended to be monopolized by the traditionally rich and powerful groups.

The impact of stabilization policies have been felt by almost all sectors of the economy. But the poor has suffered more than they deserve. Besides political power and patronage, the rich and the middle classes had an array of mechanisms at their disposal to cope with economic difficulties, e.g., diversion to inflation-responsive or inflation-free assets. These mechanisms were limited, if not totally unavailable, to the poor. The impact on low-income groups was especially hard not only because of their own inability to insulate themselves but also due to the government's weakened state to protect them. The government itself has been terribly affected by the onslaught of the economic crisis that in the process, lost most of its wherewithal to help them, besides the fact that its existing mechanisms for decision-making and implementation are not really able to include the neediest.

The experience of the 1980s hence requires a serious re-thinking of adjustment policy, and how this will be decided upon and eventually implemented. The following points suggest some perspectives by which such an adjustment may proceed:

- (1) Promotion of a more growth-motivated adjustment. Adjustment efforts should not only strengthen the ability of the economy to withstand external shocks and thereby, contribute to domestic stability but provide the basis for longer-term growth and development. An expansionary adjustment will need to avoid a sole preoccupation with monetary and financial performance criteria but afford conscious regard for what happens to growth, employment, income, distribution and human welfare.

Imperative in this process is a long-term reversal in strategy to emphasize more on agricultural growth, rural development and labour. This seems to be the most logical and sensible strategy to adopt given that the bulk of the Filipinos reside in the rural areas, majority of whom depend on agriculture and their own labour for their living. The government must muster the political courage to implement important measures which may be unpopular to the status quo but which will surely result in radical shifts in the distribution of income, wealth,

assets and means of production. These measures include revitalizing the scandal-ridden agrarian reform programme, introducing urban land reform and implementing other distributive measures such as profit sharing. The new strategy also requires the implementation of essential reforms that have either been inadequately implemented or completely set aside for the more mundane and immediate task of restoring domestic tranquillity in the economy. Infrastructure, energy and other structural bottlenecks need to be addressed as well.

More accommodative and progressive monetary and fiscal policies and a renegotiation of the external debt to reduce debt-service payments, including the possible provision of short-term debt relief are the other essential elements to facilitate adjustment at higher levels of equilibria. This will pave the way for the preservation and improvement of standards of living and welfare even in times of difficulty.

- (2) Promotion of an adjustment process that adequately considers the human dimension. Immediate concerns of a more people-oriented adjustment are the protection and maintenance of a minimum living standards primarily of the most vulnerable. These would necessitate the preservation of the most basic services from expenditure cuts. But in view of the present regressivity of the expenditure system, this need not mean an across-the-board application to all forms of social expenditures but just to safeguard services that are usually availed of by the poor. These include supplementary feeding, self-employment assistance schemes, basic elementary education, PHC services, and social and low-cost housing programmes. Welfare protection would also require the implementation of relief measures and compensatory programmes in addition to the regular services provided for by government. Examples of these schemes are food discount projects, self employment assistance, retraining, relocation services and other programmes that will soften the impact of adjustment and/or increase households' coping mechanisms.

Beyond the preservation of a poverty safety net is the need to increase the budget for social services. The UNDP calculated that 25-30 per cent of total resources should go to basic services to achieve symmetry between economic and social progress. In the case of the Philippines, the required share might turn out to be more than this ballpark figure given the chronic understatement of the budget for social services through the years. A longer-term concern of an adjustment process with a human face is the restructuring of the social sectors towards efficiency and equity. Restructuring towards efficiency would mean the

adoption of more cost-effective means of delivering services while restructuring towards equity involves reallocation of resources towards avowed priorities, and improved targeting and actual servicing of the most needy. Specifically, increased support for traditionally low-budgeted concerns such as nutrition and social welfare is needed. Operationally, with their limited budgets, agencies involved in these areas can only serve the needs of a fraction of their actual clientele.

Integral in all these of course is the need to improve the evaluation and monitoring of the effects of adjustment not only for timely intervention and possibly, to minimize dislocation. In this regard, existing data should lend themselves to more decentralized and disaggregated analysis. For instance, the Family Income and Expenditures Survey (FIES) is a very rich source of the incomes position of households and yet, reliable breakdown can be derived only up to the regional level. If the FIES, the Labour Force Survey (LFS), and other data sources are to be useful for this purpose, then their sampling frame should be further disaggregated. The statistical system should make allowances for the immediate conduct of specialized surveys on vulnerable groups and affected areas, and the reactivation of surveillance systems whenever and wherever crisis arise. With respect to the former, local capability to conduct simple surveys and apply improved methods and techniques of analysis should be developed. As regards the latter, a system of surveillance for nutrition and health are the most basic during adjustment.

- (3) Improvement of governance and decision making: Pursuing a more growth-driven and humane adjustment would have important implications on national mechanisms for developing and implementing policies. For one, the negotiation for adjustment policy packages may have to be broadened to include social agencies involved in health, nutrition, education and other relevant sectors. This will ensure that social concerns vulnerable to adjustment disturbances will not be relegated to the background. Empowerment and participation of vulnerable groups in national decision-making need to be pushed more seriously. Sectoral representation of the urban poor and other poverty groups in Congress could be a starting point although these groups should be represented in other policy-making venues especially at the local level, e.g., RDCs. There should be a mechanism by which grassroots organizations can introduce or sponsor policy proposals not only in Congress but other venues as well. As of now, the mechanism of consultation through public hearings may be too inadequate for this purpose.

A shift in the orientation of planning in the Philippines is imperative, from a contingency and crisis-oriented planning to a more long-term perspective. Actions should be tempered by purpose and vision. Definitely, the best way to protect social concerns is not by designing policies under the pressure of a crisis but through a more conscious effort at long-term planning. Moreover, long-term or perspective planning should be able to transcend the more parochial and short-term concerns and vested interests of political administrations.

Crisis management has also spawned the “band-aid” or piece meal approach to planning for social development. An anticipatory and proactive stance-advocating for more comprehensive, coordinated and sustained efforts is certainly a more desirable approach. This way, the government is able to respond to existing as well as emerging problems.

Other required measures that have important bearing on national capability for more efficient and representative governance are: (a) decentralization and devolution of more powers and responsibilities to the local levels, including the powers to raise, allocate and expend resources, (b) optimizing the size and structure of the present bureaucracy, and (c) improvement of the compensation package, provision of training and the implementation of other measures to professionalize the civil service.

- (4) Promotion of a more supportive international economic order: *Sine qua non* to a restructuring process towards both growth and human development are a longer time perspective and more financing for adjustment. The international community can help smooth out adjustment and promote internal capacity to grow and develop in several ways: (a) by promoting less protectionist and more developing country-friendly policies, (b) by supporting or providing facility for buffer mechanisms that could cushion the adverse impact of shocks and adjustment, and (c) by making available more medium and long-term financing.

In the case of the Philippines, an early, constructive and more imaginative solutions to the debt overhang is needed. Foreign governments, external creditors, and bilateral and multilateral agencies can play powerful roles in this regard.

REFERENCES

- Arcelo, Adriano, and Sanyal, B.C., *Employment and Career Opportunities After Graduation: The Philippine Experience*, FAPE and IIEP, UNESCO, 1987.
- Banuri, Tariq, "Social dimension of economic restructuring: terms of reference for country studies", October 1990.
- Behrman, Jere, "The impact of economic adjustment programmes", Bell and Reich, eds., *Health, Nutrition and Economic Crisis*, 1988.
- Bernal, Norma, et al., *Poverty and Inequality Measures: An Application of the Empirically-fitted Dagum Income Distribution Model for Planning Purposes in the Philippines*, November 1990.
- Bernal, Norma, "The Philippines in the twenty-first century: alternative planning and policy scenarios for integrated socio-economic development", submitted to UN/ESCAP, PIDS, Metro Manila, Philippines, July 1990.
- Blejer, M.I. and I. Guerrero, "The impact of macroeconomic policies on income distribution: an empirical study of the Philippines", *Review of Economics and Statistics*, vol. LXXII, No. 3 (August 1990).
- Carino, Letivina V, "An assessment of public administration in the Philippines, 1986-1988", *Philippine Institute for Development Studies (PIDS) Working Paper Series*, No. 90-03, January 1990.
- Child and Youth Research Center, "The present economic crisis and its impact on the 0-6 years", paper presented during the 1984 CPC II Programme Implementation Review Workshop, Metro Manila, 12-14 September 1984.
- Cornia, G.A., "Adjustment at the household level: potentials and limitations of survival strategies", Cornia, G.A., R. Jolly and F. Stewart, eds., *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Cornia, G.A., "Adjustment policies 1980-1985: effects on child welfare", Cornia, G.A., R. Jolly and F. Stewart, eds., *Adjustment With a Human Face, Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Cornia, G.A. and F. Stewart, "Adjustment with a human face" (Chapter II of *The State of the World's Children 1987*) (New York, 1987).
- Cornia, G.A. and F. Stewart, "Country experience with adjustment", Cornia, G.A., R. Jolly and F. Stewart, eds., *Adjustment With a Human Face:*

- Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Cornia, G.A., "Economic decline and human welfare in the first half of the 1980s", Cornia, G.A., R. Jolly and F. Stewart, eds., *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Cornia, G.A., et al., "An overview of the alternative approach", Cornia, G.A., R. Jolly and F. Stewart, eds., *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Cornia, G.A., R. Jolly and F. Stewart, eds., "Introduction", *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Cornia, G.A., R. Jolly and F. Stewart, eds., "Summary and conclusions", *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Cornia, G.A., "Recession, adjustment and human welfare in the first half of the 1980s: an overview" (UNICEF, 28 February 1986).
- Diokno, Benjamin, *Fiscal Performance in the 1980s: A Policy Perspective* (Manila, 10 December 1990).
- Heller, P.S., et al., "The implications of fund-supported adjustment programmes for poverty: experiences in selected countries", *IMF Occasional Paper 58* (Washington D.C., May 1988).
- Herrin, Alejandro N., "An assessment of population, health and education policies in the Philippines, 1986-1988", *Philippine Institute for Development Studies (PIDS) Working Paper Series*, No. 90-10, January 1990.
- Herrin, A.N. and V. Paqueo, "Demographic trends, population policy and the economic crisis", *Transactions of the National Academy of Science and Technology* (Philippines), vol. 7, 1985.
- Herrin, Alejandro N., "Are children the hope of the future?", *Population, Child Health, Nutrition, Education and the Philippines in the Twenty First Century*, UPSE (Quezon City, Philippines, 8 December 1989).
- Herrin, A.N., "The impact of external shocks and adjustment policies on the welfare of low-income groups in the Philippines", May 1986.
- Johnson, O. and Salop J., "Distributional aspects of stabilization programmes in developing countries", *IMF Staff Papers*, vol. 27, No. 1, 1980.

- Jolly, R., *Adjustment With a Human Face: Context, Content and Economic Justification for a Broader Approach to Adjustment Policy*, UNICEF, 11 June 1984
- Jolly, R. and Cornia G. A., eds., *The Impact of World Recession on Children* (a study prepared for UNICEF) (Great Britain, Pergamon Press, 1984).
- Jolly, R., "A UNICEF perspective on the effects of economic crises and what can be done", Bell and Reich, eds., *Health, Nutrition and Economic Crises*, 1988.
- Mercado, O. S., "Population, human resources and development strategies in the 21st century: Philippines" (Jakarta, Indonesia, 23-24 March 1990).
- Ministry of Social Services and Development, "Effects of the current financial crisis on the situation of special categories of children" (paper presented during the 1984 CPC II Programme Implementation Review Workshop), Metro Manila, 12-14 September 1984.
- Montes, Manuel F., "Macroeconomic adjustments and their impact on living standards in the Philippines", submitted to IFPRI.
- Montes, Manuel F., "Review of structural adjustment in the Philippines", *Journal of Philippine Development*, PIDS, No. 27, vol. XV, No. 2., 1988.
- Nuqui, W., Bernal N., Quimbo, V. and Tayzon, F., "The Philippines: external shocks. adjustment policies and impact on selected social concerns", *Journal of Philippine Development*, PIDS, No. 24, 1st Semester, vol. XIV, No. 1, 1987.
- Pante, Filologo Jr., "Health policy research and development in the Philippines", *Journal of Philippine Development*, PIDS, No. 30, 1st Semester 1990, vol. XVII, No. 1.
- Paqueo, V. B. and Herrin A. N., "Population and development planning: modelling macroeconomic and demographic interactions", National Economic and Development Authority, 1984.
- Pinstrup-Andersen, P., et al., "The impact on government expenditure", Cornia, G.A., Jolly R. and Stewart F., eds., *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Preston, S.H., "Review of the impact of world recession on children", *Journal of Development Economics*, vol. 21, No. 2, May 1986.

- Republic of the Philippines, *Medium-Term Philippine Development Plan, 1987-1992* (Manila, Philippines, 1986).
- Republic of the Philippines, *Philippine Development Plan for Women: 1989-1992* (Manila, Philippines, 1989).
- Reyes, E.A. and Sanchez M.C., "An assessment of labour and employment policies in the Philippines, 1986-1988", *Philippines Institute for Development Studies (PIDS) Working Paper Series*, No. 90-09, January 1990.
- RP/UNICEF, *Situation of Children and Women in the Philippines* (Manila, 1987).
- Sagasti, Francisco, "National development planning in turbulent times: new approaches and criteria for institutional design", *World Development*, vol. 16., No. 4.
- Stewart, F., "Alternative macropolicies, meso policies and vulnerable groups", Cornia, G.A., R. Jolly, R. and Stewart, F., eds., *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, vol. 1 (Oxford, Clarendon Press, 1987).
- Tidalgo-Miranda, Rosalinda, "The trend in employment and workers' income, 1980-1985", 1986.
- UN/ESCAP, *Economic and Social Survey of Asia and the Pacific 1990* (New York, 1991).
- UN/ESCAP, *Restructuring the Developing Economies of Asia and the Pacific in the 1990s* (New York, 1990).
- UNICEF, "The impact of world recession on children: a UNICEF special study", *State of the World's Children 1984* (Oxford University Press, 1984).
- UNICEF, *IMF Adjustment Policies and Approaches and the Needs of Children*, 11 June 1984.
- UNICEF-Manila, "Redirecting adjustment programmes towards growth and the protection of the poor", Cornia, G.A., R. Jolly, R. and Stewart, F., eds., *Adjustment With a Human Face Ten Country Studies*, vol. 2 (Oxford, Clarendon Press, 1987).
- Valdecanas, O., et al., "Nutritional patterns and adjustment to the economic deviation of 1983/84 among selected Households in Metro Manila" (Food and Nutrition Research Institute, Manila, 1984).
- World Bank, *World Development Report 1990* (Oxford University Press, 1990).

SOURCES OF DATA

Department of Labour and Employment (DOLE), *Employment Report*.

National Statistics Office (NSO), *Family Income and Expenditures Surveys*.

International Monetary Fund (IMF), *Government Finance Statistics Yearbooks*.

NSO, *Integrated Surveys of Households*.

IMF, *International Financial Statistics*.

National Statistical Coordination Board (NSCB), *National Income Accounts*.

Food and Nutrition Research Institute (FNRI), Department of Science and Technology (DOST), *National Nutrition Surveys*.

National Economic and Development Authority (NEDA), *Philippine Development Reports*.

Department of Health (DOH), *Philippine Health Statistics*.

Social Weather Stations (SWS), Inc., *Public Opinion Surveys*.

Department of Education, Culture and Sports (DECS), *Statistical Bulletins*.

DOLE, *Yearbook of Labour Statistics*.

SOCIAL COSTS OF ECONOMIC RESTRUCTURING IN THE REPUBLIC OF KOREA

by

*Sun Il Bark**

I. INTRODUCTION

Economic development has enhanced the material well-being of the Korean people and their overall quality of life has been considerably improved. Nevertheless, the social development that took place during the last three decades could not be considered satisfactory or optimal. Problems of inequity arose in the process of industrialization and disparities emerged at the regional and sectoral levels as well as in the distribution of economic power. Moreover, the Korean people's aspirations for a better life rose sharply and increasing demands were made, calling for better housing, health services, environment, working conditions and other social amenities as the economy achieved rapid growth and the Republic of Korea gained greater political liberalization. During the period of high economic growth and rising expectations, the speed of social development was relative slow, which created social and political tensions and often threatened economic and social stability.

There are three main causes for the dissatisfaction with the economic development that had taken place in the Republic of Korea. First, economic growth did not give sufficient attention to some important social needs such as housing and working conditions. It might be too early for the Republic of Korea which chose the unbalanced growth strategy to accelerate economic growth and to restore social and economic equity among classes, regions and industries. Social progress has not kept pace with economic growth and as a consequence social development lagged behind economic growth. The country has therefore initiated measures to correct this imbalance.

Second, social policy was not given the attention it deserved. In the period when economic growth was the primary national goal and heavy defence expenditures were necessary, investment in social development was likely to slow

* Senior Fellow, Korea Institute of Health and Social Affairs, Seoul, Republic of Korea.

economic growth. On the other hand, the Government of the Republic of Korea was slow in responding to over-consumption and investment in the private sector, and the low priority given to social development is reflected in the relatively small proportion of expenditures allocated to social welfare in the government budget. For instance, the total budget expenditure on social development as a proportion of GNP is estimated to be less than 40 per cent of the ratio attained in the advanced Western countries when their per capita income was at the level achieved by the Republic of Korea in 1989.

Third, the rapid change of economic structure had important social consequences, and brought additional challenges in the attainment of social goals. The social costs of economic restructuring in terms of its adverse impact on living conditions, income distribution, environment, employment and the provision of basic needs cannot be avoided and would need to be addressed.

The Republic of Korea has considerable experience in economic restructuring. The process was initiated in the early period of development (1960-1970) by domestic economic policies such as import substitution and strengthening manufacturing, especially heavy and chemical industries aimed at broadening and deepening the production structure and diversifying exports. In the late period of development (after 1975), the Republic of Korea restructured the economy to take advantage of available opportunities in export markets, to overcome external shocks such as the oil price crisis, to meet various trade restrictions against its exports, to respond to rapid technological change, and to counter the difficulties brought about by the international debt crisis. Restructuring followed the traditional pattern as experienced in the advanced countries with relative shifts in the share of GNP and employment from agriculture through manufacturing to service industries, and changes in factor intensities from labour-intensive, through capital and scale-intensive to skill or human resources-intensive technologies.

The process of economic restructuring was apt to reduce potential resources some of which would otherwise be invested in social development. It should be classified as social opportunity cost of economic restructuring. The restructuring process may also distort the distributional structure of income, wealth, and employment and adversely affect the provision of social needs such as housing, primary health care, education and sanitation, while at the same time leading to deterioration in the living and working conditions.

The process of economic restructuring is taken up in the next chapter and is then followed by a discussion of the social development problem.

II. ECONOMIC RESTRUCTURING IN THE REPUBLIC OF KOREA

The Republic of Korea has undertaken economic restructuring measures in response to internal and external pressures and in order to maintain its competitiveness of its exports. The Government's outward-looking economic policy may be considered conducive to industrial restructuring. These include investment promotion policies (e.g. tax incentives and targeting of specific industrial sectors for financial and fiscal incentives).

Conglomerate firms, called "chaebols", have expanded their economic territories into the small-scale sector. Korean firms also faced considerable challenges both internally and abroad such as severe labour shortages and sharp wage increases, changes in the domestic investment environment, pursuit of speculative gains in the financial sector, foreign pressures to liberalize imports and weakening of the terms of trade due to rising prices of raw materials, including petroleum. Firms adjusted to these developments, resulting in substantial industrial restructuring over the past three decades. Such economic restructuring is reflected in the structures of industries, exports and imports, and factor intensities in production. The share of GDP and employment has moved from the traditional to modern activities. The share of newer products in manufacturing branches has also been increasing rapidly. The most drastic changes in the composition of industrial output took place in the late 1960s, the late 1970s, the early 1980s and after 1987. The First Economic Plan was initiated in 1962, and the economy had to overcome difficulties of agricultural stagnation around 1967/68 and to search new sources of competitiveness and import substitute industries by developing heavy and chemical industries such as electric, transport machinery and instruments, chemicals, petroleum and glass products and by giving less emphasis to light industries such as cotton and wood products.

After recovering from the first oil shock, industrial restructuring in the Republic of Korea concentrated on the development of the heavy and chemical industries, which were viewed as new leading industries in domestic and export markets.

The primary objective of the restructuring policies adopted by the Republic of Korea was to alter the industrial structure by switching over to the development of technology-based and capital-intensive heavy manufacturing industries. To that end, the Republic of Korea in the late 1960s and in the second half of the 1970s developed a complex package in which selected industries were identified for support and offered credit with highly concessional interest rates and protection from competition through import controls and selective tariff barriers. Although

**Table 1. Sectoral share of GDP for selected years, 1960-1990
(Percentage)**

<i>Sector</i>	<i>1960</i>	<i>1967</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1989</i>	<i>1990</i>
1. Agriculture	37	30	26	24.5	15	12.8	10.1	9.1
2. Manufacturing	14	18.3	21	26.2	30	30.3	31.2	29.2
3. Construction, mining, electricity and water	6	7.2	8	7.3	11.7	11.5	12.8	15.5
4. Services	43	44.5	45	42	43.3	45.4	45.9	46.2

this strategy gave rise to large industrial conglomerates and a high concentration of industrial and financial assets in them, the production of technology- and capital-intensive goods was increased, enhancing the output share of heavy and chemical industries. The share sharply rose from 36.9 per cent in 1970 to 61.3 per cent in 1989. As a result, there was an upsurge of heavy and chemical products starting in the late 1970s.

**Table 2. Share of current value added in heavy and chemical industries
(Percentage)**

<i>Year</i>	<i>1961</i>	<i>1965</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1988</i>	<i>1989</i>
Current value added	29.6	33.2	36.9	45.3	51.2	56.7	60.5	61.3

For example, the number of lathes produced rose from 1,664 in 1974 to 6,260 in 1979, while pig iron production increased from 987 metric tons to 5,063 metric tons, and output of power transformers (1,000 KVA) rose from 2,928 to 13,465 over the same period.

The Korean economy was confronted with the second oil shock in the early 1980s. A harvest failure and decline in agriculture production followed. While industrial restructuring that emphasized heavy and chemical industries boosted private investment to record levels, it brought in its wake a whole range of distortions in the economy: over and mis-investment in less competitive industries, high inflation, and worsening of income distribution. Subsequent industrial policy efforts de-emphasized development of large-scale heavy and chemical industries. Nevertheless, technology development still occupied top priority. Technology and capital intensive industries were considered important in strengthening competitiveness in export markets. The electronics industry has

been growing rapidly and transport equipment was emphasized as a new leading sector for export expansion. Thus, the production of colour television sets increased from 422,000 in 1979 to 4.3 million in 1984. Production of cargo ships also showed a marked increase from 437,955 gross tons to 1.9 million gross tons over the same period.

In 1986, the external environment was favourable for the Korean economy due to low oil price and international interest rates, as well as a competitive won exchange rate. The output and exports of electronic products, passenger cars and ships increased very rapidly during this period. For example, the production of passenger cars rose from 166,769 in 1984 to 867,629 in 1988.

Table 3. Changes in sectoral composition of industrial exports (Percentage)

	1965	1970	1975	1980	1985	1987
Resource intensive	21.0	17.4	11.1	6.8	5.3	4.3
Labour intensive	59.9	68.8	56.5	46.0	37.5	39.7
Scale intensive	5.4	9.6	17.5	17.1	17.5	25.8
Science based	0.0	0.2	0.3	2.3	3.7	4.8
Differentiated goods	13.7	3.9	14.5	27.8	36.0	25.3

Source: United Nations, ESCAP, *Industrial Restructuring in Asia and the Pacific* (ST/ESCAP/960), March 1991.

Electronics, one of the Republic of Korea's fastest growing industrial branches, show how sophisticated technology-intensive industrial subsectors have displaced the former prevalent items, leading to a large structural change of the manufacturing industry and hence the economy in general. The electronics industry started producing components more than 30 years ago, moving on to the production of radios and transistors in the 1960s, colour TV and cassette players in the 1970s, and VCRs, personal computers, high density semi-conductors, CDPs, digital TVs, chip materials, and audio-visual machines today. The value-added share of the electronics industries rose sharply from a mere 1 per cent of total manufacturing value-added in 1971 to about 14 per cent in 1990, and is expected to reach 22.1 per cent in the year 2000. The share of electronics exports is about one fifth (\$US 14 billion) of total exports in 1990 and is estimated to reach 35.4 per cent of the total by the year 2000.

The employment structure has also changed drastically, following the pattern from agriculture through manufacturing to service industries.

Table 4. Industrial structure of employment for selected years, 1960-1990 (Percentage)

	1960	1970	1975	1980	1985	1989	1990
Agriculture	61.0	50.4	45.7	34.0	24.9	19.5	18.3
Manufacturing and mining	6.0	14.3	19.1	22.5	24.4	28.2	27.3
Construction	–	2.9	4.4	6.2	6.1	6.5	7.4
Others	30.0	35.3	35.2	43.5	50.6	52.3	54.4

Although the Republic of Korea experienced an economic boom during the three years (1986-1988), the country was not successful in adjusting its economic structure to maintain its international competitiveness nor was it successful in promoting investment in social development. A considerable portion of the increased national wealth was allocated to producing consumption goods and public facilities (including sports and recreational facilities) as well as in increasing imports, rather than to more productive investment and social welfare development, except for the extension of national medical insurance.

On the other hand, trade surpluses over these three years and increased foreign exchange reserves gave rise to foreign pressures that resulted in appreciation of the won and increased imports, entailing slower economic growth in 1989.

Table 5. Economic growth rate, 1985-1990 (Percentage of increase over previous year)

Year	1985	1986	1987	1988	1989	1990
GNP growth	7.0	12.9	13.0	12.4	6.8	9.0

In addition, significant changes occurred in the domestic and external economic environment. Internally, labour disputes and strikes frequently took place with greater political liberalization beginning in 1988. Wages and inflation rose sharply from 1985 to 1988, although the growth rate of real wages did not exceed the rate of growth of labour productivity. Enterprises were reluctant to invest in productive capital formation and found it more attractive to engage in

speculative activities in the stock market and in real estate. This speculative atmosphere, triggered and dominated by the big firms, greatly lowered incentives for investment in new plant and equipment which are essential to upgrade technology, maintain comparative advantage, and to increase the growth potential. The speculative atmosphere became one of the major causes inhibiting growth, reducing savings and damping incentives for productive work. In the process, income distribution became more uneven and price stability suffered. Workers are also less inclined to take up jobs that involve hard labour or are unpleasant and would prefer to be engaged in activities that are easier to perform and where the work place is pleasant as in the entertainment services. Moreover, labour shortages are becoming fairly common in many manufacturing establishments and the recent construction boom has added to the tight labour market.

The advanced countries have been placing strong pressures on the Republic of Korea to open up its economy not only for their agricultural products but also in such areas as insurance, finance, banking and the stock market. Trade liberalization under the Uruguay Round of multilateral trade negotiations are also likely to create restructuring problems for the Republic of Korea's traditional as well as new industries such as those in the electronics subsector. Moreover, the Republic of Korea must move into higher value-added and skill intensive products to face increased competition from other developing countries, in addition to relocating some of its labour intensive industries in these countries. One favourable factor in this regard is the stronger links that the Republic of Korea has established with the Socialist countries, especially after the Seoul Olympics in 1988. Prospects appear good to expand trade and economic relations with China and Russia, in particular to invest in developing the vast natural resources of Siberia.

III. SOCIAL DEVELOPMENT AND SOCIAL COSTS

A. CONFLICTING OBJECTIVES

Social development did not receive high priority in strategies for accelerating economic development in the Republic of Korea. Rather, high economic growth was considered to boost social welfare by employing surplus labour and raising productivity of the underemployed in the earlier part of development up to around the early 1970s when the country suffered from unemployment, underemployment and absolute poverty. While the strategy of unbalanced growth brought on equity problems between classes and regions, social policy was aimed at supporting those at the lowest end of the income scale, at a time when policies of low wages and low prices were maintained.

However, social issues received increased attention in order to ensure a better quality of life when targets of economic plans - higher economic growth,

trade expansion and high capital formation - were successfully achieved around the middle of the 1970s. One of the best known social policies in rural development is known as the "Saemaul" movement. It provided agricultural income support and reduced income disparity between city and farm workers. Various kinds of social welfare policies such as medical insurance and nationwide pension schemes were planned but made little progress at that time. The national medical insurance scheme was implemented for the first time in 1977 for large scale firms and work places and was expanded annually step by step.

In 1980, a welfare state became a new slogan for the new political regime. Numerous programmes were initiated but achieved only limited success. Nevertheless, it was not until the late 1980s, or to be more precise until 1988, that social development was recognized as crucial to maintain social and political stability as well as to enhance national well-being and that it was a critical requirement for sustained growth and efficient structural change.

As the economy progressed, most people in the Republic of Korea were less persuaded to save and postpone current consumption to enjoy a better life in the future. The trickle-down theory that the fruits of economic growth would filter down to the poor masses once the economy was sufficiently developed did not seem to convince the Korean population. Furthermore, government's policies aimed at addressing problems of social justice and equity could not be considered appropriate or satisfactory. Thus, there was wide-spread discontent and a national consensus was reached that greater efforts should be made to achieve a fairer distribution of economic and social benefits. Persistent pressures on the part of many students and other activists have succeeded in obtaining concessions from the political elites in 1987. Since the new government took office in 1988, a lot of social issues have come to the fore, often taking the form of labour strikes, welfare claims of the deprived, alienated, and lower income groups and criticism from various quarters against the concentration of wealth and economic power in the hands of the political elites. In the wake of these developments, the Government has initiated policy reforms and began to direct more attention towards social development. Existing social welfare programmes were accorded more resources and expanded to cover more recipients. At the same time, new programmes to improve social security and social well-being, including raising of the minimum wage were introduced.

However, despite these efforts, the progress made in social development was often not able to match the rising expectations of the Korean population.

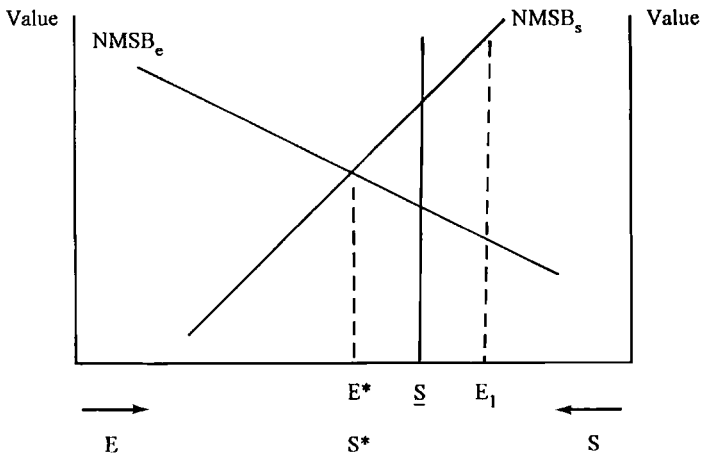
Social costs could be divided into indirect and direct. Indirect social costs result when the economic restructuring process creates smaller benefits to societies,

including economic growth and accompanied positive effect on social development, than the benefits produced when the same resources are otherwise invested in social development. The net loss, social opportunity cost over social benefits of economic restructuring, is indirect social cost.

The restructuring process has direct negative effects on distribution, poverty, employment, quantitative and qualitative supply of basic needs and living conditions, which is not compensated for society by investors. That is, they are not counted as costs in economic investment. In figure 1, marginal indirect social cost could be described as $(NMSB_s - NMSB_e)$ at E_1 . E^* is the optimal level of resource allocation for economic targets.

Investment inefficiency would be estimated to be $1/2(E_1 - E^*)(NMSB_s - NMSB_e)_{E_1}$ if an economy would invest excessively in economic development to the level E_1 . If we allow economic investment to the level (\underline{S}) which guarantees minimum level of living, investment inefficiency or social opportunity cost of economic development is reduced. Therefore, indirect social costs, only taking into account minimum standard, could be estimated to be $1/2(E_1 - E^*) \times (NMSB_s - NMSB_e)_{E_1} - 1/2(\underline{S} - E^*)(NMSB_s - NMSB_e)_{\underline{S}}$, which has taken place because of social opportunity cost of emphasizing economic goals.

Figure 1.



NMSB: Net marginal social benefit of economic development and social development excluded investment costs.

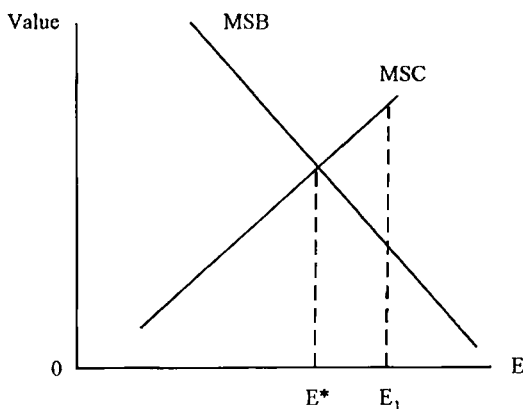
E and S: Allocated levels of resources to economic and social development.

\underline{S} : Level of social development to secure minimum level of living.

Marginal direct cost is $MSC-MSB$ at E_1 (figure 2) and net direct social cost could also be estimated with the area of a triangle: $1/2(E_1-E^*) \times (MSC-MSB)_{E_1}$.

Therefore, social costs of economic restructuring is composed of both net social opportunity cost and net direct social cost. Social welfare loss generated by biased distribution between classes and regions, unemployment and underemployment, high poverty rate, and social and political instability are intangible and difficult to estimate. In addition, inefficient administration and delivery is crucial elements aggravating social problems. These three kinds of welfare loss constitute the social costs of economic restructuring.

Figure 2.



B. MACRO ISSUES OF SOCIAL DEVELOPMENT AND SOCIAL COSTS

With high economic growth, there has been discrete spurts of social development especially in the late 1970s and the 1980s. The Fourth Economic Development Plan (1977-1981) allocated 20.6 per cent of gross government investment resources to social development, which was 3.3 per cent higher than the proportion allocated to this sector in the Third Plan. While the Fourth Plan emphasized institutional development and orientation of future social development policy, social development was highlighted and given prominence in the late 1980s, with the implementation of the Sixth Plan in 1987-1991. However, important social policies were also executed in the early 1970s such as the "Saemaul" Movement which raised rural incomes as well as housing and infrastructure. Early in the 1980s, the Fifth Plan (1982-1986) also emphasized social development and changed the name into economic and social development

planning instead of economic development planning. During this period, public investment in education and housing were major programmes.

1. Social expenditure of the Government

After attaining considerable economic achievement, for example, \$US 1,000 per capita GNP and \$US 10 billion in exports in 1977, the Republic of Korea gave more attention to social development. Government expenditures for social development became more closely associated with the progress made on the economic front. While the general government expenditure grew at about the same rate as the growth rate of GNP in current prices, expenditures on social development exceeded the average growth rate of GNP. This was particularly so in the late 1970s and after 1989. But government policy for social development did not show much dynamism during periods of high economic growth such as in 1986-1988, and during recessionary periods such as in the early 1980s.

It should be noted that total government expenditure on social development exceeded the rate of economic growth in 1981, as a result of high growth rate of social expenditure since the latter half of the 1970s. This may reflect the fact that the Government recognized the necessity of emphasizing social development rather than economic growth, when the economy matured and attained sustained growth. The Government of the Republic of Korea switched its long-term major goal from economic development to social development. For the purpose of satisfying new social demands, the composition of government expenditure was dramatically reversed between economic development expenditure and social development, characterizing a new long-term trend.

Table 6. Share of social development expenditure in total development expenditure (Percentage)

	1962-1966	1967-1971	1972-1975	1980-1989	1975	1981	1989
Social development expenditure	46.5	46.4	49.4	56.1	44.5	52.4	61.9

Despite the high growth rate of public social expenditure, the expenditure level does not seem to be sufficient. The Government's provision of welfare services is largely deficient to meet the shortage of basic facilities including housing and health care, to reduce poverty gap and public bads like pollution, as well as to restore regional balance, and to alleviate relative deprivation. Most of

these welfare services may remain far short of the desire of the people and the levels attained by advanced countries in the similar stage of economic development.

The deficiency in the provision of welfare services could be ascribed to an insufficient responsiveness of government policy to growth of welfare needs and welfare supply potential arising out of increased economic power. While government investment in social development was large compared with that in the early period of development, it may be said to be yet sluggish except in recent years. The advanced European countries were very active in investing in social development. The elasticity of government expenditure for social development (1.18 in 1976-1989) to changes in GNP in the Republic of Korea was lower than the average elasticity (1.43) of 14 European countries experienced in the period 1950-1975 (P. Flora and A.J. Heidenheimer (1987)). Furthermore in the Republic of Korea, speculative money has been rolling around in real estate, stock and antiques markets in expectation of large capital gains. These resources could be mobilized for investment in social development.

Another important reason for the difficulty in raising social expenditure is the slow growth of general government expenditure. In 9 European countries, rapid growth of government expenditure is mainly brought about by the strong will of the government to improve welfare. Thus, welfare expenditure contributed 50 to 60 per cent of the growth rate of government expenditure during 1960-1975 (Bark (1991)). Unfortunately, the contribution reached only about 33 per cent for the Republic of Korea during 1978-1987. One of the reasons for slow growth of government expenditure is difficulty in raising revenue. However, the Republic of Korea has a good tax base in capital gains and wealth which will need to be tapped. For instance, a tax imposed on excessive profits from land initiated recently which covered only 2.7 per cent of land in the south yielded 610 billion won.

Owing to low government expenditure for social development, the ratio of the expenditure to GNP did not exceed 5 per cent in 1989. Therefore, the low level of total government expenditure and a stronger will for social development are critical factors that will need to be given greater consideration.

In other words, it may be interpreted that insufficiency of government investment in social welfare could release resources to stimulate competitiveness and promote economic growth. However, Korea seemed to have paid a high social cost to attain this objective. Thus, while other countries on average are estimated to have allocated 11.2 per cent of GNP to social development for attaining the same per capita income as that of the Republic of Korea in 1989, the country is estimated to have allocated only 4.23 per cent of GNP to social

development. In other words, the country might invest more public resources, by about 7 per cent of GNP in economic development to produce the same economic objective, which would otherwise be allotted to social development, generating social welfare by (7 per cent of GNP), $(NMSB_s - NMSB_e)$ in figure 1. Therefore, some of the investment gap, about 7 per cent of GNP, between the Republic of Korea and the other countries could be interpreted to be monetary value of an additional social opportunity cost paid by the Korean Government to keep and maintain economic growth targets.

Table 7. The ratio of government welfare expenditure to GNP in 1989 (Percentage)

	<i>Total social development</i>	<i>Social security and welfare</i>	<i>Health</i>	<i>Education</i>	<i>Housing</i>
Republic of Korea	4.23	0.90	0.25	3.04	0.04
22 countries	11.20	3.00	1.71		6.49

Source: S.I. Bark, *A Study on Social Welfare Demand of the Lower Income Class*, Korea Institute for Health and Social Affairs, 1991 (in Korean); and Long-term Planning Committee for Social Welfare Development, "Long-term development plan for social welfare in Korea" (mimeo.), 1989.

Note: The figures for 22 developed countries are estimated on the basis of the same constant per capita income as the Republic of Korea in 1989.

2. Distributional issues

The Korean experience with economic growth is considered to be relatively successful in improving income distribution. The Gini coefficient is estimated to be 0.336 in 1988, which is close to the level attained by advanced countries. The ratio of income share of top 10 per cent to that of the lowest 20 per cent indicates relatively equal distribution of income.

The main factors contributing to improving distribution were government's redistribution policy as well as growth of the labour movement that gathered momentum in the late 1980s. Moreover, the early strategy of labour intensive development was very effective in creating employment opportunities and improving income distribution until the late 1960s. The economic boom at the end of the 1960s might have a negative effect on distribution because an increasing share of GNP went to enterprises in the short run although the data is not clear. Such initiatives as the Saemaetul movement launched in 1971 and the recession in the period of the oil shock might have contributed to improve income distribution.

Table 8. International comparison of ratio of income share of the highest 10 per cent to income share of the lowest 20 per cent

Country	Republic of Korea (1988)	United Kingdom (1977/78)	Sweden (1976)	Mexico (1977)	Philippines (1975)
Ratio	3.74	4.31	3.15	12.65	7.05

However, reorientation of investment towards heavy and chemical industries to attain self-sustained growth and to overcome external shocks had a greater negative impact on income distribution than the economic boom and high inflation of the mid-1970s. Such an investment strategy intensified concentration of wealth and increased dependence on the export market which aggravated distribution of income and wealth. These are reflected in the Gini coefficients of the late 1970s to 1980, which also coincided with the year of harvest failure and the second oil shock. Subsequent recession, adjustment of investment structure and price stability improved distributional equity to some extent during 1981-1985.

Table 9. Trends of Gini coefficients in the Republic of Korea, selected years, 1965-1988

	1965	1970	1976	1980	1982	1984	1985	1988
Rural households	0.285	0.295	0.327	0.356	0.306	0.299	0.297	0.290
Non-rural households	0.417	0.346	0.412	0.405	0.371	0.366	0.369	0.350
Employee households	0.399	0.304	0.355	-	0.309	0.321	-	-
Employers and independent businessmen	0.384	0.353	0.449	-	0.445	0.423	-	-
Whole country	0.344	0.332	0.391	0.389 ^{a/}	0.357	0.357	0.345 ^{a/}	0.336 ^{a/}

Source: H.J. Chou, *Theory and Reality of Korean Economy*, Seoul National University, 1987.

^{a/} Data are from Economic Planning Board, *Social Indicators in Korea*, 1990.

Again, it is likely that income distribution deteriorated in the three boom years 1986 to 1988 due to higher dependence on foreign trade and concentration of production on monopolistic and oligopolistic industries, most of which are capital intensive. Thus, the number of firms designated as large-scale enterprises by the Government increased from 32 in 1987 to 40 in 1988 and to 43 in 1989.

Changes in the Gini coefficient give strong indication of improving income distribution in the Republic of Korea. In the late 1980s and the early 1990s, major forces were at work contributing to improve income distribution. Sharp wage increases arising out of growing labour militancy and labour shortage in manufacturing and construction industries contributed to better income distribution. In addition, income distribution in various respects shows narrowing tendency: rural and urban, employee and employer, and among occupations. In particular, income distribution improved markedly in the rural sector and it contributed to reducing the value of the Gini coefficient for the whole country.

Table 10. Ratio rural household income to urban worker's household income, selected years, 1962-1989 (Percentage)

Year	1962	1967	1970	1972	1973	1974	1975	1978	1980	1983	1986	1989
Ratio	70.3	60.1	67.1	83.0	87.4	104.7	101.6	108.7	95.9	119.0	105.5	97.7

Source: Economic Planning Board, *Social Indicators in Korea*, 1990.

Wage differentials were narrowed and in 1972, the highest wage level of administrative workers was on average 4.1 times higher than the wage of service workers that formed the lowest level. In 1989, this differential was reduced to 2.96 times.

The Government's income redistribution policy seemed to have been effective in raising the incomes of lower classes. Income support programmes were strengthened and supplemented by assistance in medical and educational services. Moreover, new support programmes for disadvantaged groups were introduced, including various allowances for the old and the handicapped, rent subsidy, increased supply of dwellings and special loans with low interest rates.

Despite the gains that have been made over the past years, further progress in income distribution faces several problems. These may be listed as follows:

First, structural adjustment between the agricultural and the non-agricultural sectors is still in progress. The economically active population in the rural areas amount to a little less than 20 per cent of the total labour force and the rate is expected to decline to less than 10 per cent. Moreover, the impact of the Uruguay Round of multilateral trade negotiations on the agricultural sector would be keenly felt and it would help to accelerate the restructuring process. It would not be easy to find employment for displaced farm labour where labour saving

technologies were given preference. The cost of structural and frictional unemployment and underemployment would therefore become unavoidable with adverse consequences on income distribution.

Second, considerable pressures are being exerted from abroad to restructure the Republic of Korea's industries such as in banking, finance, insurance and the wholesale and retail trade. Hence, unless occupational retraining programmes are improved and expanded, a lot of unemployed unskilled and skilled workers would pose a threat to not only social stability but to the effective implementation of redistribution policy as well.

Third, structural change towards more technology and human capital intensive activities are essential to keep up with rapid changes in technology and to maintain international competitiveness. These structural changes will require rapid response to new markets for goods and services that will in turn reduce incomes in the declining industries.

Fourth, the anticipated industrial restructuring will involve social opportunity costs and will place constraints on efforts that are made to improve income distribution and progress in this area will be slow in the years ahead compared to the achievements made in the late 1980s.

Finally, economic regionalism and growing protectionism in the advanced countries, together with increased competition from other developing countries will require considerable industrial restructuring in Republic of Korea. This process will give rise to social costs and weaken the country's efforts to improve income distribution.

At the present time, an important social concern is the widening disparity in the distribution of wealth in the country. Although progress has been made with regard to improving income distribution, many Koreans feel that the distribution of wealth leaves much to be desired and that it could give rise to social unrest if corrective measures are not taken. Available data, although sketchy, suggest that significant changes in the distribution of wealth have taken place in recent years and the trends have been mostly unfavourable. The reasons for the adverse movement in the distribution of wealth are as follows:

First, speculative investment in real estate began in the early 1970s with the development of the southern part of the Han river in Seoul. Further impetus was given when the government implemented a large housing scheme involving nearly a hundred thousand apartments in the Mok-Dong and Sang-Gae areas in the early 1980s, when the Korean economy is considered to have entered the

middle income status. At that time, construction permits for buildings rose sharply with increase in the number of buildings and floor area.

Table 11. Trends in building construction, selected years, 1972-1989

	1972- 1976	1977- 1981	1982- 1986	1980	1981	1983	1985	1987	1988	1989
Floor area	1 571	2 545	3 816	2 573	2 085	3 969	3 822	4 798	5 977	7 573
Dwellings	877	1 404	2 041	1 474	1 031	2 171	2 061	2 164	2 914	4 062
Number of buildings	11	12	11	10	7.5	13	9.5	11	14	

Note: Unit: M², 10,000.

In 1988, the new government implemented large-scale apartment construction projects in two areas, namely Bundang and Ilsan. This intensified speculation in real estate and raised the price of land and property to levels well beyond the reach of most people. As a result, owners of real estate benefitted substantially and a survey conducted in 1988 revealed that 5 per cent of people in the upper income group owned 62.5 per cent of all residential land while the proportion of those without any land came to 70 per cent. The land price has also risen sharply, increasing on average by 27.5 per cent in 1988 and 32 per cent in 1989.

**Table 12. Price index of listed stocks, selected years, 1969-1990
(Market value per 5,000 won)**

Year	1969	1976	1980	1981	1983	1985	1986	1987	1988	1989	1990
Price index	3 610	6 350	5 520	6 060	5 570	5 950	9 440	15 139	20 940	24 512	17 460

Government policy aimed at encouraging firms and businesses to rely more on equity financing rather than on loan capital especially in the 1980s. The government has therefore provided strong support to revitalize and develop the stock market. Further impetus was given by increasing external pressures to open up the Korean capital market to foreign participation. This led to a stock market boom in the late 1980s, inducing even farmers to speculate on the stock exchange by selling their draft cattle and livestock.

The number of listed companies and value of shares have also risen greatly. As a result, the ratio of market value of listed stocks to current GNP rose to 67.7 per cent in 1989 from 6.9 per cent in 1980. If the market value of bonds is included, the ratio rises to 98.5 per cent of GNP in 1989.

Table 13. Market value of stocks and their ratio to current GNP, selected years, 1970-1989

	1970	1980	1986	1987	1988	1989
Market value of stocks (billion won)	98	2 527	12 000	26 200	64 500	95 500
Ratio to GNP (per cent)	3.1	6.9	14.3	26.8	52.2	67.7

However, ownership of stocks and bonds is very uneven and concentrated in a few hands. Hence, capital gains accrued to a small number of owners and their access not only to financial resources but to information and greater ability to analyse the market, place them in an advantageous position.

**Table 14. Share of dominant enterprises (Chaebol)
(Percentage)**

Chaebol	No. of branches		Share of sales value			Share of employment			Share of export value	
	1977	1985	1977	1985	1987	1977	1985	1987	1983	1985
Top 5	99	94	15.7	23.0	22.0	9.1	9.7	9.9	24.2	27.0
Top 10	158	147	21.2	30.2	28.2	12.5	11.7	11.9	29.0	32.2
Top 20	267	218	29.3	36.4	33.9	17.4	15.5	15.1	35.3	38.3
Top 30	337	270	34.1	40.2	37.3	20.5	17.6	17.6	38.5	41.3

Source: C.H. Youn and K.O. Lee, *Principles of Industrial Organization*, Beumun Sa, 1989.

Second, concentration of production in a small number of large enterprises also had an adverse effect on distribution. The large firms are inclined to choose labour-saving techniques as they have the capability of financing large capital investments and acquisition of high technology. Their negative impact on distribution is heightened by the fact that they are also the major players in the speculative market in stocks and bonds and real estate. These firms find that

speculation in real estate and in the stock market earn far greater returns than investment in business. For example, estimates made by the Korea Economic Institute in 1991 showed that speculative profits in real estate yields an income 20 times the principal invested over a 15 year period while investment in business gives a return of only 3.3 times over the same period. Hence, the advantage of scale economies, technological development and managerial capability of large firms must be weighed against the deterioration in income distribution that such firms can engender.

Third, we may use expenditure data to analyze the distributional status because expenditure data reflects both income and wealth distribution. The analysis of expenditure data suggests that there has not been significant improvement in distribution in the Korean economy. According to the analysis (Bark, 1991), the average living expenses of urban household has increased in real terms, but in more recent years, the expenditure level of mode households has been moving away from the average household expenditure.

3. Poverty problems

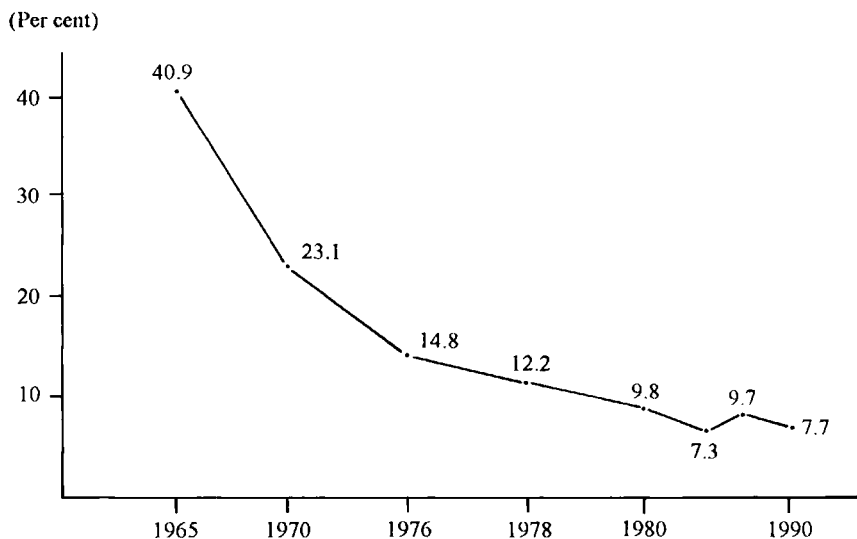
The critical distributional issues in the Republic of Korea may be poverty and wealth distribution. Relative poverty has become a major social concern, while absolute poverty is relatively less significant. Social protection has not been able to provide sufficient cover for the alienated classes of the Korean society. It would not be inappropriate to describe the present situation of poverty in the Republic of Korea as “poverty of the masses among affluence”, similar to the situation that prevailed in the United States of America and other advanced countries in the 1950s and the 1960s.

The ratio of absolute poor in the population declined markedly from 40.9 per cent in 1965 to 9.8 per cent in 1980 and to 7.7 per cent in 1990. Rural development and sharp wage increases in the 1970s had contributed substantially to reducing absolute poverty.

In the mid-1970s when the growth rate of real wages exceeded labour productivity for the first time, surplus labour or disguised unemployment in agriculture, traditional and informal sectors was absorbed into the formal labour market (Bark, 1979). Absorbing surplus labour into the formal sector could decrease absolute poverty, especially during periods of tight labour markets following successful economic development in the 1960s and the 1970s.

The main issues relating to poverty are as follows:

Figure 3. Absolute poverty rate



Note: The data prepared by Korea Development Institute for 1965 to 1980 and estimated by Ministry of Health and Social Affairs for 1985 to 1990.

Firstly, relative poverty is a cause for major concern. The poverty line is controversial. However, if we assume relative poverty line to be 60 per cent of the average urban household expenditure, the ratio of relatively poor persons among the population does not show any clear trend in the 1980s. It fluctuated around a certain level, for example around 22 per cent in the cities.

The relative poverty ratio is high when compared to the ratio of the United Kingdom which came to 6.8 per cent in 1974-1976.

Secondly, the present living expenses of the absolute and relative poor are much lower than their desired level for minimum living expenses. The desired minimum living cost is not satisfied by as much as 32 per cent of the desired level, and the deficiency is larger in urban than in rural areas. The lower income groups surveyed showed that most prefer health assistance programmes in the rural areas and housing support programmes in the urban areas with regard to measures to alleviate poverty.

Thirdly, owing to the high rate of the relative poor to population and the large welfare gap between desired minimum level and the present level attained, the poverty gap calculated with the above two sets of data is very large and the ratio of poverty gap to GNP is also large, i.e., compared with that of the United Kingdom (0.4 per cent in 1974-1976).

**Table 15. Ratio of the relative poor among the urban population
(Percentage)**

<i>Year</i>	<i>1981</i>	<i>1983</i>	<i>1985</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>
A	12.1	12.1	11.5	11.2	12.1	14.0
B	20.9	21.3	22.7	20.0	22.0	24.1

Source: S.I. Bark, *A Study on Social Welfare Demand of the Lower Income Class*, Korea Institute for Health and Social Affairs, 1991 (in Korean).

Note: "A" refers to assumption of poverty line at 50 per cent of average household expenditure. "B" refers to assumption of poverty line at 60 per cent of average household expenditure.

**Table 16. Ratio of desired minimum living cost to present living expenses
of an average household**

	<i>Rural house- hold</i>	<i>Medium sized city</i>	<i>Metropolitan city</i>	<i>Whole country</i>
Ratio	1.34	1.42	1.46	1.47

Source: S.I. Bark, *A Study on Social Welfare Demand of the Lower Income Class*, Korea Institute for Health and Social Affairs, 1991 (in Korean).

**Table 17. Estimation of the ratio of poverty gap to GNP
(Percentage)**

<i>Year</i>	<i>1980</i>	<i>1982</i>	<i>1984</i>	<i>1986</i>	<i>1987</i>	<i>1989</i>
Ratio	2.42	2.14	1.80	2.35	1.98	2.25

Source: S.I. Bark, *A Study on Social Welfare Demand of the Lower Income Class*, Korea Institute for Health and Social Affairs, 1991 (in Korean).

Note: 60 per cent of average urban household expenditure is used as poverty line. Urban poverty rate is applied to that of rural areas, which is usually larger.

Fourthly, the regional disparity of income between rural and urban areas is more severe among low income groups than in the general income classes. The income of the rural poor is only about 80 per cent of that of the urban poor.

**Table 18. Ratio of rural to urban household income
(Percentage)**

	1980	1989
Workers' household	95.9	97.7
Poor household	79.5	81.4

Source: S.I. Bark, *A Study on Social Welfare Demand of the Lower Income Class*, Korea Institute for Health and Social Affairs, 1991 (in Korean).

Finally, poverty is caused by both macro and structural factors and individual household characteristics, which have an important bearing on economic restructuring. A study (Bark, 1991) showed that macro and structural factors have larger probability of plunging a household into poverty than individual poverty-inducing factors. For example, a certain typical lower-income household is estimated to have 71.7 per cent probability of falling below the poverty line (i.e. 50 per cent of average household expenditure). But only 17.2 per cent probability is attributed to individual household characteristics such as employment status, age, physical disability, sex, size of household, academic achievement and state of health. Unexplained probability, amounting to 54.5 per cent could be interpreted as caused by structural factors.

Among individual characteristics, unemployment and underemployment have a major impact on impoverishment. And these factors are closely related to economic restructuring as well as to economic cyclical movements.

4. Unemployment and underemployment issues

The strategy of import substitution and promotion of light industries was effective in absorbing surplus labour in the earlier development period and the unemployment rate was reduced from 8.4 per cent in 1962 to 4.0 per cent in 1973. Around 1973-1975, the value of marginal product of labour began to exceed the wage level in the agricultural sector, which implied the exhaustion of surplus labour in the rural sector. In the industrial sector, real wages began to rise faster than labour productivity, which enabled labour to shift out of the rural and non-manufacturing sectors. This represented a turning point in economic development (Ranis and Fei, 1961; Bark, 1979). After labour had been absorbed into the modern sector, the economy of the Republic of Korea entered a high growth path while the unemployment rate was kept low, at around 4 per cent. Thus labour productivity grew at an annual rate of about 4 to 5 per cent and GNP expanded at roughly 7 to 8 per cent per year.

Table 19. Rates of growth of economically active population, employment and unemployment (Percentage)

	1964- 1966	1967- 1971	1972- 1976	1977- 1981	1983	1984	1985	1986	1987	1988	1989
Economically active population	2.9	3.1	4.4	2.5	0.6	-0.8	4.0	3.4	4.7	2.6	3.9
Employment	3.2	3.6	4.5	2.3	0.9	-0.5	3.7	3.6	5.5	3.2	3.8
Unemployment	7.4	5.0	3.9	4.8	4.1	3.8	4.0	3.8	3.1	2.5	2.6

Cyclical fluctuations in the economy were the main factors affecting unemployment. The recessionary period of the early 1980s were therefore marked by high unemployment, the jobless rate amounting to 5.2 per cent in 1980 and 4.5 per cent in 1981. On the other hand, the rate was low in boom periods: 3.1 per cent in 1987, and 2.5 per cent in 1988.

The ratio of the employed working less than 18 hours per week to total employees, seems to be negligible. This ratio came to 8 to 9 per cent in the early period of development, but declined to around 1 per cent in 1978.

Underemployment is more prevalent among women, a major supplier of part-time work. Underemployment and low productivity resulted from mismatch in jobs, inability to adapt to new technologies and lack of incentives for hard work, often leading to carelessness and poor quality of output.

With the passing of the labour surplus period, important issues concerning unemployment are to manage cyclical unemployment, reduce frictional and structural unemployment, and to correct problems of mismatched employment. These are discussed below.

Cyclical unemployment is a major issue because it may account for 1 to 2 per cent of the unemployment rate in a recession period. In 1980, the cyclical unemployment rate rose above 1.2 per cent. Social policy measures can be adopted to counter cyclical unemployment. However, the social insurance system for the unemployed is not well developed and assistance provided under it is restricted to imparting occupational training to a limited number of persons.

Structural and frictional unemployment is a major problem that will need to be addressed and structural unemployment is expected to increase. Wage

increases due to shortage of labour in manufacturing would lead enterprises to accelerate the substitution of capital for labour. Hence, the growth rate of employment in manufacturing declined considerably, even during the economic boom such as in 1988.

Nevertheless, the growth rate of employment soared to 11.3 per cent in 1988 in construction, one of the major sectors experiencing rapid expansion in recent years. Moreover, working conditions in the manufacturing sector are less attractive when compared to those in the service industries. Thus, only 11.6 per cent of labourers in manufacturing are found to be satisfied with their working environment in 1988 compared to 22.7 per cent in 1985. Changes in the structure of the labour market, rapid advances in technology and changes in work preferences are likely to raise structural unemployment.

**Table 20. Growth rate of sectoral employment
(Percentage)**

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Manufacturing	-4.7	-3.3	6.1	7.7	2.5	4.7	9.1	15.4	5.7	3.7
Agriculture	-4.2	-2.8	-5.3	-6.3	-7.8	-4.7	-2.8	-2.2	-2.4	-1.8
Social overhead capital and other services	7.7	4.8	6.2	2.9	3.1	7.9	3.3	4.4	5.0	6.8
Construction	1.0	3.9	-5.3	-1.4	10.8	0.7	-2.4	3.5	11.3	11.3

Major impact on structural and frictional unemployment is expected from structural adjustments in agricultural and traditional service industries resulting from Uruguay Round negotiations and market opening pressures from abroad. The manufacturing sector has only limited capacity to absorb the labour that will come onto the market. The pace of the movement of rural labour to the urban sector will be accelerated by changes in the international environment over which the Republic of Korea has little control. Therefore, not only structural but frictional unemployment will increase. For example, the ratio of the unemployed whose duration of unemployment is less than 3 months, 3-6 months, and 6-12 months reached 62 per cent, 24.3 per cent and 10.4 per cent respectively in 1988 (Economic Planning Board, Social Indicators in the Republic of Korea, 1989).

The rapid change of technology and industrial structure reduces not only the necessity of employing simple labour but makes it difficult for existing skilled labour released from the declining industries and new comers to adapt to new

**Table 21. Unemployment rate in non-agricultural sector
by educational attainment
(Percentage)**

	1980	1985	1989
Primary school graduate and under	5.6	2.8	1.3
Middle school graduate	7.7	4.6	2.5
High school graduate	10.0	6.1	3.7
College and university graduate and over	6.3	6.5	4.5

Source: Economic Planning Board, *Economically Active Population Survey*, 1989.

ways of production. Therefore, higher academic degrees often lead to a higher unemployment rate.

Despite the high possibility of rising unemployment rate due to structural changes, training and retraining programmes have not been given the required emphasis. The decline in on-the-job training in plant was particularly severe, falling from 107,489 in 1979 to 18,168 in 1988.

C. SOCIAL COSTS IN SPECIFIC LIVING AREAS

1. Social security and welfare

The social security system is a major legal redistribution mechanism to protect the quality of the relative as well as the absolute poor. Diversified assistance programmes are institutionalized for the former and traditional social insurance programmes for the latter in the Republic of Korea. The social security system has been introduced in numerous forms for a long time and it has helped to improve the living conditions for the poor and other participants. The main assistance programmes include income-support to the absolute poor, provision of medical care, waiver of entrance and enrolment fees in education, and supply of permanent tenant apartments to the absolute poor. The medical insurance system and the public pension programme are now available to most citizens.

Social assistance programmes benefit three types of the absolute poor: the aged, women, children and the handicapped that lack earning capacity (first-type poor); the poor with some earning ability (second-type poor) and the poor whose income is larger than the second class but still need medical assistance from society (third-type poor). The first and second types are accorded substantial assistance of income and transfers in kind. But their coverage is only around 5

per cent of the total population. They are granted cash assistance to meet living expenses, medical care, educational needs, and occupational training. They also qualify for permanent tenant apartments, and have access to various kinds of loans at low interest rates needed for operating small farms and businesses. The third type of the absolute poor who covers 2 to 4 per cent of the population are mainly entitled to medical and educational support on less favourable terms than the first and the second types.

As for issues, we may note that, first, social security expenditure has a competitive relationship with expenditure for economic development and defence, so that it was the first to be cut to support growth goals.

Secondly, the national pension programme is not well developed and most participants will only benefit marginally, while the public medical insurance system brings substantial benefits to a wide range of beneficiaries.

Thirdly, investment priorities are not properly set among the welfare programmes by taking adequate account of welfare needs of clients or experience of foreign countries. Excessive dependence on social insurance does not have a significant impact on distribution. The ratio of social insurance benefits to total social security expenditure rose from 24.4 per cent in 1965 to 76.5 per cent in 1987 in the Republic of Korea, far higher than those of the United States of America, United Kingdom and Sweden in 1960 and 1975, and even in 1980 (Bark, 1991).

Within assistance programmes, current priorities are not well suited to meet the welfare needs of recipients. Prevailing assistance systems mainly concentrate on living expense support and assistance for medical services which are at variance with the recipients' desires. Most of the poor, including the relative poor, reveal a preference for housing assistance to small amount of lump-sum cash aids. They are usually in favour of reduction in burden of paying public service expenses such as medical service costs, rent and educational expenses and have also expressed strong wish for loans from the government.

Finally, administrative and delivery systems are also not well developed to bring maximum benefits to the poor with limited resources that are available. Similar programmes are managed by different ministries and delivered by different organizations. For example, occupational training programmes are planned and executed in part by the Ministry of Health and Social Affairs and partly by the Ministry of Labour. Medical insurance and public pension systems have nearly the same clientele but are managed separately. And each insurance system is divided into different categories, allowing different and independent management without significant overall coordination to enhance efficiency.

Delivery systems for welfare services are administered by different ministries. For example, the Ministry of Health and Social Affairs assumed responsibility to plan and take decisions on welfare policy. But the Ministry of Internal Affairs delivered welfare services to clients in the provinces and counties. Lack of adequate expertise and low motivation among workers and officials further reduces efficiency and productivity in the welfare delivery systems.

2. Housing problems

Housing is a pressing need not only for the poor but for many other citizens in the upper income groups. The housing needs of a rapidly growing urban population which rose from 36.6 per cent of the total population in 1966 to 78.9 per cent in 1989, presents a challenging task for development policy in the Republic of Korea. In response to this challenge, construction activity expanded at a fast pace with the annual output of dwelling units increasing from 70,000 in 1965 to 462,000 in 1989. The expansion was particularly robust beginning in the early 1980s when greater reliance was placed on the private sector. However, government construction activity also continued unabated so that boom conditions and speculative fever characterized the construction sector. In the early 1990s, the government announced a plan to construct 500,000 dwelling units annually for the next five years.

**Table 22. General government revenue for the Ministry of Health and Social Affairs in 1990
(Million won)**

	<i>Expenditure (million won)</i>
A. Basic overhead expenses	51 885
B. Social security and welfare	972 036
(a) Medical insurance	445 758
(b) Medical assistance	151 285
(c) Cash aids for subsistence	253 103
(d) National pension	20 250
(e) Social service	119 640
C. Health and medical service	127 902
Total	1 151 823

The Government has provided guaranteed bank loans for construction of houses as well as for remodelling and maintenance of old homes in the countryside. In addition, permanent tenant apartments have been provided to low income groups with 250,000 units of such apartments targeted for construction in 1992.

Table 23. Trend of the ratio of benefit to per capita GNP and persons for livelihood protection to population (Percentage)

	1965	1975	1980	1987	1989	1990
Ratio of benefits to per capita GNP	0.7	0.9	1.6	2.6	2.3	–
Protection ratio	–	–	6.2	9.9	9.6	7.7

As for problems, first, we may note that urbanization has proceeded at a much faster pace than the capacity to build houses and other social infrastructure. Consequently, the supply of housing has not been able to match the high rate of expansion experienced in the early development period. The public sector had not been able to meet the rising housing needs and the heavy dependence on the private sector to fill this gap has led to excess supply of large apartments and shortage of labour and capital in the manufacturing sector.

Second, the prices of residential land and buildings are rising so fast that they are now beyond the reach of most citizens. High costs of dwellings lead to social problems and discontent. High rents contribute to a rising consumer price index as rent account for 15.3 per cent of the household expenditures of the rural poor, which is 2 per cent higher than the average for all the income groups in 1990.

Third, the present supply of apartments is estimated to meet only 15 per cent to 40 per cent of the potential demand of the poor for housing until 1992. Therefore further efforts are required to meet the deficiency. Rents are also high and it may be necessary to adopt the ability to pay principle in determining rents to provide some relief to those at the lower end of the income scale. Consideration may also be given to proper zoning of residential areas as housing projects tend to concentrate in a few locations, resulting in congestion and overstraining of the existing infrastructure.

Fourth, government guaranteed bank loans for housing only meet a third or at most half of the required outlay and cover only 4 per cent to 8 per cent of the

Table 24. Housing supply

	1965	1970	1975	1980	1985	1988	1989	1990
Number of housing units (thousand)	3 912	4 360	4 734	5 319	6 104	6 670	7 032	-
Housing supply rate (per cent)	81.3	77.8	74.4	71.2	69.8	69.4	70.9	-
Housing units constructed (thousand)	70	115	180	212	227	317	462	-
of which public	(8)	(12)	(63)	(68)	(132)	(210)	(162)	-
Owner-occupied dwellings (per cent)				58.4	53.4			50.6

Source: Economic Planning Board, *Social Indicators in Korea*, 1990.

Table 25. Qualitative indicators of housing

	1970		1980		1985		1989	
	Whole country	City	Whole country	City	Whole country	City	Whole country	City
Number of rooms per household (units)	2.2	1.9	2.2	2.0	2.3	2.1	2.6 ^{a/}	1.6
Number of persons per room	2.4	2.7	2.1	2.2	1.8	1.9	2.2	2.5
Piped water supply (per cent)	33.2	-	54.6	-	67.2	78.0	99.3	-
Westernized kitchen (per cent)	-	-	18.2	34.8	34.6	54.9	-	-
Bathroom with hot and cold water (per cent)	-	-	10.0	20.0	20.0	32.8	-	-
Flush toilet	-	-	18.4	37.0	33.1	54.4	-	-

Source: Economic Planning Board.

^{a/} For 1990.

poor who are entitled to get such assistance. As housing loans are very beneficial to poor recipients, the programme should be expanded and improved.

Finally, the quality of houses in the Republic of Korea has been improving. An increasing proportion of houses have piped water, and are equipped with modern kitchens, bathrooms and toilet facilities.

However, there are wide disparities with regard to housing among the income groups and regions. For the most part, the poor live in crowded rooms, which are worse in the metropolitan areas and are usually old and in a state of disrepair, with about a quarter over 40 years old and almost 80 per cent over 20 years. Thirty per cent of the poor who live in the big cities use common toilets and narrow streets and lack of proper facilities for garbage disposal add to their woes.

3. Health and sanitation

The health status of the Korean people has made remarkable progress over the past decades. Increased calorie and protein in-take, better health management and improved curative and preventive health facilities have contributed to raising the health status of the population. Consequently, the proportion of Koreans who consider themselves to be in good or excellent health rose from 39.8 per cent and 8.8 per cent in 1986 to 43.6 per cent and 11.2 per cent respectively in 1989, if women and the aged are excluded. The young, men and rural folks are prominent among those who feel that they are in good health.

**Table 26. Self assessment of health
(Percentage)**

	<i>Excellent</i>	<i>Good</i>	<i>Fair</i>	<i>Poor</i>	<i>Very poor</i>
1986: Total	8.9	39.8	34.7	14.5	2.1
Urban areas	8.4	39.2	36.2	14.2	2.0
Rural areas	9.8	41.1	31.6	15.1	2.4
1989: Total	11.2	43.8	27.4	15.6	2.2
Urban areas	9.8	43.8	29.2	15.5	2.1
Rural areas	12.6	48.2	26.3	11.1	1.8

Source: Economic Planning Board, *Social Indicators in Korea*, 1990.

Life expectancy at birth for males in the Republic of Korea rose from 51.7 years in 1960-1965 to 59.8 years in 1970, and 66.9 years in 1989. For females the corresponding figures were 57.7 in 1960-1965, 66.7 in 1970 and 75 in 1989. The

infant mortality rate fell from 17.3 per cent in 1981 to 12.5 per cent in 1989. The average height, weight and chest circumference have also shown marked improvement. For 17 year olds during 1965 to 1989, the average height grew from 163.7 cm to 169.9 cm for males and 156.9 cm to 158.6 cm for females, average weight increased 54.3 kg to 61.0 kg for males, 51.0 kg to 53.6 kg for females and average chest circumference expanded from 85.2 cm to 87.2 cm for males and from 82.3 cm to 83.1 cm in the case of females.

Other indicators which showed significant improvement were rate of incidence of TB, typhoid fever morbidity rate and rate of parasitic infection. These rates dropped considerably during 1970 to 1989: from 4.2 per cent to 2.2 per cent for TB, 14.5 per cent to 0.4 per cent for typhoid and from 63.5 per cent to 1.1 per cent in the case of parasitic infection.

Needless to say, health improvement had an important positive relationship with economic development and Koreans were able to have a greater intake of nutrients and proteins. For example, the daily per capita consumption of beef and pork as well as the utilization of medical facilities, including doctors' services and hospitals increased sharply.

The number of Koreans visiting doctors showed a marked increase, especially in the rural areas. Related data such as the hospital bed utilization and visits to hospitals also increased, especially in the aftermath of the introduction of National Medical Insurance in 1977 and its extension to cover all citizens by 1989.

With the rapid expansion of the demand for medical services, there was a concomitant increase in the number of medical personnel and facilities.

The problems are as follows: First, the provision of health services has not been able to match the high demand for such services. Expenditures on health rose substantially in the urban areas until the late 1970s when the National Health Insurance (NHI) programme increased in coverage and upgraded its services. The demand for medical services also exploded when cost of these services were drastically cut by the NHI. The ratio of national medical expenditure (including government expenses under NHI) to GDP rose from 3 per cent in 1975 to 5 per cent in 1988, 7.74 per cent in 1991 and is expected to rise to about 8.5 per cent by the year 2000.

Despite the explosive expansion of medical services, there appears considerable room for improvement with respect to the role of the public sector in this process. The public provision of hospital beds for example came to only 17,330 units or 18.5 per cent of total available beds in 1989. The main function of the government has been in providing subsidies. Its medical assistance and

Table 27. Indexes relevant to demand for medical services

	1965	1975	1980	1983	1986	1989
Household health expenditure to total expenditure (per cent)						
Urban household	2.4	4.5	6.3	5.9	5.7	5.4
Farm household	2.9	3.7	4.5	5.3	5.4	5.8
Hospital bed utilization rate (per cent)	56.6	64.5	60.7	60.4	60.0	78.8
Number of patients visiting M.D. (1,000,000 persons)	.7	13.8	30.3	47.5	56.9	82.5
Number of visitors to M.D. (1,000 persons)						
Total	-	-	-	36.2	57.5	80.9
Urban area	-	-	-	46.5	65.9	84.9
Rural area	-	-	-	19.7	42.2	70.6
Number of days of medical treatment per patient						
Total	-	-	-	3.9	4.5	4.5
Urban area	-	-	-	4.0	4.6	4.6
Rural area	-	-	-	3.6	4.2	4.2
Rate of prenatal care (per cent)						
Total	57.2 ^{a/}	-	75.9	87.9	93.8	-
Urban area	-	-	86.2	92.9	96.9	-
Rural area	-	-	61.6	80.0	87.5	-

Source: Economic Planning Board, *Social Indicators in Korea*, 1990.

^{a/} For 1977.

insurance programmes to benefit the poor leave much to be desired. The emphasis given to promoting economic growth, to some extent at the expense of investing in health facilities, has also tended to limit the coverage and usefulness of the government's health services. The social loss is estimated to be about 1.5 per cent of GNP in 1989.

Furthermore, there appears to be considerable room to improve the quality of health services in the Republic of Korea. A survey conducted in 1989 revealed that 38.9 per cent of respondents expressed dissatisfaction with the medical services provided. The main complaints were high costs (32.2 per cent), poor public relations (31.5 per cent), unsatisfactory treatment (16.1 per cent) and uneven regional distribution (11.3 per cent).

Table 28. Factors relevant to supply of medical services

	1965	1975	1980	1983	1986	1989
Persons per medical personnel						
Physician	2 645	2 100	1 690	1 508	1 303	1 066
Dentist	16 291	13 596	10 531	8 655	6 870	4 911
Nurse	3 226	618	376	295	240	200
Oriental physician	10 075	12 654	12 645	11 707	10 192	7 798
Pharmacist	2 862	1 786	1 565	1 457	1 314	1 185
Medical facility	10 301 ^{a/}	11 188	11 781	-	16 095	19 980
Persons per hospital bed	1 949 ^{a/}	1 661	1 001	-	515	452

^{a/} For 1970.

The health problem raises special concerns for the poor. The poor spent 11.1 per cent of their total expenditure on health services which was more than double the average percentage (4.9 per cent) spent by all income groups in 1989 for such services. Koreans tend to economize on food and medical costs to meet rising rents and educational expenses. Nevertheless, despite such efforts they have been forced to spend a larger share of their income on medical expenses, and especially in the case of the poor as they are more susceptible to chronic diseases.

A survey indicated that about a quarter of the poor interrupted medical treatment due to financial reasons. Thus they have shown a preference for two types of assistance: reducing their share of the cost of the premium for their health insurance and loans at low interest rates from the government to meet their medical expenses.

Table 29. Rate of prevalence of chronic diseases (Percentage)

	1982	1988	1990
Poor class	17.3	-	24.1
All classes	10.2	8.1	-

Source: S.I. Bark, *A Study on Social Welfare Demand of the Lower Income Class*, Korea Institute for Health and Social Affairs, 1991 (in Korean).

Health care has imposed a heavier burden on the rural poor because of their low income level and scarcity of medical services in their locations. Often, rural folks must come to the cities for medical treatment. In 1989, although the rural population accounted for 21.1 per cent of the total population, only 5.3 per cent of the total number of physicians in the country were located in the rural areas to attend to their needs. In fact there are many sub counties in the rural areas where there are no doctors, clinics or hospitals. The delivery of health services to the rural areas has also been hampered by poor transport infrastructure and lack of an efficient ambulance system.

Table 30. Ratio of medical supplies in rural areas to whole country, 1988 (Percentage)

<i>Available physician</i>	<i>Hospitals</i>	<i>Clinics</i>
12.9	17.6	26.3

Source: Ministry of Health and Social Affairs.

As the quality of service is uneven, patients are inclined to go to well-known hospitals even though there may be clinics near by. Hence, there is a long waiting period, sometimes as much as 3 hours to see a doctor and another 3 hours to obtain the prescribed medicine.

There is rising concern over prevention of diseases, health education and chronic diseases of the aged. But adequate response to these concerns has yet to emerge.

4. Education

A skilled and educated labour force will be a major factor in accelerating economic growth. The traditional respect for learning and the high value placed on it by the Korean society underlie the strong public support for education. In the early stage of development and until 1970, investment in education increased sharply. Then the threat of economic instability brought about by the first oil shock diverted attention away from education and dampened investment in that sector. Nevertheless, the emergence of an acute labour shortage, especially of skilled labour, engineers and people with managerial and marketing expertise resulted in increased emphasis on human resources development and imparting of technical and vocational training.

A special tax for education was also instituted in 1982 with the aim of mobilizing resources to expand educational facilities and to increase the supply of teachers and instructors to meet the growing demand for educated and trained work force. At that time, some primary schools in the cities were operating three shifts a day due to insufficient class rooms and teachers. The education surtax amounted to 2.4 per cent of total tax revenue and 11 per cent of the government's total outlay on education in 1982 and the ratios were 1.7 per cent and 8.5 per cent respectively in 1989. As a result, indicators on education, such as the number of students per teacher and per class, percentage of students, especially college students in the total population, improved considerably in the 1980s. The ratio of the expenditure on education to GNP which came to 3.7 per cent in 1987 has also risen to a level comparable to those in the advanced countries.

As for problems, despite the progress that has been made, the achievements still fell short of the private desire for better education and public goals that have been set for human resources development. The ratio of households that expect their offspring to graduate from an institute of higher learning increased from 30 per cent to 86.3 per cent over the past 13 years. Expectations with respect to educational achievements of the poor did not show any marked difference from the other income groups. Structural change towards more technology and knowledge based activities requires a change in relative weights given to major academic disciplines, occupations and vocational and technical training.

The desire for education is stronger among the low income groups and consequently in 1990, poor households in the urban areas spend a larger share of their total expenditure (20.9 per cent) than average households (11.5 per cent). Furthermore, the majority of Korean families bear a heavy burden by incurring additional expenditures on private tuition for their children. Private expenditure on education exceeds public expenditure, especially in lower grades. Thus, in 1990 the ratio of the former to the latter was 1.24 in kindergarten, 1.44 in elementary school, 1.04 in middle school and 1.23 in high school. A study prepared by the Government of Japan in May 1991 showed that the ratio of expenditures on education to total household expenditures was far higher in Korea (7.7 per cent) than in Japan (5.2 per cent) and the United States (1.6 per cent).

Access to institutes of higher learning is not equal among regions and income groups. Rural areas are disadvantaged in this regard in view of the fact that better educational facilities are available in the urban areas. Inter-city distribution of educational services is also biased with better facilities and higher standards of instruction concentrating in the newly developed and more affluent regions. Able teachers are also not attracted to work in poor regions due to lack of

fringe benefits that rich parents provide to teachers of their children. Well off families send their children to expensive private schools while children of the poor can only afford to go to public schools.

Mismatch between education provided and the needs of the growing economy continues to pose a serious problem. A large proportion of college graduates cannot make full use of their education in taking up the available job opportunities. University education bestows a credential which may be useful in securing employment but its impact on improving labour productivity is generally felt to be rather limited. Poor working conditions, lack of job satisfaction and low estimation placed on factory labour have led to a high job turnover and shift of workers towards service industries.

5. Working conditions and environmental problems

With regard to working conditions, many social indicators show an upward trend in the course of economic development. Average working hours have declined and backward sloping labour supply curves characterize some occupations. Rates of incidence of sick-leave, industrial accidents as well as their severity, all show improving trends. The coverage of industrial accident insurance also rose from 8.6 per cent of total workers in 1965, 45.6 per cent in 1975 to 68.2 per cent in 1989.

However, the progress that has been made in working conditions remain far from satisfactory, when viewed in the light of the rapid economic growth that has taken place and also in terms of the high expectations for a better life by the Korean people. All indicators, expressing subjective satisfaction with working conditions have also declined in the 1980s. Discontent is higher among blue-collar workers than is the case with white-collar workers in respect of the environment, job satisfaction and prospects for advancement, remuneration and worker-management relations.

Despite these difficulties, overall working conditions have been steadily improving. Even blue-collar workers did not work hard as in the past, and are willing to forego opportunities for extra earnings through overtime work, as a result of growing preference for more leisure. The workers are now inclined to place greater weight on jobs that offer more security, satisfaction and opportunities for advancement than those that offer purely higher incomes.

Labour unions have expanded into many areas and are better organized with greater freedom of speech and assembly. They are now able to demand and

Table 31. Educational indices

	1965	1970	1975	1980	1985	1986	1987	1988	1989	1990
Average years of educational attainment (years)	5.03	5.74	6.62	7.61	8.58	-	-	-	-	-
Ratio of college, university graduates and over in total population (per cent)	-	4.9	5.8	7.7	10.2	-	-	-	-	-
Expected levels of education for son (college, university and over)	-	-	56.3 ^{a/}	-	-	-	84.5	-	-	86.3
Percentage of total students to total population	22.1	24.8	26.1	27.7	27.3	27.3	26.8	26.5	26.2	25.7
Number of college students per 10,000 persons	48	53	67	157	309	319	322	322	330	343
Number of students per teacher, primary	62.4	56.9	51.8	47.5	38.3	37.9	36.7	36.4	36.3	35.6
middle school	39.4	42.3	43.2	45.1	40.0	38.4	35.5	32.6	29.0	25.4
Number of students per class, primary	65.4	62.1	56.7	51.5	44.7	43.5	42.6	42.5	42.1	41.4
middle school	60.7	62.1	64.5	65.5	61.7	59.7	57.1	54.7	52.3	50.2
Ratio of R and D to GNP (per cent)	0.26	0.38	0.42	0.58	1.48	1.68	1.77	1.86	-	-
Ratio of education budget to government budget (per cent)	16.2	17.6	14.4	18.9	20.3	20.1	20.1	20.7	21.1	22.3
Percentage of household education expenditure to consumption expenditure										
Urban household	5.4	7.6	7.3	6.2	7.8	7.9	8.2	7.6	8.0	
Rural household	4.5	6.8	6.6	9.9	12.1	12.0	11.5	11.4	11.0	

^{a/} For 1977.

obtain favourable wage bargains, better working conditions and improved personnel management.

**Table 32. Reasons for job selection
(Percentage)**

<i>Year</i>	<i>Prestige</i>	<i>Stability</i>	<i>Income</i>	<i>Meaning- fulness</i>	<i>Promotion opportunity</i>	<i>Other</i>	<i>Total</i>
1980	4.6	26.7	48.4	6.6	13.7	–	100.0
1983	4.1	39.3	23.0	14.0	19.6	–	100.0
1988	4.3	43.1	25.0	12.8	14.5	0.3	100.0

A recent social issue with regards to working conditions is occupational hazards that received publicity when workers were exposed to toxic chemicals at a cotton textile factory in 1991. Lack of adequate safeguards and failure to provide appropriate compensation and medical treatment to those suffering from chemical poisoning aroused considerable social concern in the country.

Table 33. Union membership rates and number of labour struggles

	<i>1965</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>
Unionized employees (in thousands)	1 347	3 258	4 728	6 397	6 666	7 315	7 771	8 269
Union membership rate (per cent)	22.2	23.0	20.1	15.7	15.5	17.3	22.0	23.4
Number of labour struggles	–	–	407	265	276	3 749	1 873	1 616

With regard to environmental problems, traffic woes and pollution have led to a rapid deterioration of the environment in the Republic of Korea. Traffic congestion has become severe with a sharp increase in passenger cars since the mid 1980s. It is difficult to expand the road system because of the high costs involved in expropriating private land. On the other hand, car production and car ownership rose five and three times respectively during the period from 1986 to 1989 while the road network increased by only 7.8 per cent during the same period. Hence, a situation of bumper to bumper traffic has emerged on the main streets all day long causing considerable hardships to commuters, school children and workers.

The situation is made worse by traffic law violators which in 1988 amounted to 24.1 per cent of the total road users for the whole country and to 27.7 per cent for the urban areas. As a result, automobile accidents have risen rapidly and road fatalities have increased sharply as well.

An efficient subway system is considered to provide a viable solution to the worsening traffic situation. In 1991, a subway network of 144.1 km is estimated to have the capacity to carry 18 per cent and 8.4 per cent of the urban traffic in Seoul and Pusan respectively. The network is planned to be extended to 561.2 km by the year 2001.

Pollution problem has also been exacerbated and the ratio of people that did not perceive pollution as a cause for concern has declined from 70.5 per cent in 1979 to 63.1 per cent in 1987. Noise and dust form the major types of pollution, being responsible for 19.7 per cent and 11.6 per cent of the perceived pollution in 1987. Anti-pollution measures implemented recently include enactment of stronger legislation in this area, restrictions on use of toxic insecticides, clean up of the polluted Han River, establishment of the Ministry of the Environment in 1989, among others.

However, administrative control continues to be weak, and chemical and heavy industries which are the main sources of pollution are also the most important industries to maintain the economic growth momentum. Farming, livestock rearing and fish breeding activities contaminate rivers and coastal areas. In 1991, the penol discharged from an electronic factory polluted the upper reaches of the Naktong River jeopardizing the health of the citizens of Taegu who relied on the river for their drinking water. Many streams have also been polluted by industrial and agricultural wastes. The Government has allocated increased budget appropriations to the Ministry of the Environment to address the

Table 34. Transport facilities

	1965	1970	1975	1980	1985	1986	1987	1988	1989
Total length of roads (1,000 km)	28.1	40.2	44.9	47.0	52.3	53.7	55.7	55.8	56.5
Ratio of paved roads (per cent)	5.8	9.6	22.3	33.2	49.9	54.2	57.2	61.4	66.4
Number of passenger cars (1,000)	13.0	60.7	84.2	249.1	556.7	664.2	844.3	1 118.0	1 558.7
Persons per car	2 208	531	419	153	73	62	49	37	27

deteriorating environmental situation. However, unless there is greater collaboration from the major polluters in agriculture and industry, together with more effective implementation of environmental programmes, there is little prospect of meeting the environmental challenge arising out of economic restructuring.

Thus, discharge of industrial and other wastes is estimated to have increased by 80 per cent to 100 per cent during the 7 years from 1980 to 1986 when GNP grew by about 60 per cent (J.J. Rhee, Dong-A newspaper, 5/24, 1991). As prevention is better than the cure in the case of pollution, emphasis should be given to measures aimed at prevention. To that end, industrial restructuring should adopt technology that are non polluting and that are environmentally friendly.

Table 35. Automobile accidents

	1971	1975	1980	1985	1986	1987	1988	1989
Number of cases (1,000)	39	45	84	147	154	170	225	256
Number of dead per 1,000 automobiles	24.4	19.6	10.6	6.8	5.9	4.5	5.7	4.7
Number of dead per 100,000 persons	10.4	10.8	14.7	18.4	18.7	17.3	27.5	29.7

Table 36. Air, water and marine pollution

	1983	1984	1985	1986	1987	1988	1989
Air (SO ₂ , in ppm), Seoul	0.051	0.066	0.056	0.054	0.056	0.062	0.056
Water (BOD, in mg/l), Han River	0.9	-	1.1	-	1.2	-	1.1
Marine (COD, in mg/l), Pusan	2.9	-	2.3	-	1.9	-	1.9
Noise (in LegdB (A)) day in ordinary "A" area in Seoul	-	58.3	58.0	59.6	60.5	60.0	-

Source: Ministry of Environment.

IV. GOVERNANCE AND INSTITUTIONS

The Government is a major driving force in providing welfare services but the role of the private sector has also been increasing. The Korean Government has assumed a dominant role in planning, decision-taking, and implementing policies and strategies in social development.

The government has been rather bureaucratic in implementing welfare policies. Collective decisions are taken by bureaucratic administrators and political leaders with little involvement or participation by those affected. The main laws relating to welfare are taken up first by civil servants and then moved to parliament for enactment of necessary legislation. However, most representatives follow the party line rather than to try to promote the interests of the electorate.

Furthermore, members in various social welfare committees at the provincial, city and county levels generally assume a passive stance and do not make an important contribution towards achieving the welfare needs and aspirations of their constituents. Since 1988, the strong desire of the people for better welfare services and social progress can be gauged from the growing petitions and street demonstrations that emerged. By and large, there have been no effective channels to convey the people's welfare concerns to the decision-making authorities.

Nevertheless, the local self-government system was revived in 1991 and is expected to be in full operation in 1992. The local representatives are likely to place considerable reliance on the central government but are also expected to give due consideration to local interests in view of the need for reelection.

Lack of participation in the decision-making process and weak links between beneficiaries and decision-makers result in a mismatch of welfare demand and supply, insensitiveness of political elites to the welfare desires and needs of the people and inefficient administration and management.

A. WEAK POLITICAL WILL

Political will is critical to improve the delivery of welfare services in the Republic of Korea and to upgrade these services in conformity with economic progress that has taken place in the country. However, political will in promoting welfare appears weak and the gap between needs and the actual welfare services supplied seems to be large with hardly any sign of an improving trend over the last decade. Public expenditure on social welfare, one of the major indices indicating the extent of public welfare provision, was not sufficiently elastic compared to other advanced and middle income countries in recent years,

especially when compared to the experience of the advanced European countries during 1950 to 1975. As a result, the investment of the Government of the Republic of Korea in social development amounted to only about a third of the level achieved in the advanced countries.

Political elites, business leaders, and members of the intellectual community that are in the high income bracket, did not view the need for investment in welfare programmes as an urgent necessity. Moreover, private involvement in welfare provision has been mainly confined to granting scholarships and assistance to the poor or alienated groups which are funded by "Chaebols" only recently, and at a very limited level of capital outlay.

B. MISMATCH BETWEEN WELFARE NEEDS AND PROVISIONS

Shortcomings in many welfare programmes arise from lack of adequate participation of beneficiaries in the decision-making process with regard to the formulation and implementation of such programmes. The desires and expectations of the population for a wide range of welfare services have been rapidly increasing, whereas policies and strategies to promote welfare had tended to be inflexible and conservative.

Social welfare concerns have broadened to include relative deprivation as the country achieved sustained economic growth accompanied by greater political liberalization. However, despite the tremendous rise in demand for welfare services the social welfare system is mainly dependent on social insurance which is known to be regressive. The major developments in the welfare area in the late 1980s, aside from large scale construction of permanent-rent apartments, consisted of extending public medical insurance to all people (excluding those protected by the medical assistance systems) and the launching of a national pension scheme.

The relative poor wanted changes to be made in the way the assistance was provided. The existing system for the most part provided assistance to the absolute poor, relying on cash aid to attain the subsistence level. However, most of the relative poor preferred concentrated and effective assistance to meet their living needs, rather than receipt of small amounts of cash aid. Surveys showed their preference for adequate supply of rented apartments, loans to meet school expenses, reduction in cost of medical treatment and loans to defray high medical expenses. They are also in favour of indirect assistance, such as assistance in making funds available from banks and to lower service charges in hospitals and schools.

To be more responsive to the welfare needs, assistance programmes should place more stress on reducing unemployment and in imparting occupational training. Attack on supply side of basic needs and assistance in the form of loans for health, housing and business improvement should receive high priority.

C. INEFFICIENCY OF ADMINISTRATION AND MANAGEMENT

Social costs of economic restructuring have increased due to inefficient governance, stemming mostly from lack of overall coordination and integration in welfare programmes. Welfare programmes are independently planned and implemented in about ten ministries: including Health and Social Affairs, Labour, Internal Affairs, Agriculture, Education, Environment, Construction, among others. Thus, financial assistance to the absolute poor is mainly provided by the Ministry of Health and Social Affairs (MHSA) but such assistance is also provided by local authorities belonging to the Ministry of Internal Affairs.

The rural poor could apply for assistance to meet education expenses to the Ministry of Agriculture and also get benefits of waiver of school fees from the MHSA if their children are enrolled in technical and vocational high schools. Training is imparted by the Ministry of Labour but trainees get financial assistance from MHSA for the training period. Housing loans are administered by both local governments and the Ministry of Construction, but the housing subsidy programme is implemented by the MHSA.

Social insurance systems are also not properly coordinated. Public pension and public medical insurance schemes cater mostly to the same beneficiaries but are managed by different authorities with little coordination between them. Furthermore, public pension programmes are divided into five categories, depending on coverage of contributors, namely, civil servants, teachers and school employees, military personnel, people who have rendered distinguished service to the country, and other Korean citizens. The pension schemes for these groups are administered separately by relevant ministries which often lead to lack of coordination, duplication and inefficiency.

The welfare delivery system also is in need of considerable improvement. To begin with, welfare guidelines stipulated by the MHSA are implemented by local officials belonging to the Ministry of Internal Affairs, which leads to inefficiency as the welfare programmes are not the major concern of the Ministry of Internal Affairs.

Second, the job turn-over rate of these officials is too frequent for them to acquire the necessary expertise. As much as 37 per cent of civil servants work for less than one year at their respective welfare departments in 1990.

Third, there is an acute shortage of qualified administrators in the welfare services. The recruitment of social workers in the public sector began only in 1987 and 324 social workers are working in the six largest cities although there is a plan to increase their number to 4,000 by 1992. Moreover, most of the present social workers are lacking in experience and generally do not have the expertise to appraise the economic status or need of prospective welfare recipients.

Finally, welfare administrators are overburdened with work which results in shortcomings in the distribution of welfare benefits as illustrated by growing evidence of benefits accruing to those that do not deserve to get them.

V. POLICY RECOMMENDATIONS

Social costs are incurred in the course of economic restructuring. We therefore, have to find an optimal path that minimizes social cost to attain the targeted economic objectives in the context of cost-benefit analysis. It is not easy to find such an optimal path. Moreover, social policy has a tendency of discrete and abrupt responses to economic development and changes of welfare needs, being motivated by social and political movements and requirements. Lagged response could be allowed in determining social policy with respect to economic changes, but care will need to be exercised to ensure that social discontent does not become uncontrollable due to perceived decline in income distribution and loss of economic welfare.

In general, minimum living expenditures ought to be secured beyond a physically absolute subsistence level in any process of economic restructuring. For the purpose of securing a national minimum, there should be protection of minimum subsistence living standard of the absolute poor in the short run, assistance to maintain the living standards of the relative poor and prevention of falling into the poverty trap in the medium term. The government has to take the lead role in provision of welfare services while there should also be increased involvement from the private sector and the NGOs. A strong will of the government and flexible policy measures in response to welfare needs are indispensable in the developing countries.

REFERENCES

- Atkinson, A.B., *The Economics of Inequality*, 1983.
- Bark, S.I., *A Study on Social Welfare Demand of the Lower Income Class*, Korea Institute for Health and Social Affairs, 1991 (in Korean).
- Bark, S.I., *A Study on Turning Point of Korean Economy and Economic Policy*, Federation of Korean Industries, 1979 (in Korean).
- Chou, H.J., *Theory and Reality of the Korean Economy*, Seoul National University, 1987 (in Korean).
- Economic Planning Board, *Social Indicators of Korea*, various years.
- Economic Planning Board, *Major Statistics in Korean Economy*, various years.
- Economic Planning Board, *Year Book*, various years.
- Flora, P. and Heidenheimer, A.J., *The Development of Welfare States in Europe and America*, Transaction Book, 1981.
- Long-term Planning Committee for Social Welfare Development, *Long-term Development Plan for Social Welfare in Korea*, 1989.
- Myung, J.I., *Effective Analysis of Management of Delivery System of Medical Services*, Korea Institute for Health and Social Welfare, 1991.
- United Nations, ESCAP, *Industrial Restructuring in Asia and the Pacific (ST/ESCAP/960)*, 1991.
- Youn, C.H. and Lee, K.O., *Principles of Industrial Organization*, Beumun-Sa, 1989 (in Korean).
- Year Books and Annual Statistics*, published by various Ministries of the Korea Government.

THE SOCIAL DIMENSION OF SINGAPORE'S ECONOMIC RESTRUCTURING

by

*John Wong**

I. INTRODUCTION

Growth and structural changes

The Singapore economy since gaining self-government some 30 years ago has achieved remarkable growth performance: it grew at the average rate of 8.7 per cent during the 1960s, 9.4 per cent during the 1970s and 8.2 per cent during the 1980s. As a result of sustained economic growth, Singapore has been transformed from an entrepot economy in the early 1960s to today's throbbing and humming industrial, commercial and service centre in South-East Asia. It started off in 1960 with a per-capita income of \$US 440. In 1990 it enjoyed a nominal per-capita income of \$US 12,300 a level which is higher than that of several OECD countries (table 1). In fact, the World Bank has already "graduated" Singapore (along with Hong Kong) into the status of "developed".

Singapore's successful industrialization drive over the past three decades has been a familiar story to both local and regional scholars. Suffice it to say that after the present People's Action Party (PAP) government took office in 1959 under the pragmatic leadership of Mr Lee Kuan Yew, every effort was mobilized to transform the economy based on entrepot trade to one today that is based on manufactured exports and tradable services. As can be seen from table 1, entrepot trade, amounting to 94 per cent of Singapore's total exports or 43 per cent of its total trade in 1960, was really the life-blood of the pre-industrial Singapore. The share of entrepot trade declined sharply in the early 1970s and has since stabilized at around 16 per cent in recent years. The eclipse of the traditional entrepot trade was marked by the growth of manufacturing activities. In 1960 manufacturing accounted for a mere 11 per cent of Singapore's total GDP at current market prices; but it rose to 20 per cent in 1970 and further to 29 per cent in 1990.

Industrialization was launched not just to provide a new source of economic growth to supplant the stagnating entrepot trade sector but also to generate

* Director, Institute of East Asian Political Economy (IEAPE), Arts and Social Sciences Faculty, National University of Singapore, Singapore.

Table 1. Singapore: Basic economic indicators

	1960	1970	1980	1988	1989	1990 ^p
Gross domestic product						
At current market prices (\$S million)	2 149.6	5 804.9	25 090.7	49 694.2	56 235.1	62 711.3
Annual change (per cent)	9.9	15.1	22.3	16.5	13.2	11.5
At 1985 market prices						
Annual change (per cent)	8.7 ^{a/}	9.4 ^{a/}	8.2 ^{a/}	11.1	9.2	8.3
Per capita GNP (\$S million)	1 329.6	2 825.3	9 940.6	17 700.3	19 412.9	21 657.6
Gross fixed capital formation (GFCF)						
At current market prices (\$S million)	204.9	1 888.5	10 203.1	17 344.1	20 683.2	23 840.7
GFCF as per cent of GNP	9.4	32.2	42.2	34.7	36.7	37.3
Annual change (per cent)	21.7	11.8	20.2	8.2	17.7	14.7
Gross national saving (\$S million)	-52.3	1 129.7	8 282.0	20 659.8	24 379.7	28 504.3
As per cent of GNP	n.a.	19.3	34.2	41.4	43.3	44.6
As per cent of GFCF	n.a.	59.8	81.2	119.1	117.9	119.6
Unemployment rate (per cent)	13.0	6.0	3.0	3.3	2.2	1.7
Index of industrial production (1989 = 100)	n.a.	18.7	56.2	90.8	100.0	109.5
Consumer price index (annual per cent change)	1.2	5.6	8.5	1.5	2.4	3.4
Total trade at current prices (\$S million)	7 554.8	12 289.6	92 797.1	167 278.0	183 980.2	205 011.6
Total trade: annual change (per cent)	4.2	20.2	34.0	30.0	10.0	11.4
Imports (\$S million)	4 077.7	7 533.8	51 344.8	88 226.7	96 863.7	109 805.8
Exports (\$S million)	3 477.1	4 755.8	41 452.3	79 051.3	87 116.5	95 205.8
Domestic exports (\$S million)	217.1	1 832.2	25 805.2	49 555.2	55 251.7	62 754.1
Re-exports	3 260.0	2 923.6	15 647.1	29 496.1	31 864.8	32 451.7
Official foreign reserves (\$S million)	n.a.	3 097.9	13 757.7	33 276.6	38 607.2	48 521.3
External debt (\$S million)	n.a.	173.8	937.0	240.8	138.7	67.9
Debt servicing ratio (per cent)	n.a.	0.6	1.0	0.4	0.7	0.2

Source: *Economic Survey of Singapore 1990* (Singapore, Ministry of Trade and Industry, 1991).

^{a/} Average annual growth rate for the decade.

employment in order to solve Singapore's staggering unemployment problem. By the early 1970s, the unemployment problem was virtually resolved, with the unemployment rate at around 3 per cent, which is essentially in the nature of frictional unemployment. In fact, the economy was soon to run into acute labour shortages, with further industrial expansion becoming increasingly dependent on the influx of foreign workers.

By the late 1970s, as the Singapore economy continued its boom on the back of rising labour-intensive manufactured exports, policy makers became increasingly concerned as to whether the manufacturing sector, with its heavy dependence on low-cost foreign workers to produce low value-added goods, could in the long run sustain its dynamic role of leading the economy in growth. To break such a low-wage and low-productivity vicious circle, the economy must shift gears towards a new phase of growth based on more capital-intensive and higher productivity pursuits. Such is the origin of the so-called "Second Industrial Revolution", which refers to the package of bold government policies (including

the much publicized high-wage policy) introduction in 1979 in order to force the pace of structural change in the economy.

Industrial restructuring is a difficult and long-term process. Before its visible results were achieved, the Singapore economy plunged into negative growth in 1985. Apart from the unfavourable external factors, the severe recession in 1985 was caused by a number of internal structural problems, including high wages and high costs. The government reacted promptly with various anti-recession remedies. By 1987 the Singapore economy was back on high growth, which has since been sustained to the present day.

By 1990, Singapore has built up a strong and viable economic structure. Its manufacturing sector was made up of 3,728 industrial establishments, employing 352,676 workers and producing \$S 70.9 billion worth of output, 67 per cent of which was for direct exports.¹ Singapore's industrial structure has shifted from dependence on traditional industries like food and beverage, and raw material processing, to the more capital- and skills-intensive activities like electronics, petrochemicals, machinery and transport equipment. The economy as a whole has become broad-based. Apart from manufacturing, modern services such as finance and banking, and communications are making increasingly important contributions to overall economic growth.

II. SOCIAL DEVELOPMENT

Along with rapid economic growth and industrialization process, the Singapore society has also undergone major transformations. Some aspects of social change in Singapore have come about in response to the needs of economic growth, while others have been the product of that growth. Economic growth has vastly increased the material well-being of the average Singaporean, though it has also created certain social costs, or negative externalities, in the form of more pollution, greater social inequality, and declining community integration. On balance, in Singapore's economic growth, social benefits exceed social costs. Indeed, as a result of fast economic growth, Singapore has eliminated poverty and solved its basic needs problem associated with food and nutrition, housing, education, and health care. In this sense, Singapore is also a successful case of achieving both a high rate of economic growth and a high level of social development.

Not surprisingly, most social indicators of Singapore today actually pertain to the levels that are characteristic of a developed country. Thus, by 1990, the life

¹ *Economic Survey of Singapore 1990* (Singapore, Ministry of Trade and Industry, 1991).

expectancy at birth for a Singaporean was 74, infant mortality rate at 6.6 per thousand, literacy rate at 88 per cent, student enrolment rate at 94 per cent, and above all, 88 per cent of the population having been housed in government-built HDB (Housing and Development Board) flats (table 2).

Table 2. Singapore major social indicators, 1979-1989

Year	Rate of population growth (per cent)	Infant mortality rate (per 1,000 live-births)	Total fertility rate (per 1,000 female population)	Student enrolment ratio (per cent)	Literacy rate (per cent)	Unemployment rate (15 years and over) (per cent)	Health (persons per doctor)	Population living in HDB flats (per cent)	Total offences (per 10,000 population)
1979	1.3	13.2	1 791	78.9	82.8	3.3	1 287	71	103
1980	1.2	11.7	1 737	78.6	84.0	3.5	1 222	73	123
1981	1.2	10.7	1 723	81.5	84.4	2.9	1 168	74	161
1982	1.2	10.7	1 706	84.1	84.8	2.6	1 111	75	160
1983	1.1	9.4	1 589	88.3	85.3	3.2	1 060	77	164
1984	1.1	8.8	1 609	91.3	85.6	2.7	1 010	81	178
1985	1.1	9.3	1 619	92.0	86.0	4.1	972	84	182
1986	1.0	9.4	1 445	94.3	86.4	6.5	930	85	193
1987	1.2	7.4	1 636	93.8	86.8	4.7	889	86	190
1988	1.5	6.9	1 980	93.7	87.2	3.3	837	87	219
1989	1.3	6.6	1 792	93.6	87.6	2.2	790	88	198

Source: Department of Statistics, *Yearbook of Statistics, Singapore, 1989*.

Against those positive economic and social benefits, Singapore has actually incurred relatively low social cost. As is well-known in the region, Singapore's physical environment is clean and green; pollution low; public utility services are efficient; and city traffic is still manageable. Above all, its streets are safe; and its crime rate, with total offences at 198 per 10,000 population, is basically low by the standard of any metropolitan city.

A. EDUCATION

For a city-state with no natural resources, human resources constitute the single most important primary factor of economic growth. Thus, all along over the past three decades, Singapore's development strategies have been closely connected with human resource development. In the next phase of economic restructuring, human resource development will play an even more crucial role, as successful industrial upgrading depends critically on the availability of trained and skilled labour.

The development of Singapore's education system was complicated from the start by the colonial neglect on the one hand and the language issue inherent in this multiracial society on the other. In the early years, the emphasis was to meet the basic schooling needs of a fast-growing population without paying much

attention to educational design, quality and employment needs. The wastage rate was high, with only half the starting primary-school population continuing to the secondary level. The overall educational attainment of Singapore's adult population in the 1960s and even the 1970s was actually quite low, especially compared to that of the other three Asian NIEs. In 1980 only about half of Singapore's labour force had received schooling beyond the primary level.²

However, Singapore's economy continued to grow at high rates in the 1960s and the 1970s, partly because the mainstay of the industrialization progress came from labour-intensive industries, with relatively small demand for skilled labour, and partly because the Singapore workers could be easily trained to adapt to modern factory employment. By the late 1970s, as the Singapore economy was about to start with its next phase of more intensive industrialization to be based on higher value-added activities, the government was fully convinced of the urgent need to invest in people by expanding educational and training opportunities. Hence the 1980s was actually a decade for human resource development for Singapore, marked by a tremendous expansion of education and training facilities at all levels.

As can be seen from table 3, government expenditure on education expanded sharply from \$S 688 million in 1980 to \$S 2,108 million in 1990, or a three-fold increase in total educational spending during the period of 10 years. In terms of government recurrent expenditure, the share for education also increased from 15 per cent in 1980 to 20 per cent in 1990 (table 4). In fact, the government's budget allocation to education is second only to defence. Within education's allocation, those institutions offering post-secondary and university courses have received relatively more resources. The pattern of Singapore's educational development over the last decade is summarized in table 5, which also shows that whereas total student enrolment has hardly increased over the past 10 years because of slower population growth, enrolment in institutions of higher learning have increased almost over 140 per cent. This clearly points to the government priority towards skills upgrading and higher-level manpower development. The National University of Singapore has in fact doubled its enrolment during this period. In the summer of 1991, the Nanyang Technological Institute (NTI) was also converted into a full-fledged technological university (NTU). The Open University will be opened in 1992, and plans are underway for the fourth polytechnic.

For those who are academically less competitive, the Vocational and Industrial Training Board (VITB), established in 1979, offers a variety of vocational courses. The VITB administers full-time training programmes in some 50

² Lim Chong Yah and Associates, *Policy Options for the Singapore Economy* (Singapore, McGraw Hill, 1988), chapter 6.

Table 3. Government expenditure on education, 1980/81-1990/91
(Thousand dollars)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Total	688 329	942 517	1 358 430	1 611 647	1 769 728	1 775 580	1 638 767	1 653 956	1 604 302	1 765 065	2 108 277
Recurrent expenditure	589 419	712 732	983 751	1 107 113	1 272 559	1 388 325	1 277 288	1 352 551	1 461 858	1 619 760	1 808 277
Primary schools	210 143	241 364	337 339	357 249	403 915	422 806	384 044	392 741	446 713	497 385	540 193
Secondary schools and junior colleges	211 840	244 940	323 163	348 200	392 387	431 866	402 396	424 465	486 226	533 091	582 168
Vocational and industrial training board	29 694	38 900	47 401	55 121	65 662	80 294	68 966	64 191	72 857	79 551	85 900
Tertiary	109 650	156 105	229 057	291 782	350 152	387 224	362 813	413 541	393 298	434 842	515 740
National University of Singapore and Nanyang Technological Institute ^{a/}	74 557	108 527	156 435	197 947	240 448	253 811	240 805	293 443	259 014	288 571	339 330
Institute of Education and College of Physical Education ^{b/}	11 089	13 955	17 746	18 817	21 268	22 979	19 883	20 843	21 072	19 395	23 450
Polytechnics	24 004	33 623	54 876	75 018	88 436	110 434	102 125	99 255	113 212	126 876	152 960
Others ^{c/}	28 092	31 423	46 791	54 761	60 443	66 135	59 069	57 613	62 764	74 891	84 276
Development expenditure	98 910	229 785	374 679	504 534	497 169	387 255	361 479	301 405	142 444	145 305	300 000

Source: Ministry of Education.

^{a/} From 1981/82, figures include expenditure of Nanyang Technological Institute. ^{b/} From 1984/85, figures include expenditure of College of Physical Education. ^{c/} Include Curriculum Development Institute of Singapore, Extra Curricular Activities Centre, Institute of Southeast Asian Studies, Science Centre Board and headquarters expenditure.

Table 4. Government recurrent expenditure, 1980-1990
(Million dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total ^{a/}	3 651.0	3 936.3	4 738.9	5 726.4	6 034.4	6 678.3	6 281.9	8 465.9	7 202.3	7 681.9	9 036.8
General services	211.5	181.9	258.6	316.5	330.2	350.3	276.1	316.8	320.4	349.5	490.8
Defence, justice and police	1 321.7	1 350.2	1 618.0	1 724.0	1 972.2	2 574.6	2 365.0	2 419.2	2 420.5	2 825.7	3 396.9
Social and community services	1 029.8	1 147.7	1 442.3	1 804.9	2 111.5	2 160.8	2 059.2	2 040.2	2 274.5	2 482.2	2 687.7
Education	564.4	631.6	866.7	1 115.1	1 282.0	1 361.9	1 349.0	1 348.1	1 504.5	1 629.7	1 791.0
Health	223.0	257.3	313.3	342.0	376.3	419.1	400.7	397.4	432.1	460.9	464.2
Environment	120.1	132.8	158.8	164.3	177.5	188.4	169.5	159.2	176.3	189.9	187.2
Others	122.3	126.0	103.5	183.5	275.7	191.4	140.0	135.5	161.6	201.7	245.3
Economic services	228.1	288.0	383.9	346.5	300.1	249.5	230.4	240.4	239.8	260.3	333.9
Debt servicing	785.9	909.4	956.7	1 445.3	1 220.0	1 201.3	1 190.6	3 279.7	1 753.2	1 532.3	1 870.9
Pensions	74.0	59.1	79.4	89.2	100.4	141.8	160.6	169.6	193.9	231.9	256.6

Source: Ministry of Finance.

^{a/} Government recurrent expenditure refers to payments from the Consolidated Revenue Account, but excludes contributions to the Development Fund, Revolving Fund, Sinking Fund and repayment of loans.

courses at 15 training institutes. It offers skills training leading to the Industrial Technician Certificate, the National Trade Certificate and the Certificate of Vocational Training. Besides, it also provides workers the opportunity to acquire new skills or upgrade their old ones through three specific programmes: the part-time Modular Skills Training (MOST) scheme, the Basic Education for Skills Training (BEST) for raising the literacy and numeracy levels of the older workers, and the Worker Improvement through Secondary Education (WISE) programme for those to raise their formal education to the GCE normal level.

The expansion of educational and training institutions has been accompanied by increased attention to educational quality. The school system has been made more flexible and the course variety broadened in order to allow greater scope for the development of different talents of students. The quality of teachers have also been improved through further training and more attractive remuneration. Above all, there has been marked improvement in school facilities and equipment. This is clearly reflected in the sharp rise in unit cost, e.g. the average cost of educating a primary school child increased from \$S 720 in 1980 to \$S 2,094 in 1990; and for a tertiary student, from \$S 4,844 in 1980 to \$S 9,284 in 1990.

Greater emphasis has also been put on excellence in schools by allowing schools greater autonomy and resources, and to develop their own character. Towards this end, the government in recent years has set up a number of "independent schools" within the school system. Principals and teachers in these schools have more leeway to decide on their own curriculum matters and to

**Table 5. Enrolment in educational institutions, 1980-1990
(Number)**

Year	Total	Primary schools	Secondary				Pre-University ^{a/}				Technical and vocational institutes ^{b/}	Institutions of higher learning ^{c/}
			Total	Academic	Technical	Commercial	Total	Academic	Technical	Commercial		
1980	501 887	291 722	156 491	136 391	16 421	3 679	17 202	12 162	911	4 129	13 839	22 633
1981	501 052	285 179	158 187	136 257	17 532	4 398	19 051	12 585	798	5 668	14 242	24 393
1982	506 946	286 780	157 262	134 888	17 565	4 809	19 583	12 609	458	6 516	16 361	26 960
1983	521 420	290 800	161 936	137 173	18 226	6 537	20 407	13 693	134	6 580	17 132	31 145
1984	528 502	288 623	164 928	138 388	19 071	7 469	22 836	15 800	-	7 036	16 172	35 943
1985	529 462	278 060	164 168	136 268	19 782	8 118	26 160	18 167	-	7 993	21 161	39 913
1986	537 663	268 820	173 990	142 945	21 601	9 444	29 098	20 145	-	8 953	23 438	42 317
1987	536 785	261 603	172 054	141 658	20 876	9 520	30 803	20 985	-	9 818	27 349	44 976
1988	537 619	259 270	168 587	139 787	19 622	9 178	33 168	22 259	-	10 909	29 604	46 990
1989	538 009	257 833	166 274	139 464	17 730	9 080	32 802	21 598	-	11 204	30 344	50 756
1990	534 055	257 932	161 029	136 365	15 819	8 845	30 430	19 435	-	10 995	29 102	55 562

Source: Ministry of Education.

^{a/} Include Pre-U Centres, Centralised Institutes and Junior Colleges. ^{b/} Include enrolment from Institutes run by Economic Development Board.

^{c/} Include National University of Singapore, Nanyang Technological Institute, Singapore Polytechnic, Ngee Ann Polytechnic, Temasek Polytechnic, Institute of Education and the College of Physical Education.

implement their own development plans. Furthermore, plans are underway to convert all secondary schools into single-session by the mid-1990s.

More recently, the government, in recognition of rising costs of education, has decided to raise its financial commitment to education from 4 per cent to 5 per cent of GDP. An innovative scheme called "Edusave" has been passed by Parliament. Thus, an Edusave account will be opened for every Singaporean school-child, aged 6-16. The government will contribute an annual sum, and parents will also be encouraged to do so. Throughout the period of their children's general education, parents can make use this account to pay for school-related activities or other intellectual development. This amounts to an additional educational subsidy for every school-going child between the ages of 6 and 16, which will benefit particularly children from lower income groups.

Education is investment in people, which has a double blessing. On the one hand, education is a means to expand one's intellectual horizon and lead him to better life. On the other hand, education also increases the productive capacity of the economy by turning out more goods and services. The government has made it clear that it will continue its strong commitment to education and training. It is thus officially stated in the "Next Lap":³

"As Asians, we believe that education is the key to a better life. Through education, we become more skilled, more productive and more resourceful. Education is investment in our people ... Our task in the years ahead is to raise the educational base of our people. Every young Singaporean will have the opportunity to enjoy at least 10 years of good basic education. Most will go on junior colleges, polytechnic or vocational institutes, which will prepare them for their chosen careers. We will also provide opportunities for upgrading and continuing education. Our aim is to maximize the full potential of each and every one through formal and continuing education".

B. HEALTH

On the whole, Singaporeans now enjoy a high standard of health and medical care comparable to that in many developed countries. As a result of easily available health services and modern sanitation condition, the average life expectancy at birth in 1989 was 74 years compared to 70 years in 1965; the infant mortality rate has dropped 26.3 per thousand live-births in 1965 to 6.6 in 1989; and there was one doctor for 837 persons in 1989 compared to one for 2,053 persons in 1965.⁴

³ *Singapore: The Next Lap* (Government of Singapore, 1991), p. 33.

⁴ *Singapore 1990* (Singapore, Ministry of Communications and Information, 1990).

As a city-state, Singapore started off with a better health and medical standard than its neighbouring countries even before the start of industrialization. Successful industrial development has provided more resources for the further development of its health care facilities. As shown in table 4, the government recurrent expenditure on health increased from \$S 223 million in 1980 to \$S 464 million in 1990. Since the basic health care problem has been solved, the development direction has shifted from building more primary care facilities to the improvement of the existing facilities through upgrading and restructuring. Health organizations have actually declined in number (table 6), while health personnel have increased over the past 10 years (table 7). By 1990 Singapore had 3,500 registered doctors; and there was one specialist to nearly every two non-specialist doctors.

In terms of organization of health services, Singapore operates a dual system of health care – a public health system and a private health system. The public health system currently provides about 30 per cent of primary health care and 80 per cent of hospital care while the private sector provides 70 per cent of primary health services and 20 per cent of hospital services.

Within the public sector, the Ministry of Health is responsible for the preventive, curative and rehabilitative health services. The Ministry of

**Table 6. Hospitals and government clinics, 1980-1990
(Number)**

Year	Hospitals			Government dental clinics ^{b/}	Community health clinics	Maternal and child health clinics
	Total	Public sector hospitals ^{a/}	Private sector hospitals			
1980	26	13	13	133	27	29
1981	26	13	13	133	26	29
1982	26	13	13	137	26	29
1983	23	11	12	160	26	29
1984	22	11	11	162	26	29
1985	22	11	11	176	26	29
1986	22	11	11	183	26	28
1987	21	10	11	183	24	23
1988	21	10	11	191	21	20
1989	20	10	10	193	21	19
1990	21	11	10	192	21	18

Source: Ministry of Health.

^{a/} Include Government Hospitals, Government Restructured Hospitals and National University Hospital. ^{b/} Include dental clinics in schools.

**Table 7. Registered health personnel, 1980-1990
(Number)**

Year	Doctors		Dentists ^{a/}		Pharmacists		State registered nurses		State enrolled nurses		Midwives	
	Public ^{b/}	Private	Public ^{b/}	Private	Public ^{b/}	Private	Public ^{b/}	Private	Public ^{b/}	Private	Public ^{b/}	Private
1980	855	1 121	161	185	58	310	2 939	2 384	1 897	325	521	258
1981	914	1 177	166	204	58	300	2 883	2 141	1 846	370	492	274
1982	1 001	1 224	180	222	59	314	2 849	2 275	1 976	434	439	283
1983	1 047	1 314	174	262	58	329	3 169	2 408	1 682	455	405	305
1984	1 109	1 395	165	310	58	351	3 207	2 485	1 679	459	372	280
1985	1 214	1 417	159	337	55	381	3 606	2 698	1 547	544	371	279
1986	1 337	1 444	154	372	58	396	3 533	2 869	1 564	602	354	247
1987	1 420	1 519	153	404	59	428	3 370	3 077	1 581	685	350	236
1988	1 551	1 611	164	429	75	451	3 817	2 822	1 655	700	341	230
1989	1 720	1 677	184	459	93	464	3 952	2 863	1 644	778	330	219
1990	1 831	1 742	185	487	96	491	3 560	3 469	1 554	970	296	260

Source: Ministry of Health.

^{a/} Refer to those with professional degrees only. ^{b/} Refer to Government, Government Restructured Hospitals and University personnel.

Environment is responsible for the environmental health services such as sewerage, drainage and waste disposal systems as well as for the control of infectious diseases, and control and safety of food prepared and sold in Singapore. The Ministry of Labour is responsible for the industrial and occupational health of workers.

Primary health care, which involves the provision of primary medical treatment, preventive and health education, is easily accessible to the public. About 70 per cent of primary medical care is provided by general practitioners in private practice. They are complemented by doctors in government clinics, the School Health Service, and the Health Service for the Elderly. All school children are medically examined at regular intervals.

As for hospital services, there are six government and government-restructured hospitals providing multidisciplinary inpatient and specialist outpatient services and a 24-hour accident and emergency service. In addition, there are three specialized hospitals, for women's diseases, for psychiatric disorders and for the treatment of skin and venereal diseases. Altogether, the government hospitals provide about 8,000 beds in addition to 1,800 beds by the 11 private hospitals.

The health care system in Singapore has in fact been undergoing tremendous transformation in the 1980s, following the implementation of the National Health Plan, introduced in 1983. The Singapore health system, evolving from the British colonial tradition, was originally welfare-oriented and heavily-subsidized. Back in May 1981, Minister of Health Mr Goh Chok Tong (who is now Prime

Minister) declared that the British National Health Service as a cradle-to-grave welfare system to be provided on demand to the public, would not be suitable for Singapore as such a system would not be in the long run financially viable. The government therefore must move away from the tax-based financing system. At the same time, the government recognized that it had the "primary responsibility to provide good basic health care to the population at a price that even lowest income group can afford". In this connection, the government would continue to heavily subsidize Class-C beds in all public hospitals.

In 1983 the government introduced the National Health Plan (NHP). One of the objectives of the NHP was to "build a healthy, vigorous, active and physically fit population" on the premise that "prevention is better than cure" and that "it will seek to encourage Singaporeans to stay well and reward those who do". The emphasis was on the "crucial role of the individual in promoting and maintaining his own health". The key element in the NHP was the adoption of the Medisave scheme, which imposed compulsory savings to meet rising medical expenditures. Thus Singaporeans have to set aside in their CPF accounts 6 per cent of their monthly wages subject to the ceiling of \$S 15,000 as their Medisave.

With the Medisave scheme, the government has thus shifted the onus of health care to the individual under the system that rewards the healthy but without penalizing those not able to afford medical facilities. It is supposed to avoid the pitfalls and problems that many advanced countries have experienced in their comprehensive tax-based national health care services. In the view of the government, with growing health expenditure projected as the population ages juxtaposed with growing affluence of Singaporeans, continued health subsidy at previous levels would be too much a burden on the tax system. Under the new system, savings for medical expenses are individualized, extending only to close family members, to a maximum of four. The government's basic responsibility is to provide an efficient medical service with minimal subsidy and becomes a provider of the last resort.

By the end of 1989, there were a total of 1.8 million Medisave accounts with their total balance amounting to \$S 6.3 billion. This works out to be around \$S 3.500 per account. In 1989 \$S 183 million was withdrawn from the Medisave accounts to meet medical expenses.⁵

Not only has the government shifted the financing of health care to the individuals and to the private sector, it has also undertaken a policy to restructure

⁵ Ministry of Health, *Annual Report 1989*.

the public hospitals with a view to allowing them greater autonomy in management and operation. The objective was to improve services by promoting efficiency, higher standards and competition among hospitals. All restructured hospitals were subject to stricter financial discipline and cost control, which would ultimately benefit the patients. Essentially the "restructuring" move is a privatization in disguise as government hospitals are to be operated like private ones but at the same time they are still "government" in terms of ownership and control. The government still controls the direction of overall health policy, i.e. the government can still regulate both the supply and pricing of health services.

Restructuring, by injecting competition and allowing greater participation by the private sector, is supposed to raise quality and efficiency and eventually reduce the cost burden on the government through greater cost-sharing. But the outcome is not always so simple when applied to health services. Unlike other sectors, many aspects of health care do not lend themselves easily to perfect competition conditions because of consumer ignorance, imperfect information, professional monopoly and many externalities in medical care. Because of the strong possibility of market failure, the conventional cost-effectiveness measure may therefore post tremendous difficulties in practical application.

There is also the issue of trade-off between efficiency and equity. Efficiency involves cost cutting and optimal use of limited resources, and hence can better address the issue of growth. However, the delivery of a good health care system is centred on distribution or the equity issue. Thus conflict or a trade-off can occur, as when the efficiency factor becomes so paramount that it crowds out the equity consideration. To push for higher efficiency, the restructured hospitals might downgrade services which are not financially self-supporting. Furthermore, in the drive to raise the standards of medical excellence, essential and basic services could be neglected, in favour of glamorous "high-tech" medicine. While the intended benefits of restructuring are discernable, considerable doubts continue to be expressed concerning its interpretation and side effects.

Many Singaporeans rightly worry that health costs will become an increasing burden. As the population ages, the demand for medical care will increase. As incomes go up, people will demand better medical services. The government has repeatedly assured the public that every citizen will have access to essential care of a good standard. Charges for B2 Class wards will be kept within reach of those with average lower middle incomes while C class wards be kept affordable to average lower income families.

As present, patients in the subsidized wards receive subsidies of between 70 per cent to 80 per cent, i.e. they pay only 20 per cent to 30 per cent of the real costs

of the service. In July 1990, a national health insurance scheme to protect individuals with catastrophic illness called Medishield was introduced. 1.48 million CPF members, under 65, are eligible for this.

The government has given very clear signals that while it wishes all in society, from family to employers and the community at large, to be responsible for health care, the government in the final analysis will still have to provide a safety net for those who have not enough Medisave to meet essential health care. This is embodied in the latest proposal of Medifund.

C. PUBLIC HOUSING

It is in the area of public housing that Singapore has scored its single most impressive social achievement. Development in education and improvement in health care came about largely as the natural result of economic growth, and Singapore's progress in these two areas is satisfactory though not particularly outstanding for a country at that level of development. However, Singapore's records of public housing, in the sense of provision of low-cost accommodation to the majority of the population, the development of well-planned new towns, and the enhancement of the living environment, are simply staggering, unsurpassed by any city in the world.

When the present government took power in 1959, Singapore had one of South-East Asia's largest urban slum and squatter populations. Its overall housing conditions were characterized by overcrowding, dilapidation and inadequate infrastructure. Much of Singapore was then like a shanty town. By 1990 Singapore has physically changed beyond recognition: its urban landscape was one of a green city, with high-rise buildings surrounded by parks and gardens. The government has since 1960 built over 600,000 flats for 87 per cent of the population. (table 8).

The Housing and Development Board (HDB), which was established as a statutory body in 1960, is the public housing authority in Singapore, which is responsible for not just formulating and implementing public housing policy but also related facilities such as the development of new towns and housing estates and the provision of communal facilities like sports and swimming complexes, commercial, shopping and social amenities. Over time, the key functions of the HDB have evolved and can be grouped into two main areas: (1) to provide lower-income and middle-income housing for sale or rent to eligible Singaporeans; and (2) to provide estate management services. After the HDB had become Singapore's largest developer and estate manager, it took on another function by playing a supportive role in community development.

Table 8. Residential units constructed and sold by Housing and Development Board, 1980-1990

Year	Flats constructed ^{a/}	Flats sold under "home ownership scheme" ^{a/}	Percentage of population living in public flats (end of period)
	Number		
1980	18 421	23 234	73
1981	15 381	11 129	74
1982	19 532	21 403	75
1983	40 062	34 013	77
1984	67 017	81 823	81
1985	46 370 ^{b/}	34 856	84
1986	38 907 ^{b/}	30 575	85
1987	29 008	25 635	86
1988	27 071	40 688	87
1989	11 793	17 986 ^{c/}	88
1990	13 739	13 692 ^{d/}	87

Sources: Housing and Development Board; Jurong Town Corporation; and Housing and Urban Development Company.

^{a/} Include units constructed and sold by Jurong Town Corporation prior to 1982, but exclude those constructed and sold by Housing and Urban Development Company. ^{b/} Include middle-income housing units completed by Urban Redevelopment Authority. ^{c/} Including 233 HUDC units sold during the year. ^{d/} Include 254 HUDC units sold during the year.

Public housing in Singapore originally started off with the simple objective of providing basic shelter to the poor. When this target was met, new objectives had evolved to include the provision of a good housing environment for both the lower-income and the middle-income groups as well as home ownership for virtually all HDB residents who could not afford private housing. Towards these ends several basic policies have been laid down. First, home owners are allowed to use their Central Provident Fund (CPF) savings to pay for their flats. Second, the selling prices of flats are pegged, not just to basic costs but also to the affordability of the applicants as well as the practical limit of government subsidy. Third, resettlement policies are aimed at equitable compensations, minimum adjustment and real improvement in the housing conditions of the affected residents. Fourth, the quality of HDB flat designs and other facilities is constantly upgraded along with their environment. Fifth, apart from physical environment, attention is also paid to the creation of a good social environment conducive to community living.⁶

⁶ For a further discussion of the evolution of various HDB policies in Singapore, see Aline K. Wong and Stephen H. K. Yeh, eds., *Housing a Nation: 25 Years of Public Housing in Singapore* (Singapore, Maruzen Asia, published for Housing and Development Board, 1985).

What is significant in the Singapore experience of public housing as a result of the application of the above policy guidelines is essentially boiled down to two characteristic features. The first is concerned with the financing of the housing programme, particularly the way by which Singapore's housing system is linked to the saving-investment process of the Singapore's economy. From the outset, public housing, like education, was considered a productive social investment, which can increase the competitiveness of Singapore's labour force in attracting foreign investment. Cheap public housing means that labour can be paid relatively lower wages, which is in turn conducive to the development of labour-intensive industries. Thus, resources collected in the CPF (which operate more like forced savings than as a social fund) were channelled to housing development.

The second aspect of public housing is the way it has been used as an instrument for implementing government social policy. The HDB estates must maintain a balanced ethnic composition of residents to reflect the cross-section of the social and economic groups of Singapore. Public housing is also an integral part of community development or at least to play a catalyst role in accelerating community development in Singapore. The HDB helps residents organize various campaigns and community projects and inculcate a stronger sense of multi-racial community spirit as well as identity among Singaporeans. Thus, Residents' Committees are set up in the estates and many other projects like the Neighbourhood Watch Scheme, Senior Citizens' Scheme and Multi-Tier Family Housing Scheme are launched. With the bulk of the population being housed in the government-built HDB flats, the government is thus able to make use of the public housing to carry out some of its important social policy objectives.

In most cities in the world, public housing is designed as low-cost housing for the low income groups or as part of the welfare programme for the poor and the old. Public housing estates have fast degenerated into slums or become hotbeds of crime. But this has not happened in Singapore partly because of Singapore's public housing programme started off on different economic and social premises and partly because of active government policy intervention. As shown in table 8, when 88 per cent of the population live in various HDB estates, the public housing programme cannot be low-cost housing any more but is just a mirror image of the larger Singapore.

In recent years the HDB has slowed down its building programme. As can be seen from table 9, there has been a shift of focus from 3-room flats and below to 4-room and 5-room flats. As a result of rising incomes people move to "upgrade" their housing to larger flats with better designs. It is interesting to note that the executive flats and the HUDC (Housing and Urban Development

Table 9. Properties under the management of Housing and Development Board, 1980-1990
(Number)

End of year	Residential								Shops ^{d/}
	Total	1-room	2-room	3-room	4-room	5-room	Executive	HUDC	
1980	372 640	69 230	48 633	176 003	55 719	20 459	...	2 596	14 139
1981	383 026	67 132	48 867	181 489	59 971	22 835	...	2 732	15 386
1982	399 935	65 908	48 644	190 688	65 521	26 442	...	2 732	16 784
1983	430 169	60 982	48 563	203 116	81 082	31 345	1 867	3 214	18 729
1984	506 340	60 283	48 622	229 671	116 764	40 678	5 400	4 922	21 209
1985	551 767	60 105	48 566	242 878	139 136	45 097	8 266	7 719	25 175
1986	585 445	58 957	48 002	252 039	157 902	51 484	11 454	5 607	25 896
1987	612 826	58 237	47 713	256 648	171 557	58 776	14 288 ^{b/}	5 607	26 136
1988	630 645	58 356	46 590	254 449	185 709	66 864	18 070 ^{b/}	5 607	26 637
1989	610 955	28 741	42 226	252 541	193 538	69 435	19 002 ^{b/}	5 472 ^{d/}	30 553
1990	623 821	28 697	42 206	252 044	202 046	71 754	21 602 ^{b/}	5 472 ^{d/}	30 473

Sources: Housing and Development Board; Jurong Town Corporation Housing; and Urban Development Company.

Note: Figures include units managed by Jurong Town Corporation (from 1978-April 1982) and Housing and Urban Development Company (from 1977/78-April 1982).

^{a/} Include industrial units. ^{b/} Include 367 multi-generation flats. ^{c/} Include 61 landed properties.

Company) flats were originally catered to the middle-class groups, but their demands have fallen off because of competition from private sector. This shows that there are "natural" limits to the expansion of any public housing programme.

Since 1964 when the "Home Ownership for the People" scheme was introduced, the objective of the public housing programme was not just to "house" people but also to help them to own the flat in which they live. Under the home owner scheme, home buyers' CPE savings are used to service the monthly instalments over a maximum period of 25 years after the buyers have paid a down payment of 5 to 10 per cent of the purchase price. Since 1960, the HDB has sold 505,503 flats and 4,885 HUDC flats. By the end of 1989, 87.6 per cent of Singaporeans live in HDB flats with 79 per cent of them owning their flats, making Singapore the only country in the region with the highest proportion of home ownership.

The HDB has also adjusted its priority from the building of new flats to the regular upgrading and maintenance of the existing estates. This function of HDB has assumed greater importance in recent years along with the emphasis on a better living environment of HDB estates. Since August 1988, the government encouraged a few constituencies to set up their own Town Council to take over estate management and maintenance functions from the HDB. The government felt that such decentralization would not just enhance the living environment of the individual estates but also allow them to develop some distinct identity.

What Singapore has achieved in public housing, both in terms of quantity and quality, is really unparalleled in the region. The costs to Singaporeans come from the psychological tension for living in high-rise apartment blocks, the uniformity in the physical layout of new towns, and other problems arising from too much physical and social planning.

D. SOCIAL WELFARE

“Social welfare” in a broad sense actually refers to the whole package of basic needs, which include education, health and housing. We have singled out these three for separate discussion partly because of their importance and partly because they are more in the nature of social investment. In this section, we shall be concerned with “consumption” aspects of social welfare such as social security and other social services, which are socially no less significant since the ultimate goal of economic development is to raise the welfare level of the whole population.

The level of social services in any country is a function of its economic and social development adjusted by its underlying political and social philosophy. Thus the standards of social welfare in Western Europe are very high partly because of their economic affluence and partly due to the dominant ideology of the social-democrat parties in these countries.

In Singapore, the ruling PAP had a strong streak of social-democratic commitment in its early years; but Singapore was then too poor to be able to commit adequate resources to the social security needs of the unemployed, disabled, aged, or indigent. Transfer payments to households, which was 8.5 per cent of main government expenditure in 1965, declined to 1.4 per cent in 1975 and has since become statistically insignificant in recent years. The decline in proportion was mainly due to the growth and prosperity of the general economy as well as to the swelling of the budget. In any case, rapid industrialization reduced unemployment and raised wage levels. This, coupled with a relatively young population, brought about a sharp decline in the number of people needing public assistance.

But the public assistance programme in per-capita money terms has always been meagre in Singapore. Its monthly rate was \$S 19 per head in 1960 and was still \$S 60 in 1985. In 1989, when the per-capita income of Singapore had reached \$S 19,400, Singaporeans who are unemployed and without any means of support may get \$S 120 a month for a single-person household from the Public Assistance Scheme. This is anything but generous. In reality, 90 per cent of those on public assistance are destitute aged 60 and above.

The government has made no bones about expressing its ideological antipathy towards welfare and subsidy, which, in its view, need to be reduced to the minimum or restricted only to those who are handicapped. In part, the government has the pathological fear that such welfare attributes like unemployment benefits and minimum wages could seriously undermine the work ethic of the population or weaken the economic survival ability of Singapore. In part, the government feels that the state should not take over the traditional function of the family in caring for the weaker members of the family. In recent years, the government has also encouraged private charity organizations to be more active as a means of increasing the level of social concern and promoting a sense of community awareness.

Transfer payments are of course only part of the overall government programme on social welfare. In 1985 the Ministry of Social Welfare became the Ministry of Community Development (MCD), which provides and administers a broad range of social services. These include: (1) The MCD administers the Family Day Care Scheme and oversees the development and promotion of childcare facilities as part of the government effort to encourage mothers to work and the population to grow; (2) The MCD, working closely with the Singapore Council of Social Service, provides the environment and opportunities for disabled people to become self-reliant and socially active through education and training; (3) The MCD coordinates and monitors a range of services and programmes for senior citizens to keep them healthy and in the mainstream of community life e.g. the Public Awareness Programme on Ageing and the Befriender Services; and (4) The MCD also operates a number of programmes such as protection of children, services for the destitute, emergency relief, family relations, probation service, prison welfare service and so on. Admittedly, a lot of these activities belong to the area of social work.

Although there is no publicly provided social safety net as such in Singapore, much of what is considered social security is contained in the Central Provident Fund (CPF) programme. Started by the colonial government in 1955, the CPF has been vastly expanded under the PAP government to fulfil its new economic and social objectives. The CPF is essentially a fully-funded pension scheme managed by the government, with compulsory contributions from both employers and employees. Contributors are allowed to withdraw their CPF balances only at retirement at the age of 55. But parts of CPF balances may be used to purchase houses, stock, and to pay hospital bills.

CPF contribution rates have been rising through time, from 10 per cent of the wage in 1955 to 16 per cent in 1970, to 38.5 per cent in 1980 and eventually 50 per cent in 1984. In 1986 as a result of the recession, the employer's rate was

**Table 10. Central Provident Fund members by age group, 1980-1990
(End of period)**

<i>Age group (years)</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
	Thousand										
Total	1 518.7	1 649.7	1 726.3	1 778.9	1 852.5	1 891.7	1 933.8	1 988.5	2 063.4	2 126.9	2 195.2
Under 20	177.0	179.0	166.1	152.2	142.3	116.9	98.3	95.4	95.8	104.5	112.6
20 - 24	333.5	357.2	367.5	368.6	369.9	355.0	337.6	316.4	290.2	266.5	252.5
25 - 29	305.0	334.9	353.2	362.8	374.7	383.3	389.3	393.3	395.3	393.0	385.9
30 - 34	227.3	252.1	271.4	290.6	310.4	327.0	345.7	359.2	370.0	380.1	391.0
35 - 39	121.3	138.3	163.2	184.4	212.3	242.2	261.2	278.4	297.2	315.1	332.2
40 - 44	112.2	123.8	128.0	131.8	132.3	130.2	144.5	169.1	190.6	217.9	248.2
45 - 49	82.4	88.7	92.9	101.2	111.1	118.4	128.0	132.0	135.8	136.1	133.7
50 - 54	64.0	68.3	71.4	74.2	78.0	84.0	88.8	92.2	99.8	109.3	116.2
55 and over	77.3	82.0	86.6	88.3	94.7	105.5	112.5	122.0	157.2	173.6	192.1
Not specified	18.7	26.4	26.0	24.8	26.8	27.2	27.8	30.5	31.5	30.8	30.8
	Contributions and withdrawals of Central Provident Fund, 1980-1990 (Million dollars)										
Amount											
Contributed	2 296.0	3 007.2	3 901.4	4 491.0	5 385.2	5 993.4	4 777.9	4 446.8	4 985.1	6 107.5	7 174.2
Withdrawn	779.1	1 067.6	1 241.2	1 717.9	3 509.3	3 359.7	3 823.8	4 297.2	4 010.2	3 663.3	3 994.7
Due to members (end of period)	9 551.2	12 149.8	15 655.5	19 504.7	22 670.4	26 829.5	28 341.4	30 607.8	32 529.3	36 051.6	40 646.4

Source: Central Provident Fund Board.

Note: Data refer to all persons on the Central Provident Fund Board register.

reduced to 10 per cent, for a total of 35 per cent. At present, the combined contribution from both employer and employee works out to be about 40 per cent of the wage for a typical employee. By 1990 there were 2,195,200 CPF contributors with a total balance of \$S 40.6 billion. As can be seen in table 10, because of the age structure of the contributors, contribution to the fund consistently exceeds withdrawal.

The CPF fulfils a multiplicity of goals and functions. It is basically a form of forced savings. It has made it possible for the government to mobilize domestic savings for infrastructural development. Its economic function cannot be doubted. Without such source of cheap funding, the government would not have succeeded in its massive public housing programme. So it is also a social investment. As discussed early, members can use their CPF balances to pay for their HDB flats and start their Medisave, and the CPF scheme is indirectly also a form of social security.

E. CULTURE AND RECREATION

Economic pursuits have always been the main preoccupation of the Singaporeans. All activities are primarily geared to the creation of wealth. Communications are supposed to serve trade and business. Education institutions are to turn out trained manpower. Arts and culture always take a back seat.

In 1990 Singapore recorded over 20 million cinema attendance. The daily newspaper circulation numbered 813,000. The National Library had 722,000 memberships. The Singapore Broadcasting Corporation operated 3 TV channels and 9 radio services. The Singapore Symphony Orchestra has been in existence for 10 years. The National Museum was renovated. The National Theatre Trust was there since 1964. The Singapore Sports Council has been very active in promoting physical fitness of the population for the "Sport for All" movement.

Lying underneath the surface is the fact that the intellectual and cultural development of this small city-state has always been hampered by the strong materialistic outlook of its people and its deep-rooted commercial value system. The problem is further compounded by the multi-cultural roots of its population. As a young nation, Singapore has yet to develop its distinct indigenous culture. There is no common cultural identity. When one race tries to push its own culture beyond limits, it is bound to hurt the sensitivity of other races.

In recent years, as the Singapore economy has reached a certain stage of maturity and affluence, the government has come to recognize the importance of arts, culture and sports. Singaporeans, especially the younger and the better educated, now increasingly aspire to the finer things in life — to the arts, culture

and sports. Singapore's diverse ethnic heritages are increasingly viewed in a positive way, as a unique opportunity for developing a cultural identity of its own.

Back in 1984 the PAP issued the election manifesto called "Agenda for Action ... a Vision of Singapore by 1999", which promised to develop Singapore as a "society culturally vibrant", with a "cultured people finding fulfillment in non-material pursuits".⁷ In 1986, Mr Goh Chok Tong, then First Deputy Prime Minister, in his speech, "A Developed Economy, a Cultivated Society, a Nation of Excellence", said:⁸

"As we advance to become a developed economy, our people want similar progress in the social and cultural fields. They will want a more aesthetic and invigorating environment which will allow them to lead a fulfilling life. We must expect this as, once basic needs are secure, a society we want to pursue the higher goal and the individual's self-fulfilment ... Now what is a cultivated society? By a cultivated society I mean a society of well-read, well-informed citizens, a refined and gracious people, a thoughtful people, a society of sparkling ideas, a place where art, literature and music flourish. It is not a materialistic, consumeristic society where wealth is flaunted and money spent thoughtlessly, in short, a *parvenu* society".

According, when Mr Goh Chok Tong took over the reins of government from Mr Lee Kuan Yew, he created the new Ministry of Information and the Arts under a young, dynamic minister, BG George Yeo, to take charge of cultural and intellectual development. A National Arts Council will soon be set up; and plans are underway to expand and improve existing arts facilities. Now with a greater material base, Singapore is determined to raise its cultural standards at the level commensurate with its economic achievements.

III. A CONSISTENT SOCIO-ECONOMIC DEVELOPMENT STRATEGY

It can thus be seen that Singapore's past economic growth has been eminently successful and its social development in terms of the provision of basic needs, creditable. Table 11 serves to summarize its overall socio-economic progress in one sweep. Singaporeans from all income levels and ethnic groups have done well and benefitted from the country's economic growth over the past two decades. Real household income for all income groups has increased by 4.2 per cent per annum, from \$S 1,200 in 1972/73 to \$S 2,213 in 1987/88. Further,

⁷ *Straits Times* (Singapore, 12 December 1984).

⁸ *Straits Times* (Singapore, 2 December 1986).

Table 11. Rising household incomes

	1972/73	1987/88	<i>Per cent change per annum</i>
All groups			
Average	\$1 200	\$2 213	4.2
Household size	6.2	4.4	-
By income group			
Bottom 20 per cent	\$373	\$644	3.7
Middle 60 per cent	\$926	\$1 700	4.1
Top 20 per cent	\$2 852	\$5 322	4.2
By ethnic group			
Malays	\$741	\$1 529	4.9
Chinese	\$1 271	\$2 313	4.1
Indians	\$1 291	\$2 129	3.4
Others	\$3 142	\$3 906	1.5

Source: Household Expenditure Surveys.

the incomes of all racial groups have gone up during this period, with the Malays showing the higher annual rate of growth, 4.9 per cent as opposed to 4.1 per cent for the majority Chinese. These are not aggregate GNP statistics but real figures from sample household surveys. Singaporeans are clearly better off today than 25 years ago.

Growth has been broad-based and on the whole equitable. This is reflected in the relatively low Gini coefficients, as shown in table 12. More significantly, within each ethnic group income distribution has become less unequal, except for the Malays. The Gini coefficient is the lowest for Malay households and highest for "Others" (Eurasians). Further, the very poor Chinese have not quite kept up with the majority. The slightly less equal distribution in nominal incomes is generally moderated by the progressive tax structure and other social benefits like public housing. Above all, the unemployment rate in Singapore fell sharply from 6 per cent in 1970 to 1.7 per cent in 1990, when the economy was running into chronic labour shortages. Thus, in real terms, the benefits of economic growth have also effectively trickled down the poorest.

Table 13 provides more concrete evidence of the diffusion of economic growth benefits. The rise in the general standard of living of all Singaporeans is clearly reflected in various types of consumer durable that households own. Apart from high incidence of home ownership as we have shown above, nearly all households have refrigerators and TV sets, and more than 70 per cent have

Table 12. Gini coefficient by ethnic group

	<i>All groups</i>	<i>Malays</i>	<i>Chinese</i>	<i>Indians</i>	<i>Others</i>
1972/73	0.40	n.a.	n.a.	n.a.	n.a.
1977/78	0.38	0.32	0.38	0.38	0.27
1982/83	0.42	0.33	0.43	0.43	0.39
1987/88	0.41	0.33	0.41	0.43	0.44

Source: Derived from Household Expenditure Surveys.

**Table 13. Ownership of consumer durables
(Per cent of all households)**

	<i>1972/73</i>	<i>1977/78</i>	<i>1982/83</i>	<i>1987/88</i>
Refrigerator	47.3	87.1	96.1	98.3
TV set ^{a/}	49.0	—	95.2	97.9
Colour	—	21.3	—	—
Black and white	—	70.9	—	—
Washing machine	1.8	15.0	46.8	73.5
VCR	n.a.	n.a.	27.7	71.0
Car	17.0	24.3	25.5	29.8
Air-conditioner	2.7	8.3	11.2	19.4
Motor-cycle/scooter	11.2	17.5	16.0	13.5
Piano/organ	n.a.	n.a.	9.8	11.4
Personal computer	n.a.	n.a.	n.a.	11.2

Source: Household Expenditure Surveys.

^{a/} For 1977/88, total is not sum of colour and B and W TV sets because some household own both types.

washing machines and VCRs. More than 40 per cent have their own means of transport, compared to less than 30 per cent in 1972/73, despite the high prices of cars in Singapore. More significantly, one in ten households has a piano and a personal computer, a clear indication of middle class affluence.

In retrospect, Singapore's success in both economic and social development has been its consistent adherence to a development strategy that emphasizes "growth with redistribution". Unlike some countries whose development strategies have swung back and forth between "growth" and "redistribution", the Singapore leadership has from the outset stuck fast to its single-minded commitment towards economic growth. For this small city-state with no natural resources,

economic growth was all along regarded as vital to its survival. Economic growth is necessary not just to create the material base to meet various social needs, but also to satisfy the rising material aspirations of the people. Thus, every effort was made to maximize economic growth as a starting point.

At the same time, Singapore's political leadership, especially the PAP old guards, had a strong socialist impulse and they had never lost sight of the social objective economic growth. They were also sufficiently realistic to recognize that a balanced development strategy was one that would also have to satisfy the equity needs, which in turn could provide positive trade-off to further economic growth. Thus, efforts were also made to broaden the base of economic growth with strong emphasis on education and manpower development, and to provide an institutional structure that would facilitate the working of the "trickle-down" mechanism (e.g. the public housing programme).

Furthermore, the transport system, the housing programme, and health care are enjoyed across-the-board by all. Privileges are not pegged to any class or group in society. For instance, those who have monthly income below \$5,000 will be entitled to HDB flats regardless who they are. The distribution of manpower is also exclusively based on merit, with no special preference given to a particularly group of people or race. Such is meritocracy in operation. Upward social mobility depends on one's own efforts and drive, not on one's family background or racial origin. This is in sharp contrast to the development policy of some developing countries where specific target groups are supposed to reap more benefits from the beginning, or where the development programme is specifically designed to help a special group. This is not the case in Singapore.

In consequence, Singapore has been able to chalk up both a high rate of economic growth and an impressive measure of social development. It is actually a good operational example of the much-publicized World Bank's "growth with redistribution" development strategy.

While such a balanced socio-economic development strategy has apparently worked well at the macro level, many critics have continued to murmur over a number of uncomfortable areas in Singapore's path to development. There are those who would disagree with the government's overall development strategy as one which places too much emphasis on growth, even after growth has already become self-sustained. The existing trickle-down mechanism is considered either working too slowly or not sufficiently efficiently to redistribute the benefits of growth. The overall Gini ratio is still too high for Singapore's present per-capita GNP. Singapore's overall pattern of income distribution is in fact more

unequal than that in Taiwan Province of China or the Republic of Korea. The rate of decline in inequality has also been too slow.

Furthermore, Singapore's class-neutral and race-neutral development strategy, whilst undoubtedly successful at the macro level, has evoked unhappiness from certain social groups. There are always people in society who have not taken part in the development process and who therefore do not stand to gain from the benefit. Meritocracy means that those without the prerequisite merits would lose out. What is ironical is that even those mainstream groups will sometimes feel the pressure when development has proceeded too fast. The case in point is the current debate on the "middle class squeeze".

In a recent open forum an NUS academic pointed out that the top 10 per cent of the income earners in Singapore had no grouses as their incomes were pegged to developed country rates and their assets from bungalow houses to golf club memberships had sharply appreciated along with rising economic prosperity – and furthermore, Singapore has no capital gains tax for the reason of promoting entrepreneurship and business enterprise. The lower 70 per cent, mainly those "HDB heartland" class, were quite contented as they could enjoy the benefits of government subsidies in housing, health care and public transport. The 20 per cent in the middle were accordingly feeling that they were being "squeezed", as they were aspiring to something more than public transport and public housing but could not quite afford it.

This is a clear case of "perceived income inequality". Development, especially at too hasty a pace, brings about rising expectations to the impatient young people, who want instant reward. In the process of rapid economic growth, income from wealth can increase much faster than income from labour. Many are no longer content with the possession of such consumer durables as shown in table 13. Young professionals, in particular, feel a sense of "relative deprivation", and the frustrated one has chosen to emigrate to advanced countries. Admittedly, there is nothing the government can do to address the issue of perceived inequality or relative deprivation arising from rising expectations.

Obviously, there are a number of areas in which the government can bring about even more desirable social progress by simply increasing its policy flexibility or modifying its rather dogmatic approach. Take, for example, education. Despite the government's relentless efforts in promoting human resource development and despite Singapore's limited population base, the government's basic philosophy still smacks of elitism. Thus government has spared no effort in trying to identify those who show signs of talent even at a very young age. Special encouragement and stimulation are then provided for them to develop their

potential to the fullest through the Gifted Education Programme. However, the below-average students are streamed by examinations to different tracks of education with different curricula. To be sure, the government is still paying a great deal of attention to those vocational institutes. But the formal system does not provide much of a second chance for the late developers. As a result, there is a high wastage rate, with many drop-outs from each successive rung in the highly structured educational ladder.

The education system has also been criticized for being excessively examination-oriented. This results in training students purely for academic and technical competence. The system tends to stifle creativity, individual initiative and originality. It also leads to rigid competition and weeding out of those who are less academically inclined, and hence a higher drop-out rate. As Singapore's economic resource expands, Singapore can well afford to have a more liberal education system which is not narrowly based on human resource development requirement.

One can similarly query the government's existing health care policy. From most aggregate indicators, Singapore's health care performance has been impressive, as discussed earlier: Singapore's average life expectancy and doctor-population ratio are among the highest in the region, and its infant mortality rate is even lower than that in the United States of America. But certain developments in Singapore's current health policy remain controversial.

There is indeed strong economic rationale behind the government's move to restructure the public hospitals so that they become more cost-effective and more efficient. But the process is accompanied by the shift in the government policy concerning the financing of health care. "Restructuring" contains strong elements of privatization, which in the final analysis demands that the public-health services should pay their own way. Instead of treating public health care as a social-welfare item to be financed by tax revenues, the government increasingly requires users to bear, whenever possible, all the costs. In one sense, this is an effective way of curbing the uncontrollable public demand for health care services, which has created unbearable burden on the public health system in many Western countries.

As the government is loath to increase its subsidy, it wants the employer (the Japanese style of "Company welfarism"), the family member (in accordance with the Asian family traditions), and various charity organizations (as a move to develop a caring community) to take up some burdens of the ever-increasing costs of the modern health care system. This is not an unreasonable proposition.

At present, the A-class wards in the restructured government hospitals are run on a full cost basis; the B-2 wards are subsidized up to 75 per cent, and the C-class wards up to 85 per cent. The demand for C-class wards is small as the public perceives them inadequate while the demand for B-2 wards is excessive. Apparently, the public wants to get the best medical attention possible while at the same time they do not want to pay for it. In the view of the government, this is not tenable in the long run, as evidenced by the bad experience of many welfare states in the West.

The crux of the matter is that there is no such thing as an optimal level of subsidy for any government activity. It is more a matter of competitive use of public resources: if more goes to medical care, less will have to be allotted to education or other spheres. At present, the government spending in the field of public health care is about 1 per cent of GDP, which is much lower than in the developed countries. The fact that the Singapore government is running a perennial budget surplus year after year means that the government can well afford to be more flexible in its financial commitment to public health care.

No where is the government's "niggardliness" in social spending so illuminating as in the public assistance programme for the destitute and the underprivileged, who are no longer productive members of society. As already pointed out in the previous section, the monthly rate of government handout is so meagre that it is really unbecoming on an economy with such a high per-capita GNP. Singapore is still operating on a social system that is too biased for growth, for investment, for production, for the young, and for the capable. Thus, education is considered a social investment that needs to be promoted. So is public housing. But social welfare is obviously a social consumption that needs to be discouraged. There are virtues in this kind of approach as reflected in Singapore's economic success. But the same approach has also brought about a hard face of capitalism which is not necessarily conducive to further social development in future.

Suffice it to say that Singapore's fundamental socio-economic development strategy based on "Grow first, distribute later" has been on the whole successful. It has resulted in unprecedented material prosperity, which is broadly shared by the general public. Hence its records of social progress is also remarkable. The policy makers are determined to carry forward the same well-tested development strategy for the next round of growth. The idea is that once more wealth has been created, resources will be available for further social development. Further, given Singapore's open social structure, the development benefits will also be equitably diffused.

But the point of contention will arise: after reaching affluence will Singapore be prepared to trade off some amount of economic growth for more social development? All the signals at present point to the government's continuing bias for more dynamic growth. In fact, in a number of areas (e.g. health) the government seems to embrace the currently fashionable neo-conservatism of the Thatcher and Reagan type, which goes for free market as a criterion and extols privatization and the down-sizing of government. Many a Western government has to adopt such hard policy line in order to roll back its over-spending in social welfare areas because of its chronic fiscal deficits. But Singapore is an economy with a persistent budget surplus and it is exporting capital.

Does Singapore need to stick to such a rigid policy line in its future social development programme? We have shown that in a number of areas if the government were to show a bit more flexibility in its intervention the results would have been quantitatively and qualitative different. It remains to be seen if the younger generation of leaders in Singapore would be pragmatic enough in their approach to government.

IV. THE CHALLENGE OF SUSTAINING A BALANCED STRATEGY

Singapore is entering the 1990s to face new sets of economic and social challenges. To continue with dynamic economic growth, Singapore must step up the process of economic restructuring towards higher value-added and higher productivity activities. As in the case of the other East Asian NIEs (newly industrialized economies) of the Republic of Korea, Taiwan Province of China and Hong Kong, Singapore will not find the process of industrial upgrading any easier. The emerging international economic environment has become much more difficult for these export-oriented economies. Domestically, successful transition to the next phase of development based on skill-intensive and higher value-added activities depends crucially on the availability of skilled manpower and technological take-off. The hurdle for Singapore is particularly serious in view of its small size and its limited pool of skilled personnel.

On the social horizon, Singapore will have to come to grips with new issues and problems. In the short run, economic restructuring may well produce undesirable impact on the existing pattern of income distribution. Labour-intensive development tends to be more egalitarian as it is geared to the participation of more common people in the development process. But economic restructuring, biased towards more capital-intensive and more skill-intensive pursuits, can be inherently inequalitarian since capital and technological skills in the developing

countries are not equitably distributed, especially during the initial phase of economic restructuring.

Economic restructuring is a process of hastened structural adjustment, with sun-rise industries replacing sun-set industries, and service activities replacing manufacturing activities. It will give rise to new risks and new opportunities, including windfall gains from stock market and real estate speculation. It will lead to a redistribution of productive assets, particularly the income-earning financial assets. As has happened in Taiwan Province of China, while income from traditional employment is still equal, distribution of property income has become increasingly unequal.

In the longer run, Singapore will also need to cope with those social issues not directly linked to material resources in a quantitative sense. The first round of economic growth generated income and employment and the necessary material base for creating such social assets as schools, clinics, and public housing to enable Singapore to solve its basic needs problem. Increasingly there is a demand for more qualitative social services and other physical amenities. Furthermore, as Singaporeans become more affluent, they will measure their well-being and status by acquiring art work, designer clothes, foreign travels, and private club memberships. Will the next phase of industrial revolution necessarily lead to a better quality of life?

This brings to the fore the crucial question of preserving the Asian core values. Economic restructuring involves a process of extensive technology transfer. Most of the technology, production and managerial alike, still emanates from the West. Western social values therefore can be easily transmitted along with Western technology. Western value systems emphasize individualism and material pursuits, which are no doubt conducive to economic growth in the early stages of capitalism. At the same time, Western value systems have also raised the price of economic growth by accelerating social disorganization such as the breakdown of the family system. In any case, economic affluence in many Asian societies has led to the weakening of their own traditional values. This is considered by many Asian governments as too high a price to pay for the continuing economic growth.

Singapore is a multi-cultural and multi-racial society. From the outset neither government leaders nor serious scholars in Singapore have openly laid claim that any particular racial group or cultural system has uniquely contributed to Singapore's economic success. This is in line with the generally accepted argument that historically all societies and all cultures are just as capable of initiating modern economic development.

At the same time, it has been recognized by the government that certain value systems or certain social behaviour patterns or cultural traits are desirable and more directly relevant for Singapore's continuing economic growth with minimum social costs. The case in point is the government efforts behind the campaign to promote Confucian values among the Chinese population in the 1980s.⁹ But such efforts did not yield the expected results and they instead led to heightened consciousness of religious and cultural differences among various ethnic groups in Singapore. In a heterogeneous society, any potential rise in religious conflict or social disharmony is a politically disruptive force, which will eventually be counterproductive for economic development.

In October 1988, Mr Goh Chok Tong (then First Deputy Prime Minister) brought up the idea of a National Ideology, arguing that Singapore, as an open society constantly exposed to Western ideas and values, needed to formalize a set of core values in order to give Singaporeans a sense of direction at the time of rapid economic growth and social change, so that they would develop a stronger cultural ballast to determine their own future. Four sets of core values were accordingly identified: community over self, upholding the family as the basic building block of society, resolving major issues through consensus instead of contention, and stressing racial and religious tolerance and harmony.¹⁰

These four sets of core values are supposed to be fully compatible with Chinese, Malay and Indian cultures. Hence the starting point for a National Ideology, which would operate as a common framework within which the Chinese could interpret the core values in terms of Confucian teachings, the Malays in terms of Islamic teachings and the Indians in terms of Indian (Hindu) traditions. This would eventually evolve into some kind of shared values with commonality to all the major communities in Singapore.

The idea of shared values was endorsed in the President's Address to the Seventh Parliament on 9 January 1989. It was formally presented by the President on 2 January 1991 for parliamentary debate.¹¹

⁹ For a more detailed discussion of this subject, see John Wong and Aline Wong, "Confucian values as a social framework for Singapore's economic development", in *Conference on Confucianism and Economic Development in East Asia* (Chung-Hua Institution for Economic Research Conference Series No. 13, May 1989, Taipei, Taiwan Province of China).

¹⁰ "Will a national ideology help build a Singaporean identity?", *Mirror* (Singapore, Ministry of Communications and Information, vol. 25, No. 7, 1 April 1989).

¹¹ "The white paper on shared values", presented to Parliament by command of the President of the Republic of Singapore, 2 January 1991.

Essentially what all this amounts to is as follows. First, the government has taken a social value judgment that the “shared values” are not only compatible with the basic tenets of the Singapore society but also *should* facilitate Singapore’s future economic growth and help retain the vitality of the Singapore economy for it to stay competitive. In a recent public lecture in Singapore, George Lodge, a Harvard Professor, attributed the competitiveness of the East Asian economies to their communitarian social values just as “the United States owe much of its difficulty to the lingering effects of an eroding individualism”.¹²

Secondly and more importantly, the Singapore leadership has taken the view (or a political value judgment) that as the Singapore economy is rapidly developing under the impact of Western technology and being rapidly integrated into the global economic structure dominated by the West, its social structure and dominant value system should remain distinctly Asian. Many of the mainstream Asians values can actually promote economic growth while at the same time they can also operate as a social bulwark against the negative Western cultural inroads as well as to soften the harsh impact of economic modernization.

The challenge for Singapore, as for many ESCAP countries, in the next phase of development is not just to sustain high economic growth and to step up social progress, but also to maintain its social and cultural bearing in the period of fast economic and social changes.

¹² National University of Singapore, *Public Lectures by Professor George C. Lodge, Lee Kuan Yew Distinguished Visitor* (Singapore, 3-10 January 1991, LKY Distinguished Visitor Public Lectures Series).

SOCIAL CONSEQUENCES OF ECONOMIC RESTRUCTURING: THE CASE OF SRI LANKA

by

*Nimal G. Gunatilleke**

I. INTRODUCTION

A. BACKGROUND

During the past two decades, Sri Lanka has gone through two divergent forms of structural adjustments. The first was an attempt in 1970 to construct a system which had socialist orientations and relied heavily on state control and ownership. It aimed at consolidating and developing on the policies that had been introduced and implemented during the period 1956-1965. The reforms were extensive and had far reaching impact on the capacity of the economy for growth and employment creation. The programme was not successful. The administration could not complete the full range of adjustments due to various intervening factors and the electorate voted into power a new government which advocated a different set of policies in 1977.

After 1977, a programme of structural change was undertaken to reverse the past policies which had relied excessively on state control and social welfare. Reforms to develop an open competitive system with greater room for the private sector continue to date. Programmes to reform the public sector, divest public enterprises and engage the private sector for vigorous growth, are underway. The price system has been changed from one which had a large component of administered pricing, subsidies and a dual exchange rate system to one which is governed increasingly by market forces and reflects and passes costs on to consumers. The tariff system has been reformed to reduce protection that had been provided to the small base of inward-looking manufacturing and to encourage exports. Far reaching reforms are being made in the taxation system. Rates of taxation for individuals as well as companies are reduced. Foreign investment is actively encouraged. The private sector is encouraged to go into

* Policy Advisor, Sri Lanka Private Sector Policy Support Unit, International Science and Technology Institute, Washington, D.C., USA.

activities such as insurance, banking, transport and communication that had been reserved for the public sector.

The discontinuity in the policy regimes and the structural reforms imposed new burdens and hardships on groups that could not readily adjust their incomes and consumption. The macroeconomic reforms that accompanied the liberalization of 1977 resulted in an adjustment of the price level. Real earnings of casual workers, urban informal sector workers and the middle levels of wage employment declined in the first phase of the liberalization adjustment. Subsequent inflation eroded the value of social welfare benefits. However, the continuation of the reforms that are now underway can create a larger economic base with greater potential for growth and competition in the international economy and benefit all socio-economic groups. This will require better focus and direction of the welfare programmes, greater efficiency in management and utilization of resources.

The two types of structural reform were attempts to address deep-seated problems of the economy. The foreign sector dominated by commodity exports was vulnerable to fluctuations in the terms of trade. Earnings were volatile and diversification was needed quickly. Faster growth was necessary to generate rapid employment opportunities. Social welfare programmes of a wide ranging nature had been built into the system and there was strong political inertia against reforms and change, especially targeting to only those in need. The government budget played a critical role in the economy as it utilized savings mobilized efficiently through a well organized system. The conversion of savings into investment through the public investment effort was not generating adequate growth and employment. Deficits in the balance of payments and the domestic budget impacted strongly on the ability to service the growing burden of social welfare and also ensure growth and employment. Creating and developing capacity was a major challenge. While doing so, vulnerable groups had to be adequately protected, the incentive structure had to be maintained and enhanced. Distribution of opportunity and income was an important social and political concern. Balancing these simultaneous needs of economic and social justice within a competitive political system, has not been easy. Meanwhile, in the political domain addressing some political concerns and neglecting others has exacerbated long standing problems. Devolving political power and administrative capability has been a major unresolved issue. Successive governments have failed to manage the ethnic relations in the country which have erupted in a long lasting violent conflict. The possible economic progress is hampered by ethnic conflict. The prospects for completing the total package of structural reforms leading to an open, competitive and dynamic economy will be affected by the speed with which this issue is resolved.

B. THE FRAMEWORK OF ANALYSIS

The structural adjustments that are considered in this paper includes the standard package of macroeconomic reforms as well as reforms in the structure of pricing, the incentive system, the political system, the financial system and the public administration system. The interactions of the policy changes which determine the final outcomes tend to be complex and the outcomes difficult to estimate. The macroeconomic policy targets of the standard structural adjustment package relate to the balance in the external account, the processes of resource allocation and use, economic growth, employment, poverty and inflation.

The instruments include:

Price reform consisting of removal of administrative and state controls, and government subsidies;

Management of the balance of payments and adjustments of the exchange rate;

Management of the money supply with a flexible interest rate policy;

Control of public expenditures and reduction of government budget deficits;

Reforms in taxation, tariffs, financial system and measures to provide the appropriate framework of incentives for growth and viability of private enterprise; and

Public sector reform consisting of changes in administration and restructuring the public service and public enterprise.

The nature of the interactions and the relationships between the policy instruments and the policy targets determine the impact which adjustment policies has on poverty and social welfare. The context variables, political management, social structures, private sector - public sector balance, also play a critical role.

The paper is organized as follows. Section II which follows will describe and analyse the two episodes of structural adjustment since 1970. Section III will examine the social welfare system and its evolution in brief and the impact of structural adjustments on the level of poverty and social welfare. Section IV presents the main features and changes in governance and participatory institutions. The final section presents conclusions and recommendations.

II. DESCRIPTION AND ANALYSIS OF EPISODES OF STRUCTURAL ADJUSTMENT

A. BACKGROUND AND OVERVIEW

Two categories of structural shift characterize the post independent development effort. The first (1970-1977), was the effort to bring the main production and distribution activities of the economy within the control and direction of the state, and to make the public sector investment the main engine of growth. A nationalization programme took a large share of foreign owned plantations to state ownership and management. A land reform programme distributed ownership. Access to critical resources including foreign exchange was managed administratively, through extensive licensing and controls. Prices of a wide range of goods and services, which included almost all wage goods, were controlled while some essential commodities were under rationing schemes. The focus was weighted towards distribution, an inward-looking strategy for development with a strong bias towards import substitution. Although the need for export diversification was recognized and an export plan included in the Government's national plan, the main policies and incentives reduced export competitiveness and ran counter to the objectives of export promotion.

The second category of transformation (after 1977), is the growth oriented, open competitive regime, with the private sector given a greater role in investment and economic activity. Resource allocation begins to depend on markets, licensing and administrative controls are phased out. A fundamental tenet of this structural shift is the treatment of social welfare. Adjustments are made to the scope and coverage of programmes as fiscal imbalances of the central government are trimmed. Greater efficiency is demanded of the public programmes and the related services. Social welfare programmes have to be targeted better. Foreign resource problems are addressed by concerted efforts to expand and develop the export sector. Initially strong incentive programmes are needed. Foreign direct investment has to be actively sought and encouraged to ensure better employment of resources and the inflow of foreign exchange.

Modest growth rates characterize the economic performance of Sri Lanka during the four decades after political independence. There have been short periods of relatively rapid growth and longer periods of slowdown. The strategies adopted by successive governments were not successful in attaining a sustained growth rate of even 5 per cent for one decade. Many partially successful attempts to reorient and restructure the economy have been made. However, various intervening factors, both internal as well as external have thwarted the efforts. There have been strong views within the different political camps about the

appropriate form of economic management for the country. Policy packages opposed to each other in effect, have been adopted often without the possibility of continuity. External conditions and related balance of payment difficulties and, internal management issues related to the size of the government budget and the role of the state in resource allocation conditioned the need and scope for economic restructuring.

Sri Lanka began after independence with a favourable socio-economic background. At independence in 1948, the country had a relatively strong economy. There were, however underlying structural weaknesses as a primary product exporting open economy, but the average conditions of living were among the best in Asia and well above those of her South Asian neighbours.

The country had built up considerable capacity to deliver social welfare services extensively, even before independence. Those preparing the framework for independence considered literacy and general well-being as essential pre-conditions to establish a viable democracy. As early as in the 1930s and 1940s primary health care and educational services were extended to the rural communities. This was considered the necessary base for the free exercise of a franchise. The emerging nation as a colony of the British, was a base for the exercise of welfare policies. The nation was relatively small in size and was generating substantial earnings from the export of tea, rubber and coconut which provided a relatively large revenue base and supported public expenditure on health, education and infrastructure. The political system after independence, developed with an already established demand for social services. The political managers developed a style and a mode of discourse with the electorate which depended on the extension of basic services and strengthening the welfare package.

The welfare support system, included universal free education to the tertiary level, a health care system with a wide network of hospitals and treatment facilities, and food subsidies for the entire population. These measures contributed significantly to an exceptionally rapid demographic transition. The economic investments that went into making this possible were substantial and so were the consequences for the future. Education with equal access to males and females led to high female literacy rates. Together with health care and programmes to eradicate Malaria, it led to a rapid reduction of mortality rates. Special programmes to combat morbidity and ill-health were launched well before independence. These were accompanied by country-wide improvements in water supply and sanitation and programmes to develop conditions in the rural sector. The consequence was a remarkable reduction in mortality in the second half of the 1940s and the decade of the 1950s. The death rate declined

from 21.5 per thousand in 1945 to 8.6 in 1960. The resulting increase in the birth rates expanded the demand for social welfare programmes along with new needs for income and consumption support. The increase in population growth rates in the first phase of this transition therefore strained the capacity of the economy to provide for the increased wants.

While these developments were taking place in the social sectors, foreign earnings from the export sector were not increasing sufficiently fast. The 1950s and 1960s witnessed a rapid weakening in the balance of payments. From a surplus in the over all balance in the early 1950s, it was running into increasing deficits from the mid-1950s onwards. Investment capacity of the economy was strained and improvement of living standards was becoming increasingly difficult by the mid-1960s. Growing unemployment was straining the political system and it was evident that changes in orientation and structure of the economy were needed urgently. The role of the state in managing national resources had to be reviewed. It was clear that the balance between welfare and growth had to be addressed.

By the late 1970s and 1980s, investment in social welfare began to bring in high dividends. The high female literacy, and social welfare supports were reducing birth rates. Knowledge and attitudinal change in birth spacing and contraception was growing. Infant mortality which had fallen very fast since independence, had led to lower birth rates after a lag of about a decade. Growth of national output remained a major concern throughout this time. However, the slow-down of growth in population helped maintain per capita income growth at a rate of 2-3 per cent.

B. THE DEVELOPMENT RECORD: 1970-1990

1. The period 1970-1977

The structural weaknesses of the economy had been diagnosed and suitable courses of action were prepared in 1971. While the government was preparing the five-year plan, the issues related to employment and education were examined by an ILO mission around the same time. The mission contributed to the understanding of the nature and extent of the unemployment problem in Sri Lanka but the detailed recommendations were not easily implementable nor did they find broad political favour within the government.

In 1970, the government voted into power was a coalition of centrist and socialist parties that won a large majority in the parliamentary election. The mandate was to establish a socialist state. Economic growth during the period of office of this government averaged 2.54 per cent, which was a substantial drop

from the average of 4.6 per cent achieved during the preceding period of 1966-1970. Price controls were applied to a wide range of goods and services. A land reform was implemented starting in 1973. Ceilings on land and housing ownership were imposed and a large transfer of wealth and assets resulted.

The socialist approach required wresting production capacity and the delivery of a range of services from the private sector. The plantations were taken into state hands from private and foreign ownership. The Business Acquisition Laws enabled the state to take over a wide range of private enterprises. The policies enacted for the housing sector tended to discourage investments, reduce supply, especially the growth of rental housing in the urban areas and increased the burden of the state to provide housing. Meanwhile laws were enacted to restrict ownership of primary assets such as land and housing property and a consequent re-distribution took place. The government attitude towards private enterprise tended to restrict resource flows and investments to many sectors.

The context within which restructuring took place changed quickly. The youth rebellion of April 1971, sharply emphasized the need to generate livelihoods in keeping with the expectations of educated entrants to the labour force. The remedial policies emphasized a larger role for the state and the socialization of productive resources. Ceilings on incomes, asset and property ownership were proposed and introduced with modification. A land reform was undertaken, and hastily implemented without adequate review of productivity and viability of the smaller units. A major asset redistribution took place in housing. A large part of the plantation sector in tea, and to a lesser extent in rubber and coconut was nationalized. The emphasis on investment and rapid growth was muted. Trade policies were protectionist in orientation. New public institutions were set up and addressed a range of needs in the import substituting small and medium industry. Successive poor harvests and policies which assigned lower priority to the food production programmes of the previous government made the country quite vulnerable to increases in international prices for food grain and its substitute wheat flour.

The first sharp rise in oil prices, as a result of OPEC action had a serious impact on the economy. Foreign resources were already strained as food imports had increased due to a larger food subsidy programme and poor domestic supply. The higher oil prices along with the increases in oil based products required urgent defensive action. New rationing programmes had to be quickly instituted. An emergency food production programme had to be quickly drawn up and implemented. Since supply could not be increased significantly with imports, domestic production became an important focus of policy. However, with the strong regulatory mechanisms in place, the incentive schemes to increase the

supply of agricultural products for domestic consumption had to be changed. Agricultural inputs were increasing in price and the balancing of the interests of the suppliers with those of the consumer resulted in greater budgetary strains.

Despite the growing resource constraints the government preserved and strengthened the social welfare and social security system. Attempts to target the food subsidy on a more rational basis by groups within the government were speedily thwarted. Economic policies for rapid growth, structural transformation of the domestic economy and the export sectors were not pursued with the same consistency. Not only had the inconsistencies in the policy framework as between incentives for import substitution and export promotion to be effectively removed, the ruling political parties had to go a long way before they could have won the confidence and the support of the established commercial classes. The small holding agriculture based on paddy and other food was somewhat of an exception. Here an effective "partnership" had grown over a long period between the government and the small holders. It resulted in a steady growth of this sector and increase in the level of self sufficiency in rice and several other food crops. Furthermore this sector was quick to respond to the incentives for import substitution.

2. Structural adjustment: 1970-1977

During this period policies were enacted to reorient the country towards a socialist system. The government framed a five-year plan which addressed the pressing issues of unemployment and stagnation of export earnings. The small and the medium scale enterprise sector was to play a vital role in development. Export diversification was planned and a Export Development Board was proposed and established.

Development of agriculture was addressed with a focus on increasing the productivity and efficiency of the production base, small land holding farms. The public sector was to lead the efforts in the manufacturing sector with direct investments including foreign collaboration in many areas. The private sector was to play a subordinate role. Some parts under protection from imports and others within the control of state in terms of access to foreign resources for raw material and machinery. Services were increasingly brought under the control of the state. Banking and finance, insurance and transport were organized and provided by state institutions. Foreign exchange was controlled and a fixed exchange rate was maintained without adjustment. There were no major changes. There was in fact a reduction of the free ration. External resources continued to be a major concern. Foreign assistance was maintained at the levels for 1965-1970. Legislation was enacted to permit acquisition of private enterprise and

property to the public sector. The social welfare system continued to absorb a large share of the government budget. Administered prices governed a large range of goods and services. Reforms were introduced to the public administration system. Access to foreign exchange was strictly controlled and the dual rate structure which was introduced during the later part of the 1960s continued. As a result private industrial production was seriously hampered by inadequate funds for raw material and for investment goods. The economy was strongly inward looking, with strong protection for the small manufacturing sector.

3. The period 1977-1988

The government that was elected to office in 1977 had pledged to restore the economy, strengthen and substantially expand the role of the private sector and open the economy to direct foreign investment. Trade policies were changed to permit the inflow of goods and access to foreign exchange was relaxed leading to a rapid increase in capacity utilization in the industrial sector. In the 1970-1977 period, a range of small and medium industries had run into serious difficulties in obtaining important raw materials and upgrading plant and machinery. Existing capacity was underutilized, product quality had declined with little or no competition and new investments were not forthcoming to the manufacturing sector.

The political bargain acquired a language related to increased economic opportunity and growth. Initiative and enterprise became important concerns of decision making. The structural shift of 1977 was a radical departure from the past. It placed before the electorate the choice of growth and improved well being through a restructuring of the welfare programmes as against the past programme which relied heavily on the continuation of social welfare in its existing forms. Although beset with many difficulties it has changed the possibility for the political managers to advocate a national agenda for development which reverted to state control and a public - sector dominated economy.

The new government proposed a large scale investment programme which included expediting a large multi-purpose hydro power capacity generation and irrigation infrastructure building for small and medium scale agriculture, a programme to attract foreign investment starting with an export processing zone and a housing and urban development programme. These programmes contained the new focus and were designed to draw a considerable volume of new foreign resources. The change in the policy attracted favourable attention from the international donor community, the IMF and the IBRD. Balance of payments support was provided to deal with the spurt of import demand accompanying the reduced exchange restrictions. The rupee was effectively

devalued and pegged to a basket of international currencies. Import licensing was removed for a very large range of items.

The economic liberalization programme rested on a foundation of social welfare programmes built over the year. The new administration, however, introduced fundamental changes to the food subsidy programme, an area of deep political contention since independence. The government transformed the food subsidy scheme into a more discriminatory food stamp scheme. This was a major break from the past. The food distribution programmes of the past had built up expectations as a basic entitlement. The system put in place and developed over the years ensured continuity and enabled the government to manage crises caused by acute food shortage. The distribution systems in place ensured a very high degree of equitable access to basic food and prevented wide spread starvation which otherwise would have prevailed. However, the food programmes had become exceedingly non discriminatory. Economic capacity and income did not figure in determining eligibility. The food subsidy was a major issue in the politics of the country and till 1977, no serious attempts were made to find a feasible alternative. In 1978, the qualifying upper limit of income was determined for eligibility in the food subsidy scheme. The beneficiaries were halved in number but analysts were of the opinion that still 40-50 per cent of households on the lists were ineligible on income criteria. In 1979, the food subsidy programme was converted into a food stamp scheme with fixed cash value. Surveys were conducted to determine eligibility but subsequent work indicated that there was significant over enumeration. However, a major break with the past had been achieved. The value of the food stamps deteriorated sharply in the first three years as inflation reached unprecedented levels. Attempts were made to improve targeting and to increase the value of the stamps in 1985. The intention was to limit the food stamps to the poorest quintile of income earners. But adverse political reaction resulted in abandoning the scheme. In 1989 the value of the food stamps was doubled, readying the electorate for the parliamentary elections in May of that year.

Developing the capacity of the private sector was an important consideration of the policies of the 1977-1988 period. However, there were large parts of regulatory mechanisms that were not easily converted to a facilitatory system. The public sector was not able to convert itself quickly and a tension developed in some sectors and was maintained till the end of the 1980s. Parts of the small holder domestic agriculture, protected industry, cottage industry and many small and medium scale manufacturing enterprises found it difficult to cope with the changed trade regime. As expected, the closed market had conditioned many classes of producers for the domestic market to discount quality improvement, productivity increases and changes in design and marketing. Imports of food,

textiles, clothing and a wide range of consumer products pushed producers to adapt and in some sectors many did not survive. The handloom sector that had grown as a reservoir of female labour, with strong state participation in input supplies production subsidies and purchase of supply, could not compete with better quality imported textiles. A large number of units collapsed. There was however, an opportunity to convert and upgrade the sector, to produce higher quality goods for specialized markets. But, it required improvements in designs and outputs and the opportunity was not utilized till very much later.

Adjustment was forced in the import substituting consumer goods manufacturing sector. On the range of products in confectionery, food products, soap, household items such as containers, utensils, electrical fittings, bulbs, matches, etc, goods with a relatively large market, liberalization imposed strong hardship as mass produced imports came over the tariff barriers. However, imports of raw material and machinery was also liberalized and it enabled quality to be improved. Joint venturing was encouraged and the larger companies invested and diversified into new activities.

The structure of the economy had changed very little if at all during the two decades under review. Agriculture led the productive sector contributing approximately one quarter of the GDP while manufacturing contributed about 15 per cent, the remainder was generated by the service sector. However, by 1989, the export sector had changed considerably in structure. The Export Processing Zones had attracted a significant number of enterprises in the assembly of garments. Meanwhile joint ventures for garment manufacture outside the zone, grew in number. A considerable volume of new employment was generated in the garment sector. The traditional export sector, the plantations, continued to lose ground to competitors. Productivity was declining while competitors and recent entrants managed to improve and gain market share.

The structural adjustments since 1977 were made under different conditions than in the previous period. The economy was opened, controls relaxed while access to foreign resources were considerably enhanced. Foreign resources were available in unprecedented volume to support the large scale expansion of initial import demand and the planned investments. The world recession of 1980/81 did not have a serious impact on the country. The primary issue was the growing fiscal imbalance, high inflation and expected increases in foreign debt.

The growth performance of the 1978-1983 period was impressive. Capacity utilization increased, and the new investments added to demand and income. However, as the investment boom faded along with civil disturbances related to the ethnic issue, growth slowed down. By 1989, unemployment was on the rise,

political unrest was wide spread and the government was fighting two wars, one in the north and east and another in the southern part of the country. Throughout the period 1978-1988 the government was aware and drew attention to the fact that the share of government in the economy had to be reduced, the size of the public administration pared down and major reforms needed in taxation, and tariff systems. The fiscal deficit was a serious concern and its reduction was stated as an objective for one decade. However, performance was not up to expectation on this issue. The large deficits continued to draw national savings away from the private sector which was vigorously responding to the incentives. Nevertheless, a coherent investment policy was not developed nor an industrialization policy framed till the end of the decade. The new Industrial Promotion Bill passed in the parliament in 1990 outlines the institutional framework within which discussions and policy formulation will take place. The Industrial Policy Commission had made recommendations for policy reforms.

Unprecedented civil disturbances spread throughout the country from 1988. A brutal insurgency escalated quickly from the south to all parts of the country which were not already in the grip of warfare related to ethnic factors. The economic and social life of the country was seriously disrupted. Attempted solutions to the ethnic strife had provoked a strong and unexpected reaction leading to large scale destruction of public property in communication, transport and administration. Tourism was seriously hampered, industrial production was affected. The economy slowed down as public investment related to large projects tapered off. Debt repayments were high by historical standards and the unsettled conditions discouraged and postponed foreign investment and tourist inflows.

4. Structural adjustments during 1978-1988

The structural reforms of 1977 were far reaching and a radical departure from the previous policy regime. The policies where the public sector controls and administration dominated were abandoned and steps were taken to orient the economy towards greater reliance on open market forces. With strong support from a community of donors led by the World Bank and the IMF, sweeping reforms were introduced. The exchange rate was unified and pegged to a basket of international currencies. Trade regimes were liberalized with the removal of exchange controls and import quotas. Some goods classified as luxuries remained under restricted import regulations. Import licensing was removed for most goods and the tariff structure was reformed to bring prices closer to world prices to introduce competition while maintaining a degree of protection for domestic production.

Subsidies and the administered price system was reformed. The food subsidy and free ration of the staple rice which was available to the entire

population with the exception of a small group paying income tax, was reformed. A food stamp scheme with households qualifying on the basis of income was introduced in its place. This was a major break from the past. Successive governments had struggled with the food subsidy scheme with its high financial burden and excessive coverage. The food stamps were of a fixed face value and given to households on the basis of graded needs. Subsidies on other goods and services including fertilizer, transport, fuel were removed or reduced. Monetary reforms were introduced to restrain credit expansion to the private sector. The monetary expansion that had taken place in 1976/77 was reversed and lending rates adjusted upwards. Central Bank refinance to commercial banks was restricted and ceiling placed on lending to public corporations. Rates on savings were increased leading to an increase in both deposit and lending rates of commercial banks.

The liberalization resulted in serious fiscal imbalances, especially during the early part of the 1980s. A World Bank appraisal of the economic performance of the 1978-1983 period pointed out that government budgetary policy had been a major source of financial instability. The lead projects that were proposed and being implemented, the multi purpose Accelerated Mahaweli Programme, the Investment Promotion Zone and the housing construction and urban development programme, resulted in very high, budgetary expenditures, deficits and inflation. Furthermore the devaluation and removal of price controls increased the costs of the transfers and subsidies. In 1983 about 25 per cent of the capital budget of the government consisted of transfers to mostly loss making public corporations. The result was a large government deficit, financed with foreign borrowing and the domestic banking system. In addition the government secured funds from large non banking sources, such as the pension and insurance funds.

Investment growth was an important new policy concern. A new incentive framework with institutional support was developed to encourage foreign investment. Successive governments had considered various options to promote foreign investment. However, nationalization policies, establishment of state enterprises, regulations and price controls within the system did not create the necessary environment for investment. The new package was introduced with reforms that increased the confidence in the system.

The reforms concentrated on macroeconomic adjustments and sectoral concerns were relatively neglected. The lead projects such as the Mahaweli programme had a large agriculture development focus. It was expected to contribute significantly to diversification, productivity increase and export competition. The macroeconomic measures had a strong impact on agriculture and industry. The guaranteed price schemes that operated for paddy and a few other commodities

began to act as floor prices protecting farmers against steep declines in price. State operations that had purchased, stored and distributed food stuffs at high cost, contracted in scale. Unification of the exchange rate benefitted the traditional export sector, but a part of the higher income in local currency terms, was taxed through new export taxes. In the plantation sector, low productivity and poor management of the large state owned component did not receive the necessary attention. In the small holding sector attention was needed to transform relatively low productivity activities to more skill intensive, high value-added activities with export potential.

The policy reforms in industry were primarily related to the trade regimes. Import liberalization resulted first in utilizing capacity in existing industry. However, industries that had operated under highly protected conditions could not survive the competition of exports. Parts of the small and medium scale sector were seriously affected. The cottage industry based on handlooms, which was dispersed widely over the rural sector, was almost completely wiped out. Other small scale operations in food processing, and import substitution also suffered. However, private manufacturing output increased rapidly between 1977-1981. A consistent policy framework maintaining a balance between the interests of import competing and export oriented industries was needed. The incentives tended to favour import substitution. The liberalization was supported by high levels of donor assistance and new lines of credit enabling the sharp rise in import demand. A significant part of the external resources was in the form of grants or concessionary lending. However, new and high levels of repayment obligations were incurred and a continued rapid improvement in export performance was needed to support the future re-payments.

A stabilization programme was announced in November 1986. Government spending was to be reduced and the exchange rate was to be depreciated. Three presidential committees that had deliberated on structural reforms in public administration, tariffs and industrial policy gave their recommendations which were approved and accepted by the Cabinet.

The administrative reforms would have far reaching consequences for the management and performance of public administration and services. Public service had grown over the decades as a large reservoir absorbing sensitive groups entering the work force; new university graduates and the relatively well educated. Services had not improved much in quality and recovery of costs was low at best. The administrative reforms proposed the reduction of the size of government, change in remuneration and the location and dispersion of activity between the central government and its other components. The new structural adjustment proposed gradual but strong reductions in government expenditure.

The deficit was to be slowly reduced to about 12 per cent of the GDP, with government expenditures reduced from 33.5 per cent of GDP in 1987 to 29 per cent by 1990. The programme proposed that public expenditure be held constant in real terms.

The PTC and the IPC recommended that the effective protection rates be reduced from approximately 100 per cent to 50 per cent to create a more competitive industrial sector. A major component of the reform was to restructure the public enterprises. This programme was to have two components. The first to convert a selection of enterprises to limited liability public companies with shares divided between the finance ministry and line ministries. The second was to be the privatization of companies that can be partially or wholly divested. A controlling block of shares was to be sold to a company, local, foreign or joint, about 10 per cent gifted to the workers and the remainder sold on the stock exchange.

Tax reforms and changes were proposed to reduce the dependency on regressive indirect taxes which account for 80 per cent or more of the revenues. Measures to increase the elasticity of revenue and reduce avoidance were to be introduced. Exchange rates were to be adjusted to reduce current account imbalances and to support the development of exports and manufacturing.

5. The period 1989-1991

In 1990 a new president took office and parliamentary elections were held. The right of center United National Party, in office from 1977 continued. The liberalization policies were implemented with renewed vigor. The brutal insurrection in the south, central and western parts of the country was suppressed, with matching harsh measures. The structural adjustment programme was re-examined. The election manifesto of the president as well as the United National Party had pledged to invigorate the private sector, reduced the role of the public sector in direct production. A far-reaching anti-poverty programme was to be implemented quickly. Janasaviya (People's strength) is expected to convert the food stamp programme to a programme having both a consumption component and an investment component. The latter would be available to poor households to borrow to improve or develop income earning ventures in small and micro enterprises.

The macroeconomic targets were set, the budget deficit at 9-10 per cent of GDP, social welfare expenditures at 3-3.5 per cent of GDP, inflation to under 10 per cent, foreign reserves equivalent to two or more months of exports. The expenditure targets were almost matched by performance. Inflation was somewhat higher than desired in 1990. Expenditure related to security and defense ran

higher than anticipated. The financial sector was to be reviewed and reformed, the programme of privatization (people-ization) to be vigorously pursued and the PME to be divested on a clear schedule. Performance was behind schedule. Proposed reforms to the state banks could not be made on schedule due to pressure from labour unions and concerns about the political fall out. The reforms in public administration, taxation, tariff system were implemented in part and were to be phased in. The overall performance in maintaining the macroeconomic targets is still quite impressive. The budget deficit has been trimmed to under 10 per cent of the GDP as expected. Inflation in 1991 was under 10 per cent.

6. Structural adjustments during 1988-1991

The latest package of reforms and structural changes address reforms that will substantially improve the internationally competitive capability of the country. The liberalization programme that was undertaken in 1977 is extended with the necessary adjustments in the role, size and activities of the public sector. Reforms have been made in the tax system, and a commission is sitting to examine the financial system. A strategy for industrial and export development has been prepared. The social welfare system is under review and a large scale anti-poverty programme is being implemented. The extension of the role of the private sector requires structural changes in the operations of the government. The fiscal deficits have to be reduced and held while the social welfare system is made more effective and better focused. Infrastructure has to be developed and improved to enable a wider range of internationally competitive productive activities. The transport system, communications, ports and airports, power and energy require development. The macroeconomic strategy for the medium term consists of following a programme of macroeconomic management, reduction of the public sector, enabling greater private sector capacity, and opening the economy to greater competition. Improving the performance of financial markets, and facilitating the growth of the securities market will be important concerns.

III. SOCIAL OUTCOMES OF STRUCTURAL ADJUSTMENT

This section outlines the social welfare system and the changes that have taken place over time. The impact of macroeconomic restructuring on important programmes is presented. The changes in the price structure, consumer prices and wages as structural adjustments were made are then discussed. The impact of the changes on poverty is presented next. The paper takes up the case of housing as a case study in policy reform under adjustment. This was a sector which received considerable state attention during the 1970-1990 period.

A. AN OVERVIEW OF THE SOCIAL WELFARE SYSTEM

The review of the performance of the 1977-1988 period led to a reassessment of national priorities and programmes in 1989. Liberalization, export development and growth efforts did not seem to have made a significant impact on social well-being for a large proportion of the population. More than one quarter of the households were at nutritional risk and had relatively low consumption capacity. The data from surveys and from state health clinics indicated that a significant proportion of pre-school and school going children were chronically malnourished. The loss in growth momentum during the second half of the 1980s had a strong adverse impact on the welfare of a large proportion of households.

The social welfare system was strained during this time. While adjustment policies demanded reductions and greater efficiency in the public expenditures, other resource needs related to security and defense had to be met. The challenge of restructuring the economy demanded greater reliance on market forces, reduction of subsidies and developing a welfare system to support a well defined category of households that were below a specified level of material well-being.

The government announced a comprehensive anti-poverty programme, Janasaviya, in early 1989. It was designed to address poverty directly, aiming to transform the existing food stamp scheme through a system of grants for a period of two years. The grant of Rs 2,500 per household per month had a consumption component of Rs 1,458 and the remainder saved to accumulate up to Rs 25,000 available for investment by the households to raise their incomes. The programme could not be implemented as quickly as originally anticipated. Today it is being implemented in a phased programme with approximately 10 per cent of the households in the Food Stamp scheme chosen for the programme from selected administrative units during each year. There are outstanding issues on targeting and selected for inclusion in the programme. The size and scope of the programme leaves room to make the necessary corrections. However, the long period that will be taken for implementation is likely to leave large pockets of poor untouched and within the Food Stamp scheme for many more years.

As a result of the Janasaviya programme and its budgetary implications, the social welfare system has been subjected to close examination. The welfare ideology which enabled a comprehensive system to be developed and placed was reviewed in the light of new imperatives and needs. After an initial increase in the pace of growth following capacity utilization and increased investment,

growth slowed down. Quite clearly, the anticipated overall effects of a few large investment programmes that were introduced in 1977, had not resulted in the expected growth and improvement in social well-being. Both unanticipated events in the form of unprecedented ethnic strife and high expenditure on defense as well as intrinsic weaknesses in this approach to development through a few lead projects contributed to the less than satisfactory outcome. The demographic transition changed the desired character of social welfare for the population. Qualitative improvements are required in services ranging from primary health care to skill development and addressing the needs of old age. The social welfare system had to be an integral part of this system.

B. THE WELFARE SYSTEM, FEATURES AND CHANGES

The present welfare system has been developed through successive reforms and changes. Some components have been strengthened by successive governments. The government has been able to add new components to the system after 1978 as additional resources became available.

Sri Lanka had established a wide ranging welfare system by the time the socialist coalition government of 1970 came into office. The features of the welfare system were:

Subsidized health care including hospitalization through a network of public health care facilities;

Universal free education including university education;

A rationing scheme for staple food items; and

Administered prices for a wide range of consumer goods and services including transport.

Elements of the welfare system as of 1992: (denotes new programmes)*

Health care delivery system available to the entire population. Continuation and extension of programmes existing before 1977;

Education free of charge to entire population, tertiary education to qualified persons with no charge for educational services. Continuation of programmes;

* A mid day meal programme for school children, available to all students. Started in 1989;

* Free school text books and subsidized travel. Started in 1978;

* A Food Stamp scheme based on need determined by assessed income, about half of all households are beneficiaries. Started in 1978;

Supplementary feeding programme for approximately 130,000 mothers, 65,000 infants and 345,000 pre-school children. Continuation of programme;

Public assistance to approximately 245,000 persons. Continuation of programme;

* Janasaviya (Poverty Alleviation Programme) approximately 10 per cent of food stamp holders. The programme aims to convert the food stamp scheme into a grant programme with a consumption component extending for two years and a capital component available for enterprise and income generation at the end of the period. Started in 1990; and

Distress relief. Natural calamities, drought, flood and earth slips. Continuation and extension of existing programme.

The social security system.

Employees Provident Fund, approximately 1.2 million active accounts equivalent to one fifth of those employed;

* The Employees Trust Fund. Started after 1978. Smaller in scope than the EPF;

Termination benefits, half a month per year of service above 5 years of service; and

Pension. All permanent employees in public service.

(Marga Institute, "A framework for a comprehensive social welfare policy", Draft, February 1992.)

After the liberalization, the state conducted surveys of malnutrition and surveillance programmes to monitor the effect of price increases on vulnerable groups, especially mothers and children. A Food and Nutrition Policy Planning Division was set up within the new Ministry of Plan Implementation and a Food and Nutrition Strategy was prepared.

The health care delivery system has continued to advance with state efforts making a significant contribution. The private sector has grown in size and provides services for a larger group of households than before. The state sector continues to service the relatively poor households. The primary health care system continues to operate and receives careful state sector attention. There are problems related to availability of medication and trained personnel at public

sector health institutions. Budgetary considerations and public service regulations continue to be impediments in maintaining medical personnel within state run hospitals especially in the rural sector. The supplementary feeding programmes at maternity health clinics continued after 1978 with more attention to monitoring and evaluation. Family health workers and volunteer health workers were trained in large numbers to assist the public sector clinics. The non government organizations with assistance from donors played a significant part in delivery of services related to primary health care, women and children. The immunization programme for children was extended with near universal coverage.

A programme to distribute school text books for all students and subsidized travel for the needy was begun in 1978. A free mid day meal for all school children was established in 1989. Surveys of the programme indicate that it is wasteful of resources and could become a more efficient programme if it is based on an objective criterion of need.

The food stamp scheme was introduced in 1978. It replaced the ration programme that did not discriminate those in need from others. The new programme was not indexed and the real value did not keep up with food and fuel cost as they rose steeply during the period 1980-1983. The nominal value was doubled in 1989 but significant hardship had been imposed on the recipients in the intervening years. Meanwhile the entry and exit to the system was not managed as well as it should have been. Deserving and needy households were unable to get into the system while many who should have graduated from the system were maintained on the lists of beneficiaries.

The profile of poverty that is observed is the outcome of the structural adjustment process and the responses to adverse social impact. The restructuring of the food stamp scheme was based on the need to reduce fiscal deficits, lower public expenditures and improve the incentive structure. The Janasaviya programme was responding to failure in the past to attack poverty and the growing inequality that seemed to result from the liberalization and erosion of the social welfare system.

The Janasaviya programme was introduced with the intention of moving a large part of the households in the food stamp scheme rapidly out of poverty and continued dependence on state assistance. It was expected to be implemented within two years. However, the serious budgetary implication of the scale of the programme did not permit implementation as originally planned. The programme would not have permitted the fiscal discipline that was expected within the macroeconomic framework of the structural adjustment programme. The annual outlays of the programme would have added another 40-45 per cent to the

government expenditures for the consumption grant alone. If pursued in its original form, the programme would jeopardize the fiscal management of the country and would result in very high inflation. The present form of implementation is manageable but contains many problems that need to be resolved if Janasaviya is to be as effective as planned.

C. INFLATION, PRICES AND WAGES, 1970-1990

1. General features of inflation

The price structure during the 1970-1977 period had in built mechanisms to control inflation. A large part of the pressure for price increases originated from the external sector, through foreign trade and continues even now. The implicit inflation rate was substantially higher than price increases passed on to the consumer. This is seen by the difference in the average inflation denoted by the rate of increase of the GDP deflator and the change in the Consumer Price Index. The consumer price index is not a good indicator of price increases for the nation as a whole. It is based on an outdated basket of goods and weights and has an urban reference population.

The degree of openness of the economy has contributed significantly to the transmission of international price effects. The first OPEC price increase initiated a round of upward price adjustment. Prices of the large volume of food imports also played a critical part. The external sector also contributed significantly to the changes in the price level through the declining terms of trade. The import dependency for food, fuel and fertilizer maintained constant pressure on prices. In the domestic economy, the government budget absorbed a large part of the international price increases through subsidies during 1970-1977. Rationing schemes distributed vital commodities, basic foods and textiles. After 1978, the protection from external price effects was reduced as subsidies and controls were withdrawn. The devaluation and the flexibility introduced to the Rupee exchange rate after 1977 transmitted the effects of international price increases to the domestic economy. The external components have contributed more than their weight in the price index (Nicholas and Lakshman, 1989). Price changes in imports had a strong and an increasing effect on the level of inflation and consumer prices.

In the foreign trade sector the composition of exports and imports have changed during the past two decades. Commodities dominated export earnings during the decade of 1970s. Tea was the major export earning sector accounting for nearly half of gross export earnings. By 1988 the proportion of commodity export earnings was 36 per cent. The garment and apparel export sector had grown as a result of the Export Processing Zones. However, the import content of

exports increased rapidly as well as all textiles and inputs other than labour was imported. Food imports accounted for more than 40 per cent of the total value during the 1970-1977 period. By 1988 the proportion was reduced to under 15 per cent of a much higher import bill. Since 1977, intermediate goods have increased significantly as a proportion of total imports.

2. Wage rates and changes

Wage levels in the public sector were increased along with the reforms in the price structure. In 1977 along with the reduction of subsidies and exchange rate depreciation, the public service received a 25 per cent wage increase and was matched by the organized private sector. However, there is evidence that the real wages for many sectors of the economy declined. The data however are not of good quality and the degree of hardship cannot be assessed clearly. Between 1978-1984 the real wage index for government clerical employees fell by 11 per cent. The index is for the base minimum wage and does not take into account the additional earnings through over-time and the value of benefits. The real wage rate index for all minor government employees increased by 12 per cent during this time. Workers in some parts of the private sector may not have fared as well. Data from the Wages Boards indicate that the real wage rate index for a selection of workers in industry had declined by over 25 per cent, while for a sample of the service sector including motor transport, cinema and nursing home trades, the decline was about 20 per cent. The real wage indices for the period 1985-1990 show continued decline for those in the wages boards in services, a slight improvement for those in industry and commerce, agriculture and minor government employees. The increases, however, are small and in the region of 5 per cent for the 6-year period.

The real wage in important parts of the rural sector may not have changed, and possibly declined. Data on wages in the unorganized paddy agriculture sector indicate no real increase in real wages between 1979 and 1984. A similar pattern is observed for carpenters and masons in the construction trade. At the same time the purchasing power of wages measured in terms of kilograms of rice, the staple food, increased significantly for workers in the rice sector as well as in construction. For workers in the rice sector, the rice equivalent of wages increased from 3 kilograms of rice to 6.2, and for construction workers from 3.6 kilograms to 5.4 kilograms. The consumption basket of workers contains more than rice. The price indices used to deflate the wages, the wide variation in the earnings according to the localized labour markets, confounds the attempt to develop a clear picture on the purchasing power of different groups of income earners.

It is also important to note that these wage rate movements took place during a period when the level of unemployment and underemployment had substantially fallen from very high levels. The markets were adjusting and new sources of demand had emerged as a result of the boom in the West Asian and Gulf states following the OPEC price increase. Labour migration became an important source of income for households and a vital source of foreign earnings for the country starting from the late 1970s. Skilled and semi-skilled workers especially in the construction sector left in significant numbers and were later replaced by a very large outflow of females for work in household service sector. These added new sources of income to households, and eased the pressure of increasing costs on a very large number of households.

3. Price of essential goods

The average retail prices for basic foods varies between the urban and the rural sector. The prices in the Colombo markets are the highest for rice, vegetables and fruits. However, it is one indicator of price changes. Between 1975 and 1978 the average price of rice decreased by 6 per cent due to increased subsidies. Between 1978 and 1984 there was sharp increase of 134 per cent. The substitute food, wheat flour and bread also declined in price between 1975 and 1977 by the high margin of 34 per cent and 29 per cent respectively. Subsequently, prices more than tripled. Price increases for vegetables and animal protein had been high even during 1975-1977 and the trend speeded up after 1978. Supply problems dominated the cost increases with increases in input costs adding to the pressure after 1977.

D. POVERTY

In recent years there has been considerable discussion and analysis of poverty in Sri Lanka. Studies have been conducted by public sector agencies, private research institutes as well as the World Bank, UNICEF and some bilateral donors. These analyses have been initiated to gain an understanding of the impact of the policies which sought to stabilize and restructure the economy. The literature provides a picture of the incidence of poverty in the country, its spread, socio-economic characteristics and distribution by location which enables a mapping of vulnerable groups making it possible to identify the links between macro policies and the impact on various segments of the population. While the discussion is analytically rich, raising issues of methodology and measurement, there is no unanimity about the extent of poverty or the degree of change over the past two decades. This raises issues of capacities to monitor, standardization of methods and linking research to policy making.

1. Changes in the extent of poverty

Recent estimates of poverty in Sri Lanka used both by the government as well as the World Bank, are that approximately 24 per cent of the total households are in absolute poverty - the condition defined by a level of income that is inadequate to meet 80 per cent of the adult equivalent food energy requirement of 2,750 calories a day when more than 70 per cent of income is devoted to food.¹

On this basis approximately 830,000 households are absolutely poor, a total of 4.5 million persons or about 26 per cent of the population. Comparisons across different time periods does not provide a clear picture due to differences in the methods used to define poverty. Data on income and expenditure are not easy to obtain and contain significant error both in measurement and in reporting. For example, the national sample surveys have had to contend with underreporting of income by households wishing to remain within the food stamp scheme.

The capacity to meet a specified minimum nutritional standard is a widely used indicator of absolute poverty. The definition of poverty is not without controversy. The notion of a minimum standard of living defined in terms of a basket of goods is considered as an alternate concept. Whatever the measure, a standard has to be set in terms of goods, food energy or consumption capacity of households or individuals. In Sri Lanka, periodic assessments of poverty are facilitated through the consumer finance surveys conducted by the Central Bank and the socio-economic surveys of the Department of Census and Statistics. The data are not strictly comparable due to differences in coverage, definitions used and the efficiency of the surveys.

The data do not present a clear pattern of the changes in absolute poverty over time. However the evidence points to the possibility that all island poverty increased between 1978 and 1987. Studies that examined the incidence of poverty during the first part of the 1980s using the Labour Force and Socio Economic Surveys (LFSE) of 1980/81 and 1985/86 point to a reduction of poverty during the two periods. Recent estimates of poverty lines (Khan 1989) based on the minimum cost bundle for the two surveys found that the proportion of

¹ Absolute poverty is commonly defined in terms of a basket of basic goods (the basic needs approach), in terms of nutritional adequacy or an arbitrary income level that enables a minimum standard of well-being. The basic goods approach is difficult to implement because it requires a set of goods that can be easily quantified and measured without variations in quality. The most frequently used measure is nutritional adequacy as appropriate norms with wide unanimity can be clearly specified. The norms are adjusted to suit demographic and climatic conditions. The nutrition requirement stated in terms of food energy is converted into a poverty line. This is done either in terms of a programming approach where minimum cost basket is derived subject to the nutrition level, the minimum cost bundle method, or a behavioural approach using available data on food consumption patterns and prices.

households in poverty fell from 34.8 per cent in 1980/81 to 25.1 in 1985/86. Another study using the same data but a different method come up with higher levels of poverty but the same pattern of reduction. However, it is important to note that the effects of the structural changes of 1978 in terms of the removal of administered prices and subsidies for food, transport and fuel took place in 1980. The consumer price index rose sharply and most households would not have been able to adjust incomes to meet the higher costs (Edirisinghe). Poverty is likely to have increased soon after the reforms of 1978. Improvements after 1982 are likely to have been reversed during the second half of the 1980s due to the serious civil strife and disruptions during 1987-1989. The conclusion that about one quarter of the households are in absolute poverty is sustained by the available data. However, this estimate is only half as large as the intended beneficiaries of the Janasaviya anti-poverty programme.

Changes in the method of computation result in significant changes in the number of households in poverty. Based on the nutritional norms, a significant proportion of households will be classified as poor even in the upper expenditure groups. Food requirements may be overestimated if the norm assumes a need in excess of actual consumption based on the physical characteristics of the average person. It is likely, as pointed out in a recent analysis, that if required food expenditures are estimated to be higher than the need, the poverty line would provide for a higher proportion of non food expenditure and for a higher standard of living (Marga Institute 1992). While present estimates of absolute poverty may over-state incidence, social welfare based on the estimate would provide ample coverage.

2. Distribution and characteristics of the poor

The poor are concentrated in the rural sector with a large proportion of the total in the Central and North Western Provinces of the country. However, they are dispersed in relatively small pockets. They belong to different size households in a variety of occupational categories. Landless labourers, small holders in rain fed agriculture, unskilled workers and own account workers in the urban informal sector and unskilled workers in the estate sector account for a large part of the poor. Very few studies identify the poor in terms of their setting. While the broad parameters in terms of sectors, household attributes and economic capacities are identified, the specific details of the groups have to be developed through more intensive studies aimed at identifying the poor within their settings.

In the rural sector, the poor are distributed across different types of agriculture. The rain fed rice agriculture provides for an uncertain and seasonal income. Households in these settings are under stress and those with low land

resources are likely to be poor. Households depending on subsidiary food crops under rain fed conditions, especially in the intermediate and dry zones are vulnerable to strong shifts in consumption capability. Households in the fishing sector dependent on labour or traditional craft are more likely to be poor. The landless in isolated pockets without access to sources of labour demand such as larger farms, plantations and public sector agencies, have to eke out a living within an uncertain agriculture.

In the estate sector, those who are not able to find work within the plantation are under serious stress as their mobility is limited. Female headed households are also more likely to be poor. The small enterprises, casual workers and informal sector workers are likely to be among the poor in the urban sector. The living conditions of the urban poor are more likely to be squalid. They have poor access to good water supply and sanitation.

Some analysts emphasize a strong correlation between unemployment and poverty (Alailima 1988, Fields 1986, Korale 1987). Unemployment has been very high by most developing country standards. It rose to very high levels of over 20 per cent in the mid-1970s but declined sharply in the early 1980s with rapid growth which followed the liberalization. There are indications that the declining trend was reversed during the second half of the 1980s. Some estimate that it may have reached about 18 per cent by 1990. Survey data for 1986/87 indicate that the poor were equally present among households where the main income earner was employed or unemployed. Clearly there are occupations which do not provide adequate income for households. This problem was noted to be serious in the rural sector where nearly a third of the households in the employed category were poor. According to the survey, 25 per cent of the unemployed are in poor households. The urban unemployment rate was higher than the rural rate, 17.25 per cent compared with 16 per cent.

During the second half of the 1980s rising unemployment was associated with increasing poverty and declines in real incomes both in the urban as well as the rural sectors (Alailima 1988).

As general educational attainments increased, the poor and the unemployed were also found to have higher average educational attainments.

Children and women are a special vulnerable group within the population. When the nutrition and health service needs of pregnant women and lactating mothers are not met, they result in lasting impairment and loss of capacity of the new generation. Many of these needs have to be met within a relatively short time frame. The lasting consequences of low birth weight are well known, the

remedies after the fact are more expensive than programmes designed to improve the nutritional status of this group.

The welfare system has contributed significantly to:

Increasing educational attainment of females which in turn has resulted in higher work force participation, increasing age at marriage and greater control of reproductive decisions. It has enabled females to participate actively in health care programmes and equipped them with better capability to be responsible mothers. Consequently, infant mortality and birth rates have declined and family size reduced;

The system has provided relatively easy access to a wide range of low-cost health services to poor households; and

The decline in fertility will lead to the stabilization of the size of the population in the age groups 0-4 and 5-9 years.

The demand for services by the population in the 0-9 age groups will tend to stabilize and may even contract. This will leave room for improvements in quality and the provision of new services. However there seem to be a range of persistent problems that have to be addressed. The quality of life after birth needs more attention:

The health status and physical well-being after birth for a large number of infants and mothers continues to be poor.

The quality of life for about one quarter of the population is poor. Malnutrition is a serious problem, morbidity is high and ill health related to poor living environments is widespread.

Inequalities have increased and the social welfare system has not kept pace with costs.

War and civil strife in the north and east has caused serious hardship, services have been disrupted and life has become very difficult to a large proportion of the population.

The social welfare policies of the past have led to significant changes in the material well-being and has led to major demographic changes. According to some analysts an "unusual opportunity for a major advancement in the quality of life and well-being of children" is possible.

E. THE HOUSING SECTOR: RESPONSES TO ADJUSTMENTS

1. Introduction

Housing services form the base of a households material well-being. The quality of housing services affects the health, income and capabilities of householders. Poor quality housing combined with detrimental environmental features such as poor quality water supply and sanitation generate vulnerability to a range of diseases and contribute to ill health. The way in which housing assets are produced, maintained and upgraded also reflects the improvements in the economic well-being of households. For most families, the largest asset is the home and it is a major store of wealth. Improvements in housing conditions therefore, reveal an important dimension of social well-being.

2. Features of housing development in Sri Lanka

Sri Lanka has been a fortunate developing country by not having a high rural to urban migration. It has partly been due to deliberate policies and welfare measures that kept the population in the rural sector and partly the result of slow growth and transformation of the economy. The agriculture settlement programmes took rural population from the relatively dense and land poor parts to the sparsely populated areas where new irrigation infrastructure was built. However, the period of slow urban growth is most likely to end very soon. The rural to rural migration is nearing an end. The demand for services, now provided in a few urban settings is expected to grow rapidly. The metropolitan area of Colombo, and the secondary towns require rapid improvement in infrastructure and capacity to service the needs of enterprise and households.

The average housing conditions in the country were poor in 1971 and there was much room for improvement in quality of structures and the services and amenities associated with the home. In 1971, a large part of the housing stock consisted of homes with poor quality structures. In the rural sector, less than one in twenty homes had pipe borne water, and the proportion did not change during the decade 1971-1981. By 1981 one fifth of the rural households had flush toilets, a significant improvement over the 12 per cent in 1971. However, 41 per cent of the rural homes did not have toilets and the proportion had only improved to one third by 1981.

The occupied housing stock increased at an average annual rate of 2.5 per cent, marginally faster than new family formation. This left room for improvement in the quality of housing provided and in ensuring that the appropriate levels and distribution of investments flowed into the sector.

The government housing programmes contributed a little more than one third of the increase in new owner occupied homes for the poor. This was nearly one quarter of the increase in the total owner occupied homes. Nevertheless, the pace of improvement even with the increase after 1977 indicated a relatively slow pace of improvement in the housing conditions. Constructing complete homes, even through aided self help methods was costly and not sustainable. A new and comprehensive programme, bringing all the elements of housing development was launched in 1984. It consisted of sub programmes addressing different categories of housing need. It was based on the process of upgrading which accounted for a major share of the improvement of the housing stock.

3. Main features of the housing sector

Before 1970

Small formal private building sector on a very large base of small subcontractors.

State role limited to a small component of mortgage finance through the National Housing Department.

Small but important formal lending sector for upper income households.

Most of housing incremental, private activity financed by a combination of household savings, informal borrowing and income, and one time receipts and good agricultural years.

1970-1977

Vigorous state intervention.

State sector engaged in production of apartment buildings for relatively low income households in the urban sector.

Increased mortgage lending.

Housing policies

The important aspects of housing policy are outlined below.

After 1970, direct state intervention, ceiling on ownership of housing property.

Regulations on the size of home that can be constructed.

1970-1977 state regulation and control on rents, building material prices and distribution.

Increase in the volume of mortgage lending for middle fixed-income households.

1977-1991 state intervention and facilitation increased.

New public institutions created to implement large scale housing programmes. The National Housing Development Authority (NHDA), the Urban Development Authority (UDA) were set up, a special bank although small in scope, the Housing Development Finance Corporation (HDFC) was established under state patronage.

Restrictive regulations related to rent and ownership were relaxed.

A major programme for direct construction, (One Hundred Thousand Houses Programme HTHP) of middle and upper income homes organized by the state. Foreign contractors engaged to expedite the programmes. As costs escalate and sustainability is threatened, aided self help methods are used.

Major weaknesses in cost recovery result in a new programme, the Million Houses Programme (MHP) being developed. This had many sub components covering the rural, urban and estate sectors. Programme facilitates the process of upgrading and improvement. Small loans are provided to a very large number of households.

The programme implementation results in an impressive building of managerial and administrative capability. Cost recovery collapses as government announces a moratorium on repayments for all food stamp holders in the housing programme, the overwhelming majority of the beneficiaries. Others too stop repayment. The opportunity for constructing an efficient formalized financial system in the rural sector is lost.

New programme after 1990, the 1.5 million houses programme, continues to combine all programmes related to housing and services under one framework, as in the MHP. The functions of planning and coordination are improved.

State intervention is expected to be a catalyst, and the private sector is expected to find new opportunities in housing development. Slowly, private sector investments flow into developing and building for the upper and middle income groups in the urban sector.

High interest rates on borrowing for construction projects act as a strong disincentive to expand the sector. Land prices in the Colombo metropolitan area continue to rise rapidly.

Attempts are underway to increase the flow of funds to the housing sector. However, in the rural sector, the issue of land title acts as an impediment. In the new agriculture settlement schemes, potential for borrowing increases, but formal finance finds collateral a major obstacle. Title that enables sale can contribute significantly to the circulation of finance for enterprise, as homes are pledged in the rural sector.

The share of national resources flowing to the housing sector during the 1950-1970 period is considered to have been adequate to yield minimal standards for the majority of the populace. However, access to appropriate sites, especially in the urban sector, ability to improve basic services of water supply and sanitation were constrained by regulation and initiating costs. For the low and middle income households access to formal credit remained a major constraint. Their incomes were derived from multiple and variable sources. In the rural sector, seasonality dominated income flows both in size and regularity. Home building was strongly associated with the success of agriculture, and a good harvest enabled the start of a home and the activity continued with successive agricultural cycles. Building material was collected over time and the home was completed in increments. In most cases, the home transformed and changed over the years with improvements to the materials of the structure and with addition of space and better services. A few households were able to afford completing a permanent home made with durable materials within one year.

In the urban sector, small informal settlements have continued to grow around public lands, on the banks of rivers and canals. The homes are rudimentary, small in size made with wood, mud floors and corrugated sheet or palm thatched roofs. The municipal authorities have provided stand pipes and communal toilets to serve these communities. However, the density of use has been very high. A considerable number of households have poor or no access to these services and fend for themselves as they can.

The solutions that have been developed by the state have been conditioned by the scale and distribution of these informal settlements. Successive administrations have developed programmes to improve services to the congested settlements in the urban sector, regularize tenure and to provide options for home improvement. The physical planning agency has at various times provided solutions to reorganize settlements. Relocation of squatter households has not been widely practiced but in the instances they were, the new settlement afforded an opportunity for a more efficient layout and better quality water supply and sanitation services. Zoning, allocating lands for different classes of households, sale of public lands did not receive the practical attention needed to solve the problems of the low income urban households.

During 1970-1977 the state attempted to wrest control of the sector without adequate capacity to manage the major share of the resource flows. Resources to housing flow primarily from the household sector. While the formal financial sector plays an important role, household savings, and informal sources of finance play the dominant role. The policies enacted in this period were primarily for the purpose of regulating the sector, setting limits to incomes that can be earned from housing assets, distributing housing assets and regulating the acquisition of housing assets by households. The laws that were enacted during this time addressed the issue of ownership and tenure as well as the size of housing asset that can be owned by a household. The policy was strongly directed towards regulating ownership and distribution and biased towards the urban sector.

A single period transfer of ownership took place as housing assets in excess of the limits permitted by the new law were transferred to tenants or sold through the state. Increasing supply did not receive the necessary attention. The autonomous process of home building by households was hampered by regulated access to building materials. Supply of cement was regulated and distribution was organized by the state. Permits were required and took time. The housing department also placed a ceiling on the maximum size of home that can be built. Supply of rental housing was seriously discouraged by regulations governing maximum rentals fixed by the state and legislation which strengthened the position of the tenant. Homes rented out could not be recovered due to an appeal process which gave the tenant very strong rights and privileges. Recovering a rental property was costly and took a long period of time. Eviction was almost non-existent and the legal system did not adequately address the interests of the owners. The net result was a seriously lowered return to rental housing and an active discouragement of additions to the housing supply.

A serious departure from the policies and approaches of the past took place when the administration of 1977 introduced the housing and urban development programme as a lead investment activity. The new programmes demanded additional administrative and managerial capacity and the existing institution, the Department of National Housing was considered to be inadequate in scope to deal with it. The Urban Development Authority was set up to deal with the set of issues related to the urban habitat, slum and low income housing improvement in the city. The National Housing Authority was established to formulate and implement policies in the housing sector. The programmes that were introduced began with a concerted effort to improve the urban habitat. A programme to upgrade and improve the low income neighbourhoods gradually was undertaken. The efforts were to minimize dislocation of the existing communities. Upgrading was given high priority with changes in the layout, improvements in water supply

and sanitation services undertaken by the municipal authorities and funded by central government programmes. A master plan for the improvement of the metropolitan area of Colombo had been drawn up and some components were taken up for implementation.

Housing had not been coordinated within a single institution before. Many line ministries had their own housing programmes with different schemes to expedite and to grant access to housing. The lands and agriculture ministry arranged for housing for the households in agriculture settlement schemes, the fisheries ministry had their own programme. Meanwhile many other government departments had schemes for the employees. Taken together they were only a small part of the total annual incremental supply of housing.

The HTHP was designed as a lending programme. The rates were heavily subsidized and at the first stage the mechanisms for recovery were not fully in place before delivery began. The loans were heavily subsidized, and there was a strong body of opinion that it would be best if the homes were provided as outright grants. Once again the political system asserted itself. The housing programme became a means of distributing political largesse. The allocation of the homes was not in keeping with the objectives and the intent of the programme. In retrospect it seemed that it was a necessary means to obtain the cooperation and the participation of the political leaders at the ground level. This part of the programme had a weak cost recovery element. The homes were not seen as part of a loan programme with strong repayment discipline. A large majority of the homes were seen as an outright grant and when cost recovery was considered, the equivalent mortgage payments were very small and did not reflect the building costs.

The early activities of the HTHP were related to direct construction arranged by the state. However, by 1981 inflation in the construction sector soared. The other investment programmes had construction components of unprecedented scale. The accelerated Mahaweli Scheme consisted of very large construction projects, the urban development and the export processing zone too had considerable construction activity. The housing programme in the form it was then was not sustainable. The fiscal demands of the central government, increasing costs of fuel following the second OPEC price increase demanded serious modification of the housing programme. Direct construction by the state and high subsidy was not sustainable.

The housing programme was modified as a result. The beneficiary households were involved in the construction process. The Aided Self Help construction where the government provided the building materials, plans and

technical assistance, prepared sites and some of the basis services and the beneficiaries arranging and undertaking the construction, replaced direct construction. The cost recovery process was still being worked out.

In 1984 a new programme wider in scope and coverage was announced. The Million Houses Programme (MHP) was to reach a million households within a period of approximately five years. Structure, lighting, water supply and sanitation was to be improved through small loans delivered through local thrift societies. A very large number of households benefitted under this programme. Estimates are that over 330,000 households obtained small credit packages to improve housing and associated services. The primary feature of the programme was to hasten the process of home upgrading and completion. It generated housing assets and laid the foundation for a rural financial base through a very large formal lending programme. The scale and scope of the programme was extensive and it generated considerable knowledge and skills in management and administration, facilitation and networking with local level and non-government organizations. The programme was particularly successful in consolidating and bringing together a multitude of programmes that were related to shelter and associated services under one framework. It was able to work intersectorally with different ministries whose activities had a bearing on housing. This included health, agriculture, local government and construction.

National level data on housing conditions are gathered at the census. Unfortunately the impact of the major housing development programmes cannot be clearly assessed due to the postponement of the national census due in 1991. Data from the socio-economic and consumer finance surveys are not available yet. Changes in housing conditions had been relatively slow but the underlying processes of change were apparent by 1981. Government programmes addressed the need to improve living conditions quickly and large investments were made in the housing sector after 1977.

F. THE HEALTH SECTOR

The health sector in Sri Lanka is an example of continuity and capacity building over a long period of time. Since independence a set of social sector interventions, nutrition and food, education and basic health care had been developed together. State delivery of services in education and health began in the 1930s and food subsidies began during the Second World War, continued afterwards. The base for expectations and the political bargain had been set. Successive governments and the different political parties came to take the basic goods package as given and the total system acquired administrative, managerial and implementation capacity to develop and execute programmes in the social sector.

Once the socio-political base was created, issue of equity and justice and economic well-being was seen from the perspective of the basic goods and service package. New initiatives were readily absorbed and executed, special programmes determined by the international community were implemented with high success. This underscores complementarities, expectations, political support and system-wide capability. Acceptability of a range of health messages was made easy by pre-existing conditions, improvements in basic education, minimum guaranteed nutrition and access to basic health care. The acceptance of contraception, pre-natal care and instruction, immunization, post natal care and the spread effects from one generation to another through the common and increasing levels of female literacy. Ability to comprehend preventative health care messages was relatively high and helped minimize risks from the environment, and the ability of households to take precautions from health risks of poor quality habitat and from low income.

The modern health system in Sri Lanka co-exists with a well developed, Ayurvedic and Homeopathic health system. Sri Lankans continue to seek treatment for a range of maladies and ailments, from the non-western curative system. The modern health care system had developed before independence. Primary health care delivery capacity had grown and with the capacity to manage and administer a range of health care programmes that can attack the base causes of mortality. Experience from operating a range of special campaigns had been accumulated within the system. The expansion of primary education along with health care had resulted in a population that was aware of its basic health needs and a political leadership which was convinced about the need to devote resources to health. The cumulative effects of literacy, food subsidies ensuring minimum standards of nutrition and basic health care enabled a rapid demographic transition, adoption of a range of health messages that enabled sustained improvements in the health status of the population.

In spite of serious fiscal constraints, the national system was able to accept and successfully implement major health care initiatives. The impetus for health care was embedded in the system and independent motivations for improvements were absorbed by the system. The declaration of Health for All, a WHO initiative based on primary health care was readily accepted and health sector resources commanded by the public sector were directed to meet these objectives. Initiatives for the protection and improvement of the well being of infants, pregnant and lactating women were readily implemented. The basic conditions of receptivity to these programmes had been built up through other programmes of the social sector, high female literacy led to ready adoption of immunization, lowered mortality and morbidity of children.

The growth of the private sector capacity for health care delivery was higher after the economic liberalization of 1977. The public sector was able to increasingly devolve parts of health care, especially of the higher income groups to the private sector. New private hospitals opened in response to the strong demand for quality health care, a problem not addressed easily by the public facilities which were at all times overburdened due to low or negligible price for services. The transition was however not smooth. Private health care had been sought for a range of intermediate ailments. The specialized capacities of the public facilities were centralized at base hospitals or central hospitals. The increase in the cost of transport affected the access to public facilities and had a regressive effect on the poor. However, the primary health care and the preventative aspects were being addressed with renewed effort during the 1980s.

After 1977 there has been significant participation of the Non Government agencies in primary health care activity. Funding to its sector has increased and the capacity of NGOs to supplement as well as work together with government on programmes for poor communities has increased. The volunteer effort in social services, primarily in health care has been historically high in Sri Lanka.

Mix of ill health and morbidity and the changing patterns of ill health as the population structure changes, will make demands that require a different set of responses. Now, disease is found at both ends of the life cycle, those associated with impaired capacity at and during the first few years of life and at old age. The responses to address the needs of care and improved quality of health at the initial stages of life require a mix of efforts including enhancement of household economic capacities. Later life stages have different health care demands and responses will be needed. The diet and life style, work and associated stress, and the habitat will have different effects on physical well-being of the population. The total health care system would need to be still able to deal with survival while increasingly being able to cater to the needs of an ageing population. The latter will be an issue of quality once the major factors of mortality for adults are removed.

G. EDUCATION SECTOR, 1970-1990

The state intervention and expenditure in this sector has contributed significantly to social welfare. Universal free education was established before independence and contributed significantly to the improvements in health and the demographic transition. The single most important factor was the access to education by females.

Important policy attempts

1970-1977

The education system was supported by strengthening vocational and technical education programmes.

Apprenticeship programmes were extended with greater effort by the public sector than before.

The secondary school curriculum was revised in an attempt to impart skills needed by the employment market.

Concerted effort to deal with the growing unemployment of graduates especially those trained in the liberal arts through retraining and new curricula.

1977-1990

Extension of vocational education and post school learning.

Increasing space for the private sector to provide educational services from the primary level.

Extension of the tertiary education system to the provinces and new universities established and distance education introduced.

Curriculum reform, and efforts to orient education to employment especially through continued learning.

New commissions have been established to examine the tertiary and vocational needs for rapid growth. Dual training systems have been studied.

The problems of the education system remain as relatively slow growth does not rapidly absorb the new entrants at their level of expectation. The adjustments take a relatively long time as search and retraining takes place with individual initiative. The change in the role of the public sector in the economy is changing the opportunities and the demands in the labour markets. There is strong and increasing need for managers at the middle level. Exporting firms require capabilities that are not produced formally by the education system. There is significant demand for retraining in a range of modern commercial skills. Computer literacy is becoming increasingly important in the work place and the private sector provides a large part of the training.

In technical and vocational fields, the demands are rising rapidly. The output of the secondary and the tertiary education system continues to be a little

distant from the requirements for a economy that must grow rapidly. Adding value to the educational output of the school system is necessary and has to be speeded up. The private sector has to play an important role in providing the base for training. New training capacity to impart skills in modern business management, finance, export related skills in information and data management is needed.

State expenditure in education has been maintained but the qualitative improvements and regional disparities remain. State schools in most rural areas have no capacity for teaching science subjects. Lab facilities are poor or non-existent for many schools. However, scholarship systems are able to provide for the best rural students to attend central schools with better facilities. There have been continued difficulty in recruiting and training adequate numbers of science teachers.

IV. PROBLEMS OF GOVERNANCE

Sri Lanka's transition from a British colony to an independent state occurred in an unusually orderly manner without any major political struggle. The country had already developed some of the basic institutions necessary for a democratic political system. It had a representative assembly elected on universal adult franchise. This could smoothly evolve into a fully fledged parliamentary institution. Democratically elected local government bodies from the level of the village upwards had been in operation from the third quarter of the 19th century. A competitive party system was emerging. It had an electorate with a rapidly increasing level of literacy.

The British rulers had also established an administration and judiciary which functioned in all parts of the country and was manned by local personnel with adequate training and experience to take full control and run it. A professional elite and a wealthy propertied class based mainly on plantation agriculture had grown during the 19th and first half of the 20th century. The social welfare system which was quite advanced for a developing country at Sri Lanka's level of income was also helpful in mitigating the problems of inequality and extreme poverty and therefore imparted some degree of social and political stability. Sri Lanka therefore had the foundations for good governance and an orderly process of change.

However the social and political upheavals that have taken place in the 1970s and 1980s have falsified these expectations and strained the entire system to the breaking point. Ironically the disruptive elements grew out of the positive social democratic features of the system itself. First, the democratic process

released forces which formented conflict among the different ethnic groups. Even at the time of independence there was no clear concensus among these groups as to how the newly achieved democratic power was to be shared among them. The majority community tended towards a majoritarian view of democracy in which Sri Lanka was identified almost exclusively with the language and the culture of the Sinhala Buddhist majority which comprised nearly 70 per cent of the population. The minorities, specially the Sri Lankan Tamils called for safeguards in which they shared power on an almost equal basis. Soon realising that power sharing at the centre was not possible, the Tamil minority began to demand a federal system. The first outbreak of violence occurred in the mid-1950s when the Sinhala dominated ruling party made Sinhala the only official language. While one of its basic objectives was to bring the administration closer to the people and make democracy real for the Sinhala majority, it ignored the needs and rights of the minority. Commencing from this point, the conflict has escalated. The federal demand led eventually to a demand for a separate state and a protracted armed conflict which has not yet been resolved. The roots of the problem lay in the centralised system of government and the failure to move into a system which provided for greater devolution of power and thereby responded effectively to the political demands arising from the multi-ethnic character of the Sri Lankan society.

The youth unrest and the socio-political upheavals that occurred in 1971 and 1987-1989 were different in character and largely the result of the acute imbalances that grew out of the development strategies that were followed. The social welfare system led to a rapid decline in mortality and high population growth. The free education system brought into the labour market increasing cohorts of new entrants with progressively higher educational levels and correspondingly higher job expectations. The economy was not undergoing the necessary structural changes nor growing fast enough to generate adequate employment to absorb the large number of school leavers. Neither was the structural change sufficient to change the profile of occupations in keeping with the changing educational profile of the workforce. Unemployment rose to unmanageable levels reaching 20 per cent in the mid-1970s. It remains at around 14 per cent at present.

The social welfare system had the effect of distorting the expectations of the population and the management of the political processes. Expectations tended to become state-centred. Politicians perceived the state as the main resource. Political power gave them command over the state's resources and capacity to satisfy the demands of their electorate by simplistic state initiatives. The population saw the state as the main employer and benefactor which could transform their social and economic status. In such conditions government

tended to pre-empt the resources that should have been available for vigorous private sector enterprise and growth. The outcome was a relatively stagnant economy which was unable to generate the revenues which were increasingly demanded by the rising public expenditures. The state's incapacity to fulfil the unusually high expectations which were generated through state welfare itself soon released disruptive forces which made the country well-nigh ungovernable. The problems of governance have been therefore linked to the problem of managing the rapidly rising expectations which have had a unusually disruptive character in Sri Lanka as a result of the unique combination of active democratic processes and high level of social welfare on the one hand and slow economic growth and low rate of structural change on the other.

The present strategy which attempts to combine a market oriented internationally competitive process of economic growth with a large scale state intervention for poverty alleviation is an attempt to address these problems. Sri Lanka has been fortunate to avoid the high social costs of the structural adjustment that was needed. If that had been the case the problems of governance would have been further intensified to limits that would have been unmanageable. As described earlier, a large part of the safety net provided by the social welfare system was left intact during the structural adjustment. The large inflow of external resources enabled Sri Lanka to avoid a serious cutback on consumption. Instead of the normal austerity which leads to a contraction of the economy and increase in unemployment, Sri Lanka was able to increase its import capacity, substantially raise the level of investment and move into a phase of high growth while undetracting the adjustments. In the 1990's while taking the process of structural adjustment much further in making the economy internationally competitive, it has been able to put in place a much larger programme of poverty alleviation. One of the lessons that the Sri Lanka case offers lies in this combination which has been made possible largely on account of the higher level of external resources that the country has been able to mobilise.

The system of administration has undergone significant change during the past two decades. The recent changes in devolution of political power and administration through the provincial councils provide the basis to resolve the brutal conflict in the north and the east of the country. Political managers since independence had been unable to arrive at a suitable accommodation of the political needs of ethnic minorities. The provincial councils are supported by other recent changes in the system of local government. The devolution of power and authority is accompanied by changes in the public administrative system as proposed by the Administrative Reforms Commission.

Devolution will make demands on the capability of a class of public officials to develop the systems of management and administration of public

services that are coordinated at provincial and lower levels. The provinces will depend on central government allocations but have a large flexibility to develop revenues, mobilize resources and engage in development work organized and managed within their boundaries. These demands will strain the capacities of the public service as officers at the middle level have to be more enterprising. The public sector as well as the modern part of the private sector have a high demand for skills at this level. The public sector incentives are not as attractive as those in the private sector.

During the 1970-1977 period the role of political representatives was expanded. Worker participation in decision making was enhanced. The operations of the central government budget was decentralized with allocations in the form of block grants given to electorates for work related to infrastructure development and maintenance. Planning functions and capacities were extended to administrative units at district levels. These were opportunities for greater participation in development activity and decision-making. It also added new and untested layers to decision-making where lines of authority and management were unclear.

V. CONCLUSIONS

During the past twenty years, two very different development approaches were taken by Sri Lanka. One attempted to wrest control of the economy for the public sector and the other attempted to provide more space for the private sector to operate. The first attempt was broadly unsuccessful as the economy lost growth momentum in face of both domestic as well as external factors. The public sector led approach was unable to increase growth or to provide for the increasing number of entrants to the labour force. Unemployment grew to socially unacceptable levels. The resources that were available for investment and growth were inadequate. The relatively stagnant export earnings from the commodity exporting sector were a serious concern. Although a national plan was prepared in 1971, the controls and extension of the public sector increased. Foreign resources were available at an increased level during 1970-1977. But then was not adequate to build capacity for a strong and sustained growth effort.

During this time the social sector was protected. Administered prices for a wide range of goods and rationing for basic food, protected the entire population without discriminating in favour of the needy. Food subsidies to households had to be reduced due to serious shortages and the highly constrained import capacity of the country. The data on income distribution during this time showed marked improvement but it was achieved during a time of economic slow-down and widespread shortages. Food availability was lowered as a result of a fall in

domestic supplies as well as reduced imports. Price increases in the international market were absorbed through the central government budget. The continued diversion of national savings to consumption lowered the capacity to move out of low growth situation.

Programmes in the health sector continued. However, the access of the private medical service to drugs and equipment was reduced as the state took over all imports and distribution. The state sector services were seriously strained as a large part of the population attempted to access the subsidized service in the absence of a growing private service. Food procurement and distribution was a major state activity. In the paddy sector the state subsidized both the producers as well as the consumers to maintain incentives for production. Meanwhile, the very high costs of producing agriculture infrastructure were not recovered in order to maintain systems.

The public sector utilized a large part of the national savings. The budget deficit continuously utilized the savings that were mobilized through the state banking system, pension and insurance funds. The private sector had their access to resources squeezed. The controls on foreign exchange were stringent and the manufacturing sector could not obtain all the raw materials and intermediate inputs that it could use. The inward-looking trade strategy limited the size of the market and the low income growth constrained demand.

The distributive mechanisms dominated the growth concerns and the economic system became untenable in spite of the efforts to develop greater capacity.

The liberalization programme after 1977 began with reforms in the trade regime, devaluation and flexibility of the exchange rate and changes in subsidies and price controls. The opposition to the changes were on the grounds of deep and unmanageable hardship for the poorer segments of the population. The upward adjustment of the price level is most likely to have had a strong negative impact on those households with low income earning capacity. However, the economic expansion during the first five years after the reforms was substantial. Many different social groups participated in the gains as new opportunities opened up and unemployment fell sharply. Meanwhile other opportunities for income generation also appeared. Temporary migration to the Gulf States and West Asian countries grew rapidly and the relatively low income households are expected to have gained considerably. However, all who went out did not manage to develop sources of income after they returned. This is in large measure due to the high proportion of females who are or become home makers on their

return. However, in spite of this, surveys reveal that about one third of the migrant households manage to develop an income earning activity.

The changed environment for enterprise and the rapid increase in national economic capacity, raised expectations as well as possibilities for improvements in material well-being. The state took an important role in developing infrastructure, extending safe water and sanitation. The housing programmes contributed significantly to the improvement in housing conditions.

This also increased the average household's capacity to obtain services from private sources. In health care and education, private enterprise has grown. It has relieved the pressures on the state. One consequence of this is that care and service may not have improved in the public sector health facilities. Drugs and other essentials are noted to be in short supply at rural hospitals as the availability in the private sector increases. The poor households face hardship as a result.

The most important feature of the adjustments over the past two decades is the continuity in the concern for social programmes. The elements have changed but the framework remains. The food ration has been modified over the years and the food stamp scheme and the Janasaviya Poverty Alleviation Programme have taken its place. The coverage of the poor is much better. However, the schemes are not indexed and the recipients are not protected against sharp price increases.

The welfare system will have to address a different set of needs in time. The changed demographic pattern of the population will place new demands on health care needs. As the organized private sector expands, social security systems have to develop. The Janasaviya and the food stamp scheme will have to address the issues of targeting and erosion of benefits.

Table 1. Composition of GDP and structure of exports and imports, 1970-1990 (Percentage)

<i>Sector</i>	<i>1970</i>	<i>1977</i>	<i>1985</i>	<i>1990</i>
Agriculture	28.3	29.5	27.8	23.3
Manufacturing	16.7	21.5	14.7	17.3
Services	48.7	43.4	52.5	49.5
<i>Structure of exports</i>	<i>1970</i>	<i>1978</i>	<i>1985</i>	<i>1990</i>
Tea	55.0	48.5	33.1	24.9
Rubber	21.6	15.3	7.1	3.9
Coconut and products	11.7	7.3	6.6	3.5
Sub total	88.3	71.2	46.8	32.3
Other exports	11.7	28.9	53.2	66.7
<i>Structure of imports</i>	<i>1971</i>	<i>1978</i>	<i>1985</i>	<i>1990</i>
Consumer goods	57.2	38.1	26.4	26.0
Food and drink	(46.2)	(27.9)	(10.9)	15.4
Intermediate goods	19.5	38.1	47.2	54.5
Petroleum	(1.3)	(20.6)	(20.3)	13.3
Investment goods	21.1	22.9	19.2	17.8
Machinery	(10.1)	(12.6)	(8.8)	(8.0)

Source: World Bank and The Central Bank of Sri Lanka.

Table 2. Macroeconomic indicators, 1970-1990

	<i>1970-1977</i>	<i>1978-1985</i>	<i>1986-1989</i>	<i>1990-1991</i>
Average annual growth rate of GDP	3.07	5.80	2.70	5.60
Gross fixed capital formation	14.3 ^{a/}	26.4	22.3	22.0 ^{b/}
Total aid (\$ million disbursements)	121.3	365.8	534.9	527.5 ^{c/}
Budget deficit as per cent of GDP ^{d/}	7.3 ^{e/}	14.9	12.5	9.9

Sources: Central Bank of Sri Lanka, Annual Reports and Reviews of the Economy.

^{a/} For the period 1973-1977. ^{b/} 1990 only. ^{c/} 1990 and 3/4 of 1991. ^{d/} Cash deficit for 1973-1977, deficit before grants for other years. ^{e/} 1973-1977.

Table 3. Social indicators, 1971-1988

<i>Social indicator</i>	1971	1977	1981	1988
Crude birth rate	30.0	27.9	28.0	20.7
Crude death rate	7.7	7.4	6.0	5.8
Infant mortality	45.0	42.2	39.0 ^{a/}	19.4
Rate of natural increase	2.3	2.1	2.2 ^{a/}	1.5 ^{b/}
Life expectancy at birth	65.2	...	69.0	70.0
Literacy (per cent)	78.5	...	86.5	87.5
Per capita calorie consumption	2 230	2 343	2 200	2 267

Sources: Department of Census and Statistics, *Statistical Abstract of Sri Lanka 1977*; Central Bank of Ceylon, *Sri Lanka Socio-economic Data*, 1983; Central Bank of Ceylon, *Report on Consumer Finances and Socio-economic Survey*, 1978/79; World Bank, *World Development Report 1983*; and Registrar Generals Department, *Annual Health Bulletin*, Ministry of Health, 1981-1987.

Crude birth and death rates are in terms of 1,000 population. Infant mortality as aged less than 1 year per 1,000 live births.

^{a/} 1980. ^{b/} 1989.

Table 4. Prices and wages

	1970-1977	1978-1984	1985-1989	1990/91
Implicit GDP deflator	11.9	14.8	7.0	21.0 ^{a/}
Colombo consumer price index	5.7	15.5	8.5	21.5
Money supply growth (M1)	14.4	17.9	15.4	-
Minimum nominal wage index^{a/}				
Workers in agriculture ^{b/}	11.0	21.8	11.9	-
Industry and commerce ^{c/}	8.3	13.0	12.9	-
Government minor employees ^{d/}	6.0	17.2	11.7	-

Source: Central Bank of Sri Lanka, *Annual Reports*.

^{a/} The minimum wage indices relate to wages boards. They are calculated on fixed weights based on the numbers employed as of December 1978. Wage rates are based on the minimum wage. The base is 1978 = 100. The period before 1978 and after 1978 are not strictly comparable. ^{b/} Relates to plantation workers and those in cinnamon, cocoa, pepper, and associated factory work. ^{c/} Baking, brick and tile manufacture, printing, engineering, industry related to coconut fibre, engineering trades, tea and rubber export trades. ^{d/} Combined index for non-executive officers.

Table 5. Percentage of households in poverty

<i>Year</i>	<i>Urban</i>	<i>Rural</i>	<i>Estate</i>	<i>All Island</i>
1. 1973	...	...	...	18.5
2. 1978/79	...	...	...	12.5
3. 1978/79	15.8	21.2	6.0	18.5
4. 1980/81	...	...	...	34.8
5. 1980/81	58.0	58.7	55.7	57.3
6. 1981/82	...	...	...	12.2
7. 1981/82	14.6	22.4	10.0	20.1
8. 1985/86	...	...	...	25.1
9. 1985/86	32.7	51.1	9.9	44.7
10. 1986/87	12.1	32.8	13.5	27.6
11. 1986/87	10.5	28.7	11.1	24.0

Source: M.J.D. Hopkins and T. Jogaratnam, *The Socio-economic Dimensions of Poverty in Sri Lanka and Policy Implications*, Development Alternatives Inc., USA, February 1990.

Notes: 1, 2, 4, 6, 8. Based on the minimum cost bundle method (Khan 1989). 3. Ranked average per capita food expenditure of bottom 40 per cent of households by income. Consumer Finance Survey. 5, 9. Labour Force and Socio-economic Survey, based on monthly income required to purchase minimum nutrition and other basic needs. 7. LFSE based on a poverty line derived using average prices. 10. Based on Consumer Finance Survey and using minimum nutrition requirements (ability to purchase between 90-100 per cent of adequacy) and expenditures of efficient households in the bottom 40 per cent of households according to expenditure. 11. Same as 10 with ability to purchase 80-100 per cent of norm.

Table 6. Regional distribution of poverty, 1986/87

<i>Zones</i>	<i>Proportion of poor households</i>
Zone 1	15.6 (22.8)
Zone 2	29.5 (23.3)
Zone 4	29.8 (52.6)
Zone 5	10.5 (1.3)
All Island	24.0 -

Source: N. Edirisinghe, *Poverty in Sri Lanka: Its Extent, Distribution and Characteristics of the Poor*, June 1990, prepared for the Employment and Poverty Alleviation Project.

Notes: Zone 1, consists of the districts of Colombo, Kalutara and Gampaha in the Western Province without the Colombo metro area, Galle and Matara in the Southern Province. Zone 2, consists of the districts of Hambantota in the South, Moneragala and Ampara in the East, Polonnaruwa, Anuradhapura in the North Central Province and Puttalam in the North Western Province. Zone 4, Districts of the Central Province, North Western Province, and the other hill districts of Ratnapura and Badulla. Zone 5, is Colombo Municipality. Zone 3, consisting of the North and the East was not surveyed due to the disturbed conditions. Figures in parentheses are proportion of the total estimated poverty.

Table 7. Characteristics of the housing stock

<i>Sector</i>	<i>Housing type</i>	<i>1971</i>	<i>1981</i>
		<i>(percentage of stock)</i>	
Urban	Permanent	63	68
	Semi permanent	28	24
Rural	Permanent	32	37
	Semi permanent	62	56
Estate	Permanent	12	23
	Semi permanent	85	76
All sectors	Permanent	35	42
	Semi permanent	57	52

Source: Marga Institute, *Housing Development in Sri Lanka, 1971-1981*.

Note: The categories permanent and semi permanent are based on the materials of the structure.

Table 8. Health statistics

	1975	1980	1985	1990 ^{a/}
Hospitals (Western medicine) ^{b/}	458	480	491	422
Persons per hospital	29 467	30 704	32 255	34 367
Persons per bed	331	340	353	345
Central dispensaries	335	347	338	278
Persons per dispensary	38 017	42 473	46 855	52 169
Number of doctors	2 138	2 051	2 150	2 383
Persons per doctor	6 312	7 186	7 366	6 086
Number of assistance medical practitioners	1 075	1 008	957	968
Number of nurses	5 695	6 227	8 091	8 733
Persons per nurse	2 369	2 367	1 957	1 661
Recurrent expenditure (Rs million)	324	740	1 783	...
Capital expenditure (Rs million)	86	602	248	...
Total (Rs million)	410	1 013	2 031	5 383 ^{c/}
Per capita expenditure Rs ^{d/}	30	91	124	317
Total expenditure as percentage of GDP	1.6	2.2	1.3	1.7

Sources: Department of Health Services; Department of Census and Statistics; and Family Health Bureau.

^{a/} Excludes the provinces in the North and East. ^{b/} Includes maternity homes. ^{c/} All Island expenditures. ^{d/} Includes capital expenditures grants and contributions.

Table 9. Educational statistics, 1970-1990

	1970	1975	1980	1985	1990
Total schools	9 921	9 675	9 794	10 051	10 373
Government schools	8 745	9 386	9 117	9 634	9 856
Pupil teacher ratio	28	25	24	25	23
University teachers	1 011	2 000	1 539	2 051	1 700 ^{a/}
University students	11 545	13 260	16 384	18 217	29 781 ^{b/}
Total expenditure as per cent of GDP	3.9	2.7	2.8	2.8	3.1

Source: The Central Bank of Sri Lanka.

^{a/} 1989. ^{b/} 1988.

REFERENCES

- Alailima, P.J., "The impact of public policy on the poor in Sri Lanka: a study of policies relating to incomes, assets, and living standards and their effects on the poor, 1970-1984", University of Bradford, Ph.D. thesis 1988.
- _____, "The impact of public policy on the poor: Sri Lanka 1970-1984", *Research Monograph No. 3.*, Development and Project Planning Centre, University of Bradford, September 1990.
- N. Edirisinghe, *Poverty in Sri Lanka: Its Distribution and Characteristics of the Poor*, June 1990, prepared for the Employment and Poverty Alleviation Project.
- Fields, G.S., "Rural labour markets and economic development of Sri Lanka" (mimeo.), 1986.
- Gunatilleke, G., "Children in Sri Lanka, a status report", UNICEF, Colombo, Sri Lanka, March 1987.
- _____, "South Asia as a dynamic partner: prospects for the future, Sri Lanka country study", Marga Institute, January 1992.
- Hopkins, M.J.D. and T. Jogaratnam, *The Socio-economic Dimensions of Poverty in Sri Lanka and Policy Implications*, Development Alternatives Inc., USA, February 1990.

- Khan, M.M., "An analysis of health, nutrition and poverty in Sri Lanka" USAID (mimeo.), 1989.
- Korale, R.B.M., ed., "Income distribution and poverty in Sri Lanka" (mimeo.), 1987.
- Marga Institute, "An analytical description of poverty in Sri Lanka", March 1981.
- _____, "A framework for a comprehensive social welfare policy", Draft, February 1992.
- _____, "Housing development in Sri Lanka 1971-1981", Tisara Press, 1986.
- Nicholas, H. and W.D., "An empirical investigation into monetarist and structuralist explanations of inflation in developing economies: the case of Sri Lanka 1971-1987", Institute of Policy Studies, Colombo, Sri Lanka (mimeo.), 1989.
- Pinstrup-Andersen, P., ed., "Macroeconomic policy reforms, poverty and nutrition: analytical methodologies", *Monograph 3*, Cornell Food and Nutrition Policy Programme, February 1990.

SOCIAL CONSEQUENCES OF ECONOMIC RESTRUCTURING IN THAILAND

by

*Pasuk Phongpaichit**

I. INTRODUCTION

The trend of Thailand's economic growth was severely affected by the recession of the early 1980s. The GDP growth rate, which had averaged over 8 per cent since the early 1970s, dipped to around 5 per cent from 1979 to 1985. From 1986 onwards, however, Thailand's economy rebounded very quickly, and in the late 1980s and early 1990s has experienced double-digit rates of growth.

With this shift in gear has also come a marked shift in the structure of the economy. In the process of adjusting to the impact of the external shocks, Thailand succeeded in shifting away from a predominantly agrarian country to an export-oriented economy with emphasis both on manufactures and services. This transition was achieved with relatively little inflation and balance of payments difficulties. The debt service ratio quickly fell from over 20 per cent in the mid-1980s to around 10 per cent by the late 1980s. Open unemployment and seasonal unemployment which rose in the early 1980s due to the impact of the recession and the budget squeeze also fell quite noticeably.

It would, however, be unrealistic to attribute this shift in the pace and structure of the economy to "structural adjustment", insofar as the term "structural adjustment" is taken to refer to the package of tariff, tax and monetary reforms promoted by the World Bank in conjunction with its Structural Adjustment Loan programme of the early 1980s. These reforms focused mainly on rationalization of tax and tariff systems to promote market competition, along with stringent monetary and fiscal policies to create a stable environment for the market to operate.

The reforms were intended to promote freer trade and market competitiveness in economies which were relatively "closed", or relatively encumbered by

* Director, Political Economy Centre, Department of Economics, Chulalongkorn University, Bangkok, Thailand.

protectionist trade policies, large and inefficient government sectors, and excessive dirigisme; and which tended to lax management of budgetary and payments deficits.

Thailand was not the model target for such structural adjustment reforms. For a start, Thailand was never a very "closed" economy. Even while it pursued import-substitution policies in the 1960s and 1970s, its ruling tariff rates remained moderate, mid-way between the aggressively "open" economies like Singapore and Hong Kong and the aggressively "closed" countries like Indonesia and elsewhere. Furthermore, Thailand had not developed an especially large state sector. There had been attempts to develop state-run businesses in the 1930s and 1940s but these had faltered from the 1950s on and the marked feature of the Thai economy from the 1960s onwards was the relative freedom allowed for domestic entrepreneurs to develop. Finally, Thailand had always maintained a tradition of conservative fiscal and monetary management.

In fact in the early 1980s very few of the policies promoted in the World Bank's structural adjustment package were enacted in Thailand, with an exception of the steep devaluation in 1984. But there was no major change in the tax system until 1986. And fiscal and monetary management continued according to established tradition with the budgetary management size being restrained by the decline in the government revenue during 1980 and 1985, but the size of the deficit did not reduce significantly.¹

The major policy reform of the structural adjustment period was in fact a series of devaluations of the baht. These were carried out to delink the baht from the appreciating dollar and maintain Thailand's trade competitiveness.

¹ Thailand negotiated for the Structural Adjustment Loan from the World Bank in 1981 and 1983, amounting to \$US 325.5 million. And in line with the World Bank stipulations Thailand promised to pursue structural adjustment measures, including a reduction in the deficit of the public sector and improvement in resource management capability; measures aiming to improve agricultural production through land use policy and price and marketing policies; measures aiming to shift from import substitution to export-orientation through tariff reforms and rationalization of incentives and export promotion policies; measures aiming to rationalize the pricing of energy to reflect market prices and institutional reform to upgrade personnel and enhance policy analysis and coordination. (See a summary in Bhongmakapat (1991), pp. 28-29. But real structural adjustment policies did not come until 1984 when a steep devaluation was made. As far as the annual budget was concerned the government did adhere to a conservative fiscal policy. But government realized that large deficit would cause balance of payments difficulties. But because of the low revenue, the budget deficit remained large between 1980 and 1985. Even then, the budget size was contained and this affected the unemployment rate, by raising it. Because of the budget constraint, the government had to restrict the rate of increase in recruitment of civil servants to 2 per cent a year, as compared to around 5 per cent normally. This raised unemployment among the educated considerably between 1980 and 1985. In 1986 the government started to employ fiscal policy to stimulate the economy by reducing the corporate income and income tax.

The devaluations clearly set the stage for the following period of export-oriented growth. And in the wake of the devaluations the government enacted a series of measures which indicated its new commitment to export-oriented growth. These measures included some of the tariff adjustments already mentioned, and the establishment of better machinery for export promotion.

However at least two other factors contributed to Thailand's rapid ascent out of the recession. The first was the rapid fall in the oil prices in the mid-1980s. At the time, oil was Thailand's single largest import and the price-fall significantly eased the balance-of-payments position and created a greater potential for growth. The second was the *endaka*, the dramatic rise in the value of the yen. At a stroke, this improved Thailand's trading position with its major partner. And over the next few years it prompted Japan to accelerate its policy of industrial relocation which resulted in a "new wave" of Japanese investment flowing into Thailand and other South-East Asian countries. Being most politically stable, Thailand had attracted the largest inflow of direct investment from Japan between 1987 and 1989.²

Lower oil prices, a favourable baht value and Japanese investment inflow were the keys to Thailand's spurt of growth in the late 1980s. Thailand was able to respond favourably to these stimuli because of the relative strength and freedom of its entrepreneurial group, the basically favourable response of the government in developing export-oriented policies, and the background of the tradition of conservative fiscal and monetary management. In the aftermath of this spurt of growth, many of the reforms advocated in the structural adjustment package are now being enacted. The tariff structure has seen several major revisions over the past two years. It is expected that 1992 will see a major overhaul of the tax system with the introduction of VAT and the rationalization of income and corporate taxes. The government is firmly committed to liberalization of financial markets and several key measures have already been enacted.

This paper reviews the social impact of economic changes over the past decade or so. However, it is not really accurate to attribute this impact to "structural adjustment". Rather, the paper traces the social impact of a decade which first saw a major recession and then a major spurt of growth.

The relative success of the Thai economy over the past decade has brought in its wake many social consequences which are both positive and not so positive. Among the most notable negative consequences have been the deterioration in environment, the increased income gap between the rich and the poor, the increased income gap between the cities and the country, and the increased

² See Pasuk Phongpaichit, *The New Wave of Japanese Investment in ASEAN: Development and Prospects* (Singapore, Institute of Southeast Asian Studies, 1990).

differentiation even within the poorest groups. In particular, the urban poverty incidence has increased despite spurt of rapid growth.

We shall begin the analysis with an outline of the macroeconomic picture. The second section looks at the major social trends in general. The third section provides broad indications of changes in the quality of life. The fourth section describes some of the government's major attempts to deal with social problems. The fifth section looks at the political framework and the institutional context of economic policy-making. It also traces some of the major policy reforms of recent years, and discusses some of the causes of the failure to pursue policies to improve the inequality and poverty situations. The last section concludes and recommends policies.

II. THE OVERALL MACROECONOMIC PICTURE

Over the last two decades Thailand has sustained an impressive rate of growth of around 8 per cent on average. The period as a whole breaks into three sub-periods with different growth trends and different policy directions.

The period from 1973 to 1978 saw an average growth rate of around 8 per cent. This growth was based on continued expansion of primary exports and on import substitution industrialization. Primary exports were mainly driven by an agricultural sector which was still growing rapidly with a expanding cultivated area and new crops. Import substitution industrialization was supported by a moderately high and differentiated tariff structure and by specific promotion policies which favoured foreign investment in joint ventures. The basics of the economy were so strong that Thailand weathered the first oil shock with little difficulty.

From 1979 to 1985 the economy was buffeted by the second oil shock and the prolonged world recession. The growth rate weakened to an average around 5 per cent. The rapid growth of the agricultural sector came to an abrupt end as a result of poor international prices, diminishing availability of new land, and failure to adopt productivity-enhancing technologies. High prices of oil, high cost of capital imports, and reduced returns from primary exports created balance of payment problems and, along with high worldwide interest rates, inflated the debt burden. However, throughout the recession, the GDP growth rate never turned negative as was the case in some neighbouring countries. At the depth of the recession in the 1980s, the GDP growth rate declined to 3.5 per cent in 1985, and 4.3 per cent in 1986 (table 1).

During this period, Thailand started its transition to export-oriented growth. Initially government reacted to the balance-of-payments problem with new policy

Table 1. GNP growth rates, inflation and trade deficit

	<i>GNP growth rates (per cent per annum)</i>	<i>Inflation rates (per cent per annum)</i>	<i>Trade deficit (as percentage of GNP)</i>
1973-1975	6.5	13.8	5.6
1974-1978	9.6	6.4	5.2
1979	5.0	9.9	8.5
1980	5.3	18.0	8.9
1981	5.7	12.0	8.9
1982	4.1	5.2	4.5
1983	8.0	3.8	9.9
1984	7.1	0.9	7.2
1985	3.5	2.4	6.2
1986	4.3	1.9	1.3
1987	9.5	2.5	3.6
1988	13.2	3.8	6.7
1989	12.0	4-5 ^z	7.9
1990	10.0	6.0	-

Source: Bank of Thailand, *Quarterly Bulletin*, various years. The GNP data are the new series beginning in 1970, revised by the National Economic and Social development Board, *National Income of Thailand: New Series 1970-1987*, June 1987. For 1988, GDP data from *Thai Dynamics* (in Thai), p. 27.

^z Estimated by the Bank of Thailand.

initiatives to increase revenue from services. It started to promote tourism aggressively. And facilitated the export of labour to the Middle East and elsewhere. Later, the government succeeded in delinking the baht from the over-valued US dollar and devaluing it to a level which increased Thailand's export competitiveness. In the wake of this major move, the government also improved the machinery for promoting foreign investment and export-oriented manufacture.

After 1986, the Thai economy rebounded very rapidly. In 1987 the GDP grew at the rate of 9.5 per cent and in from 1988 to 1990 it soared to double-digit rates. The major driving force behind these growth rates was rapidly growing exports of manufactures and services. These in turn were to a large extent fed by an inflow of foreign investment from Japan, Taiwan Province of China and the Republic of Korea. In the aftermath of the general restructuring of worldwide currency values in the mid-1980s, these countries were obliged to relocate large parts of their industrial bases to locations with lower cost configurations. With its moderately good infrastructure, relatively open economy, good natural resource base, and supply of cheap labour, Thailand attracted a major share of this investment outflow.

Table 2. Percentage share of GDP at 1972 prices

	1965	1970	1980	1985	1989
Agriculture	35	27	21	20	16
Industry ^{a/}	23	26	32	31	36
(Manufacturing)		(19)	(24)	(23)	(27)
Services	42	47	48	49	48

Source: National Economic and Social Development Board, Bank of Thailand, *Quarterly Bulletin*, various years.

^{a/} Industry includes manufacturing, construction and utilities.

Structurally, the economy underwent dramatic changes during the past decade. In the 1960s and the 1970s Thailand had remained very agrarian, with agriculture contributing over 25 per cent to GDP, and employing over 70 per cent of the labour force (tables 2, 3). But by the end of the 1980s the agricultural sector had lost its prominent position. Its share declined from 35 to 16 per cent, while the industrial sector's share rose from 23 to nearly 40 per cent. This dramatic production structure change was not matched by corresponding changes in the employment structure. By 1989, agriculture still employed over 60 per cent of the labour force while the industrial sector employed only around 10-12 per cent of the total labour force.

The role of the service sector in the economy has also significantly changed.³ In the mid-1960s this sector contributed around 40 per cent to the GDP, and nearly 20 per cent to employment. By 1989 it contributed nearly 50 per cent to GDP and 22 per cent to employment.

A dramatic shift in production and employment structure is usually accompanied by a rapid pace in urbanization. However, Thailand has undergone rather moderate changes in urbanization levels, as measured by the share of the people living in municipal areas. Between 1960 and 1970 the share of urban population in total population increased from 12.5 to 13.2 per cent, an increase of only 0.7 percentage point in 10 years. In the 1970s and 1980s the urbanization level rose more rapidly but still relatively modestly compared to many developing countries at an equivalent stage of development. The share of the urban population rose to 17 per cent in 1980 and to 21 per cent in 1987. It is instructive to compare this relatively modest urbanization with the experience of the Republic of Korea. In 1965 the share of the urban population in the Republic of Korea had already reached 28 per cent. Over the next 15 years it rose by 20 per cent to reach 48 per

³ See a discussion of the service sector in Thailand, in Pasuk Phongpaichit, "Thailand's service sector: development and prospects" (in Thai), *Thammasat Economic Journal*, June 1991.

cent in 1980, and then added another 17 per cent in just five years to reach 65 per cent in 1985.⁴

Table 3. Percentage share of employed labour force

	1960	1970	1980	1985	1989
Agriculture	82	79	73	68	67
Industry (manufacturing)	4	6	10	11	12
Services	14	15	17	21	22

Source: National Statistical Office, *Population Census 1960, 1970; Report of the Labour Force Survey*, various years.

III. BROAD SOCIAL TRENDS IN THE 1980s

Structural adjustment policies, based on tight fiscal and monetary policies and liberalization, have been criticized for their impact on increased unemployment, higher incidence of poverty, a growing gap between the rich and the poor, and on the inability of the government to provide social services for the poorest. While Thailand implemented structural adjustment policies only in a very limited way, the society has faced many of the same problems, largely evolving out of the stresses and strains of economic growth and change. The following sections will look in detail at the changes in average income; poverty incidence; unemployment levels; trends in income distribution; and broad changes in the quality of life, as can be gauged from some of the standard social indicators.

A. TRENDS IN PER CAPITA INCOME 1970-1990

Per capita income rose at a reasonable rate in the 1970s. During the early 1980s, the GNP per capita rate of growth slowed down owing to the impact of the recession. But after 1986, the buoyant economic growth rate coupled with a dramatic decline in population growth rate pushed up the average rate of growth of GNP per capita to around 8 per cent per annum between 1987 and 1990 (table 4).

With the consistent rise in GNP per capita, the poverty incidence declined consistently in the 1970s (table 5). Then during the recession of the early 1980s, the poverty incidence increased quite appreciably. The sector most affected during the recession was the rural sector. The average farm income actually fell

⁴ United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP), *Internal Migration and Structural Changes in the Labour Force*, Asian Population Studies Services No. 90, 1988.

Table 4. GNP per capita and the rate of growth

<i>Year</i>	<i>GNP per capita at 1972 prices (baht)</i>	<i>Rate of growth (per cent per annum)</i>	<i>Year</i>	<i>GNP per capita at 1972 prices (baht)</i>	<i>Rate of growth (per cent per annum)</i>
1970	4 126	–	1987	8 325	7.7
1978	5 851	4.5	1988	9 274	11.4
1981	6 269	3.7	1989	10 252	10.5
1985	7 383	2.9	1990	11 128	8.5
1986	7 728	2.6	1987-1990 (average)	–	8.0

Source: National Economic and Social Development Board, *National Income Accounts*; and Bank of Thailand, *Monthly Report*, May 1991.

Table 5. Poverty incidence 1975/76-1987/88

<i>Location</i>	<i>1975/76</i>	<i>1980/81</i>	<i>1985/86</i>	<i>1987-1989</i>
	(Percentages)			
Whole Kingdom	30.0	23.0	29.5	23.7
North	33.2	21.5	25.5	23.2
Northeast	44.9	35.9	48.1	37.4
Central	12.9	13.5	15.6	15.9
South	30.7	20.4	27.2	21.5
Bangkok	7.7	3.9	3.5	3.4
The poverty line (baht/month)				
Rural	1 981	3 454	3 823	4 141
Urban	2 961	5 151	5 834	6 324
Poverty incidence (per cent)				
Rural	36.1	27.3	35.7	29.4
Urban	12.5	7.5	5.9	6.9

Source: TDRI.

in real terms between 1980/81 and 1985/86 (table 6) largely owing to the slump in agricultural prices. The poverty incidence in rural areas soared from 27.3 per cent in 1980/81 to 35.7 per cent in 1985/86 driving the overall poverty incidence of the whole country to 29.5 per cent.

The poverty incidence in the urban areas actually declined during the recession, but rose after the recovery (table 5). In 1987/88 the overall poverty incidence improved, but not appreciably. It simply recovered to roughly the same level as at the beginning of the recession in 1980/81.

Table 6. Per capita income by region and sector (at current prices)

	1975/76	1980/81	1985/86
(a) By region (relative to national average = 100)			
North	86.5	92.8	89.1
Northeast	71.3	65.6	58.5
Central	122.2	112.1	111.4
South	95.6	98.2	93.9
Bangkok	194.8	223.4	253.5
Country average in baht	4 186	5 559	5 104
(b) By sector (baht)			
(1) Agriculture	2 963	6 032	5 768
(2) Non-agriculture	6 157	13 848	15 744
(3) (2)/(1)	2.1	2.3	2.7

Source: J. Ashkul, "Development of urban areas: problems and policies", in *The Directions of Thai Economy in the Next Decade*, a collection of papers at the Symposium organized by the Faculty of Economics, Chulalongkorn University, Bangkok, 1990 (in Thai). Cited in Prasartset, 1991, p. 11.

In absolute terms, in 1987/88 the number of poor people in rural areas was still as high as 15 million. In the urban areas the poor numbered about 3.4 million.

Regionally, the changes in the poverty incidence have occurred at varying pace. Of all the regions the centre has always been the richest. Yet the poverty incidence here has increased consistently even after the successful industrial restructuring. The poverty incidence in the centre was only around 13 per cent in 1975/76. It rose to around 16 per cent in 1985/86 and remained at this level in 1988 (table 5). Note also that in Bangkok the poverty incidence had not changed very greatly between 1980/81, 1985/86 and 1987/88.

In the regions where the poor of Thailand is concentrated, namely the northeast, part of the north, and the south, the poverty incidence increased during the recession but declined to roughly the pre-recession level by 1987/88.

Table 7 shows the 10 provinces with the lowest per capita income in 1975/76, 1983-1985 and 1988. In 1975/76 nine out of the ten poorest provinces were in the northeast. In 1983-1985 these same nine provinces remained among the ten lowest per capita income, with a new addition-Sakhon Nakorn – which is also in the northeast. In 1988 all the ten provinces with lowest per capita income come from the northeast.

Table 7. Ten provinces with the lowest per capita income

	<i>1975/76</i>		<i>1983-1985</i>		<i>1988</i>	
	<i>Baht per</i>	<i>Rank</i>	<i>Baht per</i>	<i>Rank</i>	<i>Baht per</i>	<i>Rank</i>
	<i>person/year</i>		<i>person/year</i>		<i>person/year</i>	
Sisaket	1 748	1	2 441	1	7 549	1
Ubon Ratchathani	1 915	2	2 723	6	—	—
Maharakam	1 928	3	2 693	5	7 867	4
Surin	1 931	4	2 642	4	8 440	7
Roi Et	1 993	5	2 569	3	7 918	5
Phayao	2 095	6	3 381	—	—	—
Yasothon	2 159	7	2 906	8	7 679	3
Nakhon Phanom	2 198	8	2 913	9	8 541	9
Kalasin	2 284	9	2 462	2	8 181	6
Buriram	2 405	10	2 753	7	8 458	8
Sakhon Nakhon	—	—	2 976	10	8 934	10
Mukdahan	—	—	—	—	7 666	2

Source: NESDB, *National Income Accounts of Thailand*, various years.

B. MIGRATION, THE INFORMAL SECTOR AND URBAN POVERTY

It was noted earlier that the urban poverty incidence fell during the recession and actually increased after the recovery. We might have expected that the urban poverty incidence would increase during the recession as the rural poor migrate to towns in large number to escape rural poverty, but are unable to find work. We might also expect the urban poverty incidence would decline somewhat during the recovery as some of the poor were absorbed into urban work, or moved back to villages where opportunities had improved with the recovery. But in fact the poverty incidence in the urban area, and in the central region around Bangkok, in fact marginally increased in the period of recovery and rapid growth.

The reasons behind these counter-intuitive trends lie in the nature of the urban workforce and the relationship between countryside and town. A large part of the urban workforce — and particularly its marginal segments — is essentially temporary. Rural people regularly migrate into the town to find work on a temporary basis. They may stay for periods ranging from couple of months to a few years. But in the end they will return to the village. This system evolved as a rational way for rural people who faced marked seasonal unemployment to supplement their incomes without losing touch with their main source of income — land — and their main social welfare systems — the family and the village.

Many such impermanent migrants work in the urban informal sector, either in small manufacturing workshops which often work as subcontractors to formal-sector firms, or in modern restaurants and hotels, or in construction, or in a range of service jobs. In the recession, many of them fell out of work. Thus during the recession, many such impermanent migrants moved out of the towns and cities and went back to the countryside, helping to bring down the urban poverty incidence and possibly pushing up the figures in the rural areas.

This phenomenon is very different to the situation in Latin America, and some other countries where the extent of landlessness is already high. In Thailand, a high percentage of farmers are owner-operators. The figure was 60 per cent of total farms in 1978. Most of the urban migrants are not landless poor with no escape route. In fact the system of circular migration between the countryside and the informal sector acts as a shock absorber in times of recession.

The urban poverty incidence actually increased in the recovery period because the buoyant demand for labour in urban areas again attracted the former informal sector workers as well as the increasing number of the rural poor who were affected adversely by the slump in farm prices during the recession. But the increased labour demand from the economic recovery could not absorb all of the migrant workers for two major reasons. Firstly, not all of these workers fit the requirements of the labour markets. Most of these migrant were unskilled and had very little education (elementary at the most) and thus did not meet the market demand for the semi-skilled and middle level personnel. Many of them could not go back to the villages. The recession had destroyed their economic base in the villages and the economic restructuring policies and measures had focused on urban investment rather than on rural investment. Secondly, the increased investment in industries in the later 1980s tended to concentrate on large projects and projects with high capital-intensity. Much of the new investment in the modern sector in Thailand after 1985 came from foreign direct investment from Japan and other Asian NIEs. They tended to be capital-intensive relative to the availability of labour within Thailand. The increased opportunities for urban employment could thus absorb only a fraction of the available supply. The reserve labour thus kept the level of unemployment high as well as swelled the low productivity informal sector.

In times of boom, prices of land, housing and cost of living in the urban areas also rose quickly. At the same time, money wage rates for unskilled workers were constrained because of the existence of the reserve supply of urban labour, and at the most rose only as fast as the changes in the cost of living. Data on minimum wage levels both in nominal and real terms shown in table 8 support this view. The government sets minimum wage rates which in effect act as

Table 8. Minimum wage rates, nominal and at 1986 prices

<i>Year</i>	<i>Baht per day (at current prices)</i>	<i>Baht per day (at 1986 prices)</i>	<i>CPI for Bangkok</i>
1976	25	50.9	49.1
1977	28	48.5	53.2
1978	35	51.4	57.8
1979	45	70.5	63.8
1980	54	70.6	76.5
1981	61	70.3	86.8
1982	64	69.9	91.5
1983	66	69.8	94.6
1984	66	69.3	95.2
1985	70	71.2	98.3
1986	70	70.0	100.0
1987	73	71.2	102.6
1988	73	64.5	106.5
1989	78	68.9	113.2
1990	90	74.6	120.7
1991 (1 st. qtr)	100	80.0	125.0

Sources: Minimum wages from the Department of Labour; and CPI from Bank of Thailand, *Quarterly Review*, various years.

marker wage rates for the formal sector. These minimum wages in money terms were allowed to rise *pari pasu* with the rate of change in the cost of living, thereby keeping the real minimum wages relatively constant throughout the 1980s. At the start of the boom period, real minimum wages actually declined slightly in 1988 and 1989 as compared to 1987. Significant upward trends in real wages occurred only 1980 and 1991. During this time the salaries of the skilled and professional workers doubled or tripled.

The inadequate basic social welfare services in most of the city areas of Thailand (especially with regards to housing and health facilities) did not help improve the living conditions of unskilled workers. As the inflows of migrants increased without being absorbed properly into full-time gainful work, the urban poverty level rose, as shown in the data in table 5.

C. UNEMPLOYMENT

It must be cautioned that Thailand's unemployment figures are rather unreliable, and should not be used for analyzing the year by year variations. They should best be used to show broad trends. Further overall open unemployment figures do not represent the true picture of the state of the labour market in a country with a large agricultural sector. The data presented here thus cover both

open unemployment and seasonally inactive or seasonally unemployed persons. The data are presented for two periods of the year – January-March which is the dry off-agricultural season; and July-August which is the middle of the wet or the agricultural season.

The seasonally unemployed are those who do not work during the slack agricultural season. The high incidence of seasonal unemployment in Thailand is linked to the low percentage share of irrigated land in total cultivated area (about 20 per cent). This means that the bulk of the rural population is dependent on rain for their cultivation. Many people move out from rural places to work in town in the slack agricultural season. But the urban demand for labour is never large enough to absorb all the under-employment in rural areas, thus leaving the remainder to remain inactive in the village in the dry season.

As shown in table 9 the total unemployment rate was generally higher in the dry season than in the wet season on account of the high incidence of seasonal unemployment. On average approximately 10 per cent of the labour force was seasonally unemployed in the dry season in any year. During the recession years of 1983-1986, the figure was slightly higher than this ten per cent average.

**Table 9. Unemployment and seasonally inactive labour force 1983-1988
(In thousand)**

<i>Year</i>	<i>Open unemployment</i>	<i>Seasonal unemployment</i>	<i>Total</i>	<i>Per cent of total labour force</i>
January to March				
1983	1 661	1 927	3 588	15.0
1984	1 665	1 482	3 147	12.3
1985	1 655	1 903	3 558	13.6
1986	2 090	1 398	3 489	12.9
1987	1 683	1 056	2 740	9.8
1988	1 632	1 094	2 727	9.5
1989	1 745	1 427	3 172	10.8
July to August				
1983	480	50	530	2.2
1984	611	134	745	2.8
1986	969	172	1 445	4.1
1987	1 722	191	1 913	6.5
1988	929	119	1 048	3.4

Source: Calculated from National Statistical Office, *Report of the Labour Force Survey*, various years.

Taking both the dry and the wet season into account in absolute terms, Thailand still had between one and three million unemployed during the course of a year.

These unemployment figures suggest that while the rapid growth of the late 1980s has made some reduction in the ranks of the seasonally unemployed, there is as yet no sign of a downward trend in unemployment or a tightening of the overall labour market.

D. CHILD LABOUR

The extent of child labour indicates the state of the economy and the level of the well being of the poor households. An increase in the extent of child labour in a near-NIE like Thailand is an indication not only the critical conditions of the mass of the poor, but also the inability or the failure of the government to carry out suitable human resource development policies for the future development of the country.

The official data in table 10 show that just over one-fifth of all children in the age-group 11-14 were working. The extent of child labour declined only slightly in the recession. This decline probably reflected the slackening demand. But as the economy picked up after 1986 the extent of child labour increased quite noticeably and reached a fourth of total children in 11-14 age group in 1988. These statistics do not cover employment of children below the age of 11.

Table 10. Working children aged 11-14

<i>Year</i>	<i>Number of working children (thousands)</i>	<i>Working children as per cent of all children in the age group</i>	<i>Female (per cent)</i>
1977	1 244	27.6	51.0
1978	1 358	29.5	52.9
1979	1 051	22.4	51.4
1980	1 024	15.1	52.1
1981	1 011	20.9	58.2
1982	1 258	25.2	51.8
1983	1 124	22.6	51.4
1984	1 036	21.0	54.2
1985	1 072	21.6	53.5
1986	1 069	21.6	55.1
1987	1 172	23.7	52.2
1988	1 230	24.8	50.0

Source: National Statistical Office, *Report of the Labour Force Survey* (round 2 for 1977-1983, round 3 for 1984-1988), various years.

However the figures are probably quite significant. The press regularly carries reports of raids on small factories and sweatshops finding children under the age of 11.

E. INCOME INEQUALITY TRENDS

Using the Gini coefficient as a general guide, a study by TDRI shows that income inequality in Thailand worsened over the recession period. The inequality trend remained high after the recovery has set in by 1988/89 (table 11).

Table 11. Income distribution

	1980/81	1985/86	1988/89
Gini coefficient	0.453	0.500	0.478
Income share of:	(Percentage)		
Top 10 per cent	35.4	39.2	37.9
Next 20 per cent	20.6	19.9	20.3
Next 20 per cent	13.4	12.1	12.2
Bottom 20 per cent	9.0	7.0	7.0
Lowest 10 per cent	2.0	2.0	2.0

Source: National Economic and Social Development Board, *Managing the Urban Informal Sector in Thailand: A Search for Practical Policies Based on the Basic Needs Approach*, funded by the International Development Research Centre (IDRC), June 1991, p. 29.

IV. SOME INDICATORS OF CHANGES IN THE GENERAL QUALITY OF LIFE

There can be many different sets of standard and criteria to judge the quality of life. We shall adopt some of the standard criteria used in the Philippines and Thailand.⁵

A. THE GENERAL QUALITY OF LIFE

Some of the basic indicators of the general quality of life are the life expectancy, the literacy rate and changes in the consumption pattern. These are areas where Thailand had achieved some success. Life expectancy had improved for both males and females, with a slightly better situation for females (table 12).

⁵ Pasuk Phongpaichit and Thammarak Karnpisit, *The Social Indicators for Thailand: the 1980s*, for the Social Projects Division, National Economic and Social Development Board, with support from the UNICEF, 1987.

Table 12. Life expectancy in the whole Kingdom

<i>Year</i>	<i>Male</i>	<i>Female</i>
1970-1975	57.73	61.57
1980-1985	60.25	66.25
1985-1990	61.75	67.50

Literacy is an important part of the quality of life and by 1987 it reached 91 per cent, as compared to 88 per cent in 1979.

The general quality of the labour force is also better as can be seen in the increased share of those in the total labour force with more than elementary education (table 13). In international comparison, however, Thailand is still lacking behind other Asian NIEs as far as the quality of the labour force is concerned (more later on education).

Table 13. Employed labour force by level of education

<i>Level of education</i>	<i>1973</i>	<i>1982</i>	<i>1988</i>
None	15.4	7.6	6.0
Elementary and lower	73.4	76.8	74.6
Above elementary	11.2	15.6	19.4
Total	100.0	100.0	100.0

Source: National Statistical Office, *Report of the Labour Force Survey*, July, September 1973, 1982; and 1988.

B. CHANGES IN THE PATTERN OF CONSUMPTION

With increased average income and the changes in the occupational structure, the consumption pattern of the Thai population is undergoing rapid change. It is moving more towards an urbanized mode of consumption.

There has been a noticeable change in the pattern of food consumption in all regions of the country between 1962, 1981 and 1986 (table 14). As is to be expected the share of food grains and cereals in total food consumption declined at a considerable rate in all regions. By 1986 most people spent significantly more than in the past on high-quality food items such as fruits and vegetables, meat, fish, eggs and milk products. This change is indicative of the improvement in the nutritional level of the population in general. But this improvement has

Table 14. Distribution of expenditure on food and beverages

1962

<i>Item</i>	<i>Northeast</i>	<i>North</i>	<i>Central</i>	<i>South</i>	<i>East</i>
Total (per cent)	100	100	100	100	100
Grain and cereal products	54	55	36	32	30
Meat, fish, eggs and milk	24	32	31	29	37
Fruits and vegetables	9	10	13	13	11
Others ^{a/}	13	3	20	26	22

1981

<i>Item</i>	<i>Northeast</i>	<i>North</i>	<i>Central</i>	<i>South</i>	<i>Greater Bangkok</i>
Total (per cent)	100	100	100	100	100
Grain and cereal products	37	29	24	23	11
Meat, fish, eggs and milk	31	30	28	28	22
Fruits and vegetables	13	15	15	14	11
Others ^{a/}	19	26	33	35	56 ^{b/}

1986

<i>Item</i>	<i>Northeast</i>	<i>North</i>	<i>Central</i>	<i>South</i>	<i>Greater Bangkok</i>
Total (per cent)	100	100	100	100	100
Grain and cereal products	29	25	20	20	20
Meat, fish, eggs and milk	38	35	33	33	23
Fruits and vegetables	17	16	16	16	12
Others ^{a/}	16	24	30	32	54 ^{b/}

Source: National Statistical Office, *Household Expenditure Survey 2506 (1962) Whole Kingdom; Socio-economic Survey 1981, data sheet; and Report of the 1986 Household Socio-economic Survey.*

^{a/} Including ready cooked food, beverages and food away from home.

^{b/} A rather high share here reflects greater expenditure on food away from home and on beverages.

been uneven. The northeast remains the region with the highest share of expenditure on food grains and cereals.

Tables 15a and 15b show a breakdown of household expenditure between food and other items (housing, clothing, durable consumer goods and others) in 1981 and 1986, with details by municipal (urban) and non-municipal (rural) areas of different regions. Firstly, comparing 1981 and 1986 we see noticeable

Table 15a. Monthly household expenditure breakdowns, 1981

	<i>Municipal area</i>		<i>Non-municipal area</i>	
	<i>Bahts</i>	<i>Per cent</i>	<i>Bahts</i>	<i>Per cent</i>
Northeast				
Total expenditure	4 797	100	2 376	100
Food	2 007	42	1 235	52
Others	2 790	58	1 141	48
North				
Total expenditure	5 194	100	2 530	100
Food	2 072	40	2 059	49
Others	3 122	60	1 271	51
Central				
Total expenditure	5 634	100	3 086	100
Food	2 419	43	2 156	46
Others	3 215	57	1 915	54
South				
Total expenditure	5 284	100	3 086	100
Food	2 150	41	1 543	50
Others	3 134	59	1 543	50
City core of Greater Bangkok				
Total expenditure	6 790	100	4 248	100
Food	2 921	43	1 955	46
Others	3 869	56	2 293	54

Source: National Statistical office, *Socio-economic Survey 1981*.

shifts in the consumption pattern towards non-food items, both in urban and rural areas. Secondly, across the municipal areas in each year the levels of expenditures do not differ greatly between regions and the consumption pattern between food and non-food was rather alike. For 1986, there are separate figures for sanitary districts which may be thought of as "semi-urbanised" areas. Here the levels of consumption were much lower than municipal areas, but show very similar pattern of consumption. Thirdly, in non-municipal or rural areas, the levels of consumption were much lower than those of the municipal areas and showed a high degree of variation across regions. Again the northeast had the lowest consumption expenditure and the highest share of food in the total expenditure.

While some of the key indicators of the general quality of life show some improvement, there are some important areas where Thailand's record is less impressive. These areas concern the availability of clean drinking water supplies

and toilet facilities in rural areas, health hazards at work, and the general deterioration of living environment especially in urban areas.

Table 15b. Monthly household expenditure breakdowns, 1986

	<i>Municipal area</i>		<i>Non-municipal sanitary districts</i>		<i>Non-municipal villages</i>	
	<i>Bahts</i>	<i>Per cent</i>	<i>Bahts</i>	<i>Per cent</i>	<i>Bahts</i>	<i>Per cent</i>
Northeast						
Total expenditure	6 002	100	3 893	100	2 548	100
Food	2 008	34	1 504	39	1 087	43
Others	3 994	66	2 389	61	1 461	57
North						
Total expenditure	6 280	100	3 273	100	2 904	100
Food	2 083	33	1 255	38	1 167	40
Others	4 197	67	2 018	62	1 739	60
Central						
Total expenditure	5 977	100	4 920	100	3 776	100
Food	2 083	35	1 796	37	1 532	41
Others	3 894	65	3 124	63	2 244	59
South						
Total expenditure	5 817	100	4 477	100	3 466	100
Food	2 058	35	1 745	37	1 391	40
Others	3 759	65	2 732	73	2 075	60
City core of Greater Bangkok						
Total expenditure	6 857	100	6 712	100	5 486	100
Food	2 402	35	2 520	38	1 985	36
Others	4 455	65	4 192	62	3 501	64

Source: National Statistical Office, *Report of the 1986 Household Socio-economic Survey*.

C. TOILETS AND DRINKING WATER IN RURAL AREAS

The percentage of rural households having toilets was as low as one third in the 1970s. Since then it has been increasing steadily at a rate of roughly 1 per cent a year. However that still means that by the mid-1980s more than half of all rural households were without toilets (table 16).

In 1984, 60 per cent of households had access to safe drinking water supplies, and this figure has increased rapidly in the late 1980s to reach nearly 80

Table 16. Percentage of rural households (non-municipal areas) with toilets and access to clean drinking water, Thailand (Percentage of households)

<i>Year</i>	<i>Toilets</i>	<i>Clean drinking water</i>
1975	33.87	12.76
1980	42.79	23.06
1984	44.59	58.97
1989	n.a.	78.25

Source: Ministry of Public Health.

per cent by 1989. But there are still wide regional differences in this standard as seen in table 17.

Table 17. Coverage of safe drinking water supply by region, 1989

<i>Region</i>	<i>North</i>	<i>Northeast</i>	<i>Central</i>	<i>South</i>	<i>All</i>
Coverage (per cent)	69.59	94.12	79.10	45.22	78.25

Source: Ministry of Public Health, *Thailand's Health Profile*, Bangkok, 1990.

D. HEALTH HAZARDS FROM INDUSTRIAL WORK

In some respects health hazards at work have diminished while in other respects the situation has deteriorated. In factories with well-known health hazards such as the pesticide factories, the incidence of pesticide poisoning as can be measured by the proportion of workers having an unacceptable level of cholinesterase in their blood has shown a declining trend. But the concentration of poisonous metals in the air in factories and mines has tended to deteriorate. Tests have shown an increasing proportion of samples with concentration levels of lead and manganese exceeding the safety limit. Statistics on accidents from work also showed an increasing trend.⁶

With increased industrialization and limited machinery for policing standards of safety at work, health hazards at the workplace are likely to become worse in the future. In a recent industrial dispute in an electronics company, one of the workers' grievances against the management was that management had failed to

⁶ Phongpaichit and Karpisit, *op. cit.*, pp. 27-31; and Public Health Ministry, *Basic Information on Occupational Health Hazards 1982-1989*, Bangkok.

respond satisfactorily after the Public Health Ministry had found 30 per cent of the workers with the concentration of the lead content in their blood exceeding the safety limit.⁷

E. THE GENERAL LIVING ENVIRONMENT

Pollution has increasingly become a problem for people living in urban areas. The worsening of the living environment is directly correlated to the increased level of industrialization and urbanization. The problem is relatively new in Thailand and the government's interest in this issue is still a recent phenomenon. This is reflected in the official publication of statistics on air and water pollution which began only in 1982/83. Statistics show that the concentration level of suspended particles and of lead particles in Bangkok Metropolis in the first half of the 1980s showed a definite increasing trend, but that the absolute level was still below the critical level.

Water pollution in the Chaophaya river is clearly worsening at a rapid rate. The level of pollution is measured by the dissolved oxygen content which should not fall below 1 milligram per litre. Usually the dissolved oxygen level in the Chaophaya River is above the critical level. But near industrial areas, it is already below the critical level. And the data show a deteriorating trend over time.⁸

In general the living environment in rural areas has deteriorated at a slower pace than in urban areas. But in certain areas the problems are starting to emerge. Industrial pollution is invading many villages as factories move into rural areas. Farmers' complaints about the hazard from factory chemical wastes, from commercial fish and shrimp farms, from salt mines and other industries are now a regular feature in the mass media.

Awareness of the problems arising from the destruction of forest reserves has increased rapidly over the past 3-4 years. For several years previously villagers, particularly in the northeast, had complained that the destruction of forests on the watersheds was harming water supplies and damaging agriculture. In 1989 a landslide in the south of Thailand, which swept away a whole village and caused many deaths, was attributed to forest destruction. Subsequently the government for the first time enacted measures to restrict the felling and trade in timber. Since then, the question of forest destruction, forest encroachment and reforestation have become major political issues.

⁷ *The Manager*, Bangkok, 21 August 1991.

⁸ Phongpaichit and Karpisit, *op. cit.*, p. 24.

The issues involved are highly complex and also politically fraught. Thailand's agricultural expansion for the past century had actually involved gradual encroachment into wastes and forest areas. Over time the government had designated certain areas as reserved forests and forbidden access, but had never established an adequate machinery to police this regulation. As reserves of waste land had become scarce in the mid-twentieth century, the impetus of expanding extensive agriculture had inevitably flowed into the areas designated as reserved forests. In addition, many powerful financial and political interests had for a long time been involved in the lucrative timber trade. When government began to take a renewed interest in forest reserves it was forced to recognize that certain areas of reserved forest had already become effectively deforested. Thus the government established rules for declaring such areas of forest as "degraded" and hence available for other kinds of use. And the government also launched various schemes to encourage redevelopment or reforestation of degraded areas.

Unfortunately, these measures were wide open to abuse, mainly in two ways. First, a land developer interested in taking over a forest area could first lay it waste, then have it declared degraded' and then proceed with development. Second, various commercial farming projects with questionable ecological results, such as eucalyptus plantations, could be legitimated under the reforestation schemes.

As a result of the uncertainties over forest law and administration, two types of dispute have become a regular feature of rural Thailand in the late 1980s and early 1990s. The first are scandals over major forest encroachments by powerful financial and political interests. In the most notable of these, the Suan Kitti affair of 1989, a major land developer was accused of acquiring millions of rai of degraded forests for eucalyptus development through the connivance of major figures in the government and administration. The second are disputes between various parties who claim to be trying to defend the forests, and here the most notable is the Pra Prachak affair. In this case, the army and a group led by a forest monk clashed violently when both claimed to be attempting to protect a reserved forest against encroachment. These two types of dispute have led to a trend of sporadic but increasing petty violence in Thailand's forests.

V. GOVERNMENT, BUREAUCRACY, MILITARY AND SOCIAL POLICIES

A. THE POLITICAL FRAMEWORK OF POLICY-MAKING

To understand the Thai government's attitude to social policy-making, it is first necessary to understand its basic ruling traditions. The fundamental structure

of the Thai bureaucracy evolved around the turn of the twentieth century under the aegis of a modernizing monarchy. The major role of the bureaucracy was to integrate and control what was at the time a highly fragmented geographical area and highly diverse population. From its beginnings, the Thai bureaucracy has been committed to a philosophy of *control* within the context of a supreme power, the monarchy.

In the 1930s, a revolution promoted from within the bureaucracy transformed the monarchy into a constitutional monarchy and gave the bureaucracy itself more unfettered access to power. In the aftermath of this revolution, the element of the bureaucracy which emerged as the most powerful was the military. From then until now, the military has dominated Thai governments for all but a very few years.

Under the aegis of the military, the orientation of the Thai government towards control and top-down management of the society was substantially reinforced. Respect for “legitimate authority” and attitudes of acute subservience were etched into the political culture. Power transitions were very much internal affairs of the military.

The cold-war period lent another aspect to this basic government philosophy. The Indochina conflict made Thailand a front-line state in the cold war. This focused attention on the need to develop the economy as a bulwark against communism. The success of the economic management policies at the macro level as outlined in the earlier sections is indicative of how much attention past governments of Thailand have given to building up the necessary manpower and institutions required to run the economy. These efforts were helped greatly by technical and financial assistance from the World Bank and grant aid from various governments of developed countries. The need to promote economic growth with economic stability was paramount. The government wished the economy to grow so that more revenue could be generated to pay for the expenses in running the armed forces, economic management and the bureaucracy. Within the context of the cold war in the 1960s and 1970s the Thai government and her allies in the free world hoped to prevent communism from spreading into Thailand by getting the economic growth going along the lines of the free enterprise system. In these efforts, little if any attention was paid to questions concerning the impact of economic growth. The government and its advisers tended to assume that trickle-down effects would take care of poverty and other social concerns.

B. MECHANISMS FOR SOCIAL DECISION-MAKING

Insofar as the government had any social policy, it was predicated on the philosophy of economic growth. In other words, it was not based on the concept of a welfare state. But rather was based on the theory of free enterprise and limited government intervention in the manner of social and economic philosophy of the major donors of grant aid and the provider of loans to Thailand, namely the United States government and the World Bank. Thai government agencies and the World Bank paid little attention to social policies.

However the Thai government, and especially the military, with help from the United States government, paid much attention to policies and measures aimed to suppress attempts by grass roots organizations to acquire a role in economic and social decision-making, and to obstruct any direct political participation at the levels of the villages and workers' organizations. The fear of communism was quickly translated into a fear of any mass organization which had not been organized by the legitimate authorities. The elites of Thailand equated popular demand for participation in the political process with political radicalism and incipient communism. Thus they made sure that mass-based organizations had no chance to develop into an effective political force. They also carefully orchestrated the political system in such a way that only the conservative elites in society had the opportunity to participate in decision-making. The core of such political elites are the military and the high bureaucracy. Technocrats trained to manage a modern economy and to serve the bureaucracy were instrumental in designing policies along the lines of the economic philosophy based on the free enterprise system and minimum government intervention.

Big businesses in the beginning were also excluded from direct participation in decision-making. But over the years business has gradually pushed its way into the decision-making process. This has been a natural outgrowth of the increasing importance of domestic capital in the Thai economy from the 1960s onwards. By the second half of the 1970s, business took the lead in establishing political parties with the prime objective of wresting some degree of control over economic and social decision-making. They have been active in pushing for the development of parliamentary democracy in Thailand because they see it as the only way they can enter the decision-making process and share power with the traditional elites. For the most part, bit business is again interested mainly in economic policies and economic decision-making, particularly as these have a direct bearing on their individual and collective interests. But they also take an interest in social policies because of their awareness of the need to build a base of political support which is broader than their own limited group.

Within this administrative and political framework, it is not surprising that little attention has been paid to social policies designed to limit and correct the negative consequences of rapid economic growth. But it is not true that the government has not introduced any policies to correct social ills. Some attempts have been made. However up to 1988 most initiatives in social reform were very much part of the top-down approach. Policies were evolved by technocrats and more or less imposed upon the people with very little regard to their true needs and with almost no attempt to involve their participation in either the development or implementation of policy.

Even one generation ago, Thailand could reasonably accurately be described as a fairly simple society consisting of a peasant mass and a small elite of bureaucrats, aristocrats and military top-brass. In such a context, the top-down approach to social reform is at least understandable. But over the past generation, Thailand has grown much more complex. And in the last decade or so, the pace of change has become very rapid indeed. The governing elites have resisted change in the political superstructure, and have attempted to preserve their near monopoly over the policy-making processes. For the 33 years of high economic growth spanning from 1957 to 1991, the Thai political system was under a military dictatorial regime for at least 16 years, and under a semi-democratic regime with a high degree of military influence for another 14 years. Only two years have passed under a more or less full parliamentary democratic regime. And for all of these years, the military leaders dominated the Prime Ministership and the cabinet posts. In the process, the repressive political structure effectively prohibited effective grassroots organizations with the exception of some business associations and some mass organizations initiated or sponsored by the government. In such a historical context, the only social policies were those initiated by technocrats from a top down approach. They were often well-intentioned. But they have rarely been effective.

From 1988 to February 1991, Thailand was ruled by a government headed by an elected prime minister and responsible to an elected parliament. This period saw the passage of a Social Security Act which represented the most significant measure of social welfare policy in Thailand's modern history. If it is implemented properly it promises to benefit the people it aims to benefit, namely the workers directly. It was enacted because the workers themselves pressed for it and found support among the democratically elected MPs.

The next section covers three major areas in which the government has attempted to cure social problems through legislative and bureaucratic action. These areas are human resource development, the rural poverty programme in the Fifth Social and Economic Development Plan, and the Social Security Act of

1990. The first two are examples of top-down policy-making promoted largely by technocrats within the government and associated institutions. The third was a political enactment within the context of the parliamentary democratic system.

C. POLICY-MAKING FOR HUMAN RESOURCE DEVELOPMENT

For many decades, the government of Thailand has paid much attention to education. This is seen in the high percentage share of the annual national budget allocated for education. But for a long time the basic rationale for education was based on political consideration. Compulsory elementary education with a common school curriculum has been a major means for spreading the Thai language and socializing the rural people to the central region dialect and culture. The common language, dialect and culture are important as a political tool to bind people together. Further, the government was keen to spread basic literacy so that people should be able to read the government announcements. With all these strong political motivations, much effort has been put in to give 6 years of elementary education to children of the relevant age group (7-12). This is reflected in the enrolment rate for elementary education which had reached as high as 91 per cent by the early 1980s.

But the high enrolment rate for elementary schools must be interpreted with caution. The drop-out rate as recorded in the official statistics for elementary education has been increasing for most of the elementary grades (table 18).

While elementary education has been well-promoted by government, secondary education has been comparatively weak. It has not been made

Table 18. Drop-out rate for elementary education

<i>Grade</i>	<i>1978</i>	<i>1982</i>	<i>1987/88</i>
Grade 1	1.98	2.95	n.a.
Grade 2	1.78	1.83	9.2
Grade 3	1.77	2.06	1.8
Grade 4	1.85	2.45	2.5
Grade 5	3.32	4.85	3.1
Grade 6	2.15	0.62	3.6
Average all grades	2.08	2.53	7.4

Source: The Office of the National Council, Prime Minister Office, *Report of the Present State of Education and an Evaluation of the Results of the Educational Plan, The Fifth National Education Plan B.E. 2525-2929* (in Thai), p. 77; and *Report of the Education Statistics 1988*, by the Office of the Under Secretary, Ministry of Education.

compulsory. It is not free. And the limited provision of secondary schools, particularly in the rural areas, has meant that large parts of the population are effectively denied access to secondary education. As a result, the enrolment rate in secondary education in the early 1980s was still as low as 30 per cent. This compared poorly to the enrolment rates found in other Asian countries (table 19).

Table 19. Gross enrolment ratios for selected Asian economies, 1984

<i>Economy</i>	<i>Levels of education</i>		
	<i>Primary</i>	<i>Secondary</i>	<i>Tertiary</i>
Thailand	97.0	30.0	22.5
Republic of Korea	96.0	34.0	26.1
Taiwan Province of China	100.0	91.0	12.5
Singapore	115.0	71.1	11.8
Hong Kong	105.0	69.0	12.8
Indonesia	118.0	39.0	6.5
Malaysia	99.0	53.0	6.1
Philippines	107.0	68.0	29.1

Source: IBRD, *World Development Report, 1987*. Cited in Chalongphob Sussangkarn, *Production Structures, Labour Markets and Human Capital Investment: Issues of Balance for Thailand*, Nihon University, Population Research Institute, Tokyo, Japan, p. 25.

A result of the above pattern of education enrolment in Thailand has been that the majority of the Thai labour force has only elementary education or less. Moreover, the situation only improved slightly between 1977 and 1986 (table 20). In 1977, 93 per cent of the total workforce had no more than elementary education, and by 1986 the proportion had dropped slightly to 86 per cent. Among the workforce in the industrial sector, the proportion with no more than elementary education fell hardly at all from 89 per cent in 1977 to 88 per cent in 1986.

Thailand's skewed educational development may be attributed to the structure of the labour market and government policy. The majority of Thailand's labour force works in agriculture. And since agriculture is based on extensive farming, this has not required much educational background. Chalongphob has cited a study by Jamison and Lau (1982) which shows that 4 years of completed primary education generally has a significant impact on a farmer's agricultural productivity, but more than 4 years has no significant additive impact. In more modern farms, higher education does have some extra impact on productivity but not consistently. It may be concluded that people have not pressed for better provision of post-primary education because it will have no impact on their productivity and

**Table 20. Total employed persons by education level
(Percentage)**

	<i>P6</i>	<i>Elementary</i>	<i>Secondary</i>	<i>Vocational</i>	<i>Teachers college</i>	<i>University</i>	<i>Total</i>
1977							
Agriculture	17.74	80.96	1.17	0.04	0.07	0.01	100.0
Industry	12.14	77.13	7.01	2.26	0.19	1.27	100.0
Services	13.85	57.43	13.95	4.88	6.24	3.64	100.0
Total	16.75	76.45	3.95	1.10	1.17	0.77	100.0
1986							
Agriculture	11.12	85.30	3.01	0.28	0.14	0.14	100.0
Industry	8.10	69.78	13.91	4.51	0.47	3.24	100.0
Services	8.26	51.01	15.83	7.58	8.10	9.21	100.0
Total	10.15	75.86	7.07	2.39	1.99	2.53	100.0

Source: National Statistical Office, cited in Teerana Bhongmakapat, "Structural adjustment: experience of Thailand", paper presented at UNESCO Regional Expert Meeting on Coping with Effects of Structural Adjustment: Asia-Pacific Experiences, 25-28 June 1991, Seoul, Republic of Korea, p. 50.

hence on their income. This view is reinforced by other studies which show that only in urban formal-sector employment does post-primary education have a clear benefit for productivity and earning capacity, but until very recently this kind of employment only accounted for a very small minority of the urban population. Even for other kinds of urban employment which predominate in Thailand – informal sector, small-scale, self-employed sectors – education beyond the elementary level does not have a significant effect on earning capacity.

This kind of analysis, however, assumes a great deal of hindsight. The fact is that most rural people did not have a great deal of choice. The government put resources into the provision of elementary education largely for the political motives described above. But has never felt a similar motivation to promote secondary education. It is possible that better availability of secondary education would have enabled the farmers more to modernize their farms. But they were effectively denied access both by the lack of secondary schools in the rural areas, and the relatively high price of secondary education in the context of agricultural incomes.

In the context of industrialization, the low education level of the mass of the Thai workforce has become a constraint. Many industrial employers require or prefer labour with at least some measure of secondary education. In the early 1980s this had a definite impact on the trend of Thai development. The decline in

agriculture created a problem for government to find ways to sustain the pace of economic growth and maintain export income. Realizing the low-education profile of the Thai workforce, the government chose to promote services, which by and large did not require highly educated labour, rather than industrialization.⁹ During the recession of the 1980s, the government switched from primary export promotion policies to services-led growth as a quick means to earn foreign exchange. The choice of this development strategy in effect enabled the government to delay the decision to improve the educational levels of the people above the elementary education.

Sussangkarn in a recent study has pointed out that the educational imbalances in the Thailand labour force is now acting as a constraint on Thailand's efforts to upgrade her industrialization. Slow increases in the supply of educated workers will lead to large wage and price increases with insignificant impact on output, thus constraining the efforts to achieve sustained growth.¹⁰ The failure to invest in secondary education, and the consequent decision to pursue service-led growth, have led to a continued imbalance in the educational profile of the Thai workforce.

D. THE RURAL POVERTY PROGRAMME IN THE FIFTH PLAN (1982-1986)

Awareness of rural poverty was triggered by the expansion of the activities of the Communist Party of Thailand in the mid-1970s. As a result, several government agencies worked on schemes to alleviate rural poverty including a proposal that Thailand should adopt a social security programmes for the total population. But as one newspaper commented at the time: "Social welfare legislation has never been a success (in Thailand) because of the unwillingness of successive governments on subsidizing welfare programmes and a poor reaction from the public".¹¹ None of the schemes mooted in the 1970s bore any result.

A World Bank study on poverty and income distribution in Thailand published in 1979 gave technocrats a handle on the quantifiable extent of rural poverty. This first study of poverty found that in 1975/76 33 per cent of the rural population (or 10.9 million people) lived below the poverty line of 1981 baht per person per year.¹² Some years later technocrats in the National Economic and

⁹ Phongpaichit, 1991a.

¹⁰ Sussangkarn, 1991.

¹¹ *Bangkok World*, 24 October 1974.

¹² This was the level of income which would enable a person to acquire 1,978 calories per day, the level sufficient for subsistence. See World Bank, 1979.

Social Development Board (NESDB) were able to persuade the government to include in the Fifth Plan a programme of work to combat rural poverty along with suggestions concerning budget allocations. This was a significant progression from past attempts to develop social policies which had tended to stop at the stage of writing beautiful intentions and had not matured as far as specific programmes and budget allocations.

This rural poverty programme was an innovation from previous attempts because it started by identifying the localities where the poor were concentrated. Then an extensive study of these areas was made to determine the causes of the poverty. It was found that land problems were not the real cause of poverty as many theorists had expected. Instead the project identified three major causes or rather symptoms of poverty: inadequate living (or hunger), ill health and ignorance. Under the guidance of the National Economic and Social Development Board, technocrats of the four major ministries of Interior, Agriculture, Health and Education worked together to design projects and programmes to help villagers combat the problems of hunger, ill health and ignorance. The aims were to (1) relieve the problems of hunger, with the help of the Ministry of Agriculture's crop and livestock promotion schemes, supplemented with a land bank, buffalo banks, rice banks and saving schemes; (2) reduce ignorance by making sure the poor villagers had at least elementary education; and (3) improving health through various basic health programmes of the Public Health Ministry.

The rural poverty programme was a top-down approach. The NESDB had spent several years collecting local information in order to use it to formulate the programmes which would suit the needs of the rural poor. However, in the end it was the technocrats who designed the range of projects and programmes. Some attempts were made to include villagers into the planning exercise. But technocrats in the Ministry of Interior who played an active part in the whole exercise were suspicious of the participation from the grassroots. The village organization which was supposed to represent the poor people in the planning organization ended up being appointed by officials of the Ministry of Interior.

The programme was successful in as far as it created awareness among the officials and started some local organization among the people. But it was criticized as being too much of a top-down approach. For many critics it appeared as a charity exercise for the poor, rather than a rigorous programme to promote the potential of the villagers both economically and politically. The programme however succeeded in channelling a section of the government budget to rural development projects.

E. THE SOCIAL SECURITY ACT 1990

In August 1990 a Social Security Bill was passed into law. This Act benefits the workers directly. Under the Act, a central social security fund has been set up to provide assistance to workers. The fund comes from equal contributions from the employees (amounting to 1.5 per cent of the wage), employers and government. It will be used to provide free medical services and other benefits for all private employees covered by the Act. To date benefits relating to injury, disability and death unrelated to work have gone into effect (since March 1991). Provisions for pregnancy leave will be operative beginning in October 1991. Other benefits including child care, retirement and unemployment benefits will come into force at a later date.

The history of this Social Security Act is an interesting case study of a social policy which was not initiated by technocrats and which was adopted because of growing pressure from the workers who would be the beneficiary of the law. The passing of this law in 1990 would not have been possible outside the democratic political system and without support of members of parliament.

The Act has a very long history. The social security scheme was first proposed as long ago as 1954 following a spate of workers unrest and the beginnings of a labour movement. The government at the time was forced, to develop the Social Security Bill to appease unrest and to garner workers' support. But the passage of the Bill was interrupted by the coup of 1957.

Throughout the 1960s and the 1970s various attempts were made by technocrats to legislate a social security bill for workers in urban areas to cover sickness, maternity, work injuries, unemployment and death benefits. But all attempts failed. In 1964 a bill was drafted and as a newspaper commented at the time: "the bill was approved by the cabinet but the National Research Council found it to be unsuitable at the time and was shelved temporarily".¹³ Again in 1971, "Interior Minister General Prapas Charusathiara said the enforcement of the social security act will have to be delayed until a suitable time".¹⁴ Other attempts met similar fates.

In the mid 1970s increased number of strikes and industrial disputes forced the government to reconsider the introduction of a the Social Security Law. Eventually however the government sought to divert the attention of the workers movement by proposing instead to set up a compensation fund for workers who

¹³ *Bangkok World*, 4 December 1964.

¹⁴ *Bangkok World*, 9 December 1971.

were injured or sick during work rather than a full-blown social security programme. In the early 1980s workers associations again tried to push for the extension of the compensation fund to cover sickness outside the working hours. The government under Prem Tinsulanond took 7 years to decide to accept the extension in principle and forwarded the bill to the Juridical Council for consideration in August 1987. But the bill did not become law since the parliament was dissolved later in that month.

In 1988 workers intensified their pressure to get the social security bill accepted by the government. They were supported by academics and student organizations. When in 1988 Chatichai was elected MP and headed the government as the first elected Prime Minister for 12 years, he promised the workers to push for the Social Security Bill. Eventually the Bill was proposed by several MPs in 1989. It passed the Lower House but the senate opposed it and sought an amendment on grounds that it would cause problems to the government. The senate further objected to the bill on the grounds that it was unfair to make employers and the government pay for the workers' welfare. The senate claimed that employers and the government (in the case of state enterprises) had already given many benefits to their employees. Heavy lobbying by the Employers Confederation of Thailand was made as the House Scrutiny Committee reviewed the Social Security Bill following the objection from the senate. The Federation agreed to the introduction of the Social Security programmes but demanded several amendments including a higher level of government contribution to the fund, and removal of provisions concerning punishment for employers who maltreated workers.

Following the objection from the senate the workers and academics intensified their campaigns for the Bill. Virtually all of the MPs supported the Bill but they were prepared to accept modifications for fear that implementation would be difficult if the employers and other conservative elements in society including the military remained fundamentally opposed. When the modified version of the Bill was presented to Parliament for the second time in August 1990, it passed unanimously by 330 votes to zero.

This Social Security Law took 36 years from its first introduction in 1954 to its final passage in 1990. The history of this law indicates clearly the need to open up the political system to permit underprivileged groups to organize and gain some access to the decision-making process in order that they may push for kinds of social reforms which give them some benefit from the process of economic change. As the society has become more complex under the process of industrialization, the pressure groups or strategic groups which have emerged as most powerful tend to be the big business, the bureaucrats and high officials in the

military. If these groups alone control the decision-making process under a more authoritarian regime then there will be very little chance for the poor to participate in decision-making and direct some of the gains from economic growth to their benefit.

VI. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The major economic policies pursued to restructure the economy in the 1980s consisted of a combination of cautious fiscal and monetary policies on the one hand and liberalization in trade and direct promotion of manufacturing exports on the other. Successful liberalization programmes were achieved beginning with the devaluation in 1984, a series of tariff reductions, tax reform, and the liberalization of exchange control.

While the adjustments in economic management were achieved with relative ease, social reforms have not followed at an equivalent pace. Adjustments in human resources development policies were initiated, but the implementation occurred with a time lag. Privatization was attempted but a limited success was achieved due to a strong opposition to the government policy from an alliance of the military and the state enterprise workers. But the state enterprise sector in Thailand is confined mostly to public utilities. Its overall size is relatively small as compared to some other countries in the region. The slow pace of Privatization delayed progress in attempts to improve the infrastructures of the country with the help of private investment. But it did not interfere greatly with the export-orientation industrialization.

The success of the economic policy reforms may be attributed to the work of technocrats, to the extent that they recommended the right sets of policies. Many policy reforms were initiated by technocrats in the Ministry of Finance, the Bank of Thailand, the National Economic and Social Development Board, with assistance from international organizations such as the World Bank and the IMF. But a closer analysis reveals two important changes in the economic decision-making process. Firstly, by the mid 1980s major business groups organized through trade associations, political parties and various types of government-business liaisons, have become important in the decision-making process. They successfully lobbied and convinced the government the need to liberalize to promote exports of manufactures.¹⁵

¹⁵ See Pasuk Phongpaichit, "Technocrats, businessmen and general: economic decision making and democracy in Thailand" (in Thai). Forthcoming in *Thammasat Economic Journal*, 1991.

Secondly, through the parliamentary debates under the semi-democratic and democratic systems operated from 1981 until the coup in February 1991, the major business groups and the MPs were able to limit the size of the military budget and free some of the resources for development purposes. This is evident from one key statistic: the share of the military budget in total national expenditures fell from around 20 per cent in the 1980s to seventeen per cent in 1990 and to fifteen per cent in 1991.¹⁶

The elites have been unresponsive to any pressures for social reforms because they have not faced any serious challenge from organized groups. They were also able to postpone many social reforms for another reason. Up to the mid 1980s Thailand was still a land-abundant country relative to the population size. The rural sector thus had a high capacity to act as a shock absorber to the growing population and to the recession of the urban economy. But things began to change in the 1980s. Attempts to maintain a closed political system promise an increase in political and social tension.

Without the democratic process, Thailand is unlikely to evolve policies which benefit the weaker sections of society. Technocrats may be able to formulate policies for social change but these will always face two problems. First if they emerge from ministries and think tanks they may reflect the theoretical orientations of the propounders rather than the needs and demands of those which they aim to benefit. Second, such policies stand little chance of implementation if they do not suit the interest of those groups entrenched in positions of power.

As the society changes and becomes more complex, the role of technocrats in the policy-making process must change. Policy-making must evolve out of interplay between interest groups within society. Social reforms require budget allocations and thus must compete with other proposals for their share of the government budget. They must compete against infrastructure projects, military arms purchases, official salaries and so on. Social reforms also change the economic and political relationships between groups. If government passes social security legislation, employers face higher costs. If government invests more budget in spreading secondary and tertiary education in the rural areas, it must expect that the recipients will eventually learn to fight for their own rights and dignity.

¹⁶ See Pasuk Phongpaichit, "The politics of economic policy reform in Thailand", paper presented at a Seminar on Politics of Economic Policy Reform, the Asian Institute of Management, Manila, October 1991.

The relative failure of the agricultural sector to benefit from the process of economic growth was ultimately a consequence of their lack of political strength. As we saw in the data, farm income declined absolutely during the recession, and by the end of the decade had not really returned to the earlier level. Yet there has been no substantial policy initiative designed specifically to improve agricultural incomes.

It is fairly certain that Thailand will continue to pursue the strategy of economic growth based on manufactured exports and services, with an underlying commitment to the philosophy of the free enterprise system with minimum government intervention. It is also certain that the top elites of the country wish to keep their power intact and that it would take sometime before the bureaucracy will re-orient itself away from the top-down approach to social policies. While the top-down approach works quite well with the economic management policies, it will be unsuitable in areas of social policies. While economic management deals to a large extent with the mechanism of the economy, social policies are about people. The top-down approach is therefore unsuitable because it is not based on what people feel or want but on what technocrats consider suitable or good for political stability.

The reviews of some of the government social policies above show clearly that for fruitful social policies to be introduced and carried out, the political system must be open to permit participation in the political process, and more importantly in the decision-making process.

REFERENCES

- Bhongmakapat, Teerana (1991). "Structural adjustment: experience in Thailand", paper presented at UNESCO Regional Expert Meeting on Coping with Effects of Structural Adjustment: Asia-Pacific Experiences, 25-28 June 1991, Seoul, Republic of Korea.
- Jamison, D.T. and L.J. Lau (1982). *Farmer Education and Farm Efficiency*, John Hopkins University Press.
- National Economic and Social Development Board (1991). *Managing the Urban Informal Sector in Thailand: A Search for Practical Policies Based on the Basic Needs Approach*, funded by the International Development Research Centre (IDRC), Bangkok.
- Phongpaichit, Pasuk, Thammarak Karnpisit (1987). *The Social Indicators for Thailand: the 1980s*, for The Social Projects Division, National Economic and Social Development Board, with support from the UNICEF.

- Phongpaichit, Pasuk (1990). *The New Wave of Japanese Investment in ASEAN: Development and Prospects*, Institute of Southeast Asian Studies, Singapore.
- _____ (1991a). "Thailand service sector development and prospects" (in Thai), *Thammasat Economic Journal*, June 1991.
- _____ (1991b). "Nu, Nid, Noi and Thailand's informal sector in rapid growth", a study prepared for the Institute of Developing Economies, Tokyo, Japan.
- _____ (1991c). "The politics of economic policy reform in Thailand", presented at the Seminar on the Politics of Economic Policy Reform in Southeast Asia, organized by the Asian Institute of Management, 14-16 October, Manila.
- Sussangkarn, Chalongsob (1988). *Production Structure, Labour Markets and Human Capital Investments: Issues of Balance for Thailand*, Research Paper Series No. 46, Nihon University, Population Research Institute, Tokyo, April.
- _____ (1991). "Labour market and macroeconomic performance", paper presented at the annual seminar of the project on "Promotion of analysis and consideration of population consequences of development planning and policy in Thailand", organized by Thailand Development Research Institute, 22-24 February 1991, Siam Bayshore Hotel, Pattaya.
- United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP) (1988). *Internal Migration and Structural Changes in the Labour Force*, Asian Population Studies Services No. 90.
- World Bank (1979). *Income, Consumption and Poverty in Thailand*, World Bank Staff Working Paper No. 364.

This publication may be obtained from bookstores and distributors throughout the world. Please consult your bookstore or write to any of the following:

1. Sales Section
Room DC2-0853
United Nations Secretariat
New York, N.Y. 10017
USA
Tel: (212) 963-8302
Fax: (212) 963-4116
Telex: 422311 UN UI

2. Sales Section
United Nations Office at Geneva
Palais des Nations
CH-1211 Geneva 10
Switzerland
Tel: (41) (22) 917-1234
Fax: (41) (22) 917-0123
Telex: 23711 ONU CH

3. Chief
Conference and General Services Section
Division of Administration
Economic and Social Commission for
Asia and the Pacific (ESCAP)
United Nations Building
Rajdamnern Avenue
Bangkok 10200, Thailand
Tel: (662) 282-9161
Fax: (662) 282-9602
Telex: 82392 ESCAP TH

For further information on publications under this series, please address your inquiries to:

Chief
Development Research and Policy Analysis Division
Economic and Social Commission for
Asia and the Pacific (ESCAP)
Rajdamnern Avenue
Bangkok 10200, Thailand

Tel: (662) 282-9702
Fax: (662) 282-9602
Telex: 82392 ESCAP TH, 82315 ESCAP TH
Cable: ESCAP BANGKOK

كيفية الحصول على منشورات الأمم المتحدة

يمكن الحصول على منشورات الأمم المتحدة من المكتبات ودور التوزيع في جميع أنحاء العالم. استلم منها من المكتبة التي تتعامل معها أو اكتب إلى : الأمم المتحدة، قسم البيع في نيويورك أو في جنيف.

如何购取联合国出版物

联合国出版物在世界各地书店和经销商均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.
