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Development Economics: a Call to Action

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Introduction

The primary challenge confronting development economists in the 21st century is not that of creating a new theoretical framework to understand, and respond to, the development problems and opportunities facing the world community. Rather, their challenge is to deploy their skills as applied economists, heeding the circumstances unique to each country, in order to help eradicate poverty, reduce inequities, and advance sustainable development. In other words, development economists should address the development policy agenda in the real world, in all its untidiness and diversity.

Democratization has opened up a political space in which this challenge must be met, but democracy is itself a work in progress. The frontier that development economists must explore and help to settle is that of democratizing economic policy-making. With greater inclusion and popular participation in economic policy-making, development economists will be called upon to work with their fellow-citizens, partly as experts, partly as educators and facilitators. Their tasks will include identifying the social welfare function, translating it into a series of social choices or possibilities constrained by available resources, and determining the set of fiscal, monetary, exchange-rate, trade and other policies that are both consistent and politically viable.

In other words, economic planning is on its way back, but this time it will be planning from below. Poverty Reduction Strategy Papers (PRSPs) are a manifestation of the shape of things to come. An important question is what difference PRSPs will make to policies actually adopted and to real outcomes. An increasingly globalized economy limits (and, to some extent, also enhances) the choices and possibilities open to each society. Planners must take into account the mobility of factors of production, particularly that of capital and skilled labour, in determining what policies are consistent and politically viable.

Democracy for the People, Economic Policy-Making by the Experts

Amid the bloodshed and strife of the last two decades of the 20th century, authoritarian regimes in Europe, Latin America, and to a lesser extent Asia and Africa, have gradually given way to democracies, with free elections, more accountable government, and the observance of basic human rights. To be sure, many of these political gains have been in form rather than substance, while basic rights have often been observed in the breach. Nonetheless, the world today is arguably more "democratic" than, say, in 1975.

At the same time, a vigorous expansion of global markets has been stimulated by liberalized trade and investment policies, and by increasing capital mobility across borders. As a result, governments everywhere, democratic or otherwise, have been forced to rethink the nature, and inclined to reduce the scope, of their activities in light of what international markets find desirable or deem appropriate. The voice of the people, in a globalized environment, has to reckon with the will of the markets.

Even in the most established political democracies, however, there have always been limits to transparency and accountability, particularly in the realm of economic policy-making. Fiscal and monetary policy, along with foreign trade, have long been the preserve of experts, and protected by commercial confidentiality or national security constraints. Indeed, the trend over the last two decades has been to increase the autonomy of the policymaking experts, particularly in monetary policy.

Moreover, in most democratic regimes, there is an established process of economic governance, featuring parliamentary oversight and debate (for example of the annual budget), which ensures a measure of legitimacy, transparency and accountability. And the ultimate recourse of an electorate disaffected with the government's economic policies is to "throw out the rascals" at the next poll. But increasingly, no matter what its candidates say in the election campaign, once in power the party in opposition is likely to pursue more or less the same economic policies as its predecessors.

The excuse of democratically elected governments for offering less and less choice is that "there is no alternative" (to use Margaret Thatcher's pungent phrase) to the kinds of economic policies compatible with more integrated global markets. If a government fails to deliver such policies, it is argued, the country could be faced with a loss of business confidence, capital flight, a depreciating currency, and associated economic hardships.

All of this is not to say that democracy is becoming irrelevant or unimportant. Rather, it suggests that the scope for alternative economic policies may be narrowing significantly. In other words, there is a diminishing possibility of using the state to redistribute income (or wealth), to invest in priority sectors, or to maintain full employment, even if electorates want their governments to pursue such objectives. Instead, the instruments of economic policy must be skewed toward encouraging the private sector (domestic and foreign) to do those sorts of things, whether through altruism (in the case of redistribution) or through monetary policy, tax incentives and subsidies (in the case of investment and aggregate demand).

In general, however, the scope to achieve public objectives via fiscal policy (through taxes or expenditures) is increasingly constrained by the need to maintain balanced budgets or surpluses while reducing taxes to "internationally competitive" levels and thereby maintain an acceptable climate for business. On the other hand, greater onus is placed on monetary policy, but its scope is also constrained to the extent it is aimed largely at price stability, and is in the hands of a central bank independent of the elected government. And, as Krugman (1998) has argued, the more successful are central banks in achieving price stability and the lower are interest rates, the less room there is to manoeuvre on the downside through interest-rate reductions.

Or, to cite Ocampo (2001), for developing countries, managing countercyclical macroeconomic policy is no easy task in the context of global financial markets, which generate strong incentives to overspend during periods of financial euphoria and to overadjust during crises.

Can Economic Policy-Making be Democratized?

Non-governmental and civil society groups have recently challenged both the process and the product of economic policymaking. The most vocal protests have been aimed mainly at the international level and at intergovernmental organizations such as the World Trade Organization, the World Bank and International Monetary Fund, as they bring into being an increasingly liberalized global economic order. While the aims of such groups vary considerably, and are sometimes at odds, common themes among the NGOs include respect for national sovereignty, the environment, and workers' rights.

Increasingly, NGOs are also mounting challenges to the process or product of economic policymaking at the *national* level. Typically, these challenges tend to be less vocal or prominent than the movements against the international organizations, since they take place within the more orderly, workaday contexts of national decision-making (see Cagatay et al. 2000, for a recent survey). Yet, these movements organized at the national level are likely to have far greater impact, since it is national governments, not intergovernmental organizations, that must negotiate and implement the terms on which countries are integrated into the global system. For the most part, the initiatives launched by NGOs audit or monitor the impact of the official budget on the poor, on women, etc; or articulate how the official budget might be constructed to be more gender-sensitive, or have a greater pro-poor impact.

Oddly enough, it is in the world's poorest countries (including some of the *least* democratic) that participatory methods are now being espoused, by the international financial institutions and the leading industrial powers themselves, due to the relief initiative for the heavily-indebted poor countries (HIPC) launched in 1996. When the HIPC initiative was enhanced in 1999, to deliver "faster, deeper and broader debt relief," certain conditions were applied to ensure that the ultimate beneficiaries are the poor rather than the privileged; the proceeds of debt relief, in other words, are to be allocated to poverty reduction, rather than to arms purchases or feed corruption.

The specific mechanism devised for this purpose is the Poverty Reduction Strategy Paper (PRSP), which articulates the economic development strategy adopted to reduce poverty over the next decade. The strategy is to emerge from consultative and participatory processes involving civil society, including representatives of the poor. The idea is that if the formulation of such strategies were entrusted to civil society rather than to government officials or politicians, there would be genuine local "ownership" over the allocation of resources and the economic policy framework governing it.

Although developed for the heavily-indebted poor countries, the PRSP has since become the principal vehicle for policy formulation in all the poorer borrowing member-countries of the World Bank. Again, the principal motivation has been to ensure local ownership over the policies and strategies that result from World Bank borrowing, and hence greater political acceptance for the economic policy framework.

Paradoxically, then, the PRSP may confer the world's most democratic system of economic policy-making on some of the world's least democratic societies. But could it result in such countries adopting economic policies that, in the eyes of the international financial institutions and their major industrial-country shareholders, are inappropriate? If a participatory dialogue produces "locally owned" policies opting for greater state control and higher taxation, and more restrictions on foreign investment, will such heterodox policies nonetheless be acceptable to the IFIs and their major industrial-country shareholders? The answer of the skeptics, who see the PRSP as the latest colours on the same old chameleon, is "not likely," but such an answer is premature.

In the meantime, there has been another important experiment taking place in the North in the realm of economic policy-making. Since 1995, the Canadian Alternative Federal Budget (AFB) has brought together various civil society organizations—farmers' associations, women's groups, small businesses, labour unions, academics, and NGOs—to put together a federal budget (and advocate monetary and other national economic policies) based on the concerns and needs of Canadian society, as articulated by these groups (Canadian Centre for Policy Alternatives and Choices, 1998). Among the various initiatives launched by civil society to democratize economic policy-making, the AFB is unique, in that it presents a complete budget within a coherent macroeconomic framework, including monetary policy, debt management, and targeted social policies (Cagatay et al: pp.28-31). The AFB, from the beginning, has had no official status or role in the formal budgetary process. Rather it has been a spontaneous expression of a group of citizens and civil society seeking a coherent alternative to the economic policy framework put forward by the Federal Government. To date, it has had little verifiable impact on the official budget other than the fact that the organizers of the AFB have regularly met with the Minister of Finance, Paul Martin, in the course of annual pre-Budget consultations.

It is too early to tell whether the PRSP, AFB, and other initiatives by civil society to deepen and broaden participation represent turning points or temporary detours in the evolution of economic policy-making. They are all potentially important models; indeed, there are synergies among these initiatives that deserve to be explored and exploited by the next generation of development economists. Indeed, the active participation of development economists in such initiatives will be crucial, to ensure the technical consistency and credibility of the outputs. Such economists will need to work in concert with members of civil society, including sociologists, political scientists and other professionals.

If democratic planning and economic policymaking are the way of the future, leadership and local ownership should come from within each country. It would be ironic, for example, if the formulation of PRSPs is led by Northern development economists. Indeed, early reports indicate this is precisely what is happening—consultants from Northern universities and think-tanks are being invited by the Bretton Woods organizations to help draft some of the first generation of PRSPs. The predictable excuse is that there is a dearth of local expertise, which is often the case. But domination of the PRSP process by Northern experts would only prove the skeptics right. The corollary may be that PRSPs, particularly in the smaller and poorest countries, should not be conjured up overnight. Moreover, if local ownership is to be more than a token objective, there may be no alternative to ensuring that local skilled economists and other professionals are available to exercise the necessary leadership.

Democratizing the Governance of the Global Economy

Democratization of the economic policymaking process will not, by itself, go very far toward making possible differentiated national strategies that are truly owned locally. In that sense, the skeptics are right to say that the process may indeed be more inclusive, but if the product is the same old set of policies formerly boiler-plated in Washington, why bother?

As Rodrik (1999) has argued, the lesson of history is that ultimately all successful countries develop their own brands of national capitalism; accordingly, the rules of the international economy must be flexible enough to allow individual developing countries to develop their own 'styles' of capitalism, in the same way that Japan, Germany and the United States have evolved their own models. Thus, while development economists help each country evolve its own brand of capitalism at the national level, at the international level, they must help bring about a rule-based system flexible enough to allow, indeed to nurture, such economic diversity among countries.

Without complementary actions at the global level, the range of choices open to national policymakers is likely to be limited; in that sense, perhaps, Margaret Thatcher was right. As Helleiner (2000) recently put it, globalized markets operate within politically defined rules and governance institutions, which are currently dominated by the most powerful countries and private market actors. The current global rules and economic governance institutions are in need of repair, updating and re-legitimization.

However, it would not be fruitful to convene a "new Bretton Woods" in order to craft a kinder and more democratic international architecture, just as a new "grand theory" of economic development would not be the best way of achieving progress where it counts most—on the ground. Instead, even though the potential reform agenda at the global level is formidable, improvements to the rules and institutions is much more likely to come about through sustained and incremental efforts, organization by organization.

Therefore, in conclusion, development economists must engage in two fronts: at the national level, by working to democratize economic policy to promote economic and social equity; and at the international level, by working to democratize the international rules and institutions. In both cases they will engage, allied with governments and civil society, primarily as economic practitioners and policymakers, albeit armed with the insights of many eminent development theorists, past and present.

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