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From theory to practice in development

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Abstract
As decolonisation movements gathered strength following World War II, independence and development were seen to go hand-in-hand and thanks partly to President Truman’s 20 January 1949 Inaugural Address linking the fight against communism with development assistance, aid and expertise from the West have been a driving force in development programs. Moreover, development economics and development practices have operated in tandem structuralist and Dependency theory ideas outlined in the excerpt by Paul Sweezy in this book were influential in the early postwar period on the practices of developing countries. Donors, though, were more influenced in this period by the Keynesian/neoclassical synthesis emphasising infrastructure and area development programs.

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In the 1980s, neoclassical economics in its neoliberal form made a resurgence and, in the developing country context, became a set of policies known as the Washington Consensus, because they were hammered out in Washington between the US Treasury, the International Monetary Fund (IMF) and the World Bank. The Washington Consensus, however, did not provide a way forward for most developing countries, indeed the 1980s was labelled the ‘lost decade’ for Africa. These poor outcomes, along with practical and theoretical critiques from a range of perspectives led donor country development agencies to change their goals. They now claimed that participatory development, pro-poor policies and promotion of good governance underpinned their support efforts. I argue that the Washington Consensus commitment to conservative monetary and fiscal policy continues to frame most donors’ overall programs and that while they may aim to get the poor above $1 per day, that is the extent of their vision – there is no broader goal of equality or social justice.

In the 1950s and 1960s, the development path of many newly independent states was inspired by structuralist ideas and thus tended to centre around three main options for achieving industrialisation and growth: autarky; accessing foreign capital to build the industrial sector; and using the state to accumulate necessary resources for development. Most developing countries opted for blend of foreign capital and state-led development – this was a key basis of the strategy of import substitution industrialisation (ISI) (Rapley, 2002: 21). ISI was seen
as a way of generating rapid and self-sustaining growth that would promote economic diversification away from reliance on primary commodities while, at the same time, attracting foreign capital. It promoted increased production of locally manufactured goods for domestic consumption to nurture and strengthen the domestic market. ISI uses tariffs and quotas to make the local market more benign for local producers; in other words, it protects domestic producers of manufactured goods so that they can compete against foreign producers, particularly those in already industrialised countries that have better access to technologies, existing economies of scale, skilled workforces, etc. A range of additional policies have been used to support ISI including overvaluing the domestic currencies to make importing capital goods cheap; directing foreign investment to key economic sectors; and concessional access to available foreign currency or credit for domestic firms diversifying their production.

Western aid donors, for the most, did not discourage ISI strategies and certainly supported state planning for development but their focus tended to be on funding infrastructure and later on rural development schemes. The focus in infrastructure was roads, railways, ports, dams, electricity generation and the like – often on a grand scale and often with little consideration of social or ecological consequences. By the mid-1960s, water supply and sanitation schemes were supported in both rural and urban areas and rural development schemes gained prominence, with funding focusing on irrigation, technical support for farmers and access to credit to improve the application of technology to farming. Support for the health and education sectors has always received a lot of attention and publicity in the development arena but, in fact, they are generally not to be the focus of donor aid. There have been cases of successful donor supported programs – South Korea and Taiwan being prominent examples – but already by the late 1960s it was clear too that much done in the name of development did little to help the lives of the poor.

By the end of the 1970s, various scholars and practitioners came to the conclusion that ISI and other state-led development strategies were not working. There were problems with the operation of ISI, however, attributing the difficulties faced by most developing countries simply to ISI was misleading. Developing countries faced a range of challenges from low levels of infrastructure and education through to highly concentrated land holdings and economies still largely structured around raw material production for their former colonial powers. The more hostile global environment from the early 1970s was another problem, this period saw the first postwar recession in the West and a subsequent turn towards trade
protectionism. The first OPEC oil shock in 1973 increased balance of payments difficulties in oil importing developing countries and the recycling of so-called petrodollars as loans to developing countries fuelled the already growing debt crisis. The second oil shock in 1979 hit the Third World hard, commodity prices fell dramatically. The US decision to focus on combating inflation, inspired by neoliberalism, saw large increases in international interest rates from 1979. This increased the flow of money from the developing world to the developed world and facilitated the outbreak of the Debt Crisis in 1982. Regardless of the causes, the overall faith in the developmentalist paradigm of state planning began to fade and neoclassical and neoliberal influences increased.

There were exceptions to the trend of poor development and growth outcomes in the developing world – the Asian Tigers achieved ongoing high levels of growth. The Tigers – South Korea, Taiwan, Singapore and Hong Kong - generally started out utilising ISI strategies but often selectively and often with conditions on industrialists benefiting from the policy. From the early 1970s, they started to switch towards a policy of encouraging manufacturers to export – a strategy that became known as Export Oriented Industrialisation (EOI). It is worth noting, though that they still selectively pursued some ISI elements, for example protecting new ‘infant industries.’ Further, the EOI strategy involved detailed industrial policy often pursing areas outside the country’s area of ‘natural’ comparative advantage. This is important because many of the neoliberal critics of state-led development strategy tended to ignore this component of the Tiger’s development.

The origins of the neoliberal diagnosis of developing countries’ dates back to the 1940s but the framework did not become mainstream amongst development economists until the 1970s. It’s analysis of the problems in developing countries comprised three interrelated ideas, that: the public sector was over-extended; there had been too much emphasis on physical capital formation often at the expense of human capital formation; and the Third World had developed too many market-distorting economic controls (Toye 1993, 70). This analysis dominated orthodox development economics for two decades. Further, neoliberal analysis became widely accepted amongst policy-makers because its rise coincided with the economic crises of the 1970s for which it purportedly had an explanation and a solution. Further, well-funded think-tanks, World Bank researchers and many in the press set out to disseminate neoliberal views. However, it was the election of the Reagan Administration in the US that broadly legitimised neoliberal economics and facilitated its global implementation through its
own aid programs and through its influence on international institutions like the World Bank and IMF. Not all developing countries needed persuasion to adopt neoliberal development strategies; in a number of countries domestic elites held and promoted neoliberalism too.

Within a few years of appearing the Washington Consensus achieved widespread acceptance, and by the early 1980s, a common set of policy prescriptions for developing countries could be identified. John Williamson gave it the name the Washington Consensus in 1990. It involved two phases or ‘reform’, first, policies to achieve short-term macroeconomic stabilization that were carried out quickly via ‘big bang’ reforms. The focus here was cutting the budgets of developing nations, devaluing national currencies and ending price controls and subsidies. The second phase involved a whole range of long-term, structural and prescriptive microeconomic policy ‘reforms’ aimed at making markets and private property central institutions in developing countries whilst minimizing the role of the state. Achieving the first phase of reforms was generally seen the IMF’s responsibility, while the second phase was the realm of the IMF, World Bank and bilateral donors jointly. In the wake of the 1982 Debt Crisis, conditionality on loans and aid was the main way in which adherence to neoliberal policy prescriptions was achieved.

Neoliberal policy prescriptions for development have been no more successful than state-led ones. Indeed, in following these prescriptions many sub-Saharan countries ended the 1980s and 1990s worse off, demonstrating in particular that the social costs of neoliberalism were very high. As with state-led development programs, the failure resulted in a questioning of both policy prescriptions and theoretical frameworks. However, we have not yet, witnessed a fundamental overturning of the development paradigm, instead the current consensus – the post-Washington Consensus – maintains the Washington Consensus commitment to conservative monetary and fiscal policy and this, above all, frames and constrains development programs. This continuity is despite, or perhaps because of, the growing influence of New Institutional Economics (NIE) in development economics. NIE expands views of what constitutes market failures to include information failures and transaction costs and this leads to a picture of markets with extensive imperfections as opposed to the neoliberal view of perfectly working markets. It remains firmly within the neoclassical tradition.
Joseph Stiglitz is one of the most prominent scholars in the NIE tradition working on development issues. One of his key contributions is on the extent of information asymmetry in markets, in other words that markets are subject to extensive imperfections with the implication that government action can be efficient in many more circumstances than allowed for by neoliberal and even much neoclassical analysis. If this is true for developed countries, it is more the case in developing ones, where Stiglitz turned his attention after becoming Chief Economist of the World Bank in 1997. This was precipitous timing, just months before the onset of the Asian Financial Crisis. Stiglitz became a well-known critic of the IMF and their one-size-fits-all approach to development. Stiglitz (2002, 16, 65-67) has also critiqued the neoliberal push for ‘big bang’ capital market liberalization. He argues that there is little evidence that it promotes economic growth and that without attention to the order and timing of reforms, it can cause more harm than good. Overall the questioning of Washington Consensus policies has gone furthest amongst economists, if not amongst policy makers, in this area of capital market liberalization (Broad 2004, 138).

In terms of development programs, the most striking change of the post-Washington consensus period has been large-scale donor support for programs of ‘good governance.’ This is a very broad and generally ill-defined term that, at the end of the day, often sees donors funding (mostly Western) consultants to help recipient governments in the areas of budgeting, financial systems and auditing. While these are undoubtedly important areas, donor’s technocratic approaches have all too often involved transposing Western models, systems and laws to developing countries. The outcome is a lot of money spent for systems that have little relevance to the historical, cultural, organisational and political economic context of the recipient country.

Recent aid efforts have seen some increased support for social support systems, not however, as much as donor’s public pronouncements would have us believe. Health and education remain small components of the World Bank and many other donors’ programs. So-called participatory community development schemes and microfinance have been the big winners in aid funding. The operation of these programs is worth exploring a little because it gives insights into the nature of the post-Washington Consensus support for poverty reduction.

Participatory community development schemes are an evolution of the rural area development schemes of the 1970s. The participatory focus was new borrowed from non-
governmental organisations that had emphasised participation as a counter to top-down donor development models ignoring community knowledge and power structures. These had often left communities worse off and exacerbated inequalities. However, in the hands of the major bilateral and multilateral donors, participation became a narrow and instrumental concept and tool. For example, in World Bank funded rural electrification programs in Vietnam the community participation that was highlighted as part of the project was actually just formal household agreement to pay for their electricity connection! In other projects though participatory development is more invasive, it is the language donors (and some governments) use to justify structure and organising ‘civil society’ to manage their own development projects. Communities are organised in parallel to existing local governance to structures to form organisation to manage the construction of local infrastructure and social support services. They are trained in ‘proper’ community consultation methods and in (neoliberal) managerial techniques and kept busy ensuring there is no ‘misallocation’ of resources rather than being involved in socially and politically transformative reflection or action.

Microcredit is equally a neoliberal strategy, which makes individuals responsible for their own development, though it did not fully start out this way. It was developed simultaneously by Ela Bhatt in India in 1974 and Mohammad Yunus in Bangladesh in 1976 in response to economic and institutional conditions limiting the productive potential of skilled artisans. They were particularly concerned lack of access to saving and loans mechanisms, which results in the poor using informal channels for lending, such as money lenders, who generally charge exorbitant interest rates. In contrast, microcredit offers the poor small loans at more manageable interest rates.

The most common model of provision involves the formation of small groups (5-6 people), who initially make regular savings deposits into the scheme for a period of three to six months. This forms the group collateral – here, the savings and the group’s commitment. After establishing group collateral, one or two members of the group can take out loans, the purpose of which must be creating or expanding a microenterprise. If loans are successfully repaid over a period, other group members become eligible for loans. This system has produced very high repayment rates for most schemes. In the past decade, microcredit has expanded to include a broader range of financial services (savings, insurance) for poor people, hence it’s now generally called microfinance.
Microfinance had a transformative agenda yet it has not always lived up to the claims made for it. Over time it has become increasingly commercialised and, through that process, less supportive of pro-poor change. Operating a small loans program is costly so microfinance programs charge high interest rates – the global average is 37 per cent per annum but in Mexico it is 70 per cent and there are reports of institutions charging 125 per cent (MacFarquhar 2010). These high interest rates have attracted increasing numbers of private institutions - non-government organisations are only responsible for servicing about 35 per cent of clients. Private providers do not support most of the rights-based microfinance agenda.

Most microfinance loans are targeted at women and claimed to empower them as well as help them out of poverty. These claims are problematic as running businesses often adds to women’s already high workload and their changed their role in the family can strain marriages. Husbands sometimes use or control loans yet expect their wives to make the repayments. Group collateral has been shown to lead to pressure tactics being applied to ensure members make repayments. Most schemes require immediate weekly repayments meaning micro-business investments need to make immediate and high returns. Loans are often used for immediate consumption and often new loans are taken to repay existing ones. Microfinance does not always reach the poorest of the poor nor challenge women’s traditional roles.

Microfinance programs are not the panacea to global poverty that has sometimes been claimed. They do not: eliminate the need for basic social and infrastructure services; end vulnerability to economic shocks; or create economic opportunities for the poor given the odds are still stacked against the self-employed in the global marketplace. Microfinance should be seen as a key policy response to crises that follow from structural adjustment programs, it is “…a neo-liberal safety net for neoliberal political restructuring” (Weber 2004, 360).

Examining donor’s social support programs under the post-Washington Consensus finds a limited program with minimal support for health care and education and slightly more support for a range of self-help development schemes, which do not address the broader political economic structures that constrain the life chances of the poor in developing
countries. There is some support here for ending the most extreme forms of poverty, however, that is also the extent of most donor’s ambition. This limited ambition is the product of both mainstream development economics and donors’ political economic agendas.

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