"Reclaiming Policy Space for Equitable Economic Development"

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In 1944 Karl Polanyi published a book entitled The Great Transformation, which at that time attracted very little notice. But in recent years, since we have entered this era of neo-liberalism, the book has attracted increasing attention, because it was written during the war, in the light of the experiences of the 1920s and 30s and it was a trenchant critique and explanation of why the original liberal order of the 19th century, which actually lasted until 1914 or perhaps 1929, ended in such a disaster of war and Fascism. I mention this because we are now living in a time when neo-liberalism has given a new life to the previous model of economic liberalism which played itself out in those times. My generation of students of economics was interested in understanding the functioning of economies with a view to achieving full employment and social security from cradle to grave, not personal gain or how to invest or play the stock market. Favoured career options were university or public service; only the weakest students opted for the private sector.

Keynes and his associates and students in Cambridge challenged prevailing doctrines, most famously by the publication of The General Theory of Employment, Interest and Money (1936), which proved that an economy could reach equilibrium with under-utilized capacity of labour and capital. During the war Keynes was instrumental in directing the British war economy. His small volume on “How to Pay for the War” illustrated the analytical power of the macroeconomic categories of modern national income accounting-production and consumption, savings and investment, etc- and described fiscal, monetary and administrative instruments to repress inflation in conditions of short supply which were successfully implemented in Britain. Although Keynes did not concern himself with post-war planning for underdeveloped regions, his indirect influence was pervasive. Many of the best and brightest Indian economists studied at Cambridge and the intellectual links between Cambridge and Indian economic planners and policymakers remained important. At this time also, students and future political leaders from Asia, Africa and the West Indies turned their thoughts to the economic transformation which would have to follow political decolonisation.

One of Keynes' closest intellectual collaborators was Joan Robinson, who was quick to recognise that it was not unemployment of labour declared redundant but rather the vast pool of wasted human resources in the form of underemployment in low productivity activities which characterised the emerging new nations. A similar observation was made by the Norwegian trade economist working for the League of Nations, Ragnar Nurkse, who suggested that surplus labour be mobilised for large, labour intensive, public works, as was done in China after the revolution of 1946. Another of Keynes' students was Hans Singer, whose initial interest in unemployment in chronically depressed areas of Britain turned to underemployment and underdevelopment. He is perhaps best known for the Prebisch-Singer thesis on terms of trade.

A number of emigré economists in Britain, influenced by their personal experience of late industrialisation in central and eastern Europe developed plans for the post-war transformation of underdeveloped regions. The contributions of Michael Kalecki, Kurt Mandelbaum, E.F. Schumacher and Joseph Steindl of Oxford University and Paul Rosenstein-Rodan of the Royal Institute of International Affairs laid the basis of development economics as a formal sub-discipline. These Central European economists were more familiar with Marx than with Keynes, and the success of Soviet five year plans played a significant role in approaches to development planning. It is well known that Kalecki's model of an economy with under-utilized resources of labour and capital was similar to Keynes', but presented in Marxian rather than the more familiar Anglo-Saxon analytical categories. His contribution to planning for economic development deserves to be more widely acknowledged.

An imaginative plan for a radically new international financial order was designed by Keynes and notwithstanding opposition from the several quarters, including the City, the Keynes plan for an International Clearing Union was published as an official government document in 1942 and officials from Canada and other dominions were invited to London for discussion. The intention was to permit policy space for nations to secure full employment without engaging in competitive devaluations or subjecting the economy to the punishing deflationary measures required by the gold standard and imposed on weak succession states by the League of Nations. A special purpose money (Bankor) for purposes of clearing international payments between central banks and backed by commodity stocks, would have precluded private trade in national currencies. Such an international financial architecture would have enabled countries with widely different economic and financial institutions to engage in international exchange. The resources proposed in the Keynes plan were six times larger than those allocated to the International Monetary Fund, established in 1944, a moderately modified version of the White plan proposed by the U.S. Keynes considered he had failed, and, in fact, it was the US dollar which replaced gold as international reserve currency.

In 1945, Karl Polanyi thought that only the United States believed in universal capitalism- now known as globalisation. In “Universal Capitalism vs. Regional Planning”, he envisaged a world of regional blocks, including communist Russia, social democratic Western Europe, and the United States, to be followed by other emerging regions of the world.

The United Nations, founded in San Fransisco in 1945, brought together economists concerned with the eradication of underdevelopment and poverty in Africa, Asia and Latin America. It was charged with responsibility for financial and technical assistance to the underdeveloped regions. Responsibility for financial development assistance, however, was soon transferred to the IBRD, where the principal donor countries controlled policy and the United States had an effective veto.

Outstanding among the regional commissions of the UN was the Santiago-based Economic Commission for Latin America, under the direction of Raul Prebisch. The Economic Development of Latin America and its Principal Problems, accompanied by background studies of the experience of Latin American export economies in the 1920s and 1930s was drafted by Prebisch with the assistance of a team of brilliant young Latin American economists, and published by the United Nations in 1947. It made the case for reducing export dependence by domestic industrialisation and came to be known as the Prebisch Manifesto.

In the 1940s and 1950s, great minds applied themselves to the great problems of economic development and students chose to study economics to make the world a better place. Econometrics as a scientific tool of economic planning was pioneered by Jan Tinbergen and Ragnar Frisch who advised the government of Egypt in the construction of an innovative multi-sectoral development plan. Development economists such as Celso Furtado, Arthur Lewis, Albert Hirschman and Gunnar Myrdal approached the problem of underdevelopment from a historical, structuralist and institutional perspective, while Alexander Gershenkrohn, economic historian, analysed the way in which the first generation of late industrialising countries of Germany, Russia and Austria-Hungary challenged the supremacy of Britain in their days. There is a considerable similarity in the strategies used, with those used later by Japan, later still by Korea, Taiwan and other East Asian countries and in a very different way of course now by China.

By the mid-1950s development economics had gained recognition as a distinct sub-discipline of economics. Books were published and academic journals and institutes were established in American and British universities. A representative collection of papers by development economists from many countries, The Economics of Underdevelopment, edited by Agarwhala and Singh, was published in 1958. Three major themes dominated the discourse; *market and state, trade and development* and *growth and equity*. Underlying these themes is the deeper issue of the relationship of the economy to society, which requires an approach beyond the scope of economic analysis. Karl Polanyi's warning of the consequences of "disembedding" the economy from its social matrix, points to the critical role of social policy in the design of equitable economic development.

The 1950s and 1960s witnessed the decolonisation of Asia, Africa and the West Indies and the determination of post-colonial countries to engage in national projects of economic transformation. In the context of the superpower rivalry of the Cold War, the Non-Aligned Movement of Asian and African countries was convened in Bandung by

President Sukarno in 1954. The establishment of the United Nations Conference on Trade and Development under the directorship of Prebisch in 1964, served as a forum for third world countries to fashion a common programme for a New International Economic Order (NIEO). The early post-war decades were, on the whole, favourable to national economic development, and high average growth rates of the developing world, including Africa, equalled or surpassed those of the industrial countries.

Market and State

It was generally accepted that the state must play a central role in economic transformation because the private sector was either dominated by landed and commercial oligarchies with vested interest in the status quo, or was simply too weak and disorganised. The degree of state involvement in the economy varied across countries, but it was common practice that the provision of basic public infrastructure and its financing was universally undertaken by the state, accompanied by some form of long-term economic planning. In the first three post-war decades, countries were able to privilege domestic agriculture and industry by discretionary access to credit and foreign exchange, subsidies and a variety of protective commercial policies. The principal of sovereignty regarding natural resources and more generally the sovereign right of nations to formulate fiscal, monetary, commercial and all other aspects of government policy was not questioned, although in practice it was often violated.

Trade and Development

Issues of trade and development were contentious from the start. Policies of import substitution industrialisation, successful to varying degrees, met the unwavering opposition of international trade theorists, with reference to the theory of comparative advantage, and Prebisch was considered a dangerous radical. Indeed, the asymmetry of gains from international trade formed the bond which united countries of different ideologies in the formulation of the UNCTAD agendas. However, a decade of international conferences aimed at reform of the international economic order failed to produce tangible results. Arthur Lewis declined to participate in these negotiations. In his view the South, collectively, had all the resources required for economic development, and when that potential was realised, a more equitable international order will ensue.

In the 1970s, Taiwan and South Korea followed the example of Japan in strategies of late industrialisation; the city states of Hong Kong and Singapore were also highly successful and South East Asian countries embarked on programmes of industrialisation for domestic and export markets according to their different geographical and historical endowments and China made the turn to its unique model of communist market capitalism in 1978. In each of these cases of "late industrialisation" governments designed incentives specific to the circumstances and development objectives of each country.

Growth and Equity

With the notable exception of Nehru's India, development economists and development planners were not directly concerned with issues of equity or poverty. It was thought that capital accumulation would create employment opportunities on a scale sufficient to absorb underemployed surplus labour. Perhaps the most profound disappointment with success in economic growth was that it failed to do so, giving rise to the phenomenon of "growth without development", reformist and radical critiques of developmentalism and the search for revolutionary solutions. The use of per capita Gross National Product as an implicit measure of the welfare of nations was challenged by alternative measures of the Quality of Life. As it became evident that capital intensive technology could produce growth without employment, the significance of the informal sector- whether as problem or solution- came into focus. It was found that ISI had effectively increased external dependence by the requirements of imported inputs and capital goods to sustain employment in new industries. The foreign exchange constraint became the principal bottleneck to growth.

The phenomena of marginalisation and social exclusion inherent in developmentalist approaches to economic growth pointed to the economistic bias of prevailing doctrines of development economics. The eminent Swedish economist Gunnar Myrdal was among the first to identify social expenditures on health and education as investments in the expansion of the human capacity of the working population. Under pressure from critics of growth without development, the World Bank identified Basic Human Needs as priority areas of expenditure, although the bulk of development assistance continued to finance large-scale industrial infrastructure.

The Return of Liberalism

In the fractured decade of the 1970s, the demise of the Bretton Woods Financial Order released constraints on international liquidity as capital was freed from national control. The flood of liquidity was a permissive condition of commodity booms, benefiting petroleum, bauxite and other commodity exporting countries, and large sovereign lending by commercial banks to middle income developing countries. In the industrial heartlands of capitalism, inflationary pressures eroded the value of financial assets and the profitability of capital in the real economy. Slow growth and economic instability in the industrial world and political revolutions, from Afghanistan to Nicaragua, from Angola and Mozambique to Grenada and ultimately revolution in Iran, were the catalyst for a profound regime change signalled by the accession of Thatcher and Reagan to office. The "Volker shock" precipitated the Latin American debt crisis of 1980s.

An ideological counter-revolution in economics replaced Keynes with policies of monetarism, deregulation, liberalisation and privatisation. Capital was enabled to reverse the gains made by labour in the industrial world and national developmental gains in Latin America and Africa. The policy leverage exerted by international financial institutions over Latin American countries indebted to commercial banks and African countries indebted to the multilateral agencies progressively constrained national policy space. As Ha-Joon Chang has pointed out, the policies which served late industrialisers of the 19th century and the more recent East Asian countries are now largely precluded by commitments made in bilateral or multilateral agreements.

Keynes was banished and development economics was demonised as structuralist heresy bordering on socialism. The World Bank declared that that there was one and only one economics and economic science could explain the functioning of the economy anytime, anyplace, anywhere regardless of institutions. Developing countries as diverse as anything you can find from, Asia, Africa and Latin America were no different from the leading industrial countries, only poorer. There was a changing of the guard at the World Bank; reformist economists including Hollis Chennery, Paul Streeten and Mahbub Ul Haq were replaced by Anne Krueger and Deepak Lal and a team of consultant trade theorists including Jagdish Baghwati, Bala Belassa and the Swedish economist Assar Lindbeck, who wrote a research memorandum placing the entire blame for the debt crisis on erroneous domestic policies pursued by Latin American governments.

In the passage of two decades, the priorities prevailing prior to 1980 with respect to the three major themes of development economics were reversed. The market was elevated to the principal economic mechanism and the state was downsized, stripped of fiscal resources and bound by a multitude of commitments made in bilateral or multilateral negotiations with creditors, including national treatment for foreign investors. The provision of basic infrastructure, both physical and social was privatised and/or subjected to criteria of cost recovery. Trade was enthroned as the engine of growth and economies were restructured to privilege exports over production for the domestic market, competitiveness rather than national welfare became the objective of economic policy. In many countries, liberalisation of imports destroyed agricultural and industrial capacity. In Jamaica, for example, 30 % of jobs in agriculture, fishing and forestry and 48 % of jobs in manufacturing disappeared in the decade of the 1990s. [1]

The neo-liberal experience has brought financial crises of increasing severity and frequency. The human costs have been enormous. Where growth has occurred, it has been accompanied by an unprecedented polarisation of income and the social exclusion of poor people from economic circuits of production and consumption. The prevailing doctrine is that trade liberalisation and foreign direct investment engender economic growth, inequality is perhaps inevitable and poverty should be addressed directly by targeted programmes to ensure social stability, a necessary condition for a favourable investment climate.

It is now widely recognised that these policies have failed. I am sometimes asked how development experts in the multilateral agencies could possibly believe that one set of policies- the so-called Washington Consensus- could fit the great diversity of

[1] Levitt, Kari (2005) Reclaiming Development: Independent Thought and Caribbean Community. Ian Randle Publishers. Jamaica.

countries. The answer is simple; the policies serve the interests of creditors and provide a favourable environment for foreign investors. These requirements are indeed rather uniform. The problem is that the assumption that such an environment engenders growth and development does not accord with experience.

A recent paper by Harvard economist Dani Rodrik states that most economists would now agree that 1) the reforms of the 1980s and 1990s have produced disappointing results, 2) the most successful countries in terms of growth have followed heterodox policies, 3) most successful countries have adhered to some generally recognised principles 4) policies appropriate to a particular situation cannot be inferred from these principles and 5) policy diversity is desirable. (Rodrik, 2004:1) In an exhaustive study of the relationship between episodes of growth and significant economic reforms, Rodrik found that the majority of growth take-offs are not produced by significant economic reforms, and the vast majority of significant economic reforms do not produce growth take-offs. (ibid:3) Rodrik proposes a diagnostic approach to identify bottlenecks to economic growth specific to a country and to develop policies directed at these, rather than an attempt to implement a comprehensive set of reforms which may moreover, fail to yield results. This is reminiscent of the classical structuralist approach of earlier Latin American economists.

If indeed countries which have been successful have followed heterodox policies and those which have followed the prescriptions of the World Bank and the IMF have generally failed, one can conclude that policy formulation and implementation should be returned to national authorities, who are politically accountable to their populations for success or failure, regardless of the nature of political institutions. The multi-lateral agencies and the economists they employ are not accountable to the populations which have suffered the consequences of their failed policies. The World Bank is directly accountable only to the creditors who provide it with operational finance.

The experience of the past 20 years has produced an unprecedented degree of inequality and social exclusion, both between nations and most significantly within nations, whether accompanied by high growth, low growth or no growth. While economic globalisation gives the impression of a world more uniform and homogeneous than it was 50 years ago, the realities of daily life of the majority of people are characterised by diversity and difference. Contrary to the general belief both of mainstream economists and Marxists, that the economy forms the base of society, we suggest that, ultimately, it is the cultural, social and institutional relations of a society which sustains a strong economy. An equitable economic order must rest on an equitable political and social order. This requires a longer view, and an analysis of the political and social structures that underly the national and international economies.

Until the cleavages between populations of European, indigenous and African descent arising from the displacement of indigenous peoples of the Americas and plantation slavery are addressed, a modern market economy will be neither stable nor equitable. The chronic instability of Latin American economies is ultimately a product of the social and political exclusion of majority populations. In Africa , the promising beginnings of the 1950s and 1960s have been rolled back by neo-colonial structural adjustment programmes, crude appropriation of natural resources and the human tragedy of the devastating HIV/AIDS epidemic, particularly scandalous in view of the availability of treatment. The historical legacies of the incorporation of peripheral regions into the world economy are profound. Notwithstanding the reality and desirability of diversity of political, social and economic structures, a revaluation of the three themes of development economics points to a reversal of priorities prevailing in the past 20 years. The emphasis on economic growth must be replaced with an emphasis on the quality of life of the people.

Market and State

The state must take responsibility for the provision of basic infrastructure, starting with universal access to clean water and other essential services which most directly affect the lives of people. The state must reclaim its sovereign right over natural resources and ensure that all citizens benefit from the national heritage. All modern economies are mixed economies and the institutional forms of private, public and community involvement in the economy offer fruitful areas of institutional experimentation.

Trade and Development

Trade is beneficial but the extreme export orientation of many countries has destroyed domestic capacity and measures should be taken to restore priority to agriculture and industry serving the domestic market. Where entrepreneurs and businesses produce only for export markets, labour is simply a cost to be reduced, but where they sell in the domestic market, their employees are also the consumers of their products, and they have a collective interest in maintaining the purchasing power of the population.

Domestic production of food for domestic consumption must be protected from destructive competition by imports, not only for important reasons of individual and national food security but because agriculture, forestry and fishing are organic relationships of people to the natural environment.

Foreign investment is desirable but should be required to comply with national regulation concerning employment of nationals, purchase of local materials, and adherence to environmental standards. On no account should foreign investors and non-nationals receive treatment more favourable than nationals.

Control over entry and exit of capital flows is a basic instrument of macroeconomic management and countries should reclaim the sovereign right to exercise it.

Growth and Equity

The biggest challenge we face is to address the enormous inequities which have characterised the experience of the neo-liberal model. It is an everyday observance in many countries, including those that have experienced substantial economic growth, that the quality of life has deteriorated, that the bonds that link us in society have loosened, that insecurity, both physical and economic, has increased. This suggests prioritising measures which directly impact the quality of life, not only of the poor, but of the whole society. Investment in the provision of universal primary health care and primary education and the provision of other essential public services of water, sanitation and public transportation address not only the needs of the poorer sections of the population, but if universally used, can help to restore social cohesion.

In many countries, including the developed economies of the north, intensified competition has led to perpetual downsizing of employment and productivity gains have increasingly accrued to capital and persons employed in professional and business services. Where people cannot secure gainful employment, they join the ever increasing ranks of the informal sector, where, while some manage to make a decent living, very many are consigned to work which cannot secure a basic livelihood. The vast range of productivities and remuneration typical of a developing country calls for institutions to secure a more equitable distribution of national output. Proposals for basic income merit consideration as means of instituting entitlements.

As Myrdal pointed out a long time ago, a population that is lacking good health and basic education cannot meaningfully contribute to the economy. Ultimately, people are the most valuable economic resource of any country.

International Development Assistance

In the context of the pressures of globalisation, shared common historical experience of distinct, large regions suggests that equitable economic development should be conceived on a regional scale. We are reminded of the project of "extended nationalism" (Seers, 1983: 165) of regional blocks- based on geographic, historical and cultural commonalities- proposed by Dudley Seers in the early 1980s as a response to the evident failure of international negotiations for a more equitable economic order.

> "If and when nationalism is extended in this way, and a world of regional blocks replaces the neo-colonial system, the governments of the superpowers will feel less compulsion to meddle (whether by financial aid, diplomatic pressure or military force) in the affairs of other countries, and also be less able to do so: world peace will be more secure."

Dudley Seers was an eminent development practitioner and consultant to UN Economic Commissions in Latin America and Africa and British development agencies in Africa, Asia and the West Indies, and founded the Institute of Development Studies at the University of Sussex (1963). A lifetime of experience led him to reject external assistance by international development experts, and he spent later years of work in the expansion of the European Community to include the poorer nations of South and Eastern Europe.

Seers was not the only development economist to become disillusioned with international development assistance. In the early 1980s, Gunnar Myrdal expressed the view that development assistance should not be directed toward building up the modern industrial sector, which could only employ “a minimal part of the total growing workforce” while the rest became “economic refugees” from the agricultural sector. (Myrdal, 1984: 160) Because money is fungible, external assistance may serve to support corrupt and unpopular political regimes. He believed that assistance should be more effectively controlled by donors and directed exclusively at social sectors.

> “the only “development aid” I would find room for under present circumstances would be directed to the simplest and least costly measures to increase food production, to provide sanitation facilities and to increase their utilisation, generally to supply pure water, and also as far as possible to improve health care, particularly for poor families, and to give their children somewhat more of better schooling. This together with securing the availability of contraceptives could well claim the whole part of any so-called development aid.” (Myrdal, 1984:161)

The approach we have taken departs from current practice, where policies of economic and social development for many countries are designed by the international development industry. Responsibility for the welfare of the people must return to national political authorities, in the context of regional cooperation. This however, does not dispose of the responsibility of the rich countries of the North to share in the financial burden of human development. They should take prime responsibility for the provision of global public goods, by fiscal contributions and effective taxation of the operations of trans-national corporations. What is suggested here is that the international community take collective responsibility for those truly global problems which clearly require global action and far exceed the financial capacities of individual countries. The appropriate agencies are those of the United Nations, the only international institution where all countries have a voice. These requirements far exceed current levels of development assistance. Specifically, we suggest three areas requiring a global approach:

1) permanent provision for relief of victims of natural disasters which are likely to occur with increasing frequency due to environmental degradation,
2) issues of public health, which respect no borders; eradication and prevention of communicable diseases including HIV/AIDS, reducing toxicity from industrial and agricultural pollution and
3) restoration and preservation of the biosphere and long term management of natural resources.

The coordination of functional cooperation in these areas would be facilitated by the establishment of regional authorities.

This approach to international development assistance addresses the critiques of Seers and Myrdal. It restores a measure of policy space to national and regional political authorities, relinquished in unequal negotiations over the past 25 years, and places the responsibility for financing urgent human needs which can only be addressed on a global scale on the countries which have the resources to do so.

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