Africa's strategy after Neoliberalism

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The Other Canon Foundation
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Opening the meeting **Professor Erik Reinert** (Other Canon Foundation) said that 2011 would be the 50th anniversary of the death of Dag Hammarskjöld (DH) . The idea of the meeting was to explore the issues of concern to DH and to make a link between what the Swedes did historically as a peripheral country in Europe and what can be done in Africa regarding development. The hope was to to build a bigger meeting to canvass these issues here in the Nordic countries and then to plan for a meeting in Africa.

Jomo K.S. (Assistant Secretary General of the UN's Dept of Economic and Social Affairs, DESA) said that recently the World Bank produced a document on Africa, claiming credit for the good economic performance in the half decade preceding the financial crisis.

In the last years economic growth had been stronger in Africa than in any other region in the world, apart from Asia, but that it had been volatile. He also expressed concern about per capita GDP growth.

Per capita growth, volatility, 1980-2008

	Growth rate (%)	Standard deviation of growth	Highest growth rate (%)	Lowest growth rate (%)
SSA	**1.02**	**7.28**	**4.19**	**-3.17**
Low-income countries	0.63	6.74	3.75	-3.50
Lower middle-income	1.98	5.89	4.52	-4.99
Upper middle-income	2.34	6.43	4.54	-2.76
East Asia & Pacific	3.09	4.45	5.01	-2.75
Latin America & Caribbean	1.63	4.65	3.72	-2.78
South Asia	3.72	2.87	4.69	--
World	1.89	6.03	4.27	-3.81

This led to the death of Afro-pessimism and he argued that this could set a new and dangerous precedent, that this century is the African century. He added that success had many parents. In the 1970s Africans were blamed for being wrong and failing to make progress. This view was presented by Elliot Berg, the father of the Washington Consensus. Berg had made several arguments for Structural Adjustment Programmes, which were started in Sub Saharan Africa then spread to other parts of the world. Jomo explained that there were inconsistencies in economic prescriptions, while there were other forms of liberalisation, there was hardly any labour market liberalisation. In the main emigration that was not particularly appreciated, except for African nurses to the rich countries.

And there was also privatisation. He argued on the basis of the long tradition in the UN, that what is important for Africa is the broadening of policy space and this runs against much of what is and was imposed on the continent. By the 1990s, Africans themselves were involved in advocacy in many of the policies of the Washington Consensus, which had by that time become the conventional wisdom for policy making. Much of these policies were imposed by conditionalities from abroad linked to the SAPs. And these had been imposed through credit, even though creditor institutions like the IMF ought not to be lending money in normal times. In addition it also has special funds for Africa.

GDP per capita, 1960-2008

GDP per capita in constant 2000 US$

Annual average compound growth rates	1960 to 1969	1970 to 1979	1980 to 1989	1990 to 1999	2000 to 2008
World	*3.4%*	*2.1%*	*1.4%*	*1.2%*	*1.7%*
East Asia & Pacific	1.3%	4.4%	6.1%	7.1%	8.0%
Europe & Central Asia				-2.0%	5.8%
Latin America & Caribbean	2.4%	3.1%	-0.8%	1.5%	2.3%
Middle East & North Africa		2.8%	-0.4%	1.8%	2.7%
South Asia	1.8%	0.3%	3.2%	3.3%	5.4%
Sub-Saharan Africa	2.0%	0.7%	-1.0%	-0.5%	2.4%
Averages per decade					
World	*2806*	*3659*	*4177*	*4780*	*5585*
East Asia & Pacific	140	210	358	696	1299
Europe & Central Asia			2296	1847	2496
Latin America & Caribbean	2277	3099	3446	3643	4197
Middle East & North Africa	923	1295	1372	1464	1687
South Asia	201	224	274	373	545
Sub-Saharan Africa	475	577	552	504	553

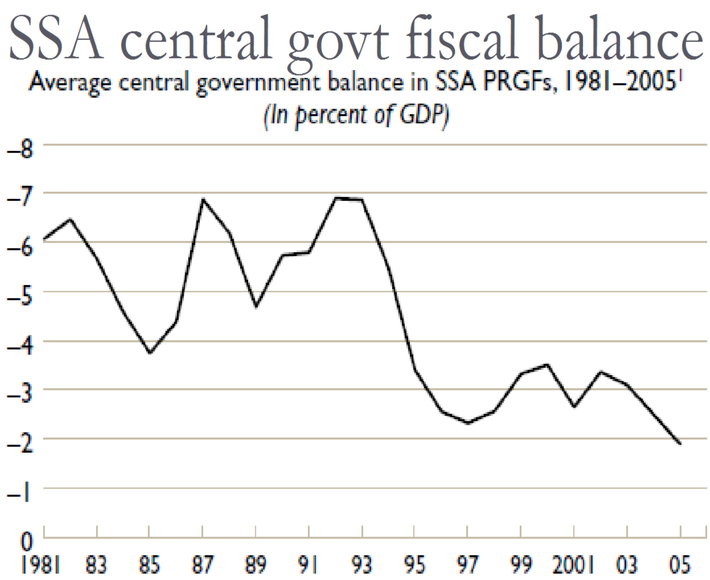
Source: World Development Indicators, World Bank and author's calculations

Conditionalities are one of the reasons for criticising both lending and aid. Aid, he said, was a form of soft power that that has undermined the capacity for independent policy making. Referring to the work of Thandeka Makandawira, who has made the argument that successive generations of African economists have been trained but then face work where the policy debate had proceeded much further than their education.

The last three decades has seen the undermining of African states in profound ways especially in the current economic situation, with weakened state and fiscal capacity and the disinclination to impose taxes. Trade liberalisation in Africa also weakened revenues because it reduced income from tariffs, the main source for many states. This not only undermined industry, but agriculture too. Many net food exporters had become net food importers. And this was part of the reason why the recent food crisis was so severe in Africa.

In the 1960s, Africa was in relatively good shape.-As it had become independent late compared to South East Asia and Latin America, it had less opportunity to pursue import substitution. The possibility of developing a robust industrial sector was aborted and as a consequence Africa had been deindustrialising.

This has not been accompanied by a strengthening of agriculture. Agriculture has been undermined. While there are some improvements in cash crops, like horticulture in Kenya and Ethiopia, food crops have been undermined because of the



Source: IMF, World Economic Outlook database.
[1]Balance includes grants. Weighted by average GDP for 2001–05.

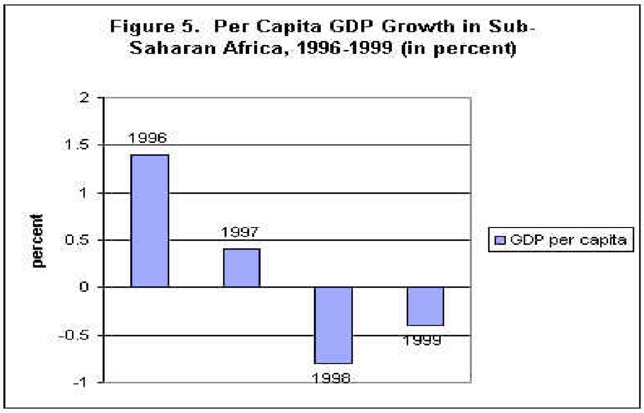
complex relationship with Europe. He stressed that the simple demand from NGOs that there be no subsidies for agriculture in Europe needs to be thought through as without subsidies the cost of food in Africa would rise. The consequences of the proposals made need to be thought through, he recommended. Jomo pointed to success of policies in Nigeria and Ghana in the 1950s and 1960s which were followed by reversals later on.

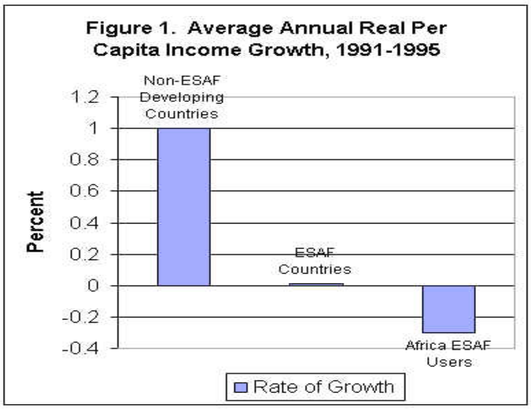
Low levels of incomes increased the likelihood of conflict, and increased the chance of recurrence of conflict, which created a vicious cycle.

The Bretton Woods Institutions' recommendation to Africa that inflation be kept below ten percent is without reason. Studies have shown that growth was still possible with moderate levels of inflation up to 20 percent, and even for inflation rate between 20 and 40 % the data was ambiguous rather than clearly disfavouring inflation. Africans however have been pushed to have low levels of inflation that has had a deflationary effect on economic growth and the consequences were serious, he said.

Jomo added that Central Banks are basically independent from the Executive but are not independent of financial markets. And it was the financial markets are averse to inflation.

Relating data on the SAPs (or ESAFs in the figure) , he said that the effects of these policies had been to collapse growth. Net resource flows for countries receiving funds with SAPs was negative. The IMF was getting more from countries than that the IMF was paying out, as any lender would expect





Jomo also expressed concern that Africa was not on track to meet many of the Millennium Development Goals (MDGs).

On the effects of the crisis, he said, Africa was less integrated into the world economy financially and the mechanisms of contagion were not in place for large negative effect. The trade impact on Africa was far more significant because exports declined due to a lack of demand and because of adverse effects on trade finance. Africa had not a direct hit, but an indirect hit.

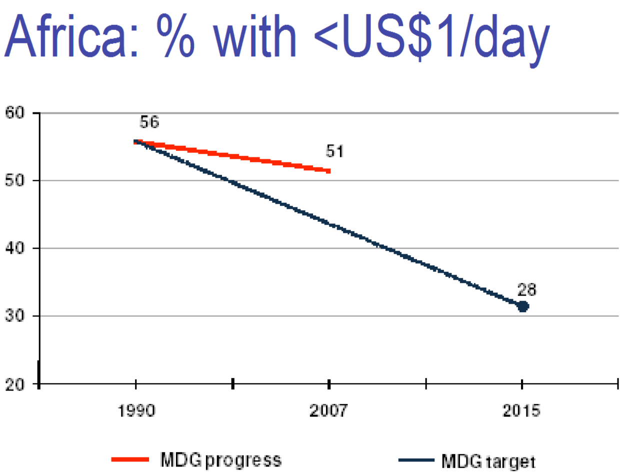


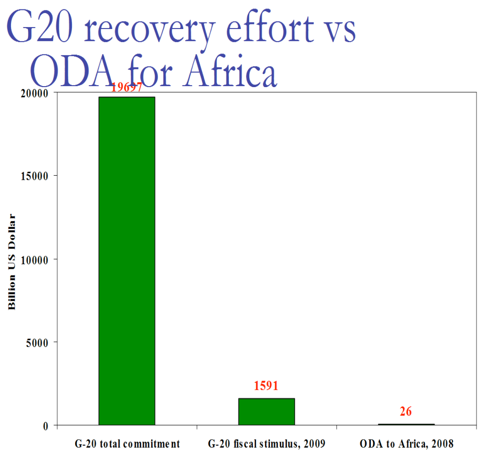
Figure 9 – People (%) living with less than a USD a day (Source: TEH-Ambrosetti based on The Millennium Development Goals Report 2008)

On the food crisis he said that there was recognition that prices have been pushed up because of the increased use of food products for biofuels and the capital flight into mercantile exchanges that followed the crisis.

Jomo said that Africa was more aid dependant than other countries. Aid flows are volatile, especially in the wake of the current crisis.

He said that commitments to Least Developed Countries (LDCs) to give 100 percent duty free and quota free access were changed and have become a negotiating tool. From the 100% commitment, this has been reduced to 97% and given the production profile in these countries it is possible to exclude their products and not import anything from these countries.

Jomo said that 20 trillion dollars had been deployed to solve the financial crisis in the industrial countries compared to the 26 billion provided to Africa. Effectively, this amounted to 0.013% and gives a sense of the priorities. It is not a question of resources not being available, it was a question of political will. Jomo said that the scale of the deployment compared to the 100 billion needed to address climate change points to lack of commitment.



On aid, he said that the statistics on were misleading. On paper it is easy to say a country like DR Congo had received USD 5.4 billion, but it does not show that USD 5 billion went back to creditors in interest payments. With this kind of statistical anomaly it was possible to say that aid to Congo was ineffective. But there was a need to be clearer about these issues, he said, and the Nordic countries should apply pressure to correct this.

On remittances, while the World Bank said that the figures had not come down, this could be attributed to more use of formal channels of sending funds. And the analysis needed to take into account the falling value of the dollar relative to other countries.

The response from the UN to the crisis was relegated to history. The UN been marginalised the by the 2009 G20 summit and now the Stiglitz Report was not widely known. And while only the UN and the Bank for International Settlements warned about the then looming crisis, the IMF was the main beneficiary of the crisis. And most additional resources to the fund have not gone to developing countries but to countries in transition, including EU members.

He said that there was a serious crisis in multilateralism. He reminded the audience of the fact that former UN General Secretary Dag Hammarskjöld began the process for the UN to become a serious multilateral institution. And he called the meeting to reflect on the name of the Bretton Woods Conference, which was **officially called the United Nations Conference on Financial and Monetary Affairs**, even though the UN did not exist at that time. It was a recognised by then US president Roosevelt that a change towards multilateralism was needed in international relations as the League of Nations was constructed for colonial times. Churchill, at the time opposed this.

Twenty eight developing countries were represented at the conference, including three colonies. Part of the discussion included the World Bank, IMF and the Havana Charter. The major themes were post-war reconstruction and post colonial development, not just monetary stability.

Regarding Africa, he said that reflections on the future should maintain a balanced view. There was a tendency to focus mainly on the external. External forces have played a role, he explained. But there have been also important domestic factors and domestic proponents of many of the ideas that are responsible for under-development. A meeting on the future of Africa should ensure that there is an enabling international and domestic environment.

Learning from Sweden:

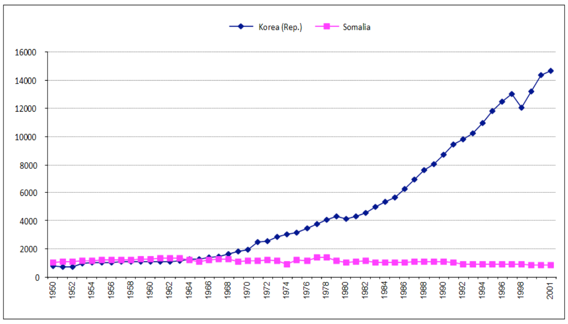
Professor Reinert presented lessons from Sweden that are relevant for Africa. He emphasised that historically Europeans realised that the real goldmines are manufacturing. Swedish industrialist and economist **Christopher Polhammar** (1661 – 1751) who appears on the Swdish 500 KR banknote, was convinced after his travels on the need to build a variety of manufacturing in Sweden. Economists of the time, Reinert said, were quite practical people – and entrepreneurial. Currently economists in Norway emphasise the importance of good distribution of money, but miss the point that the goal was to produce something to distribute. He said current theories we unable to explain why there we so few middle income nations.

It should not be impossible for Africa to follow this strategy, as, for instance, South Korea has done. In 1950 South Korea and Somalia was at the same level of development but by 2000 the GPD of the former was fourteen times larger.

A worldwide crisis seen in the stagnant real wages in developed countries and in the lack of growth and deindustrialisation in developing countries. China, India and Brazil are the only countries to have escaped this crisis as they suffer from an "intellectual inertia" that causes them to be out of tune with the rest of the world.

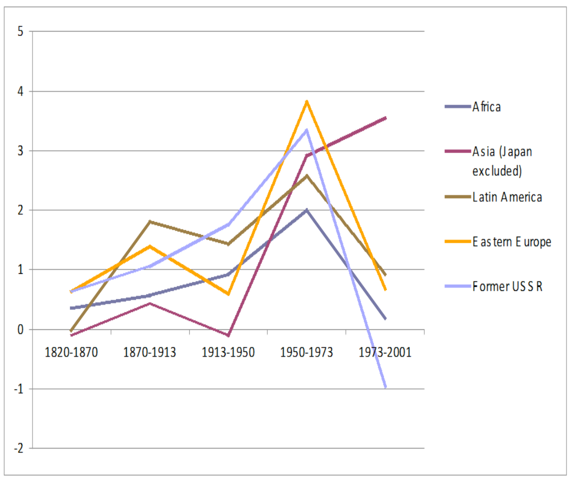
Why are there so few middle income nations?

Korea (Rep.)-Somalia, GDP per Capita 1950-2001



The Crisis Started in the Mid-1970s

GDP- Growth



The essence of colonialism was to keep the colonies from industrialising. And because productive power, technological dynamics and increasing returns to scale are essential to ensure development, the devastating result on the colonies should not surprise anyone. The capacity to realise this or deny it, is a more important division than the traditional left/right devision.

The Swedish period of development began in earnest between 1611 and 1719 with what is called "The Age of Greatness" followed by "The Age of Liberty" (1719-1772). It is important to note that the Greatness and economic development preceeded Liberty. Polhem played a large role in this development by promoting infrastructure and diverse manufacturing in clusters while he was simultaneously advisor to the king, a one man research council and an entrepreneur. In those days science was very much appreciated: universities were opened in the colonies, economics professorships established and foreign intellectuals – Descartes, Samuel Pufendorf and Grotius – attracted.

The Swedish case shows that what was much more important for development than foreign investments are foreign intellectuals, and to this day the Schumpeterian tradition was kept alive.

After WWII another model was born: the Scandinavian model. It is now incorrectly thought that this model was about distribution, but rather it is focused on *first* creating wealth *then* distributing it. In Sweden this was done by an alliance between the intellectuals, industrialists and politicians. The first group was represented by Erik Dahmén, economics professor at Stockholm Business School and inventor of the term "development blocks," i.e. clusters. In the post-war period he met regularly with industrialist Wallenberg and social democrat minister Gunnar Sträng in a planning committee. They agreed that Wallenberg could make all the money he wanted, as long as productivity increases led to wage increases. This Fordist wage model came to an end in the 1970s with the introduction of neoliberalism.

The lesson learnt was that Africa should do as the Swedish did, not as the Swedish say. The African context is different but the underlying principles of industrialisation are the same, so they should be emulated and adapted to the specific context, but they should not be overlooked, because they are the only principles known that lead to development.

Charles Abugre (Regional Director for Africa, UN Millennium Campaign and head/initiator of Drive Africa) emphasised the importance of manufacturing and productive capacity. After liberation, Africa found itself prematurely deindustrialised. With manufacturing collapsing, it left Africans with low value addition production and an economy dominated by petty services. All this was not for want of an effort to industrialise.

Ghana, as the first country to gain independence, was particularly interesting because its leaders had placed a premium on value addition and industrialisation. Initial conditions were extremely important. Africa had a low starting point compared to countries elsewhere that, at the time, were at a similar level of development. School enrolment was low for instance, he said. Ghana with a 1960's population of 4.5 million now had 25 million people scattered over a large geographic area. One of the most famous speeches by Kwame Nkrumah was about addressing the consequences of policies on a small and scattered population. The case for African unity was about several things, but also included the recognition that industrialisation was not really possible with closed borders with neighbours and a scattered population.

Ghana in its formative stages had industrial policies that catered for wider development. This included investment in health, education and public transport. Within seven years, the new state created ten thousand schools that enrolled millions of people along with investment in technical and vocational training.

But Africa was caught in the crossfire of the Cold War. Military regimes on the continent, as a phenomenon, spread. It was nothing to do with African leaders becoming dictators, the only question was on which side of the war countries were on, the socialist or the Americans and British.

Another contextual factor was that infrastructure investment and industrialisation coincided with the commodities' crisis. After that, the investment approach was altered and took Africa into the World Bank Structural Adjustment Programme (SAPs).

Ghana's dependence on cocoa and gold exports that saw dramatic fall in value, with a massive increase in fuel prices in the 1970s, created a terrible situation. The state was cash strapped, with Balance of Payments problems, and looked for different ways to finance import substitution industrialisation (ISI). ISI faced limits because of its dependence on the intensive use of intermediary inputs. The forex crisis translated into a productivity crisis. Consequently most enterprises were left to function far below their potential and operated at 20 to 30 percent of installed capacity. And this became one of the excuses for the massive privatisation or even closure of enterprise under the SAPs in the 1980s and 1990s. Manufacturing value addition declined in a remarkable way, and even then much of that was in construction.

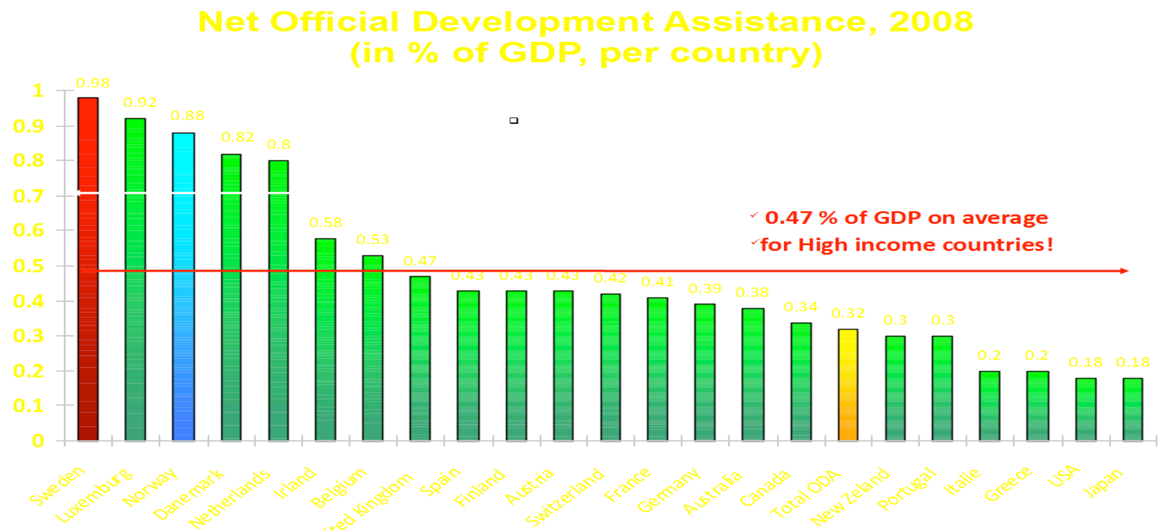
Abugre commented on how data information on Africa was less than helpful. Indicators produced like the World Bank's "Doing Business" focus on price competition, one stop shops to register and property ownership. Its impact on manufacturing was minimal other than pressure on reducing transaction costs. For Ghana trade liberalization mostly meant increased demand for foreign goods, which even had a much larger negative effect on industry than for instance the high energy prices.

Another problem was the sources of financing. Banking provided a minimal level of finance (four to five percent of investment) to the industrial sector. This was despite privatisation and liberalisation and the high profits of the sector. In such a situation, he said, combined with policies that discourage governments from setting up developments the potential for manufacturing to pick up and thrive was very limited.

Another consequence is that of aid dependency, which leaves governments prioritising recurrent expenditures and leaving creation of capital goods to aid support. This had led to an artificial division of the budget. And donors nitpicking on the capital budget made African governments extremely vulnerable. The political economy dimensions required that the share of aid in total spending and the mechanisms by which aid is delivered to be considered, as well as, alternate sources of financing and aid control changes. There was space of thinking about industrial policy in more functional way, he concluded.

Togolese alternative economist Yves Ekoue Amaïzo made a presentation on "Non neutral economic order and delays in implementing Productive capacities in Africa". While presenting his case, he mentioned that the Africa Union Commission was working on the establishment of the African Monetary Fund, AMF, which will be localised in Yaoundé, Cameroon. He emphasised that Africans increased their margin of freedom to pursue economic policies. He said that this meant gaining control over resources and budget, and in this he emphasised the new role and importance of the State in Africa. The State is in a process to become a Regulator with responsible governments.

Looking at aid, he said even the minimum level of solidarity (UN 0,7 target) with few exceptions, was not met (see following chart). Also, Sub-Saharan Africa should not be looked at as one compact group when it comes to promoting productive capacities. Rather, the countries should be divided into two groups: those with natural resources and those without, because the former group had some policy space, whereas the latter had limited space and needed more assistance. Amaïzo said that there was little correlation between GDP growth and employment creation in Africa. He added that more attention was needed on the informal sector in Africa as it is contributing to significant part of the African GDP.



Tony Addison, Channing Arndt, and Finn Tarp (2010). *The Triple Crisis and the Global Aid Architecture*, Working Paper No. 2010/01, UNU-WIDER, January 2010 .

A focus should be on building **productive** and **absorptive** capacity in Africa and to ensure the participation of all groups of society. Private business was necessary for development, but should contribute positively to the development (creating wealth), for instance by paying taxes (distributing wealth) Africa was also to open to increased international, intra-African trade, as this accounts for only 11 percent of trade in Africa compared to 65 percent for intra-European trade . If the international community is serious about taking into consideration Africa's voices in terms of decision-making, the G20 should become G21 to include the African voice. From an African perspective, the concept of "*contractual solidarism*" as well as the implementation of *"the Afrocentricity concept"* in Economic Development is gaining among decision-makers in Africa. The new role of China in promoting competitiveness in Africa is part of the change.

Kenyan professor and advisor to the government, Adhu Awiti, raised the issue of the need for an alternative paradigm. He said that Africa engaged in cross-border trading and was able to meet its needs prior to colonialism, with far fewer famines than currently. Education and training under colonial administrations was poor and randomly determined. Those who came out of the educational system were part of the problem for national struggles because their soul and minds were captured as a result of the education. Following the prescriptions has not helped Africa and it is clear that the trickle down effect introduced by the SAPs has not worked.

He summed up that it is clear that neoliberalism had not worked for Africa, so an alternative is needed. However, the leadership is essential in this process, and the leaders should be the Africans. We, Awiti said, should be inspired by Sweden and should draw up plans for development, and whoever is willing to give aid must support and subject themselves to these plans. That is why a conference like the present should be held in Africa.,

Dr. Henning Melber of the Dag Hammarskjöld Foundation in Sweden began by remarking the coherence of the previous presentations. He said that while he referred to Africa he meant it some level of generality and abstraction and was not conflating the enormous diversity of the continent. He questioned to what extent South Africa was representing the rest of the continent in the G20. He emphasised the role of the UN and of international civil service as well as multilateralism. The role of African governments needed to be looked at as there are local elites that are part of the deal of the exploitation of Africa. He said that there was a need for Africa to have a strategy for dealing with its partners like China, South Africa, Mexico, Turkey, Brazil, and Iran. Although these are new players, the game and the playing field are the same: a scramble for natural resources and land for food. There were also double standards practised by the industrialised countries, which were not helpful.

One of the key points raised by Julius Nyerere in his days was a focus not on socialism vs. capitalism but on **ownership of the national economy**. What do you need for ownership? he asked. A social contract was needed - between the state, capital and labour. A triple-rent system must be set up to ensure everyone would get a fair deal. What is a fair deal will, however, be determined by social struggles.

Africa lacks the policy space to industrialize and carry out this social bargain, but perhaps it could widen the space if African politicians ask for something in return for its natural resources.

Melber concluded that when elephants fight, the grass suffers. However even when the make love, the grass suffers. The point is not to worry about the elephants, the future lies in the grass.

Professor Georgi Derluguian said that the work of Immanuel Wallerstien and Giovanni Arrighi was not popular nowadays because the focus over the past twenty years has been on policy implementation rather than on structures and systems. It should be noted that this might not be coincidental, but rather be due to the interests in keeping neoliberalism prominent. But both intellectuals provided a way of looking at the bigger picture. Wallerstien's World Systems Perspective provided a paradigm shift that could be relevant.

Economics, Derluguian quotes Wallerstein, is like astrology: they may be based on rigorous mathematics and inquiry, but at the foundation are wrong assumptions. Neoliberal and neoclassical economic theory are based on wishful thinking.

A question remained about the differences between China and Africa. Is it in the level of corruption? No, and the corruption measurement criteria from e.g. Transparency International are not very useful, as seen when Iceland ranked first year after year but has a banking sector as corrupt as Moldova. Neither is the difference in entrepreneurship: Africa certainly had entrepreneurs, but slavery destroyed it. Some differences were that the Asian agriculture was more productive, that Asia was never colonized to the same extent. This meant that the Asian had a long history of continuous state structures and even colonized countries like India did not experience as deep a market penetration as the African colonies.

Also, Derluguian said, the Asians did not follow the rules, be they communist ideas or those of the Washington Consensus. The question then is: what enabled them to resist? He offers one explanation, namely that a bit of communist subversion might help, in that it presses the elites to focus on other interests than their own.

For instance in Western Europe, which in medieval times could have been classified as failed states, the right amount of tribal diversity and warfare was essential to form the state. The right amount of warfare, or the optimal amount to form the state, is relative: not too little or too much to destroy the country but enough to impress the elite to make changes

This should help showing that the so-called national characteristics are not primordial. Rather, the problems are political and thus it is essential for the state to be strong. This was especially the case in a multi-polar world where the US is no longer the hegemon it once was, strong states are needed to deal a new world situation which might be worse or might provided a window of opportunity.

In the discussion Riaz Tayob of South Africa said that the ideas presented in the meeting show that a viable alternative to neoliberalism exists and that it is important to have ideas for a positive agenda instead of being against neoliberalism only. Development historically has been about emulation, that is copying but applying it in appropriately to its context. This paradigm change might be difficult, but it is important that the meeting participants agree on the solutions for Africa, based on the “Right to Emulate”.

The dominance of finance over industry in both developing and developed countries is a problem, because finance has become overly rent seeking and imperialistic. He recalled the old understanding relevant for the North when self-determination in Africa was becoming vogue that, there can no imperialism without tyranny at home – imperialism abroad was incompatible with democracy at home. The ideas of the Other Canon were important, namely that of the different types of economic activities and the need to increase the size of the African market through greater African economic unity. He said while the colonists defined the negro, it was important in the present context that Africans themselves now assert 'negritude' as defined by them.

Kenyan economist Atieno Betty Ndomo emphasised the need for countries to have the intellectual autonomy to discuss different ideas. The state is not only the means of development but also the goal in the development towards a higher quality of life for the populations. This must be reached through an institutionalization of the needed change.