HUMAN AND INSTITUTIONAL ASPECTS IN THE ADJUSTMENT-GROWTH PROGRAMS FOR MEDITERRANEAN DEVELOPING COUNTRIES

FRANCESCO FORTE

I.

1. Among the economists and in the business community of the Western countries a new area of economics is now gaining momentum: ethics economics.[1] It seems appropriate to consider the ethic point of view of economic matters, not only in market economy, but also in public economy and in economic policy; not only in national economic issues but also in international economics.

The ethic point of view of economics is now gradually and increasingly entering the World Bank philosophy of adjustment and growth.[2] I believe that it should also increasingly enter in the view of the European Union as for the relation between the developed countries belonging to EU of Europe and the less developed which belong to the surrounding area: as the Mediterranean countries, which from Slovenia to Turkey, to Malta, to Cyprus, to the African side of the Mediterranean sea and to the Middle East countries are partners of the "Mediterranean projects" together with the four EU countries overlooking on this sea (Spain, France, Italy, Greece).[3]

---

[1] See, among others, Amarthia Sen (1987) On Ethics and Economics, Oxford, Blackwell; (1991) Money and value: on the Ethics and Economics of Finance (Denaro e valore: etica ed economia delle finanza), Banca d'Italia; Lezioni Paolo Baffi di Moneta e Finanza, Roma, Edizioni dell'Elefante F. Forte (1996) Etica pubblica e regole del gioco. I doveri sociali di una società liberale, Napoli, Liguori; A. Fazio.

[2] World Bank, (1994) *World Development Report 1994. Infrastructure for Development*, Oxford University Press.

[3] An EU initiative for a Mediterranean policy has been officially set up in the European Council of Madrid of 15-16 december 1996 which, among others, considered also the controls to prevent illegal immigration and work to EU. The developing countries to be included, in the Mediterranean EU initiative are 17: Albania, Algeria, Bosnia, Croatia, Cyprus, Egypt, Jordan, Israel, Yugoslavia, Lebanon, Libya, Malta, Morocco, Slovenia,

The Mediterranean developing countries have problems of foreign debt and, therefore, of "adjustment". However, they have also the "need" of growing because of their unemployment and poverty issues. An ethical perspective in the adjustment growth issues implies to consider these and other human aspects of them.

Table 1

	Algeria	Cyprus	Egypt	Jordan	Israel	Palestine
Population	27,8	0,74	57,8	4,6	5,7	2,3
GDP *	44,3	7,5	36,7	4,9	72,7	2,6
Inflation rate	38,5	5,6	12,0	4,9	14,4	6
Analphab.rate	38,4	6,0	48,6	13,4	5	n.d.
Urbanis. rate	55	53	44,5	70,0	90,5	94,3
Exp. Educ. % GDP	5,7	4	5	4,0	5,8	n.d.
Scholaris. 12-17 years (%)	59,3	94	61	19,4	86	n.d.
Higher Educ.	11,8	14	12,2	19,4	34,4	n.d.
GDP per head	1593	10135	635	106	12754	113

	Lebanon	Malta	Morocco	Syria	Tunisia	Turkey
Population	2,9	0,37	26,6	13,8	8,7	59,6
GDP*	2,8	2,7	27,6	15,8	15,3	135
Inflation rate	10,6	3,5	5,7	15	5,3	125
Analphab. rate	7,6	13	56,3	29,2	33,3	17,7
Urbanis. rate	86,6	89	47,9	52	56,8	67,3
Exp. Educ. % GDP	2,0	4,0	5,8	4,2	5,9	4,0
Scholaris. 12-17 years (%)	72,8	85	38,2	54,8	65,8	5,1
Higher Educ.	27,8	13,1	10,2	18,7	10,7	14,8
GDP per head	965	7297	1037	1144	1759	2265

* Billion dollars

2. The most recent Nobel prizes on economics lay emphasis on institutions (public laws, contracts, etc.) and micro behaviours of public and private actors i.e. of individuals. This has been particularly explicit

---

Syria, Tunisia, Turkey. Already Turkey has entered as a partner of the custom union with the EU on the 31 December 1995. A free trade agreement with Slovenia is in the conclusive stage. Agreements have been signed with Israel, Morocco and Tunisia while there are deals of the EU with Egypt, Jordan and Lebanon; and proposals of deals have been made by the EU to Algeria and Syria.

with the Nobel to Douglas North. But also the Nobel to James Buchanan, head of the Public Choice School - letting aside its peculiar biases - recognises the importance of micro approach to macro economics i.e. of the individuals' point of view and the interaction between the rules of the game, at the constitutional and at the parliamentary level and at the level of bureaucracies i.e. among institutions and the actual public choices. This comment aims to emphasise that a mere conventional macroeconomic approach either of the post Keynesian kind or of the Chicago monetarist variety may result unsatisfactory also (and may be particularly) in relation to the problems of adjustment and growth of "low-middle income" developing countries characterised by external indebtness, by lack of infrastructures, unemployment and, in several cases, also inflation and budgetary unbalance.

This is not to deny the relevance of the macroeconomic views both monetarist and of post Keynesian structuralism. Obviously sound economic policy and sound public finance are prerequisites of sustained growth and cannot go without a general macro economic view. Financial macro targets in the area of budget and money are needed to keep money supply and aggregate demand under control. Public deficit ideally should be limited to capital expenditures and should not be financed by the Central bank and should be kept within an amount which can be absorbed by the market not only without inflationary pressure but also and primarily without crowding out too much productive investment by the firms and the families. There is no point in discussing whether the monetary point of view should prevail on the fiscal (budgetary) point of view or viceversa. Both matter as two sides of the same coin. Structural macro indicators as the share of savings devoted to public infrastructures and that devoted to production, the share of private versus public enterprises in the aggregate investments and product, the share of public debt on GDP, that of interests on foreign debt on GDP and on exports do matter. But these objectives cannot be effectively constructed and pursued without a disaggregate analysis of the structures and capabilities of the public institutions of the considered country (Central Government, Central Bank, local authorities, central bureaucracies, local bureaucracies) and of their public and private or quasi private counterpart (public corporations, unions, business organisations, main banks, main economic groups, foreign investors) and of the socioeconomic situation of the various social groups and communities. The social and human impact of the various policies should be considered more carefully than has been the case in the macro plans traditionally produced by the international and supranational institutions working on the problems of less developed countries and of their economic adjustments and reforms.

3. It should be noted that both Harvard and Chicago economists beside a basic macro economic view have adopted in their philosophies of the adjustment and of the economic reforms specific shock views. Thus, suggesting rapid deregulation at national as well at international trade level and great immediate changes to free market economy, they have often overlooked the human and institutional aspects calling for a less simplistic and more gradual therapy, to more attention to small business, independent workers and human aspects.

Even if of fundamental importance in the adjustment process, the deregulation and the free market economy regime, cannot be conceived either in an institutional vacuum or without considering on one side the availability of infrastructures and on the other side the human capital. And in the area of infrastructures as the 1994 Report of the World Bank emphasises, appropriate institutions guided by fair rules of the game are extremely important.

The strategy of adjustment reforms and growth, while carefully aiming to basic tenets in the area of sound money and sound public finance, should be generally more process and institutions conscious, and consequently appropriately disaggregated and selective; and more oriented to individuals both for the public and the private sector of the economy. Adjustment process clauses and related conditionality clauses on domestic deficit and on the external should consider as priority points also gradual institutional changes and reforms and related human and ethical issues.

II.

1. The approach which I am suggesting here, develops through six interrelated areas of issues and principles: each of which is considered after a basic exploration of the relevant processes of decision making and of the human conditions. Obviously the first area of issues is that of *monetary and fiscal policy*.

Why and how the political process has worked to produce - in the considered country - a sizable external debt, a resilient propensity to inflation and a weak monetary system together with unemployment and inadequate infrastructure? How are the choices in the area of money and budget made? Is the Central Bank autonomous? And has the Government an adequate control over the other public bodies: public enterprises, social security institutions, health institutions, regions (if any) and local authorities?

Who is producing deficits and external debts, among these institutions? And how is it financed? Are the banks allowed to finance these institutions without control of the Central Bank? And is the Central Bank fee to refuse to absorb public debt? Is the Government allowed to have an account with the Central Bank? How does the tax bureaucracy work? Is the tax system fitted to the socioeconomic condition of the country? How efficient are the various public expenditures?

To obtain consensus to the monetary and fiscal discipline clauses and objectives of a foreign debt restructuration, appropriate incentives should be given to the authorities of the considered country as linking financial assistance by international institutions with given performances in the money supply area and in the budgetary area. The Central Government should be made fully responsible of the Budget with appropriate reforms of the Budgetary laws vis-à-vis the parliament and the various public bodies operating outside the Central Government. The external public bodies should be prevented from being able to borrow from the banks particularly abroad. To prevent them from being able of drawing on Central Government finance on an ex post basis one should remove the *automatic* legal guarantee by the state on their debts.

Institutional reforms hindering unsound finance practices may increase the credibility of the considered country more than a shock therapy with only momentaneous effects. Obviously, however one should not confuse such substantial changes, with platonic declarations of interest as a solemn approval of a medium term financial adjustment plan, with optimistic data. The credibility of future behaviour is increased when signals of the players are costly, not when they are cheap.

In the frame of a better control on the financial policy variables, the macro quantitative targets and priorities to be assigned to the budgetary policy may be rendered selective, conscious of the operational difficulties and realistic in their timing, while the breakdown of the items of the aggregate public budgets may become more attentive to the ethical-humanitarian implications of the various choices both in the area of economies in public spending and in that of improving the revenue side of the budgets.

A paramount aspect in which the analysis of the effectiveness of institutions of the public administration should be strictly correlated to the policy suggestions is that of public revenues. One of the reasons of heavy indebtment of the central and local governments of developing countries may be their poor performance in the public revenues. But how to increase the tax yield is a problem to be considered not only from the abstract point of view of an ideal good tax system. Taking account of the operational difficulties of assessment, less sophisticated tax means may be preferable. One should also consider the "Laffer curve" effects of high progressive income taxes and of important wealth taxes, in the presence of high capital mobility. A sincere tax ethics may suggest more enforceable and less demagogic taxes, while the organisational aspects are also extremely important to combat evasion.

2. A key policy issue is that of *infrastructures*. Who are the authorities doing the choice? Are these unnecessarily bureaucratic? If there is a deficit in their budget where does it come from? On the cost or on the revenue side or from bad projects? How is the procurement of capital done?

When priorities of the public budgets are examined one can hardly find a reason for a *global* reduction of these expenditures. Some items may be cut but others need to be increased. However, public infrastructures may be expanded also without relying on the efforts of public finance.

In the 1994 Report the World Bank points out that infrastructures can deliver major benefits in economic growth, poverty alleviation and environmental sustainability, but only when they provide services that respond to effective demand and do so efficiently. It seems to me important to add that wastes may also come out because of inefficiencies in the infrastructures' area and the scarce attention devoted to maintenance expenditures, once the investments are realised.

The 1994 World Bank Report argues that the causes of past poor performance and the source of improved performance are strictly connected with appropriate incentive provisions. Its suggestions in this direction are:

1) manage infrastructures like a business not as a bureaucracy;
2) introduce competition either directly or indirectly;
3) give users and stakeholders a strong voice and a real responsibility;
4) public-private partnership.

These suggestions, together considered, lead to a conclusion which is very important from the point of view of the budgetary puzzle: while reducing the level of public expenditures and public deficit, you may (and must) increase the availability of good infrastructures through innovative policies. Infrastructures' choices, their finances, their management should be "privatised" as much as possible, both from the legal-organisational point of view of adopting a privatistic business form and from the financial-substantial point of view of ample participation of private capital and of private entrepreneurship to their realisation and management.

One does not need here to review the various options a BOT (a company obtains a concession, then with its finances builds and operates the considered infrastructure until recovers its costs and then transfers it to the Government) or BTO (a company builds and transfers the infrastructure to the Government; then the same company operates the infrastructure paying - for a period - a lease to the Government owner who, thus, services the interests and amortisation the debt made with the company to finance the project) or TBO (the ownership is transferred to the company which builds and operates the infrastructure under the control of the Government).

It is important, however, to point out that in the Mediterranean developing countries there is ample room for financing the cost of infrastructures, at least partially on the market, particularly if the raising of the capital is done with the cooperation of European financial institutions. The domestic savings of these Mediterranean countries, which often outflows for lack of attractive and safe domestic financial opportunities, may find an interesting opportunity in these projects.

Severe bottlenecks may be originated by inadequacy of infrastructures serving the export industry, agriculture and, more generally, the productive activities. Sometimes, these bottlenecks may be remedied with low cost interventions. Often bureaucracies and politicians prefer big, prestigeous projects to modest, more fruitful interventions. Here again, appropriate incentives may be found to modify these attitudes, introducing the above described incentives, constrains and opportunities.

In doing these choices one should, however, consider that infrastructures (as the World Bank underlines) do also perform civil and social functions and not only productive functions. The investment priorities should be considered from both points of view. Obviously, price policy too should be discriminated accordingly: where a social function emerges, in civil infrastructures, there may be a reason for reduction of prices. Scarcity of urban tram and bus service makes painful the increase of the low price of gasoline, practiced by some oil producing countries. Policies of increase of the price of oil should take account of the need to ease the transportation of the low income people, through some public service.

To public services for human capital too some of the above considerations and suggestions seem applicable. Here too "privatisation" - at least in the organisational form - may increase the efficiency of the activity.

Sometimes, it is the scarcity of public services for human capital which aggravates the social problems of urbanisation. A cause of excess of urbanisation and of the related social distress is the lack of schools, medical services and transportation services in the rural areas.

One should try to limit the expression of the financing of infrastructures through foreign debt, if the level of foreign indebtment is a problem for the balance of payments. This policy implies to be able to develop equity financing and the like. But one should also consider that some infrastructures give origin to inflow of foreign currency (as those in the sectors of tourism, of mining, and of ports) or to savings in imports. One should try to link as far as possible the foreign component of the financing and the foreign benefits of these infrastructures, if any. Tolls, fees, prices and contributions of various kinds should be enhanced in infrastructure, finance and management; however, not overlooking the social needs which may require selective low prices for those who truly lack the ability to pay.

3. A third group of issues has to do with *savings*, particularly those of small savers. Why domestic savings are low? What determines the choices of the savers? How institutions could be changed to enhance the propensity to save of low income earners and of the middle class and to better address their savings to investments?

An important component of the adjustment and growth policy is the equilibrium between the savings supply and the demand of them.

At first it may seem that in less developed countries, the propensity to save must, *by necessity*, be very low, because the average income level is low. However, this view is superficial for low-medium income less developed countries as those which we are discussing here. Beside the fact that affluent people here too exist and have a high propensity to save, many modest income earners may like to save for various reasons. Among them: to protect their families from the risks of unemployment, from the risks of severe illness and from old age. They may wish to save, to be able to buy a house or a piece of land; to start a small business; to support the education of children; and to leave them some wealth to allow them to improve their income level.

Therefore it is important to analyse the various reasons which may lead to a low *domestic saving ratio* to GNP and the performance of the institutions of savings. An important group of issues has to do with the outflow of capitals and with the conditions for a comeback of them. Uncertainty on property rights is among the reasons of capital outflow together with the risk of being subject to new extraordinary taxes on wealth and the like. Uncertainty of property rights and fear of property taxes may also be very important in reducing the propensity to save of less affluent families. And scarcity of attractive financial products and financial intermediaries as well as an underdeveloped banking system may also be responsible for the above phenomenon.

The development of insurance products and the promotion of fringe benefits to wage and salary earners in the form of insurances may help to increase the rate of saving. In the area of popular housing too one might develop institutions to promote savings by individuals, which, together with a subsequent loan, may allow to acquire immovable property.

Taxation devices favouring savings may be important, particularly for the low and medium earners, to stimulate savings.

Inflation may destroy the value of bank deposits, of bonds and so on. Various forms of indexation may be studied as a temporary remedy, even if the true solution lies in moderating inflation. On the other hand, the increase of savings may help in reducing inflation.

The savings deposits to inpopular housing financial institutions may easily be indexed on the cost of constructions of a standard popular house since the money is used to finance their acquisition by those who have reached a given amount of savings (indexed as above) and decide to buy the house with an additional loan. The bonds of an oil company of an oil producing country may be indexed to the price of domestic oil on the international market. The bonds of electricity companies may be indexed on the fuel employed. Saving for old age may be indexed on the cost of life and the revenue may be employed in the above mentioned public utilities.

Lotteries giving as a reward a small flat or a small piece of land, may entice the modest savings of low income savers who, in this way, may hope to increase their economic status: according to the Friedman Savage utility theory this would be an entirely rational behaviour.[4] One must think of banking institutions to which humble people may have easy access and of other easy financial institutions as the Post Office.

4. Human aspects must have a proper place in the choice of the policies. To respect *basic social policy priorities it is necessary to have social consensus on severe adjustment measures*. Ethics and economic policy may go hand in hand, at least to a certain extent.

In the traditional adjustment policies relating to foreign debt, often, one finds drastic suggestions about cutting exemptions or / and subsidies to given goods and services, to pursue an improvement of the public budget. But some of them may have a negative social impact too big in proportion to the budgetary improvement. A selective ethically conscious approach is required.

But what are and how do the existing "social institutions" and the "social components" of the public sector's activities work? A detailed analysis is needed to ascertain which social institutions and provisions are really effective in alleviating poverty, in coping with poor health conditions, in providing the low wage workers living in distant places the

---

[4] See M. Friedman and Savage (1948), The utility analysis of choices involving risk, Journal of Political Economy, n. 56.

means of transportation to and from the places of work, in providing minimum housing facilities and infrastructures to really low income families. The priorities vary from one country to the other and from one region to the other of the same country. Accurate knowledge of these differences is important to make feasible highly selective policies of reduction in the "unnecessary" social expenditures and to avoid unnecessary exacerbation. Sometimes the change in policy should be diluted and accompanied by remedies for the transitional period. For instance, low gasoline prices may have developed the habit of buying second hand cars with a high fuel consumption. Smaller (second hand) cars might be rendered available at accessible costs with an appropriate custom and tax policy in a transition period in which the price of gasoline is revised.

Often the existing social interventions and institutions are inefficient: they waste their expenditure in bureaucracy, in scarcely useful or excessive purchases of goods, in inutilised apparels and grandiose buildings, while offering poor services because of bad management, of low productivity, high rate of absenteism of the personel, etc. Other social interventions are efficient but their expenditures mostly benefit medium income classes and not the most needy part of the population. Obviously, there are situations where both kind of failures are combined together.

Reforms of the social institutions to render them more effective for the prioritary purposes often may be pursued through introducing incentives and measures analogous (in so far as applicable) to those suggested for the infrastructure sector. Any way, there is an area of overlapping between social policy and infrastructures' policy.

It is important to consider the social and human aspect in order to gain consensus on macroeconomic monetary and fiscal objectives of the adjustment process, and to avoid the impression that the main interest of the International Agencies administering the aid to which the adjustment process in conditional are merely concerned with the problems of the financial institutions, with the interest of the international business community and with those of the domestic rich people. The adjustment and growth policies must be shared and must be perceived as involving the interests of the entire populations. If these policies demand sacrifices to everybody, the justification is that they intend to pursue the interests of any social class. Everybody should have a positive perspective, after and because of the sacrifices involved in them.

The adjustment program should, as far as possible, include new social benefits given or promoted by the international financial institutions which control the adjustment process as a counterpart of the sacrifices required: its "conditionality" should not be limited to mere economic incentives.

These social benefits may be a small thing from the point of view of their financial costs, but highly important from an ethical point of view.

To the maximum possible extent the "social dossier" should be discussed from the beginning with the humanitarian associations and the social organisations, both to know their judgments about the most urgent needs and about the possible intervention and to try to convey to them the long run reasons of the general program.

5. This last point leads us to a fifth group of issues to be considered: those relating to the policies of business incentives and job creation. What is the institutional frame-work of the *productive sectors of the economy*? How are medium/large firms organised internally? Who exerts property rights on them and what are their financial and technical resources? How can one vitalise and modernise the small business sector? Disaggregate studies at the statistical level are needed to analyse the various sectors of the economy and of their potentiality: from agriculture, to mining, forestry, fishery, industrial production, transportation, electricity, telecommunications, banking, insurance, handicraft, retail trade, professional services, repairing services, tourism and related services, medical (private) services, cultural and entertainment services, new professions. It is also necessary to consider the institutional frames of each of these sectors i.e. of the laws regulating their contracts and entities (commercial law, laws regulating land property and land use, agrarian contracts, corporations law and so on), the public regulations of them (licensing of domestic activity, price controls, customs duties, rent controls, licensing of imports and exports, subsidies to export); their labour contracts regulation, the unions' role in wage and employment policy; the ways through which they are financed and how manpower and managers are skilled.

Bottlenecks in the finance for the investment and for the going concerns often hinder both the growth and modernisation of the existing firms and the new initiatives. Development of productivity may be hindered also by lack of human capital and of technological, managerial and financial know hows. Typical examples are that of marketing of agricultural products and that of touristic activities: which often either are of a poor quality or are left to foreign inventors, who - obviously - do not necessarily realise the kind of investments and activities which mostly benefit the local community. These issues have both an economic and social ethical aspects because a proper solution of them may allow small farmers, small business and workers to have a better remuneration of their efforts.

While discussing the timing and ways of privatisations and the timing and areas of international trade liberalisations - which are important to have a modern, efficient market economy - one should also consider the above questions.

In order to reach positive results which may be obtained in the two crucial areas of privatisation and of international trade liberalisation, one should think about the financial and entrepreneurial forces to be mobilised.

In the area of privatisation and deregulation a crucial question is how to make them effective and fruitful, if the bureaucrats and executives who control and manage the public bodies to be privatised are unwilling to depart from their power positions. One may hardly expect successful privatisations and appropriate deregulations, if the interests of these bureaucracies are not considered. Public managers must find a positive personal interest in the process of privatisation. In the "deregulation" issues, one needs the cooperation of the regulatory bureaucracies to reach good results instead of a chaotic situation.

One should also keep in mind that regulations and deregulations are interconnected. Entrepreneurial private activities may be hindered by bureaucratic regulations and by excessive constraints in the labour relations, but sudden international trade liberalisation may cause perverse result: because opening the doors is no aid to firms sclerotised by excessive constraints in the above mentioned areas. On the other hand, clearly, to take advantage from multilateral or bilateral liberalisations and increase domestic exports, one needs acquaintance with marketing know hows. Sometimes coordination by public policies and international cooperation in investment policies is needed. For instance, if new export opportunities are opened, but good domestic transportation facilities and good sea port facilities to export are not available, the result may be deluding. This is particularly true as for small business, which may be the most important sector for exports and for job creation also in the Mediterranean developing countries. They have been and are in most of the Asiatic new incoming countries (NIC's) and in developed countries, like Italy, export oriented. But while in developed European countries small business is enough skilled and organised to be able to export without government promotions this may not be the case in the Mediterranean developing countries. However, in this kind of services public intervention is not an easy task.

These kinds of concertations and informal coordinations and plannings should be favoured, in order to promote more broad minded and efficient business activities in the considered countries. While public enterprises may be an inefficient way to perform manufacturing activities in developing countries too, public agencies of technical assistance may be useful to promote private and particularly small business. It is naive to assume that the trade relations of now developed countries are a mere "spontaneous order" process. International cooperation and planning by *groups* of business firms of the developing and of the developed countries, interested in the new markets and investment opportunities should be pursued in this area: which according to reliable estimates, shall include about 350 millions inhabitants (only 100 in the early fifty) but not yet is a "common market". In general, in development policies, one should not give a preferential treatment to capital intensive big business, but to medium and small business which more easily create employment.

The process of acquiring the appropriate information, by those who shall make the "country programmes" cannot be of an "arm chair" kind. Often institutions of economic life have a practical meaning different from that which may result from reading and dissecting the texts of the laws and by-laws or even from that which may be given in the textbooks, which often tend to "idealise" or to "stylise" the situations. Hidden economy often is overlooked: and yet here there is an important potential of growth, which needs institutional changes: here again deregulation and regulation may be combined together to have a better economic and social framework.

6. A sixth point has to do with *interregional cooperation*. In our case, i.e. for the Mediterranean countries, this cooperation may have a peculiar ethical-humanitarian value because it has to do with two groups of interrelated problems. Those of development of less developed regions of Southern Europe, close to the regions to whom the programme of adjustment and development has to be addressed, and those of the immigrants from the Mediterranean underdeveloped countries to the European Mediterranean countries. This potentially huge immigration flow is officially controlled through quotes and other rules, which however are often violated by clandestine immigration. With some of these flows a solution might be found by providing to seasonal workers for agriculture and other activities (e.g. tourism) organised means of transportation and official recruiting systems in the countries of origin.

But more generally joint discussion of the issues relating to these immigrant by the countries of immigration and emigration may help to find solutions, for both parties, more satisfactory than the present ones.

On the other hand, it seems important to coordinate the job creation and growth policies in the less developed areas of the Mediterranean part of EU with those in the Mediterranean developing countries, because of the strong complementarity among these regions. This is particularly true in sectors as tourism and fishery, but it is also relevant as for the energetic resources and other natural resources which exist in the developing countries. In addition, while in the EU less developed

Mediterranean regions there is an excess of unemployed skilled labour, the opposite seems to be true on the other side. The same may be true in the area of public social services, as those of health and social assistance.

Finally, clearly, new initiatives in both parts of this vast area may prove more successfully if one may consider this as a single market.

III.

1. It is certainly difficult to advance *new sensible* views about facing properly (i.e. in an "effective" and "persuasive" way) the issues of economic and financial adjustment structural reforms and growth policies of developing countries with their unemployment and social unbalanced problems. The six points methodology here presented to tackle the issues related to a new Mediterranean policy, has not the pretence nor the aim of offering *radically new* suggestions. In the past the recipes suggested by the international organisations have encountered difficulties, and those really carried on have offered mixed results. The reasons lay in a mix of factors: the intricacy of the situations, the lack of adequate coordination, the political and bureaucratic difficulties of the institutions of the considered countries; the scarcity of financial resources available to cope with the various situations, the excess of macro over micro and institutional interventions, the poverty of the social dossier. However, broad opportunities exist for employment and growth in these areas from which a continuous immigration pressure is exerted in Europe. A new interest by Europe in their economic and humanitarian problems is needed for ethical reasons, but also for mere economic interest. This is a potentially big market, with an important population growth while the EU market is stagnating along with its population. It is a common interest that the abundant labour supply should find in the Mediterranean developing region their jobs, rather than increase the immigration to EU countries.

2. The six components of the suggested strategy try to encompass the interconnected issues of "readjusting" to sound finance, to sound market economy and to ethical priorities the institutions and energies of these countries and of the less happy parts of the aiding countries. A close connection among the various components and among the various regions is vital to obtain a well balanced strategy, capable of synergic effects. It is necessary to stress that the fiscal and monetary policy measures and institutional changes need a social policy "envelope" and a social policy consultative procedure to gain enough support for the prescriptions suggested. On the other hand, all these are necessary ingredients to give "credibility" to the programs and therefore to spur savings and investment to the considered areas. Institutional reforms in the sector of finance are needed both to increase the rate of saving particularly of the low-middle class and to promote the improvement of the infrastructures. These are required to make these economies more productive and more livable, and particularly to give a positive framework to small business and to create new initiatives. But to finance them one needs additional capital together with the modernisation and privatisation of the managerial practices. Institutional changes in the direction of semplification, trasparency, and certainty about "the rules of the game" are needed to entice private initiative together with flows of know how and ad hoc facilities to promote modernisation. But to make these changes acceptable one needs to consider also the ethical humanitarian aspect of them.

3. Market economy, as we observe it in a highly developed country is a complex network, whose smooth functioning does not depend on a sort of "fiat" but from years and years of trials and errors and of operation of the competitive selection, from an accumulation of know hows and human capitals, together with real capital accumulation, and - last but not least - from a frame of institutions combining - certainly not without imperfections - efficiency with equity, and giving positive perspectives to most citizens. Recently, however, the welfare state and the "Rehin model" who dominate the European institutions and social culture have entered in a crisis.

To have growth and accomplish ethical objectives - among whose job creation is paramount - avoiding the mistakes and failures of the welfare state, is not an easy task, to be accomplished in the new policies for the Mediterranean countries. But one must also consider that there are self enforcing factors, which - once started - may develop on themselves. As often, what is important is to be able to catch the knot by the slip.

Often it has been talked about adjustments and growth with human face. Often the proposals mentioned under this name aim to simply milder the macro economic asperities of the adjustment processes; some time they aim to water down the entire economic philosophy of sound adjustment and development through market economy: which is a big mistake.

Here I tried to develop a different approach where the ethical and human factors are instrumental to growth factors, beside having a per se value. After recognising that the prescriptions by Chicago and Harvard economists to the Eastern European countries and Russia and some South American countries with their philosophy of "global macro-shock" are too naive and objectionable from the point of view of the human sacrifices which they unnecessarily provoke, I have tried to suggest a more gradual, selective, pragmatic, institutions - conscious process - oriented approach involving coordination of programs for the developing countries with those of the less developed regions of mature European nations looking in the Mediterranean sea.

Happily, the initial conditions are different from those of the former Soviet bloc countries. The Mediterranean countries already know market economy, private property, private business; their bureaucratisation differs form that existing in the former Soviet economies. Gradualism toward "ortodox" public finance and toward modern market economy principles here are less risky politically and more viable. And these countries do not have the uper inflation and financial disorders of some of the South American countries to whom the shock therapy was suggested, to make them financially credible.

4. I have tried to underline two "matters of principle". Firstly, working through a careful, selective approach, it is possible and - I believe - necessary to insert a "social envelope" in the adjustment growth program: while financially bearable, it may change dramatically its ethical meaning. Secondly, it is often possible to link the humanitarian (ethical) objectives and the efficiency objectives. I have tried to show this in all the five components of the approach following the first and preliminary, dealing with the (sound) fiscal and monetary policy issues (in this part of the program, the ethical prescription consists in avoiding an unnecessary "shock therapy"). Let me briefly summarise these interconnections.

As for savings policy, I have pointed and that there are reasons to promote saving in the area of insurances for worker, of popular housing, of small farmers etc.: these policies while useful for economic growth, may also perform social functions. As for the infrastructures and public services, I have drawn from the philosophy of the 1994 Report of the World Bank were sound finance, efficiency and equity aspects are combined. As for the various productive sectors of the developing Mediterranean economies I stressed the measures for small business which, while helpful to promote exports and growth are also important for the level of employment, since this is generally the sector where jobs are most easily created. On the other hand, as for the industrial policies, in general, I have suggested that financial aid should be preferably given to labour intensive and to medium and small firms rather than to the big, capital intensive ones. Finally, I have suggested to link the policies of development of the Mediterranean developing countries with those to promote job creation in the less developed regions of the EU Mediterranean countries.

At the beginning of this paper I stressed that the recent Nobel prizes signal new tendencies of economic science, as a study of institutions and of political aspects of public choices and as study of micro behaviour, which may stimulate a revision of the macro shock approaches prevailing in the current philosophies of adjustment and reform programs for developing country. At the end I would like to mention that until now the EU policy has substantially overlooked the issues of mutual interest in the growth and employment of the Mediterranean area, surrounding the South of Europe.

The European agricultural policy is a typical case of this neglect. But also in the recent Intergovernmental Conference of Florence of EU the Mediterranean dossier has been neglected. Political, cultural, religious factors may have hindered a strict integration of the two great regions of Mediterranean sea similar to that accomplished two thousand years ago. In a broad ethical perspective the existing reciprocal cultural barriers and suspicions appear unsound and certainly there is a common interest in a new Mediterranean "common market" area: which may eradicate the plague of unemployment both in the South of EU and in the Mediterranean developing countries.

Francesco Forte *is professor of Economics at the University "La Sapienza", Rome, Italy. He is author of various publications, including* I diritti della natura *(1991),* Principi di Economia Pubblica *(1993) and* Etica Pubblica e Regole del Gioco *(1995).*