WALTER STERLING SURREY MEMORIAL SERIES

New Views on North-South Relations and Foreign Assistance

Charles F. Doran

Joan M. Nelson

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Foreword

WALTER STERLING SURREY was a prominent Washington, D.C., attorney. For 35 years, Mr. Surrey headed the international law firm of Surrey & Morse, which merged with Jones, Day, Reavis & Pogue in 1986. Throughout his life, Mr. Surrey worked tirelessly to promote international trade and commerce, particularly among nations having different cultural, economic, and political systems. He strongly believed that international trade is the most equitable and efficient means to create and distribute wealth throughout the world. He maintained that an open and competitive international trading system leads to greater understanding and mutual respect among countries, and that lasting world peace can be achieved only after such understanding and respect are established.

Mr. Surrey was associated with the National Planning Association for almost 40 years. He first came to NPA in the early 1950s as a member of its International Committee. He joined NPA's Committee on Changing International Realities when it was established in 1975 and remained actively involved in the Committee's work until his death in 1989. He was elected to the NPA Board of Trustees in 1965 and served as its Chair from 1977 until 1989.

Following Mr. Surrey's death, NPA, with the aid of the Surrey family, established the Walter Sterling Surrey Fund for International Cooperation. The purpose of the Fund is to expand NPA's research in international economic, social, and political policies.

This third publication in the Walter Sterling Surrey Memorial Series is devoted to "New Views on North-South Relations and Foreign Assistance." The series is produced through the Walter Sterling Surrey Fund for International Cooperation in conjunction with NPA's Committee on Changing International Realities. This volume of the Surrey series was made possible through support provided by the Office of Private and Voluntary Cooperation, Bureau for Humanitarian Response, U.S. Agency for International Development, under Cooperative Agreement #FAO-0230-A-00-3065-00.

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New Views on North-South Relations and Foreign Assistance: An Introduction

by Richard S. Belous and Sheila M. Cavanagh

During the Cold War, the American media commonly reported about Third World guerrilla wars in the following manner: one side was pictured as a group of valiant and humanitarian freedom fighters, while the other side was pictured as an alliance of thugs, criminals, and petty dictators. In the post-Cold War era, however, the American media more realistically see the savory and unsavory characteristics of both sides of conflicts in the developing world.

Cold War foreign policy most often handled North-South relations as an adjunct to East-West relations. America's conflict with the Soviet Union was paramount, and developing nations played a secondary role in this struggle. With the demise of communism and the breakup of the Soviet Union, U.S. public and private sector decisionmakers are compelled to consider the complexities and nuances of North-South relations, but the pole star by which they navigated the global strategic landscape for many decades is missing.

NEW VIEWS

The end of the Cold War has presented American public and private sector decisionmakers with many new options. The United States is faced with both a challenge and an opportunity in the need to debate and restructure its foreign assistance policies toward developing nations. The National Planning Association

(NPA), in cooperation with the U.S. Agency for International Development (USAID), is contributing to the dialogue on post-Cold War aid and development assistance. NPA's Aid and Development Project comprises several publications and a series of public-private sector policy dialogues that take place in Washington and in various other cities throughout the United States.

Characteristic of NPA's 60-year tradition, the Aid and Development Project is committed to a nonpartisan, factual review of foreign assistance policy and a productive exchange of ideas among public and private sector leaders. The authors in this volume of the Walter Sterling Surrey Memorial Series are experts who spoke at Aid and Development Project events, and they represent diverse vantage points in the foreign aid and development debate.

The Clinton administration presented a rewrite of the 1961 Foreign Assistance Act to Congress in February 1994. Entitled the Peace, Prosperity, and Democracy Act (PPDA) of 1994, the proposed legislation would provide a framework for funding international affairs programs in the post-Cold War world. The PPDA reflects the restructured goals of the U.S. foreign assistance program minus the pole star of containment. It also reflects the restructured strategies for foreign assistance programs of USAID and other aid-related institutions.

Currently, American aid is allocated primarily by geographic region. If any part of the Clinton administration's new plan would replace containment and geography as the primary guides of U.S. foreign aid policy, it would be the umbrella objective of "sustainable development." Sustainable development is defined in Title I of the PPDA as "broad-based economic growth which protects the environment, enhances human capabilities, upholds democratic values, and improves the quality of life for current generations while preserving that opportunity for future generations."

Passage of the PPDA in Congress would channel international affairs spending based on this concept of sustainable development, which encompasses U.S. foreign policy concerns of economic growth, the spread of democratic political systems, environmental protection, and population stabilization. The United States likely would continue to use aid as a geostrategic foreign policy tool in the Middle East, the former Soviet republics, South Africa, and other regions. But the PPDA would create a new framework for U.S. policy toward the developing world, and it would recognize major post-Cold War shifts in North-South relations.

NEW PARADIGMS

In the first chapter, Charles F. Doran of the Paul H. Nitze School of Advanced International Studies of Johns Hopkins University explores a new paradigm for North-South relations in the absence of the communist threat. He then addresses some of the many competing priorities for foreign aid and development assistance and places foreign assistance in a larger U.S. international policy framework.

In the second chapter, Joan M. Nelson of the Overseas Development Council examines the connections and conflicts among democratic reform, economic growth, and poverty reduction in the developing world. Nelson puts post-Cold War development theory in historical perspective, emphasizes the difficulties of "dual-transition" nations in making simultaneous political and economic reforms, and outlines some of the policy implications for the United States and other aid donor nations.

Thomas M. Callaghy of the Department of Political Science of the University of Pennsylvania focuses on the development problems of the African continent, which has become marginalized from the global political and economic system. In the third chapter, he discusses policy options for the United States, for other industrialized countries, and for the multilateral financial and development institutions that remain engaged in the African development process.

In the fourth chapter, Ingomar Hauchler, a member of the German Bundestag and spokesman on development policy of the German Social Democratic Party, emphasizes the need for industrialized nations to change their perceptions and policies if they are to deal with a diversified and rapidly changing developing world. He stresses policies that will foster self-sufficiency and equitable, sustainable growth in developing nations.

Relations among nations at various stages in the development process, from the most industrialized to the least, have profoundly different characteristics and implications than they did even 10 years ago. U.S. foreign policy, and indeed that of many wealthier nations, is changing as well, but at a far slower pace than global realities. Changes are overdue in the policies of the developed nations in the Northern Hemisphere toward their neighbors in the Southern Hemisphere.

In the United States, many foreign aid reform efforts have failed to dethrone the 1961 Foreign Assistance Act. However, the

costs of maintaining the status quo will rise as the United States moves further into the maze of challenges and opportunities of the post-Cold War world. U.S. government, business, and labor have a stake in economic growth and political stability in the developing world.

Foreign assistance is only one aspect of the shifting relationship between donor countries in the North and recipient countries in the South. Developing countries are home to four out of every five people in the world. As all nations become increasingly interdependent, those of the North and South no longer exist in isolated hemispheres. Common North-South interests include global economic growth, political stability, population stabilization, environmental protection, and disease prevention and control. Donor and recipient countries should agree on effective and appropriate relationships for the new context created by the end of the Cold War. The authors in this volume shed new light on North-South relations and foreign assistance in an international arena undergoing profound and constant change.

1

North-South Relations and Foreign Aid Reform: A Realistic Approach

by Charles F. Doran

The North-South relationship has never followed its own compass, but instead has always responded to changes in the East-West political atmosphere. When the Soviet Union ultimately collapsed, some of the tension left the North-South dialogue as well. The breakup of the Soviet Union facilitated the withdrawal of the Red Army from its occupation role. Europe moved its center of gravity eastward. The "standing start" threat to Europe was gone, and the hair-trigger quality of Cold War nuclear confrontation disappeared. In fact, the collapse of the Soviet Union has affected the U.S. posture toward the developing world more decisively than any other event since the end of World War II.

COLD WAR CONFLICT: A COMPASS FOR NORTH-SOUTH RELATIONS

East-West considerations had a profound impact on the North-South matrix in part because the Soviet Union liked to create mischief in the developing world, from the Koreas to the Congo and from Nicaragua to Syria. Of course, Moscow did not control all that happened strategically within the developing world. But Kremlin policymakers had the capacity to disrupt events and policy in developing areas, and disrupt they often did.

Yet North-South relations were affected by the Cold War in an even more serious, if less direct, way by how the United States determined what was important in foreign policy. East-West rela-

tions were the lens through which the United States perceived much of the developing world. That lens was significant in terms of how America set priorities, including those for foreign assistance.

In 1950, the basic idea behind technical assistance was that poor countries would gain from a transfer of skills and the building of infrastructure so that they could better exploit the opportunities afforded by the international marketplace. By the 1960s, U.S. national security concerns determined whether a country would receive U.S. foreign assistance or whether a foreign assistance budget of a given size would pass Congress. National security was the rationale that produced results. If a country was not politically unstable, and thus subject to Soviet tampering, it had to appear unstable to get U.S. attention. For example, the late Egyptian president Anwar el-Sadat was suspected of engineering a middle-class revolt over bread subsidies, made possible by American wheat shipments to Egypt, so that both Saudi Arabia and the United States, its two big donors, would take Egypt seriously.

With the end of the Cold War, the national security argument yielded much of its clout. Developing states no longer were balanced on the thin edge of bipolar division. Whether a state was stable or unstable no longer had the same significance. Whether it was "lost" to communism did not make much difference because communism was a tarnished doctrine, and no one in Moscow was tending the global power ledger.

Thus, an opportunity has emerged for rethinking the U.S. aid program, an opportunity unprecedented since the program was established. Foreign assistance is no longer locked into the rigid criteria of the Cold War. Under the Clinton administration, 21 aid missions have been closed, mainly in Africa and Latin America. It is now possible to reassess foreign aid in a way that goes beyond what was possible under the "New Directions" amendments of the 1970s and the Reagan reforms of the 1980s.

REASSESSING FOREIGN ASSISTANCE REASONS AND PRIORITIES

The necessity for foreign aid reform in the post-Cold War world is compelling. Why does the United States give foreign assistance? Or, looked at in another way that is at least as plausible, why do developing countries request foreign assistance from

the United States? The answers are not the same, but they can clarify why the United States chooses to give foreign assistance.

There are seven competing reasons for the granting of U.S. foreign assistance.

(1) It promotes political stability, which is desirable in the recipient because it fits in with America's overall design for world order.

(2) Foreign assistance is a moral imperative—that is, it should be given simply for reasons of charity. Charity does not stop at the water's edge; humanitarian assistance to restore a society after war or natural calamity is a high calling.

(3) Foreign aid should be used to encourage economic growth and development. Sustainable development, or economic development that respects the environment, has become a modified version of this objective, made particularly visible by the wholesale destruction of the rain forests in Brazil, Indonesia, West Africa, and elsewhere.

(4) Foreign assistance, according to the late University of Chicago Professor of International Relations Hans Morgenthau, has only one purpose—to enhance the political leverage of the donor. In this view, foreign assistance makes sense only when it induces compliance in the recipient, a notion that causes alarm among some liberals.

(5) Some urge that only recipients that are good markets for U.S. exports, reliable sources of raw materials, or safe destinations for investments should qualify for foreign aid.

(6) Others contend that democracy is the objective that justifies foreign aid. In their view, the U.S. record in promoting democracy is the only argument that will save foreign aid budgets in the face of an increasingly hostile Congress.

(7) Finally, foreign assistance can reward countries with good human rights records. For some time, the State Department has been obligated to codify and rank states in terms of their human rights performance, thus creating a benchmark against which to measure foreign aid allocation.

ACCOUNTABILITY AND EFFICACY

In addition to these seven competing objectives of foreign assistance, two other forms of accountability have emerged. Accountability by region has meant that Russia and the former communist states of eastern Europe are claiming an ever larger portion of monies previously devoted to the developing world. Accountability by domestic comparison is causing shocked aid officials to respond to angry members of Congress who ask why South Chicago is a less deserving place for assistance than Zaire. When combined with questions about whether assistance actually gets to the people who need it rather than being intercepted by corrupt government officials or rapacious rural landowners, as in Ecuador and the Philippines, these criticisms are damaging.

In one of the most haunting phrases of the aid business, Senator Edward Kennedy (D-MA), among others, has repeated the claim that foreign assistance "takes from the poor in the rich countries to give to the rich in the poor countries." This assertion simultaneously disparages the aid effort in both the donor and the recipient nations. It argues that the poor in the United States not only may be denied benefits because of foreign assistance, but also may be forced to pay for that assistance. At the same time, it argues that foreign assistance is badly managed and ends up in the pockets of the middle class, if not of the wealthy elites abroad. Either way, this aphorism demands accountability.

What is the record of accountability? Does foreign assistance get to those who need it most? Does assistance produce results? Increasingly, Congress worries about these questions because they are the ones American taxpayers are asking. For example, an Overseas Development Council survey found in the early 1990s that 88 percent of the U.S. respondents thought that aid was "frequently misused" by foreign governments.

Congress would not be pleased with some of the results unearthed by careful testing. One study using the so-called Fitzgibbon index of democracy, which ranks aid recipients by whether they have become more or less democratic since obtaining significant amounts of foreign assistance, shows that aid has no impact. No improvement in democratization occurred in response to foreign aid deliveries, and the propensity to create democratic institutions did not correlate at all with the distribution of U.S. aid.

Another empirical study, which I conducted, attempted to determine whether the aid program's principal selling point in Congress, namely, that aid creates political stability, is accurate. The study covered a 19-year period in eight Central American and Caribbean countries and employed a 3,000-event data bank. Both economic and military funds were reviewed. The basic question examined was whether recipient polities became more politically stable after the receipt of foreign assistance. Not only did the recipients not become more stable, but U.S. foreign assistance seemed to be driving a pattern of instability. This somewhat surprising finding becomes more plausible when it is recognized that economic assistance, like other forms of economic activity, probably speeds up the development process and therefore accelerates all forms of social and political change inside the polity. Insofar as the governments received military assistance, this enabled them to try to stamp out guerrilla opposition, thus leading to an increase in reported turbulence.

AID POLICY PROBLEMS UNDERMINE EFFECTIVENESS

But there is another reason why this lack of accountability in foreign assistance results has occurred, and it has nothing to do with deliverability. The more fundamental problem lies with the overall goals of the U.S. foreign assistance program and the lack of agreement on these objectives by the U.S. electorate and government policymakers. When the United States cannot settle its own priorities, it is little wonder that the effectiveness of its foreign assistance is undermined.

Consider, for instance, the seven goals of foreign assistance listed earlier. Even if they could be ranked in order of importance, the effects of the fourth-, fifth-, or seventh-ranked objective would have a scarcely measurable impact on the recipient polity. The number and diversity of goals are too great. In any event, there is no agreement about how these goals should be ranked.

The United States must reform its whole approach to the disbursement of foreign assistance. Many administrations have attempted to do this, with the only net measurable result being that the aid budget keeps shrinking. The United States has an obligation not only to the potential recipients, but also to itself and its own foreign policy to craft a uniform, consistent set of foreign aid objectives. This process must begin with the basics. American

must ask themselves why they provide foreign assistance. Then all parties should try to agree on a ranking of the U.S. foreign assistance goals.

WHY PROVIDE FOREIGN ASSISTANCE?

Those who argue that the principal purpose of foreign aid is to buy influence abroad may have a point. The bulk of foreign assistance goes to a few recipients with which the United States sustains special relationships. In the aftermath of the Camp David accords, the approximately $4 billion that Israel and Egypt each receives has had a quieting effect on Middle East relations. Without Egypt, there can be no major assault on Israel. These payments are a very large portion of the total U.S. aid budget, more than 40 percent in a given year. But war in the Middle East would be a costly enterprise, too, not just in human lives, but in dollars as well. For example, the Persian Gulf War cost more than $80 billion.

Greece and Turkey are another pair of countries that receives special treatment in U.S. aid policy. Again, this is a complex international relationship, with a sensitive internal political residual. Although Turkey lost close to $7 billion of foreign exchange because of the Gulf War, it remains a loyal and helpful U.S. ally. Given the volatility of recent events in Bosnia and Macedonia, U.S. influence in Athens is scarcely without consequence either.

Analysts who think of foreign aid in terms of charity are also correct. In combination with voluntary, nongovernmental organizations such as the Red Cross and various religious charities, many of which are superbly administered and dedicated, the U.S. government can make a great contribution to human welfare during crises. Natural calamities and war-caused devastation are the major but not the sole targets of this type of assistance. It is anticipated that in 1994 alone, more than 25 million refugees will require food, shelter, and health care. This is foreign aid in its most graphic and perhaps most appreciated dimension.

RANKING OTHER PRIORITIES

Economic Growth

After these commitments of security influence and charity have been met, there is still the question of what ranking foreign

assistance priorities should be given. Here the tough choices begin, but the problem is reduced to simple form. Foreign assistance is supposed to help people escape from poverty. To do this, it must catalyze economic growth and development. All else being equal, foreign assistance should enable the recipient economy to grow faster. The pace of growth, of course, depends on how much foreign assistance a state receives. Winston Churchill allegedly said that he did not believe in statistics that he himself had not falsified. Because I did not collect these statistics myself, I cannot vouch for their (in)accuracy, but according to published sources, 40 percent of the budgets of 13 of the poorest sub-Saharan countries are dependent on Western foreign aid. That is a large budgetary impact. Assuming that any economic growth has occurred, its path and rate should somehow be related to such a contribution.

However, for greater economic growth to result from foreign assistance, that assistance must reinforce the market. It cannot operate in defiance of the market, and it is no substitute for market forces. It should enable the market to work more fully and efficiently within the recipient polity, or aid money will have been wasted; thus the imperative to coordinate aid budgets internationally. Evidence exists that even among the poorest countries, the effort to follow World Bank and International Monetary Fund guidelines concerning macroeconomic policy results in higher growth. Nothing is more foolish than attempting to bolster currency that is ailing because of improper domestic fiscal and competition policies, precisely the dilemma of contemporary Russia.

Governance and Social Issues

Foreign assistance should also not be used to worsen the physical environment of a recipient country. Nor should that assistance be given at the cost of the human environment—that is, human rights. Foreign assistance should not weaken or subvert any tendency toward greater democratization. Despite the examples of Singapore and Chile, there is no reason to believe that, in the aggregate, nondemocratic governments are better than democratic governments at achieving economic growth.

In Ghana, successive military governments brought the country to near ruin. In Jamaica, the more politically realistic Edward Seaga has done little better than the interventionist Michael Manley. Guyana demonstrates that nondemocratic regimes have

no necessary commitment to economic progress. Corazon Aquino's democratically elected government in the Philippines depended for support on the same rural oligarchy as her predecessor, and thus neither she nor her successor has done much better economically than the corrupt Marcos regime. Democracy neither furthers nor hinders economic progress per se. The capacity for and commitment to economic progress are more deeply entrenched in a market way of thought than in the type of regime.

But if the chief goal of foreign assistance is the elimination of poverty, then foreign aid should not be expected to promote democracy or improve human rights as part of a crusade. History shows that rises in income are accompanied by popular demand for political representation and social justice. Nevertheless, this should not be the task of foreign assistance. Recipient governments would be wise, in their own self-interest, to give proper attention to matters of good governance.

Military Assistance

Military assistance and economic assistance follow different trajectories and should be kept distinct in terms of timing, locus, and purpose. Military assistance is a short-term expedient to prevent aggression or the tumultuous collapse of a government. Economic assistance is a long-term measure designed to enhance a country's growth and development prospects. Military assistance cannot do the job of economic assistance, and vice versa. It is as useless to provide economic assistance to a state in civil war as it is to provide military assistance to improve the growth prospects of a society at peace.

Yet both economic and military assistance must be granted in the context of a single package. It is very devious to sell military arms to a country that does not need the defense, while providing economic aid that is supposed to accelerate growth but does not, because the aid is squandered on a spurious concern for protection. Foreign assistance is fungible, as is all power. In the post-Cold War era, perhaps the greatest lesson for foreign policymakers is that unneeded defense spending in many parts of the developing world should not be allowed to use up scarce U.S. aid resources at the economic margin.

A LARGER POLICY FRAMEWORK

Finally, foreign assistance must be seen as part of a larger policy framework, not as an end in itself. When the Caribbean Basin Initiative was launched to assist poor countries in the region, hopes were raised. These hopes plummeted when a simultaneous increase in U.S. import barriers to sugar, the region's main export, cut into revenues. This was an unwise exchange. Trade is a much better route to economic self-sufficiency than foreign aid. Yet the signals sent out by this unfortunate venture conveyed just the opposite notion.

A race for access to foreign assistance is ongoing between the transition economies of the former Soviet Union and eastern Europe and the economies of the developing world (so-called despite the reality that it is composed of many "worlds"). In reality, the size of U.S. aid budgets is shrinking, not just relative to gross domestic product (GDP) or to need, but in absolute terms. For the present, the transition economies are diverting funds from developing-world areas, particularly Africa, which will force a new austerity on these societies with unpredictable social and political consequences.

At the same time, within the U.S. economy a surge toward welfare consumption is reflected in the fact that a rising share of GDP is going to health care expenditures, unemployment compensation not well administered, retirement benefits not offset by adequate inputs, and interest on the national debt. Unless the United States is very careful in the years ahead, it will not have enough revenue left for proper funding of its foreign obligations, especially those involving foreign assistance.

I began by noting that the end of the Cold War has created a unique opportunity to rethink the U.S. aid program because the old rules for sponsoring assistance have implicitly changed. I also observed that because of the internal contradictions within the set of U.S. aid objectives, there is an immense need for serious reform. Given the number of objectives, their diversity, and the lack of agreement about their ranking, the delivery of foreign assistance could not possibly be optimal. Even if each recipient attempted to meet U.S. assistance objectives, the program would not fully succeed because of the inability to sort out the opposing instructions.

More than this, however, U.S. foreign assistance must keep abreast of changing norms within the international political econ-

omy. A revolution is sweeping economic thought in the developing world. It began with the conspicuous triumphs of the newly industrializing countries of Asia. But the transformation of the Chinese economy using market principles, doubling agricultural production the second year after reform and sustaining real annual GDP growth of from 9 to 14 percent for more than 15 years, has changed the whole focus toward development. Now, instead of shunning foreign investment, developing countries actively seek it. Instead of import substitution strategies and a closed economy, the approach is increasingly to open economies and to export, as Mexico and Chile have done. Instead of creating government-owned corporations, the rush is toward privatization. Countries have discovered that markets work and that freer markets work better.

In the midst of all this transformation, the danger is that the U.S. aid program, mired in self-made inertia, lacking adequate market consciousness, and burdened by congressionally mandated restrictions, will lose sight of its primary purpose and will fall behind the vanguard of change within the developing world. The private sector has a responsibility to see that this slippage does not occur or does not continue to occur. Indeed, the greatest praise that could eventually be addressed to all foreign assistance programs is that because of their performance and design they will cease to exist since their functions will have been absorbed by the normal operations of an increasingly liberalized international economy.

2

Democratic Reform, Economic Growth, and Poverty Reduction: Linkages and Tension in Developing Nations

by Joan M. Nelson

The promotion of democracy on a global scale is a logical successor to the Cold War concern of containing communism. In 1993, National Security Advisor Anthony Lake coined the term "enlargement," which essentially presses the idea of extending the reach and depth of market economies and democratic political systems throughout the world. Of course, the concept of enlargement is also a response to what has actually been occurring during the past decade.

Although newly emphasized, the theme of enlargement is obviously not new to U.S. foreign policy or U.S. foreign aid policy. It has risen very sharply to prominence just in the past few years, while ideas about the links between democracy, governance, economic growth, and poverty reduction have evolved over the past 35 years.

A SNAPSHOT OF THE PAST THREE DECADES

The 1961 Foreign Assistance Act reflected a happy conviction that economic development, and therefore poverty reduction, went hand in hand with democracy, and that the driving force was

economic growth. Economic development would create a middle class, a middle class would press for a voice in government, and a more participatory, more open government would evolve in tandem with increased economic progress. The mechanisms for encouraging growth were basically capital inflows and a fairly substantial role for the state in encouraging both physical and human capital creation and in guiding growth patterns. This was the era in which India and other developing countries were busy constructing five-year plans for their own development.

By 1970, disillusionment had set in over the effectiveness of growth to automatically relieve poverty, and emphasis on aid programs that would go directly to the poor increased sharply. Later in the 1970s, political turbulence and a growing wave of military takeovers in Latin America, in sharp contrast to the successes of the emerging East Asian "Tigers," fed a reluctant belief that perhaps authoritarian governments fare better than democracies in achieving economic growth and reducing poverty.

By 1980, the perspective had shifted again. Sub-Saharan Africa was clearly in deep trouble. The World Bank, in particular, supported the line of analysis that government was the problem, not the leading force. Government seemed to be an albatross that, sometimes with good motives, adopted policies and approaches that were profoundly distorting and that generated corruption and rent-seeking behavior. The 1980s saw great support for "getting government out of the economy."

Political trends in the United States and Great Britain, as well as in the other industrialized nations, reinforced that analysis. By the early 1980s, development theory was dominated by the concept "that government is best which governs least," regardless of whether it is democratic or authoritarian. During this period, two groups that normally do not agree with each other—nongovernmental organizations (NGOs) concerned with relieving poverty and who want government off the backs of villagers, and neoclassical economists concerned with encouraging business and who want government off the backs of entrepreneurs—seemed to agree with this perspective.

By the late 1980s, the perspective had shifted once more. The market lost some of its sheen, and it became clear that getting prices right was not enough. This was especially clear in the poorest nations. Stabilization and adjustment have a high welfare cost, which does not necessarily mean that they should not be

undertaken, but rather that attention must be paid to social safety nets and therefore to the governments that can administer them. Further, while the right prices and responsible macroeconomic adjustment were clearly necessary, they alone were not sufficient for restarting growth and addressing poverty. It became apparent that competent government must direct this transition. These ideas began to coalesce in 1987-88, before the revolutions in eastern Europe and the fall of the Berlin Wall in 1989.

THE ROLE OF THE STATE

By the early 1990s, then, the state was brought back into the development process. But prolonged economic stagnation, fiscal crisis, and overextension have essentially destroyed the state in much of Latin America and sub-Saharan Africa and, in somewhat different ways, in eastern Europe and the former Soviet republics. State institutions are characterized by underpaid, demoralized bureaucrats who moonlight and are sometimes corrupt, often because this is the only way they can survive. Government agencies in many developing nations have no equipment or supplies; law enforcement has deteriorated (to the point, for example, that youth gangs are terrorizing the beaches in Rio de Janeiro); social services have collapsed; and infrastructure has decayed. Thus, the problem is not simply recognizing that the state must play an important role in development; it is a problem of restoring, limiting, and redefining the role of the state.

But the role of the state is now seen through a wider lens. Again, there is an interesting convergence of views between NGOs and at least some of the neoclassical economists, particularly various groups in the World Bank, which has become one of the intellectual centers for rethinking development strategies. How are decent governments achieved? Simply improving public administration charts and personnel training will not work; more open political systems are necessary. A competent and autonomous judiciary must enforce the rule of law. The media must be allowed to enforce transparency and spread information. Elections must enforce accountability. In short, by means of the concept of good governance, development theory has returned to democracy as an important element of the development process.

That line of thinking began to emerge before 1989 and was reinforced by the events in eastern Europe that year. Thus, development theory in 1990 briefly turned back to 1960, but with the

causal arrows reversed. Democracy and markets still went hand in hand; however, the causality now ran from democracy to governance to growth to poverty reduction.

A RETREAT

Admittedly, this sketch greatly simplifies the shifts in development theory, but it is nevertheless useful. Despite lessons learned over 30 years, the ideas of the early 1990s are still somewhat utopian. All good things do not go together, and in the past four years many foreign policy groups and individuals concerned with development have made a hurried retreat, at least in private thinking if not in public statements, from this perspective. Recounting the history of changing perceptions of the relationships among democracy, governance, growth, and poverty reduction calls for a closer look at both certainties and uncertainties. There is no strong or precise relationship between democracy and good governance, although there is certainly a very strong relationship between good governance and economic growth. There is also a strong relationship between economic growth and poverty reduction, as virtually all careful studies on the subject make clear.

This brief historical trajectory is also useful because it indicates that public opinion has been led to some false expectations by the events that suggested more theoretical links between democracy and development about 1990. There is now a rapidly growing sense that events are not turning out as hoped. Democracy is a messy business. For instance, democracy releases all kinds of ethnic and national hostilities. In some countries, such as Algeria, governments that are perhaps inherently antidemocratic have been democratically elected. The attempts to link democracy and economic development have uncovered a whole range of problems that had not really been considered.

DUAL TRANSITIONS

Dual-transition countries often experience political opening in which an authoritarian government steps down or is pushed out and a more or less democratically elected government takes over. In the past decade, this type of political change has increasingly occurred when a country is in a deep economic crisis. Political transition comes when it is clear that a nation's economic system

is not producing—when it is suffering from long economic stagnation, decline, or disintegration and is in dire need of an overhaul.

U.S. policy and, more broadly, the international development community's policies and actions toward poorer countries ignored the relationship between democratic consolidation and market reforms during most of the 1980s. The international community pressed for sweeping economic reforms, with little attention to implications for democratic openings. By the late 1980s, however, there was a growing intellectual appreciation that good governance as well as "getting prices right" might be needed for development (especially in Africa) and that good governance in turn might require progress toward democracy. There was also recognition that democratic openings in Latin America, rather than being isolated occurrences, had become a clear trend: by 1990, most of that continent had elected governments. The collapse of communism in 1989-90 brought into sharp focus the dramatic fact that a large number of countries—in Latin America, in the postcommunist world, and in sub-Saharan Africa—confronted a dual and simultaneous challenge—consolidating fragile democratic openings and pursuing painful economic reforms. Only then did U.S. policy and the international development community more broadly begin to grapple with the tensions and difficulties created by dual and simultaneous transitions.

Dual-transition countries can be contrasted with those countries that reoriented their economies first and then moved to open politically—for example, as Chile and the nations of East Asia have done and as Mexico quite possibly will do over the next dozen or so years. A different sequence occurs when countries with long-established democracies must confront deep-rooted economic problems and try to address them within a democratic framework, as Costa Rica, Jamaica, and Colombia have already done and as India seems ready to do. Dual transitions are historically rare. Spain under Franco in the mid 1970s is sometimes cited as a country that successfully navigated a dual transition. While Spain's success is impressive, its relevance as a model for today's dual-transition countries is limited. In the mid 1970s, at the time of its political opening, Spain was doing fairly well economically compared with most dual-transition countries in the 1990s. Spain was thus able to concentrate on consolidating its political opening and democratic government in the late 1970s before turning to further economic restructuring in the 1980s. Argentina, Bolivia,

Brazil, eastern Europe, Russia, Zambia, and other developing countries do not have the luxury of a semisolid economic foundation.

The challenges of simultaneous economic and political change have been little studied until recently. For the past few years, the Overseas Development Council (ODC) has been working with a group of east Europeans and a group of Latin Americans, analyzing simultaneous transition countries in these regions. In the early 1980s, Bolivia, Argentina, and Brazil shifted from military to elected civilian governments in the midst of economic crises and prolonged or recurring economic declines. But during the democratic transitions, most of the public, as well as trade unions, many businesses, and some in technical economic circles, believed that the problem was not the fundamental structure of the economy and the state's interaction with the economy. Rather, they viewed the problem as a combination of military mismanagement and the external situation—the debt crisis and exogenous forces. Therefore, for a brief, euphoric period, they all expected the democratic governments to more or less painlessly set things right economically.

The initial civilian governments in Bolivia, Argentina, and Brazil tried to correct the economic problems. But, with the partial exception of the Austral Plan in Argentina under Alfonsin, they were unable to take the first steps against the considerable social opposition that did not recognize the need for fundamental reforms. It took hyperinflation in Bolivia and Argentina before there was widespread acceptance of this need.

In contrast, at the time of the political transition in eastern Europe, the political system was deeply implicated in the collapse of the economic system. The public was well aware of the need to change both politics and economics. Although there was no agreement on how it should be done, and certainly no preparedness for the long and painful process, at least the need was recognized.

CAN BOTH BE ACCOMPLISHED?

Once governments attempt strong economic reforms, what are the interactions between pursuing the reforms and consolidating democratic opening? The two objectives are equally important. But most analysis to date focuses only on the political tactics involved in adopting economic reforms, with little attention to medium- and longer-run effects of each set of reforms on the other.

There has been a tendency to assume that if the politically difficult first stabilization and liberalization measures can be implemented, dealing with the rest will be easier. This assumption is certainly reinforced by the cases of Russia, Ukraine, and Brazil, where launching reforms has proved so difficult.

In an odd way it is an optimistic view, but nonetheless one that is clearly wrong. If a governing elite is committed to reform, it can establish stabilization measures, implement economic liberalization or deregulation measures, dismantle price controls, open the economy substantially by reducing trade barriers, and open up exchange rate management. It can also deregulate the institutions that worked badly under the old system because they were controlled, regulated, and distorted. But after the governing elite sets the course of economic reform, it must navigate a series of far more complex institutional and legal reforms, and it must then stimulate domestic and foreign private sector response to that changing institutional and legal framework. This is now recognized as a long process, although it was not 5 to 10 years ago.

In Chile, which started ahead of many other countries in many institutional ways, dramatic economic reforms were introduced beginning in the mid 1970s, but the country did not begin to experience strong economic growth until 1986 or 1987, with a very deep depression in between. Early reform initiatives in countries like Chile are usually decided by a small circle of people and implemented administratively, with little need for major legal changes or the cooperation of a large number of agencies. Later changes, however, are administratively and legally much more complex, which leaves the arena vulnerable to still greater political pressure and discussion.

Political openings generate tremendous flux in the organization and action of interest groups. When the old system falls, some groups with vested interests in it become confused and discredited. Eventually, however, they regroup and begin to exert pressure on the reform process. Unless the economy turns around rapidly, the public becomes disillusioned, which allows special interest groups to press harder for their concerns.

ODC has been studying the interaction in both eastern Europe and Latin America of changes in public opinion, support for government reforms, and the behavior of labor unions as reform progresses. Initial reform measures are almost always launched by autocratic means, even within a democratic context. Obviously,

dual-transition countries do not generally undergo a big democratic debate on devaluation, partly because of the crisis climate created by the failures of the old system, partly because of the honeymoon period of the new government, and sometimes because of international pressure.

As noted above, political problems tend to mount as reforms are instituted, and public disillusionment is fanned by growing inequality as much as by growing poverty, which are often side effects of reform. The perception that a few people at the top are getting very rich, often by dubious means, is particularly explosive politically. Especially in eastern Europe, there is the emergence of a new category—those who are excluded from the benefits of the new system and who are not in a position to take advantage of genuine growth opportunities.

POLICY IMPLICATIONS FOR THE INTERNATIONAL COMMUNITY

In the past three decades of development, the United States and other bilateral actors, as well as the multilateral institutions, should have learned something about where they can be helpful in the development process and where they cannot. Countries undertake serious economic reform when they are convinced there is no alternative. Once a government takes that step, outside actors can probably be more constructive and helpful than in less decisive situations.

The United States, international financial institutions, and others in the international community will have to move to a more consultative style in their efforts to influence reforms and dual transitions, just as reforming governments must do vis-à-vis their own legislatures and interest groups in later stages of economic reform. But a more consultative style also carries risks. Countries must prepare for a likely electoral swing to the left. On the other hand, a powerful learning process has been ongoing in the international community about what is and is not possible in dual-transition situations. Nations like Poland are beginning to think more carefully about how to cushion the lengthy transition process.

Because the processes of political and economic reform are profoundly internal, the United States cannot expect to effectively steer and influence this process. In particular, the United States cannot expect to have much leverage over the political side—the efforts to consolidate democracy. In 1990-91, the United States and

many other wealthy industrialized countries made a number of statements that they would begin to tie their aid programs to progress toward democracy. They declared their intent to exercise this conditionality in a process in which outside actors would have little leverage.

Some concerned with development have suggested that the World Bank should be more aggressive in promoting democracy. That would be a mistake. Another inappropriate response to this pressure would be for the International Monetary Fund to be pushed into a softer position on stabilization. The international economic climate must be kept as supportive as possible, particularly regarding trade, which is a huge domestic political problem for all the industrialized countries.

It does not take a cynic to think that the pronouncements about conditionality are "puffs," and that specific projects to buttress democracy, although not useless, make only modest contributions. Some assistance can be provided through the U.S. Agency for International Development (USAID) and other bilateral agencies. USAID can serve a useful supporting role, funding programs to strengthen the judiciary, for example. If U.S. actors are truly concerned about these issues, however, they must look less at the aid instruments involved than at the broader U.S. foreign policy measures, including debt and trade, at their own behavior, and at what the United States urges its industrial democratic allies to do. Dual transitions involve processes where, except in the international economic arena, external leverage is slight and the ability of external actors to help is limited.

3

Africa and Aid and Development: A Time for Realism

by Thomas M. Callaghy

Africa is often portrayed in the press as an economic basket case. It is certainly a troubled continent, but U.S. investors and aid agencies as well as other bilateral donors and the multilateral financial institutions will not be able to make effective decisions about Africa until they understand some very grim realities.[1]

AFRICA'S MARGINALIZATION

Africa's economic marginalization from the world economy paradoxically coincides with the increasing involvement of powerful external economic and political actors in the continent's economic concerns. The marginalization is both politico-strategic and economic. On the politico-strategic side, regional and civil wars are commonplace, with warlords' territories often crossing boundaries and borders, as exemplified by the conflict in Liberia. Much of the civil turmoil is now challenging the basis of the nation-state concept that Africans borrowed at the time of independence. The fragility of these states is increasing with time, and disintegration of some states is not far from reality.

Recent events in Rwanda, Somalia, Sudan, Mozambique, and Angola indicate the fragility of Africa's politico-strategic situation.

1. In this chapter, "Africa" refers to sub-Saharan Africa minus South Africa.

Zaire is also on the verge of major collapse and turmoil. At the same time, "benign interventions" by industrialized countries of the scope and intrusiveness of the U.S. operation in Somalia under the Bush and Clinton administrations are not likely to be repeated because they are costly and raise sensitive political issues. More restricted humanitarian interventions, such as the current one in Rwanda, are more likely.

Africa's economic marginalization is far more serious than its politico-strategic problems. The continent is no longer of much importance to the world economy, and this lack of importance is accelerating. It is unimportant to major international banks, to multinational corporations, except those in certain mineral enclaves, and to most world economies, including the newly industrializing countries of East Asia. Africa's share of world output is declining; its commodities are less important in world markets than they were 20 years ago; and African countries are producing commodities and other exports more inefficiently than in the past. Trade with Africa is also declining. Northern financial institutions are becoming less willing to extend loans to African countries. Growth rates have dropped significantly since the early 1980s, although the percentage of world official development assistance going to Africa rose from 17 percent in 1970 to 38 percent in 1991, according to the World Bank.

CROSS-REGIONAL COMPARISONS

Cross-regional comparisons are crucial to understanding the severity of Africa's economic marginalization. From 1982 to 1992, the average annual growth rate of African gross domestic product (GDP) was 2 percent. During this period, South Asia, the most comparable developing region, had a 5 percent average annual GDP growth rate, and East Asia had a rate of 8 percent. The World Bank is projecting that Africa's 1992-2002 average annual growth rate will be 3.7 percent, but this projection is based on an astounding list of assumptions, among which are that Africa will see more favorable economic conditions, including a break in falling commodity prices; a more liberalized trade regime, which, despite official approval of the General Agreement on Tariffs and Trade (GATT), is open to question; less civil strife; improvement in economic policies and in their implementation; more foreign investment; maintenance of existing levels of public assistance; and

no major weather or climatic difficulties. Given the unlikelihood of these assumptions, the projected growth rate of 3.7 percent is both overly optimistic and highly suspect.

The World Bank also projects a 50 percent rise, from 200 million in 1992 to 300 million in 2002, in the number of poor in Africa—the only region in the world where the World Bank has projected a significant overall increase in poverty. Meanwhile, its share of developing-country agricultural exports has dropped, from 17 percent of the developing-country agricultural export total in 1970 to only 8 percent in 1990. In other words, Africa is losing market share to other countries in the developing world, particularly to Latin American countries such as Brazil and to Asian countries such as Malaysia and Indonesia.

Again, the key comparison is cross-regional and with South Asia. The rate of return on investment in Africa fell from 31 percent in the 1960s to 2.5 percent in the 1980s. This rate will not rise quickly, if at all. The rate of return on investment in South Asia, however, was 21.3 percent in 1960 and 22.4 percent by the late 1980s. Although the increase was only marginal, it was still significantly better than Africa's drop.

Two final cross-regional comparisons reinforce Africa's marginalization. First, the amount of external financing through bonds in 1991 was $2.4 billion for East Asia, $1.9 billion for South Asia, and $0 for Africa. Second, flight capital as a percentage of GDP for 1990 was 15 percent for South Asia, 19 percent for East Asia, 28 percent for developing Europe and Central Asia, and 80 percent for Africa.

Business leaders in the United States and other industrialized countries have a jaundiced view of Africa's prospects. Corporate officials would rather leave Africa to the International Monetary Fund (IMF) and the World Bank than invest in the continent themselves. If the international financial institutions (IFIs) cannot straighten out Africa's economic problems, corporations can clearly go elsewhere, and they do.

Many Africans see their economic condition and the efforts of external actors to address their problems as a new form of neocolonialism; some view these steps more harshly as racist and imperialistic. Africans correctly see themselves as being at the bottom of the international economic hierarchy, and they are suspicious of many external efforts to help them escape this situation.

AFRICA AND THE IFIs

Despite its economic marginalization, Africa has in some ways become more tightly linked to the world political economy precisely because of its dependence on the IMF and the World Bank. These institutions are trying to get African countries to more effectively relink their primary product exports to the world economy. Africa's economic marginalization and increasing dependence on the IMF and the World Bank are linked to one economic indicator conspicuously not mentioned so far—debt. In 1974, Africa's debt was approximately $15 billion. By 1992, it had reached roughly $185 billion, 109 percent of Africa's total gross national product (GNP) or 350 percent of the continent's exports in any given year. Much of the recent debt increase has been in monies owed to the IMF and the World Bank, which, under current conditions, cannot be formally rescheduled. As a result, arrears to these institutions and other IFIs are rising significantly. Debt is linked to attempts at economic reform because economic reform is primarily driven by the activities of the IMF and the World Bank. Western countries will not reschedule public debt and publicly guaranteed private debt through the Paris Club unless the debtor countries have an existing relationship with the IMF and usually with the World Bank as well. Economic conditionality becomes a lever—either a country "plays ball" with the IMF and the World Bank or its debt is not rescheduled. African countries thus are extremely dependent on these institutions.

Ironically, this leverage is not particularly effective. The track record of economic reform in Africa has been extremely modest since the early 1980s. Ghana, which began structural adjustment in 1983 and continues to pursue it, is one case of sustained IMF/World Bank-type structural adjustment efforts. Debates rage about why Ghana was able to pursue sustained economic reform. Ghana's authoritarian military regime in the early 1980s was committed to reform and initially went to the Soviets for help. The Soviets turned down its requests and advised Ghana's rulers to seek assistance from the IMF and the World Bank, which they did. In the end, the radical populist regime effectively implemented the only sustained neoclassical economic reform effort in Africa in the 1980s, primarily by making economic policy through technocratic mechanisms, with the help of the IMF and the World Bank, and by using its authoritarian traits to implement the program against social opposition. Ghana also

received substantial amounts of external resource flows on the public side through the IFIs, bilateral agencies such as the U.S. Agency for International Development (USAID), and other sources. Some opponents of structural adjustment argue that reform succeeded in Ghana only because so much money was thrown at it. But resources are only part of the reform battle. Countries must also follow proper policies and be committed to implementation, which is precisely why economic reform has been so modest in Africa. Conjuncture of these factors in any one place for a sustained period is rare. Most of Africa has gone through a process that could be called the "ritual dances of reform." Given their dependency on the IMF and the World Bank and given the Paris Club linkage, African countries need debt rescheduling, so they often play the formal games of economic reform without substantively pursuing it.

FEAR OF THE WORLD ECONOMY

Most African governments, much of Africa's political elite, and many African social groups are against the type of economic reform required by the IMF and the World Bank. Constant battles occur between African countries and these two institutions over the nature and content of economic reform. The Economic Commission for Africa, a regional United Nations research and policy organization, designed its own alternative framework, which was more a wish list for more money and a regurgitation of the old statist policies of the 1960s and 1970s than a plan for reform. Besides the fact that the political structure of most African regimes does not bode well for economic success, Africa has no social coalition that supports IMF-type economic reform. African countries fear the world economy because they do not do well in it. They characterize their position in terms of conspiracy, and they are still looking for a short-term quick fix.

Another problem could be called the implicit bargain. The IMF and the World Bank assured African countries that if they reoriented their policy frameworks and restabilized their macroeconomic balance, the world's private banks, multinationals, and other investors would provide direct foreign investment and finance that would support their economic reform efforts. This has not happened nor is it likely, given Africa's position in the international investment hierarchy in the mid 1990s. In most cases it does

not make sense for private money, either from banks or from foreign direct investment, to go into Africa now.

However, the money from the IMF and the World Bank is not enough, and in any event, it is not clear how many Ghanas the international community, Western governments, and IFIs could support even if other African countries were committed to Ghana-style reform. Given the budget constraints of the U.S. foreign aid program in particular, not enough public money is available to support widespread reform of African economies.

PLAYING TO EXTERNAL ACTORS

By the late 1980s, the IMF and the World Bank began to question the modest track record of reform in Africa. Because they believed in the strength and viability of their policies, these organizations needed an alternative reason for the minimal success of African economic reform. They came up with the current buzzword "governance," maintaining that good governance, in the form of reduced corruption, better property rights, the rule of law, a free press, and other measurable factors, is necessary for sustained and successful economic reform.

Since the end of the Cold War, good governance has become equated with democratization, at least by the major Western governments. The World Bank's position on governance is much more nuanced, but it makes basically the same implicit connection. The Western powers have been looking for a foreign policy to replace containment, and the Clinton administration's policy of "enlargement" of the world's market democracies is a leading candidate. Economic reform and political reform are now fused—the two are seen to be simultaneously reinforcing—and some policymakers maintain that political reform is a necessary precursor to economic reform.

The tendency of the IMF, the World Bank, and Western governments to link political and economic reform has been reinforced on the African continent by opposition movements to the authoritarian regimes that have dominated Africa since the 1960s. As the regimes became weakened by the economic crises of the late 1970s and early 1980s, the emerging opposition movements became more powerful. Their opposition was couched in democratic terms (whether or not they actually were democratic) in part because this stance played to external actors. The confluence of

these factors in 1990-91, and to a much lesser extent in 1992 and 1993, led to political liberalization efforts in a number of countries.

Thus, the conditionality of economic reform imposed by the IMF and the World Bank in the early 1980s has been joined by political conditionality. Assistance is now often contingent, directly or indirectly, upon progress on political reform. However, the evidence in the post-World War II period does not support this view of the mutually reinforcing nature of economic and political liberalization—of market reform and democratization. The major examples of economic reform after World War II distinguished between economic transformation and macroeconomic stabilization. In addition, almost all of them were implemented by authoritarian or semiauthoritarian regimes—for example, in Korea, Taiwan, Malaysia, Thailand, Indonesia, Mexico, and Chile. One country that does not quite fit into this category is Argentina. Although formally its regime is democratic, its economic policies have been made largely by decree. Economic reform under democracy is not impossible, but it needs certain kinds of political decisionmaking structures that facilitate its coherent formulation and implementation.

The logic of the argument that economic and political liberalization are mutually reinforcing is an extension of neoclassical economics. Economic reform and growth produce winners; winners will support reform and will organize social coalitions to support both reform and democracy. Again, however, the evidence does not support this hypothesis, particularly in Africa where the task is greatest and where both the capacity and the financial resources to support reform are weakest. Winners are few, and they are late to arrive. Other bases of political conflict and political coalition—personal, ethnic, and regional—emerge much more quickly. In fact, the early evidence, primarily from Senegal in the 1980s and Zambia in the early 1990s, seems to indicate that political liberalization allows older political logics to reemerge in new democratic form but that the political logics are no more propitious for economic reform than the authoritarianism they replace.

Two key cases provide further evidence. Since the 1960s, Ghana and Nigeria have gone through cycles of authoritarian and democratic regimes. Their democratic regimes have been as bad at economic reform as most of their authoritarian regimes, and some have been worse. In the aftermath of the countercoup that took place in November 1993, Nigeria has given up on both political and economic reform.

Political liberalization has been modest in Africa. In fact, I would argue that much of it is pseudodemocratization; substantive democratization begins to collapse relatively quickly. Hence, the mid 1990s look a good deal like the late 1970s and early 1980s: the international community is attempting to determine how to persuade weak authoritarian regimes to commit to economic reform long enough to make a difference.

Western donors had their biggest experiment with conditionality on political liberalization in Kenya. They withheld support from Kenya until the government of Daniel arap Moi (1978 to the present) agreed to undertake political liberalization. But activities by both the government and the opposition led to a negative outcome. The various opposition groups did not present a single candidate for president, and the government manipulated the rules and the implementation of the elections in order to be reelected. Yet the external actors from the World Bank and the U.S. government have returned to Kenya, with promises to restart the resource flows if economic reform is continued in some form. Even though the Moi administration has never seriously pursued economic reform, some money is flowing again.

PROSPECTS FOR THE FUTURE

The prospects for economic reform in Africa are poor. While the prospects for political reform are not quite as bad, the consequences of lack of reform are serious. Western donors and investors essentially have four options, with various combinations of these also being possible.

First, they could continue both economic and political conditionality for aid and resource flows, spreading resources thinly across the continent. The U.S. government has spent money to support democratization in Africa, so there has been some tradeoff—some money that was going to economic reform moved into political reform.

Second, Western donors and investors could select countries in which to concentrate their efforts and resources and support both economic and political reform.

The third option for the industrialized world would be to back away from both economic and political reform and create an international triage mechanism or safety net for countries increasingly in distress. The U.S. humanitarian/"nation-building" operation in Somalia as well as the dilemmas in southern Sudan, Liberia,

Angola, Mozambique, and now Rwanda have vividly demonstrated the difficulty of determining who is responsible for the implementation of such actions and who pays for them. The Somalia experience in particular showed that international triage and the basics of conducting such operations can be very difficult indeed. As a result, the current response to Rwanda has been more muted.

The fourth policy option for the United States, IFIs, and others would be to support any government in Africa, short of those that perpetrate massive human rights abuses, that consistently attempted to engage in economic reform. Some variant of IMF/World Bank reform, while perhaps not optimal, is the best available strategy. There is no other major alternative, especially since African countries cannot copy the statist East Asian version of economic reform that Korea, Taiwan, and other countries have implemented successfully. African countries have no choice but to resurrect their primary product economies and relink them to the world economy, even if commodity prices continue to fall.

In developing countries, economic reform is more important than political reform. If economic reform succeeds, the prospects for real, sustained political liberalization are higher. Korea, Taiwan, Chile, and Mexico exemplify this analysis. The importance of economic reform is undergirded by the reality that Africa is on the edge economically. If this situation does not change in the next decade, the African continent will be "off the map."[2]

2. For further discussion, see Thomas M. Callaghy, "Africa, Falling Off the Map?" *Current History*, January 1994, pp. 31-36. See also Thomas M. Callaghy and John Ravenhill, eds., *Hemmed In: Responses to Africa's Economic Decline* (New York: Columbia University Press, 1993).

4

Crisis and Reorientation in Development Policy

by Ingomar Hauchler

Many people in the North, fearing for their prosperity and social security, want to build a barrier against those from the South and East who are fleeing to the North to escape violence and impoverishment. But such a barrier will not hold unless the conditions causing modern-day population movements are alleviated. Northern nations are also increasingly concerned about the preservation of natural resources. People fear a global environmental disaster and are aware that no barriers offer protection against this kind of catastrophe. These worries and fears are indeed justified.

Global problems in the North, South, East, and West continue to increase as the ability of governments to take effective action decreases. Policy instruments are failing to have an effect on the world economy, on the restructuring of industrial societies, on the social and economic transformations taking place in the South and the East, and on international cooperation. Only if we are aware of the true dimensions of the global risks facing us, if we recognize the limits of existing policy instruments, and if we identify outdated theories and conflicting special interests will we be able to outline the basic features of a new policy for global cooperation.

ACUTE GLOBAL PROBLEMS

Today, there are more hungry, sick, and uprooted people living and dying in the South than there were 30 years ago at the end of the colonial era. Poverty, environmental destruction, and a population explosion are reciprocally accelerating trends. For the

foreseeable future, most developing countries will have no chance of catching up with the countries of the North and asserting themselves internationally.

Many countries of the East are currently facing development problems similar to the countries of the South. The former communist countries have high standards of education and health. However, psychological and social change is being delayed by rigidities implicit in the former totalitarian and command economy system. The East will need considerably more time than expected to make the transition to democratic, humane, and economically productive development.

The North is gradually sinking into a crisis of values and orientation. It does not have perfect answers to questions regarding the future, although it claims to. The methods of wasteful consumption and production characteristic of the Western development model, reflected by exponential trends in resource and nature consumption, are falling into disrepute. Concern is growing that Western individualism, focused one-sidedly on the constant increase in consumerism and mobility, is ecologically damaging, approaching economic limits, and undermining nonmaterial values that are indispensable for the survival of society and global responsibility.

Poverty in the South, distortions in the East, and the orientation crisis in the North are not isolated phenomena. They combine to form an alarming mixture of risks, globally networked, since the different "worlds" are connected through modern technology, transboundary environmental effects, and growing levels of economic integration.

Thus, to an increasing extent, new global security risks affecting all regions of the world have been added to military threats and the danger of war—the classic security problems of international politics. Even the wealthy and powerful countries are finding it less possible to isolate themselves from global environmental destruction, mass poverty, deadly epidemics, the disassociation of population growth and economic growth, and the global proliferation of deadly technologies.

While the different worlds are growing together, the prosperity gaps that separate the developing countries, the upcoming newly industrialized countries (NICs), and the established industrialized countries are widening even more. Further, in individual countries, economic difficulties are increasing the polarization

among social groups and furthering environmental destruction. Among the poor countries, the NICs, and the established industrialized countries, it is not possible to bring standards of living and development opportunities closer to organize a global partnership. Prevailing economic and financial policies have failed, as has the closely related policy of development cooperation.

ECONOMIC TRANSFORMATION AND THE DEVELOPMENT CRISIS

In the industrialized countries, the process of ecologically restructuring industry, infrastructure, and consumer habits is not progressing. New knowledge and growing public awareness of environmental matters have produced only marginal changes in practical policy terms, as well as in corporate and consumer behavior. The North continues to account for a disproportionately large share of consumption of the world's resources. Trends toward growing consumption and mobility, wage-related conflicts aimed at achieving these objectives, and excessive indebtedness continue to characterize the "classic" growth model. Efforts to counteract environmental destruction, arms exports, protectionism, and causes of refugee flows all continue to be given a much lower priority than growth and employment. Northern countries are incapable of making the adjustments themselves that they would impose on the South and the East. This cannot work in the long run.

The global economy does not guarantee stable, efficient, and fair conditions for all. The competition mechanism has been severely disrupted. Protectionism by the industrialized countries; oligopolies in key sectors such as transport, communications, and trade; and strategic alliances in the areas of research, production, and marketing prevent free access to world markets. Multinational corporations dominate important market sectors, crowd out new sellers with their financial strength and established structures, counteract natural locational advantages, and distort prices. International monetary policy is dominated by the major industrialized countries. Because the dollar is the global reserve currency, the United States has a key effect on the international money supply, as well as on the level and stability of interest and exchange rates. Global economic rules do not prevent overindebtedness, violence-

promoting weapons exports, and environmentally threatening forms of economic activity. National financial, social, and environmental rules are not in effect at the international level.

For the South and East, no strategy has been developed for transformation from an agrarian to an industrial society or from a command to a market economy. The economic success of structural adjustment policies based on the industrialized countries' development model has not been proved. In many cases, the prescribed "shock therapy" has led to political destabilization and economic depression and is aggravating poverty, social polarization, and unemployment while preventing the promotion of education and health. Shock therapy weakens investments in plant, equipment, and human resources. It gives no consideration to natural and environmental resources. This strategy is still focused on an attempt to achieve the full integration of the South and the East into the world market, although the conditions necessary for its success are not present in either the world economy or the relevant countries. Temporary export successes by individual countries do not mean that these successes will last, that they will be useful in an overall economic sense, or that they will be achievable by all countries. In view of the trend toward stagnation in the North, the South and the East probably cannot count on steadily growing or permanently nonprotectionist Northern markets.

Development cooperation between the North and the South has not met expectations. Indeed, it may have done more harm than good to the general population in the developing countries. It has probably destroyed more self-confidence, motivation, traditional knowledge, and valuable regulatory mechanisms and has wasted more ecological resources and wealth than it has created prosperity, employment and education, social and economic initiative, competence, social and ecological protection, and hope for independent, humane, and durable development.

OUTDATED DEVELOPMENT STRATEGY PARADIGMS

The low level of effectiveness achieved by international economic and development policy is rooted in two outdated paradigms. First, the prevailing world strategy for economic development is based on the idea that the Western social and economic model, regardless of the developmental level of a country and its culture,

is the best model for the activation of productive forces and for the satisfaction of needs. The model is based on private ownership of production facilities and a free market, a maximum degree of international division of labor, and government self-restraint regarding direct intervention in economic processes. If in historical and locational terms a natural optimum seems to exist and if it first occurred in Europe, should it not be possible to use this model everywhere as a blueprint for development?

This paradigm presupposes that in other cultures, too, the main social objective is maximum growth and production, expressed in monetary terms. If this is not the case, the paradigm says that other values must be subordinated to this objective because they also will be promoted indirectly by economic growth. It assumes that because the North has a tenfold productivity advantage, the world population is doubling to 10 billion, and the population ratio between industrialized and developing countries is 1 to 9, the current global scope for growth and resource consumption will multiply in the future. Both assumptions, and in particular the second, are unrealistic. Cultural and ecological generalization of the European development model is not possible.

The second faulty paradigm underlying the prevailing development strategy is the idea that it is possible to create outside impetus for the development of a society without regard to its cultural and historical conditions and to achieve this development over a period of a few decades through the external input of money, plant and equipment, technology, expertise, and personnel. This would have a chance of succeeding only if social and cultural change in the developing countries could be effected many times more rapidly than was the case in Europe, if sufficient competence were available for the internal implementation of external inputs, and especially if external transfers were several times larger than they are today. All three assumptions are unrealistic.

The paradigms assuming the timelessness and transferability of the European development model have had a misguiding effect on international cooperation and development policy, in addition to the cultural, ecological, and financial constraints that exist. Were it possible to generalize the European model, the world would be on a course headed for ecological and social disaster. The world is too small to sustain global expansion in accordance with the European model.

BASIC FEATURES OF A NEW DEVELOPMENT POLICY

Starting from a critical appraisal of the deficits and paradigms of the prevailing development strategy, five basic points for a new development policy are outlined below.

(1) Expanding the Concept of Development

Currently, the criterion for considering a society to be "developed" is expressed in terms of per capita gross national product (GNP). Based on this criterion, the world is divided into a developed world, a semideveloped world, and an underdeveloped world. The first world consists of half a billion people, the second of 1 billion people, and the third of more than 3 billion people.

The standard for development established in the industrialized countries is one-dimensional. It measures merely the level of produced goods and services traded on the market and is expressed in monetary terms. This standard is economically narrow because it reduces the diversity and complexity of cultural, social, historical, and human values to a single economic category. These values become second class, derived from primary economic values.

The standard applied is characterized by numerous other narrowing factors. It measures only current economic output, not future economic potential. Forms of household and individual productivity that are not marketed and that cannot be assessed in monetary terms are not considered. Thus, according to this indicator, those who cook their own food, shingle their own roofs, or provide advice and assistance free of charge have not produced anything. This standard also says nothing about the state of social, cultural, and natural resources. It fails to address increases in traffic-related, drug-related, and AIDS-related deaths; loneliness, stress, anxiety, and dependency levels; or the presence or lack of drinkable water and breathable air. The ways in which income, assets, and power are distributed also are not considered.

Development measured only in terms of GNP is not a useful concept. On the contrary, it has already had a misguiding effect on development strategies for too long because it suggests that development can be measured in objective terms, making it a comparable factor and one that can be generalized without consideration for culture and history.

By contrast, a new development policy will have to assume that development cannot be measured in general terms. People will need to measure development according to their respective historical and cultural situations. In universal terms, at most there should be agreement as to what development and progress must not result in (i.e., the inability to satisfy basic needs through one's own work, the exploitation and suppression of people, the loss of cultural wealth and institutions, and the destruction of natural resources). These are precisely the values being sacrificed by the current development strategy. Before the development policy sector establishes "more development" as an objective, it must make every effort to avoid the loss of capabilities and potential for self-assertion, the wasteful exploitation of natural resources, the erosion of cultural values, and the violation of human dignity and human rights. But initiatives using such standards rather than GNP alone must not only be undertaken but also succeed. The United Nations Development Programme took a significant step in this direction by establishing the human development indicator (HDI).

(2) Concentrating Development Strategies on Inner Potential

The prevailing strategy for development has overestimated the potential of encouraging the development of a country from the outside through the input of ideas, people, technology and goods, or funds. Individual projects planned and financed from the outside should be networked with one another to create multiplier effects for productive employment as well as for the development and qualification of internal production factors—labor, technology, and capital.

The balance sheet for this kind of externally motivated project strategy is negative. Most projects have had no long-term positive effects; indeed, their consequences have often been negative. Traditional potentials have been destroyed, motivation for independent development and social regulatory mechanisms has been weakened, and unrepayable debts have been created. Yet this strategy continues to be pursued with externally planned, built, and funded roads, companies, schools, and production facilities.

In addition to externally motivated "hardware" projects, production is oriented toward external markets. With notable exceptions in the Far East, most developing countries will not be able to

compete with the industrialized countries for some time. Where this is the case, Northern protectionism prevents Southern exports, particularly in areas such as processed goods, where they could have a strong development effect. The result is that most developing countries are selling off scarce resources at increasingly poorer terms of trade because they continue to depend on exporting raw materials; and they are doing so at an excessive rate to service external debts—a trap. Limited production factors and limited savings are drawn off that these countries could otherwise use to ensure their own food supplies. African countries in particular often fail to produce enough food for their own needs—not least for this reason. This creates additional dependency not only on external technologies and external loans, but also on externally supplied basic consumer goods. Many countries are in danger of becoming long-term social welfare or emergency relief cases.

Development strategies must no longer focus on external inputs and external markets. A new development policy must do the opposite: strengthen internal frameworks for productive economic activity in the countries of the South and the East; promote internal production factors directly; protect cultural and natural resources; and bring about massive improvements in domestic supplies of basic consumer goods. Whenever external inputs are unavoidable, they must be financed in such a way that debt service does not exceed a country's ability to pay and to make foreign exchange transfers.

A new development policy must also concentrate fully on strengthening inner potential, competence, motivation, and institutions. External impetus for this should be concentrated exclusively on "software" for health, education, training, technology development, and administrative and political competence.

The development and improvement of the productive sector must be decided on, planned, carried out, and looked after by the developing countries. Only in this way can the sustainability of investments be improved. External inputs to supply and production sectors can be justified only when they are the sole way emergency assistance can be provided and when the rapid development of a country's own food production basis cannot be achieved by any other means.

Developing countries need to be relieved of the external pressures that force them to integrate themselves into the world market. They need to determine their own degree of integration,

based on their own priorities. Of course, this presupposes that structural measures are taken to lower their debt service levels.

The North must no longer define development objectives and steer the development process but should be restricted to improving the internal conditions in the South and the East for self-sustainable development.

(3) Development Policy Must Become a Cross-Sectoral Task of Government Activity

Development policy is accorded low priority compared with other policy areas. If development policy is to effectively contribute to managing global security risks—such as refugee flows resulting from violence, persecution, poverty, and despair—policy priorities must change. Development policy must no longer be relegated to the level of a servant to narrowly defined national interests. It must assume a key function in the overall policy context with a view to committing the various political forces and government authorities to a joint effort against growing global risks. It also must ensure the development compatibility of all policy areas.

A more effective development policy will be possible only if it becomes a common function of all policy areas. Development issues must become top parliamentary and cabinet issues. There should be a broader understanding in the general public and in the media that industrialized nations should assume more global responsibility not just for reasons of solidarity, but in their own interests as well. But this will not happen until these nations cease to believe that they can isolate themselves from new population movements through legislative amendments and avoid impending environmental disasters with new technologies.

A new, cross-sectoral development policy is called for, particularly in areas where global problems that might otherwise lead to mass refugee flows, the aggravation of social tensions, and wars can be solved only by fundamental reforms in the world economy and in the industrialized countries.

The industrialized countries need to understand that social issues of the future can be dealt with only at the level of a global society and that ecological survival can be safeguarded only in the context of global responsibility.

growth and toward equilibrium. This will require radical revisions of traditional economic thinking, habits, structures, and interests.

International economic policy will need to abandon the idea that the industrialized countries should act as a growth "locomotive" for the South; the opposite will apply in the future, in light of limited global resources, the inability to satisfy basic needs in the South and the East, and the concentration of an increasingly large percentage of the world's population in the South. Although growth in the South must be much larger than it is in the North, it can no longer be induced primarily by growth in the North. The demand that has been raised universally in economic policy to the effect that the North should continue to assume a locomotive role would result in the North's having to continue to claim more resources than the South.

Consequently, the North must release the scope for growth that is still available to the South and the East. The South must use this scope not so much for integration with the North, but rather for activation of its own economic potential. However, this potential must be ecologically and socially regulated at a much earlier stage than was the case in Europe. But the poor South will only be willing to refrain from imitating the wasteful behavior of the rich North if the North is first able to prove that it is capable of cutting back its consumption. Thinking in global terms and acting in local terms must become a basic component of a new development policy.

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