The Right to Development

Opening Remarks by Dr Bernard La Corbiniere, Financial Secretary, St Lucia

It is fitting that the topic of the fifth Sir Arthur Lewis Memorial Lecture, "The Right to Development", should coincide with the theme of this year's ECCB 11th Conference with Commercial Banks, "Building a Safe and Efficient Payments System".

An understanding of the nexus between financial intermediation and the efficiency of the financial system on the one hand, and economic development on the other, is particularly relevant at the present time. It is hard to conceive of sustained development in the modern economy in the absence of financial organisation (including payment systems), which itself becomes increasingly more diverse and sophisticated as development takes place. These concerns will occupy our attention even more as we seek to broaden and deepen our domestic money and capital markets.

I use the word domestic in relation to money and capital markets and financial markets generally, quite deliberately. By domestic, I mean regional, that is the financial system of the ECCB member countries. Our perspective must be of a single, though multi-faceted financial space.

Convening this joint event in St Lucia, with the two associated themes, is also appropriate for another reason. Professor Arthur Lewis had a great deal to say about the role of financial intermediation in savings and capital formation and consequently, in growth and development. He was much maligned and it is true that many of his prescriptions have gone out of fashion. But that is perhaps a natural consequence of progress and change.

However, it is also true that some of his ideas and thoughts remain as tantalisingly relevant today as they were then. It is perhaps not the theories themselves but rather the practical problems and issues that are similar. Take for instance his reflections on development economics (in the 1950's) written 16 years ago:

> "Meanwhile, all LDCs are menaced since 1973 by the international recession, by rising protectionism in the industrial countries, by the price of oil, and by the enormous debt this has created. These disasters are beyond their control and call for special measures by the whole international community."

Substitute 1999 for 1973 and it could have been written yesterday. Professor Lewis also emphasised in his work the special problems and needs of LDCs, including the rapid rate of urbanisation and its attendant high costs, rapid population growth rates and the need for higher investment ratios, and the particular vulnerability of the LDCs, (especially small states). One may disagree with his solutions, particularly those relating to stimulating the savings-investment process, foreign aid and foreign investment. However,

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his analysis remains as clear and as incisive as ever, and there is much to be learnt from it.

As we contemplate the role of finance in development, including the need for a sound, efficient payment system, we would do well to reflect on five related issues:

1) The edifice of the financial intermediation system is built on credit creation and therefore on the expansion of debt. The efficiency and integrity of the financial system depend on arrangements which must ensure that credit is provided at economic rates, that financial prices are not usurious, that the debt capacity of economic agents is reasonable, and that the institutional framework supporting the system is effective.
2) Improving efficiency and productivity, not only in the financial system, but with regard to investment and, indeed, throughout the economy, could provide a significant stimulus to growth and development. Higher productivity lowers cost, reduces wastage, and provides more opportunities for generating greater output, income and growth. Throwing additional resources at the problem is not always the right answer. We must become more productive and give value for money spent.
3) As part of the first point on charging economic, but nor usurious rates on all sectors, it is perhaps time to reassess our approach to the pricing of goods and services. It is time to consider in our economies, where there is often a notable lack of competition, pricing according to the 'cost-plus' principle, rather than charging on the basis of 'what the market can bear'.
4) All economies go through cycles (which are influenced by both domestic and external factors), and the payment system must be sufficiently flexible to handle them.
5) We ignore globalisation and its implications at our peril. Much has been said about this so I will limit my comment to point out that in all our countries some sectors have already been severely affected, while others which have been innovative have prospered.

Let me, on behalf of the government and people of St Lucia, extend a warm welcome to all of you, in particular our feature speaker, Dr Kari Levitt, Professor Emeritus of Mc Gill University, commercial bank delegates from around the ECCB area, Governor Venner and the ECCB staff, and all your guests. I urge you to find time from your busy schedule to enjoy the myriad delights awaiting you in St Lucia. I wish you all a successful conference.

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Remarks by K Dwight Venner Governor, ECCB

We meet on this occasion for the 11th Annual Conference with Commercial Banks and the first of the new millennium. This is also the fifth presentation of the Sir Arthur Lewis Lecture given in honour of the Nobel Laureate in Economics from St Lucia who is most closely associated with carving out a place for development economics within the discipline of economics.

Lewis' contribution to development came at a time in the 1950's when the wave of new countries which gained their independence in the post war era required of the international community a new approach to ensure their successful incorporation into the international community.

The international community at that time was clearly receptive to the idea of supporting the development efforts of these countries. Commissions were established, for example, the Pearson Commission, on which Lewis sat, and development decades were declared. The industrialised countries were given targets for aid delivery which were a proportion of the GDP. The cold war climate also facilitated the transfer of resources as both the west and the east sent converts to their particular brand of economic organisation.

The Lewis model which set the theoretical framework for their efforts was ironically applied in its fullest version in the Republic of China on Taiwan, where a series of successive economic plans and strategies building on each other transformed an underdeveloped agricultural economy into one of the most successful newly industrialised countries. The question asked most frequently is about the ability to replicate such a model in the region or other parts of the developing world. The answers are almost always wrong because the question may have been improperly formulated. It is not necessarily about the replication of models but finding the appropriate levers to initiate and sustain the process of development.

The circumstances of the countries in East Asia and ourselves in the Caribbean are markedly different. The notion that they were more authoritarian and could virtually bulldoze their way through is not necessarily a correct reading of their situation. The answer lies more with the incentives which inspired the countries to develop, as opposed to the critical application of coercion. Suffice it to say that the paradox of the Caribbean is that a region which has satisfied at the highest level all the prerequisites for liberal democracy has not been able to provide the individual and societal incentives for sustained economic development.

One must venture to question whether it is our size or our history which created these conditions, and what would be the most appropriate strategy for dealing with these impediments.

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Once again there is irony in the fact that in the region we have chosen the logical responses to these challenges, namely regional integration as the solution to size and education as the solution to our historical problems.

The reasons for our continuing problems, however, are not in the proposed solutions themselves but in the fullest application of these solutions.

Integration, as Lewis pointed out in *The Agony of the Eight* was not only about the economies of scale and enlarged markets but critically about good governance. The subjectivity and insularity prevalent in small communities could in the extreme lead to forms of governance not conducive to freedom of expression and the preservation of human rights. The ability to draw quality leadership and skills from a small community is circumscribed by the publicity of small numbers providing the requisite skills to successfully develop and manage a society and economy.

All these questions become of great importance philosophically and operationally as we seek to survive and prosper in decidedly different circumstances than those which prevailed in the 1950's and 1960's. The times are characterised by aid and development fatigue and development economics does not have the prominence that it had in Lewis' day. The international environment has been transformed with comprehensive trade and financial liberalisation and a new competitive ethos which sees market share as the guiding principle of economic activity within and between firms and within and between countries. The number of free trade areas formed between countries at different levels of development and in different geographic zones is significant. This is also the case with the number of firms which have formed alliances or have merged in recent times. There is tremendous consolidation in such industries as oil, telecommunications, aerospace, banking and finance and commodities; we will have to ask ourselves the very objective question about how far we are prepared to go in the integration process to ensure our survival and prosperity.

In the sphere of education, it is not only the technical and professional skills bound up in the curricula that are important but the method of thinking and applying objective principles to the solution of our problems. The necessity for building consensus on development issues is also a crucial aspect of our education strategy. It is only an inspired response to mobilisation for development which will ensure our success in the future.

We have with us tonight to give the Sir Arthur Lewis Lecture, Professor Kari Levitt who with Lloyd Best, last year's lecturer, has been responsible for some of the most seminal work on Caribbean economics and economies. The plantation model developed by Best and Levitt has provided the essential framework for understanding the economies of the Caribbean, and several generations of West Indian students have grown up in this tradition. Kari has been an inspiration to several generations of Caribbean intellectuals both at McGill University, which was and is one of her staging posts, and at the St Augustine and Mona campuses of the University of the West Indies where she spent the other half of her life.

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We are very pleased that she could be with us tonight to deliver the Sir Arthur Lewis Memorial Lecture.

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Lecture

By Kari Polanyi Levitt

Previous speakers in this series addressed the celebrated contribution of Sir Arthur Lewis to intellectual and public life in the Caribbean - as scholar, teacher, administrator and role model to a remarkably creative generation of West Indian economists. In his inaugural address Rex Nettleford reminded us that this eminent economist and Nobel Laureate was, in the final analysis, a great educator and guru to his people both in the Caribbean and the Third World who perceived their future and any hope of redemption to rest firmly on the exercise of their intellect and their imagination. I thank the Eastern Caribbean Central Bank for the opportunity to join Norman Girvan, Alister McIntyre and Lloyd Best in paying my respects to the memory of Sir Arthur Lewis - illustrious son of the Caribbean, public intellectual and development economist supreme.

I have chosen 'The Right To Development' as the theme of this lecture because it was central to the life and work of Arthur Lewis, and because *globalisation* has in many respects put development in suspense - if not regression. Developing countries are without effective voice in the making and the implementation of the rules governing the global economy. The right to development has been subordinated to the rights of investors; fortified by the trade-enforceable regime of the World Trade Organisation (WTO), and an ever growing list of economic and political conditionalities attached to official development finance. The new rules governing trade, investment and property rights are increasingly invasive, requiring institutional 'reforms' which transgress the sovereignty of developing countries, and seriously constrain policy autonomy to determine domestic social and economic priorities.

Although Caribbean countries are small players in the world economy, Caribbean statesmen have played an important role in third world initiatives to achieve a more equitable international economic order within the framework of the United Nations System. In 1986 the United Nations adopted a declaration on the *Right To Development* as an inalienable human right. The process of development is "the realisation of all civil, economic, social, cultural and other human rights enumerated in the Universal Declaration of Human Rights."

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The document has the legal status of an international treaty, reaffirmed in the Vienna Declaration of Human Rights and Programmes of Action in 1993, and is binding on all signatories. Responsibility for the formulation of policy to advance human development is vested in the nation state: *"States have the right and the duty to formulate appropriate national development policies"* as economic and social projects for "the constant improvement in the well being of the *entire population and of all individuals"* (Article 2); to assure "equality of opportunity for all in their access to basic resources, education, health services, food, housing, employment and the fair distribution of income"(Article 8). Internationally, "States have the duty to cooperate with each other in eliminating obstacles to development and fulfill their duties in such a manner as to promote a new international economic order based on sovereign equality, interdependence, mutual interest"(Article 3).

Since this Declaration was adopted globalisation has devalued sovereign equality and stripped states of economic and administrative policy instruments essential to medium and long term development planning. The authority of the United Nations has declined. Private global capital flows have displaced official development assistance as the major source of external finance. Market criteria of profitability have trumped social criteria in the provision of public goods, directly affecting the well being of people. International inequalities have escalated. Commodity prices continue to fall. Finance has been privileged at the expense of productive activity and countries open to capital inflows have borne the full economic, social and human costs of adjustment to ever more frequent and serious financial and economic crises.

Since the mid 1990's, major countries of Latin America - Mexico, Brazil, Equador, Bolivia, Peru and now Argentina - have suffered financial and economic collapse. In all these cases, as in the Asian Crisis of 1997/8, governments were provided with unprecedented billions of bail out packages by the US Treasury, the IMF, World Bank, IDB etc, to protect investors from the *discipline* of the market. (The bail out in Argentina is approaching 30 billion to rescue an economy which has abrogated monetary autonomy by dollarisation.) These loans will have to be repaid with interest for years to come. We do not know where the next crisis will hit - but we can say with certainty that there will be more such crises - and escalating billions will be found to protect an unstable global financial structure by draining the lifeblood out of economies struck by these man-made disasters.

The Caribbean is relatively fortunate in having escaped the calamities suffered in other regions of the developing world, although endemic poverty in Haiti and Jamaica, organised drug related crime throughout the region, the high incidence of HIV/AIDS, and the threat of elevated sea levels due to global warming must urgently be addressed. The Caribbean played an important role in past efforts to fashion a more equitable international economic order. The developing world is now more fractured, and twenty years of structural adjustment has reduced the policy autonomy of states. There is a crying need for creative thinking and new initiatives by the south to protect the gains of development from devastation by financial hurricanes fed by institutional investors who freely move funds in and out of countries at the tap of a keyboard with no responsibility impact of their operations on 'host' countries. The IMF, BIS, G7, G20 etc are captive to the overriding interest of protecting the value of global financial investment; regardless of collateral damage to shattered lives and hopes of millions. A minimal consensus of developing countries in international negotiations with the Bretton Woods institutions and the WTO, and a critical examination of the ideological claims of neoliberal policies to universality, call for intellectual and political leadership from the South.

The aspirations to equity and social justice which motivated the call for a new international economic order twenty five years ago remain a fundamental motivation of all human rights claims, including the right to development. A rising tide of outrage at global inequities orchestrated by church leaders and a broad spectrum of international social activists in Seattle, Washington, Prague and other cities attracted the attention of the world. There is a growing sense that globalisation is a non-territorial form of imperialism, imposed by legally binding obligations of compliance with rules favouring capital, enforced by trade sanctions and denial of access to finance. For the past twenty years, developing countries have been encouraged - sometimes bullied - into excessive dependence on export earnings and foreign credits by programmes designed by the staffs of the Washington based IFIs. The International Monetary Fund has become a foreign policy instrument of the United States. Crises have been used as opportunities to radically restructure economies - most scandalously in the case of Korea. Since the end of the cold war, the only remaining super power has acted as self appointed global policeman. Military interventions targeted at physical and social infrastructure have punished civilian populations for the misdeeds of their leaders.

Sir Arthur Lewis was conservative and pragmatic in temperament, practical in delivering policy advice, but radically anti-imperialist in his conviction that the peoples and societies of the south have the capacity to chart their own path to development. In an autobiographical note written late in life he stated: "what matters most to growth is to make the best use of one's own resources and exterior events are secondary." Trade plays a useful role in development, but "countries that hitch their fate to trade are bound to be frustrated." In the context of globalisation, the teachings of Arthur Lewis present a radical challenge to the developing world to reclaim the right to development - the right to make the best use of one's own resources.

First Encounter

I first encountered Arthur Lewis in 1942, long before I knew anything about the West Indies. I was a first year undergraduate at the London School of Economics, and Lewis was lecturing the introductory course on economic analysis. I was 19 years old and a convinced socialist. Having failed to win the necessary scholarships to study history in Oxford or physics in Cambridge, I concluded that I was a scholastic failure and was now at liberty to learn how to put the world right by studying economics. In the third week of the course, Lewis presented a diagram showing the marginal product of labour and the wage rate and explained that employment could be increased by lowering wages. I gathered up my courage and approached the lecturer after the class. 'Sir," I said, "I don't believe it. Before the war there were three million unemployed in Britain and they could not find work at any wage." "What is your name?" he asked. I supplied the information. "Miss Polanyi," he said, "I assume you have come here to study the science of economics. When you have mastered it, you may return and we will discuss this subject."

I was impressed, and decided that I will study this subject until I can prove him wrong. Of course it was Keynes who explained that mass unemployment in Britain in the 1930's was not due to excessively high wages, but to an excess of savings. To argue his case for fiscal and monetary policies to combat depressions and recessions, Keynes invented macroeconomics by discarding critical assumptions of neoclassical economics. (Younger generations of economists may not know that macroeconomics did not exist before Keynes and national income accounting.)

Classical Model in a Tropical Setting

Lewis was similarly unorthodox. His seminal article on 'Economic Development with Unlimited Supplies of Labour' (1954) was the result of a brilliant departure from the assumptions of neoclassical economics. Lewis asked himself two questions: Why do wages in developing countries not rise with rising productivity? And why is labour paid so much less in peripheral (tropical) countries than in industrial (temperate) countries? Why is coffee so cheap and steel so expensive? He tells us that,

> "One day in August 1952, walking down the road in Bangkok, it suddenly came to me that both problems have the same solution. Throw away the neoclassical assumption that the quantity of labour is fixed. An unlimited supply of labour will keep wages down, producing cheap coffee in the first case and high profits in the second. case. The result is a dual (national or world) economy where one part is a reservoir of cheap labour for the other."

In conditions of surplus labour, wages are not determined by the productivity of labour, but by the reserve price of labour which stays close to subsistence level as long as labour can be drawn out of a non-market reservoir of subsistence agriculture. This also explains why workers producing coffee or sugar stay poor, while workers producing steel in the metropole gain rising wages.

Lewis invented an analytical construct (model) based on familiar economic concepts to explain the unequal distribution of the gains from capital accumulation in colonial (tropical) conditions of surplus labour. The conclusion he drew from this analysis was that open (tropical) exporting economies cannot escape from underdevelopment until they have raised the productivity of the domestic sector producing food (and other necessities of domestic consumption). The developing world should rely on its own resources to generate the necessary savings for investment, and utilise its natural and human resources to provide the necessities of life for its populations.

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Terms of trade of Primary Commodity Producers

My initial encounter with Arthur Lewis in 1942 was followed by a second one - which perhaps contributed to my destiny to become a development economist. When I returned to the LSE in 1944, after two years of national war service, I attended a course in which Lewis lectured the contents of a book he was in process of writing. Economic Survey 1919 -1939 (1950) is a brilliant account of the inter-war years in the setting of world economic history - written in the accessible lucid style noted by McIntyre. Many times re-printed, the book is on a short reading list for courses at McGill to this day. There are prophetic passages, such as the speculation based on long wave theory that, "the decline of the inter-war period was a mere phase; to be followed in due course by another burst of vigour and prosperity, say from the middle 1940s to the 1970s, when a new period of decline would set in". Years later I learned that 1944 marked the beginning of a lifetime of research on the history of the world economy after 1870, published in 1978 as Growth and Fluctuations 1870 -1913.

But back to my story. From previous reading, I was reasonably familiar with what had happened in Europe in the 1920's and 1930's. What made an indelible impression on me was Lewis' treatment of the slide of world commodity prices in the 1920's, which preceded the Great Depression of the 1930's. As a child in Vienna, I had read that mountains of coffee were burned in Brazil. I could not understand why anybody would do something so destructive.

Now I could make the connections. The coffee was burned to keep up the price. It was Lewis who awakened my interest in the terms of trade of colonial primary exporting countries. By this time I had made personal friends at LSE from India, Malaysia, and other (then) colonial countries. Among the West Indians was Lloyd Braithwaite. They took me to meetings where I heard Krishna Menon, George Padmore and a short fiery Indian trade unionist whose name, if I remember right, was Dange. But never in my wildest dreams could I have imagined that more than 50 years later I would be delivering the Fifth Arthur Lewis Memorial Lecture here in St Lucia where Arthur Lewis grew up; where he tells us, his father took him to meetings of the local Marcus Garvey association when he seven years old; where he left school at 14 because he had completed the curriculum and worked as a clerk in the civil service until he was old enough to sit the exams which won him a scholarship to an English university of his choice.

Industrialisation in the Caribbean

From the time of his arrival in England, at age 18, Arthur Lewis turned his attention to the condition of the West Indies, advocating the destruction of the economic foundations of slavery by the equitable redistribution of land to the peasantry. In Labour in the West Indies, (Fabian Society, 1939) Lewis described the causes of the insurrections, strikes and riots which swept thought the region from 1935 to 1938 and gave birth to the labour movement. His anti-imperialism, grounded in early personal experience of the colonial condition in the West Indies, was shared by a generation of Caribbean, African and Asian intellectuals and political leaders. As teacher, scholar, policy advisor and administrator, Lewis combined advocacy of practical measures for economic development and economic independence in countries emerging from colonialism, with research in industrial economics, which he dropped after 1948; the history of the world economy, "which I started in 1944 and still pursue and in development economics which I did not begin systematically until about 1950."

In his reports to the Caribbean Commission (1948) Lewis argued the case for the industrialisation of the British West Indies, based on the success of industrial development in Puerto Rico. He used his knowledge of industrial economics to identify a set of manufacturing industries which could be established in the region. A careful reading of this report reveals the seeds of his subsequent work in development economics. We draw attention to his insistence on the need to increase the productivity of the food producing peasant sector, which would have the effects of raising the supply price of labour to the capitalist (plantation) sector.

The case for industrialisation was argued on the grounds that plots of 2 or 3 acres are too small to yield an acceptable standard of living from agriculture. *Because land resources are limited, and population density in the islands is very high*, the number of peasant holdings must be drastically reduced - perhaps in half - to provide land holdings sufficiently large to enable the peasant farmer to gain a decent income. Income generating employment in manufacturing would have to be created for the labour displaced from the land, and overseas markets would have to be found because local -

even regional - markets were too small to absorb output on the scale required for full employment.

We note that the reason the islands have to export manufactures is that *they are grossly overpopulated in relation to the land resource* - a legacy of plantation slavery which introduced several million unfree African workers to the Caribbean islands at a time when sugar was highly profitable. When commodity prices weakened and the sugar economy collapsed, unemployment became endemic. Lewis did not argue the case for export manufacturing on general grounds of comparative advantage, but as a policy appropriate for small countries burdened by chronic excess population.

Industrialisation of the West Indies was a radical idea at the time, given the resistance of colonial authorities and prejudices relating to the capacity of West Indian labour to become skilled and productive industrial workers. Lewis proposed a set of industrial policy measures to encourage, protect and subsidise the establishment of manufacturing industry, including concessions to attract foreign capital and capitalists, as was done in Puerto Rico. Until such time as national income would rise to levels adequate to generate domestic savings for domestic investment, it would be necessary to fawn on foreign capitalists to learn the tricks of the trade and gain access to their overseas distribution outlets. We note that Lewis considered the free movement of goods and persons (single economy) within the region, together with a political federation of the island territories and a single regional industrial development corporation as essential to the success of this industrialisation strategy.

Misplaced Criticism; Erroneous Revisionism

The implementation of industrial policies proposed by Lewis proved disappointing in Jamaica and elsewhere in the region. Economic growth in the 1960's was accompanied by rising unemployment and growing inequalities. In the radical climate of the times, Lewis was held accountable by a younger generation of UWI economists for the failures of *industrialisation by invitation*. The failures were real, but the criticism was misplaced. Regrettably, subsequent generations of UWI students were left with the impression that '<u>Industrialisaton of the British West Indies</u>' was the most important - perhaps the only - work of Arthur Lewis. The seminal article of 1954 was largely ignored. Later there were mea culpas and a revisionism which claimed Lewis as a far sighted champion of export orientated development. Economic problems were ascribed to the failure of governments to heed his advice to concentrate on export manufacturing. But the revisionists have been too quick to dismiss import substitution as a useful industrial strategy, and too quick to buy into the currently fashionable doctrines of *externally oriented development*. Industrialisation policies which established import substitution industries, with all their shortcomings, were important in upgrading technical and managerial skills. They have served Trinidad well in the development of a diversified manufacturing sector, now strong enough to expand into regional and overseas markets.

The collapse of many of these industries in Jamaica in the 1990's is a serious loss of social capital, as well as a devastating loss of income to the workers who have lost their jobs. Jamaica is regressing to a colonial style import export economy- virtually the only country in the hemisphere which has not experienced economic growth in the 1990's. It is one thing to understand that exports are essential where national and regional markets are too small to sustain a high level of employment in manufacturing or services. It is quite another to claim Lewis as an advocate of 'outward looking development'.

The Lewis Legacy

In the Schumpeter memorial lectures, delivered at Princeton in 1977 as The Evolution of the International Economic Order, Lewis brilliantly summarised the results of decades of research on growth and fluctuations in the world economy. I quote the concluding sentences:

> "The development of the LDCs does not, in the long run, depend on the developed countries; their potential for growth would be unaffected if all the developed countries were to sink under the sea. The LDCs have within them themselves all that is required for growth. They should not have to be producing primarily for developed country markets. International trade cannot substitute for technical change, so those who depend on it as their major hope are doomed to frustration. The most important item on the agenda of developing countries is to transform the food sector, create agricultural surpluses to feed the urban population, and thereby create the domestic basis for industry and modern services. If we can make this domestic change we shall automatically have a new international order."

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Arthur Lewis was awarded the Nobel prize in 1979 in recognition of his contribution to development economics. His seminal article Economic Development with Unlimited Supplies of Labour (1954) grounded *development economics* in a model which assisted in establishing the subject as a distinct area of economics. The open version of the Lewis model provided the theoretical foundation for the radical conclusions he drew from a life time of research and intimate familiarity with the economics of peripheral (tropical) developing countries.

When Arthur Lewis stated, in the autobiographical note quoted earlier, that "what matters most to growth is to make the best use of one's own resources and *external events are secondary,"* what was he telling us? Certainly not that trade is unimportant, or that small countries do not have to find export markets for their goods and services, where possible on the most favourable terms of trade, and in high value specialised products. What I believe he meant was that *developing countries have to engage the world economy on their own terms, not on terms set by global markets or international institutions.* His emphasis on the internal and domestic well-springs of development, and the primacy of domestic food production directly challenges prevailing economic doctrine that countries which do not adjust domestic policies to global markets will be marginalised.

But is it really true that trade and foreign investment are the sources of economic growth? Has it ever been true? What transformation has globalisation brought about to justify favouring exports over domestic production, and courting foreign investment with incentives and subsidies? Has globalisation now made it impossible for developing countries to chart their own path to development, according to their endowment of human and natural resources, cultural and institutional heritage, and social imagination? If so, peoples and societies comprising eighty per cent of the world's population will have to reclaim spaces of policy autonomy to exercise the right to development. Anything less would fail to do justice to "this most distinguished West Indian of the Century"(McIntyre). These are the issues we now address.

Was Import Substitution (ISI) Really So Bad?

Because ideas are powerful means to inform or dis-inform policy, we have to assess the validity of current orthodoxies. Relentless and interminable repetition of the doctrinal mantra that 'inward-looking development' is *bad*, and 'outward-looking development' is *good* has demonised policies of import substitution (ISI) - which served the developing world rather well in the 1960's and 1970's.

The World Development Reports used to contain useful summaries tracking growth rates of major regions since the 1960's. They have disappeared, perhaps from embarrassment of evidence confirming what one observer called the World Bank's "optimism beyond the bounds of empirical responsibility" (Emmerij). The data show a secular decline in annual growth rates in the industrial countries from 5.3 per cent (1961-70) to 3.1 per cent (1971 -80) to 2.8 per cent (1981-90) and 1.8 per cent (1991- 95). For Latin America, corresponding growth rates were 5.5 per cent; 6.0 per cent; 1.3 per cent; and 2.8 per cent. High growth from 1960 to 1980, largely based on a combination of primary commodity exports with import substitution, was impressive. Nothing like it has been seen since in the region. But Latin America was not the only region of the world which did well in the 1960's and 1970's.

From 1960 to the first oil shock of 1973, no fewer than 42 developing countries, including Jamaica, Trinidad and Barbados and 12 countries in South America; 6 in the Middle East and 15 in Sub-Sahara Africa grew at rates of GDP per capita exceeding 2.5 per cent per annum, and six Sub-Sahara African countries were among the 20 fastest growing economies in the developing world! To varying degrees, all these countries practised import substitution (ISI) based on profitable domestic markets for investors. Contrary to received wisdom, ISI-driven growth did not produce tremendous inefficiencies on an economy-wide scale. Indeed, most of the countries of Latin America and the Middle East had total factor productivity in excess of East Asia in 1960-73 (Rodrik 1999).

From the mid 1970's, most of these countries started to fall apart. Of these 42 countries only 12 countries - Trinidad, Belize, 7 Asian and not a single Latin American country - managed to sustain 2.5 per cent per capita growth in the period 1973- 84. Median per capita GDP growth for all developing countries fell from 2.6 per cent in 1960-73; to 0.9 per cent in 1973-1984; and 0.8 per cent from 1984 -1994. In the Middle East and Latin America, which had led the developing world in Total Factor Productivity (TFP) growth prior to 1973, TFP turned negative from 1973-1994 while China and the rest of

East Asia (except the Philippines), and virtually all of South Asia produced positive TFP growth. By 1994 one hundred developing countries had a lower per capita income than five years earlier; 69 lower than in the 1970's; 35 lower than in the 1960's; and 19 lower than in 1960. Per capita consumption in Africa is today 25 per cent lower than in 1962, and Latin America has not regained 1980's per capita levels.

The Collapse of Growth in Latin America and Africa

The common timing of the collapse of growth in so many countries in the late 1970's and early 1980's suggests that it was not the exhaustion of import substitution policies, but the turbulence which beset the world economy following the demise of the Bretton Woods system that grounded growth. Floating exchange rates; wildly fluctuating commodity prices, including two oil shocks, ballooning international liquidity unconstrained by national banking regulations, and illusions of the sustainability of debt-led growth by creditors and borrowers alike, went into the making of the Debt Crisis of 1982. In countries too poor to attract private capital inflows, politically motivated official development assistance contributed to unpayable external debt. As is now well known, the proximate cause of the Debt Crisis of 1982 was the stringent monetary policy adopted by the Federal Reserve to combat inflationary expectations. The Debt Crisis was 'collateral damage'.

In the 1930's, virtually all Latin American countries declared moratoria on debt service - and bond holders were forced to share the costs of the crisis. In 1982, the IMF saved the international banks from technical bankruptcy by organising a creditor cartel which shifted the entire burden of adjustment to debtor governments. The costs of the "lost decade" of the 1980's, when wages in Latin America fell by 40 to 50 per cent and rose only slightly in the 1990's, linger on. The incomes of most Latin Americans are today 20 per cent lower than in 1980. From the mid 1980's governments and technocrats embraced the new doctrines of liberalisation, deregulation and privatisation. Social capital eroded and income inequality and poverty increased.

Interestingly, South Asia escaped the Debt Crisis of the 1980's, and continued an ISI led growth path, with average annual per capita growth of 3.0 per cent (India); 2.7 per cent (Pakistan) and 2.4 per cent (Bangladesh) from 1975 -1995. China, hardly a model of a liberalised economy, took off into three decades of spectacular growth, sustained to this day. The East Asian 'tiger' economies achieved 'miracle growth' with domestic savings rates of 30 per cent, low fiscal deficits and booming exports - until financial and exchange liberalisation precipitated the Asian crisis of 1997. Incidentally, China's defence of its currency during the Asian crisis by effective exchange controls saved the region from a second destabilising round of devaluations. India also escaped contagion by the Asian crisis, thanks to modest short term capital inflows and effective financial and capital controls. Malaysia demonstrated that even smaller countries can defend their economies from destabilising capital flight by the imposition of capital controls.

What Are We Forever 'Adjusting' To?

Ten years ago William Demas posed a very good question in one of those rambling telephone conversations which were his way of keeping in constant touch with his many friends in the region. What are we (the developing countries) forever adjusting to? In the Eric Williams Memorial lecture delivered at the Central Bank of Trinidad and Tobago in 1990, I suggested that developing countries are adjusting to the consequences of the demise of the Bretton Woods system in the 1970's and to the regime change introduced by the United States and Britain in the 1980's to open new national and global opportunities for capital by deregulation, liberalisation, and privatisation of public utilities and other state assets.

In the 1990's, it became evident that these neoliberal policies have three characteristics: they are *crisis prone;* they encourage a spirit of *speculation*, rather than entrepreneurship, and they are *deflationary* (Emmerij). Increasingly serious recessions and the slowing down of growth in the capitalist heartlands have intensified competition and the drive to penetrate new markets and establish new outlets for excess savings and excess production. This is the ultimate reason that the United States and Britain (less so continental Europe) have facilitated business and financial interests in the elimination of every conceivable barrier to entry of goods, services and investments in the developing world and how the doctrine of *externally oriented development* serves this agenda. Primary commodity exporters have always been *price takers;* they have always been under pressure to adjust to business cycles in the industrial countries by *pro-cyclical* deflationary measures. Since the Debt Crisis of the 1980's, thanks to 15 years of structural adjustment to a liberalised economy, these countries have also become *policy-*

takers. This is why adjustment is now a continuing process. This is the answer to the question posed by Demas ten years ago.

The exigencies of debt service has been the hook to catch developing country governments with very limited options. The situation is most severe in Sub-Sahara Africa, where debt service consumed up to 60 per cent of government revenue, and average consumption is now below 1970's levels. These countries must forever export themselves out of debt, no matter that they are competing with a dozen other countries exporting the same coffee or cocoa - or shoes and shirts. No matter that domestic food production is declining, as export agriculture is favoured over food crops, and natural resources are pillaged for instant returns, with long term damage to the environment.

The export of commodities, both primary and manufactured - because labour intensive manufactures are the new 'commodities' - is a way of exporting cheap labour, as Lewis explained. The real resource transfer from south to north is greater than the recorded debt service and net capital flows. It is not transparent. It is occult. It operates through the market by declining factoral terms of trade. As in times when raw materials were worked up in the industrial world, the export of cheap manufactures contributes substantially to domestic income generation in the *importing* country in the form of services associated with their purchase and distribution. The difference between the (low) unit cost of production and final wholesale price accrues to the transnational enterprises who design, sub-contract and organise bulk purchase and re-sale. The increasing volume of these developing country exports has assisted the United States to maintain the long boom of non-inflationary growth in the 1990's. This is the sense in which globalisation has increased wealth - in a unidirectional way as in *sens unique,* indicating a one-way-street in my home town in Montreal.

Globalisation as Agenda and Process

Globalisation is a process with an agenda, which promises to deliver prosperity and human development to countries which 'reform' their policies. The agenda is driven by corporate and financial capital and the reforms are increasingly invasive. Investors demand 'national treatment' and trade policy now reaches beyond conventional issues of trade between nations. This raises questions of the permissible limits to the penetration of market relations (of purchase and sale) into the fabric of economic, social, and cultural norms and institutions of developing countries. Policy options are reduced. Indeed, this is the explicit purpose. The intention is to lock states into irreversible commitments to the sanctity of contract. There is ever less autonomy for states to design and implement development strategies. Eventually everything - and everybody - is for sale. Societal norms and standards are eroded. Social cohesion dissipates under the stress of glaring injustice and inequality. Crime, corruption and repression increase.

National boundaries which separate external from domestic markets have become porous and blurred. *Trade and Development*, *Market and State* and *Growth and Equity* have been the leading issues of development economics since its beginning. Liberalisation of global trade and finance conflates these issues into one asymmetric relationship which *reduces* the capacity of developing country states to govern markets at the *national* level - but *enhances* the capacity of the major capitalist powers to set the rules which govern markets at the *global* level. At the *national* level governments are under pressure from productive enterprise, labour and civil society to respond to the real needs of the population - however reluctantly or incompletely. At the *global* level, capital is insulated from popular protest and the constraints of democratic accountability. Recent attempts by the World Bank to return to its original developmental remit were over ruled by the US Treasury, resulting in the departures of Joseph Stiglitz and Ravi Kanbur. The responsibility of nation states for realising *Development with Equity* has been subordinated to the globalisation agenda of *Trade and Growth.* Doctrine now prevailing at the World Bank is that ‘growth is good for the poor’ (David Dollar 2000) and global freedom of capital is good for growth.

Debt dependence has provided the international financial institutions with the leverage to tell developing countries - in microeconomic detail - how to restructure their economies. Whereas the number of IMF standby arrangements have declined from a high of 132 in 1981-85, to 49 in 1996-98, the number of enhanced structural adjustment facilities (ESAFs) - now renamed Poverty Reduction and Growth Facilities (PRGFs) have grown from 18 in 1986-1990 to a record high of 96 in 1996-98 - most of them in Sub-Sahara Africa. The author of the study from which these data are taken concluded that, “as a result these countries have pretty much ceded their sovereignty to the IMF and the World Bank” (Cheru 1999).

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A second generation of the 'Washington Consensus' has moved beyond restructuring economic institutions, to require a proliferation of 'governance-related' conditionalities. An analysis of a sample of IMF programmes in 25 countries between 1997 and 1999 showed an average of 26 conditionalities per programme. In Latin America the average was 33, of which 13 were governance related; in Africa 23, with 9 governance related (Kapur and Webb). Unlike macroeconomic targets, governance related reforms are open-ended, inviting discretionary judgement regarding compliance. In the view of a World Bank economist, the penalties inflicted by the conditionality regime "lack moral legitimacy". But donor pressure to conditionalise development assistance is on the increase as an ever growing number of civil society stakeholders press their diverse agendas on developing countries by leverage of promises of development assistance and debt forgiveness.

For middle income developing countries, judgement of economic performance has passed to private capital markets. In his introduction to a study which challenges current orthodoxy regarding the role of trade and foreign investment in successful economic development, Harvard economist Dani Rodrik notes that the globalisation model raises a fundamental question of accountability. To whom will national policy makers be accountable? The implicit answer is that they will be accountable - not to their populations - but to foreign investors, country fund managers in London and New York and a relatively small number of domestic exporters. These are the groups that determine whether an economy is judged a 'success' or not, and whether it will prosper. It takes too much blind faith in markets to believe that the global allocation of resources is enhanced by the twenty-something-year-olds in London who move hundreds of millions of dollars around the globe in a matter of an instant, or by the executives of multinational enterprises who make plant location decisions on the basis of the concessions they can extract from governments. Consequently, governments and policy advisors alike will have to stop thinking of international economic integration as an end in itself. "*Developing nations have to engage the world economy on their own terms, not on terms set by global markets or multilateral institutions*" (Rodrik 1999).

Rodrik dismissed the claims made by boosters of international economic integration as inflated or downright false:

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> "Countries that have done well in the post war period are those that have been able to formulate a domestic investment strategy to kick-start growth and those that have had the appropriate institutions to handle adverse external shocks, not those that have relied on reduced barriers to trade and capital flows. Policy makers therefore have to focus on the fundamentals of economic growth - investment, macro-economic stability, human resources and good governance - and not let international economic integration dominate their thinking."

His research confirms the advice of Arthur Lewis. The next few paragraphs summarise his findings.

Inflated Claims For Openness

There is no special advantage in 'openness'. Trade is a means to an end, a way to access imports essential to growth. A dollar of exports does not contribute anything more (or less) than a dollar of any other productive activity. Countries that grow fast tend to experience increased openness (export to GDP ratios) but *the reverse is not true.* It is a fallacy to believe that increased openness to trade stimulates growth. Generally, causality goes from dynamic high productivity firms to export activity, not vice versa. There is no efficiency argument for special export incentives. Much the same is true for foreign direct investment(FDI): One dollar of FDI is worth no more (and no less) than any other kind of investment. The correlation between the presence of FDI and superior performance is generally due to *reverse causality:* multinational enterprises tend to locate in the more productive and profitable economies, or niches in these economies. Policy makers should resist granting subsidies or tax credits that favour foreign over domestic investment.

A cross country regression of per capita GDP growth from 1975 to 1994 showed only a weak (statistically insignificant) correlation between economic growth and indicators of openness - whether based on trade volumes or on tariff or non-tariff restrictions. Openness to capital flows (captured by an indicator of capital account liberalisation) did not exert any influence, nor was the size of government a significant factor. What mattered most were *investment rates and macroeconomic stability.* The evidence in favour of small government/free trade orthodoxy is less than overwhelming. It is domestic investment that ultimately makes an economy grow, not the global economy.

The Successful Export Economies

This is also true for the successful export economies of East Asia. According to the standard story, South Korea and Taiwan adopted a set of export oriented measures in the 1960's which caused these economies to specialise according to comparative advantage, resulting in rising levels of income, investment, savings and productivity. But how could export manufacturing possibly have contributed to high national growth rates at a time when exports were less than five per cent of GDP in Korea, barely 10 per cent in Taiwan, and manufactured exports were a quarter or less of total exports? A more plausible explanation is that the significant increase in private returns to investment engineered by the government of South Korea kick-started growth. The principal measures used were the extension of credit to large business groups at negative interest; the nationalisation of banks which gave the government exclusive control over the allocation of investable funds; and the socialisation of investment risk in selected sectors. In both countries governments played a direct hands-on role in involving private entrepreneurs in investment, and established public enterprises with linkage and scale economies - which accounted for a large share of manufacturing in the 1960's. The economies that have done well in the post war period have all succeeded in their own brand of heterodox policies. High investment rates and macroeconomic stability have been common - beyond that details differ.

Inequality, Social Conflict and Macroeconomic Adjustment

Why did some economies survive the Debt Crisis of 1982, while others collapsed? The evidence is unambiguous. Trade and industrial policies had little to do with bringing on the crisis. Neither the severity of external shocks nor microeconomic price distortions were significant explanatory factors. In the countries that experienced debt crises, the crisis was the result of monetary and fiscal policies that were incompatible with manageable external balances. But why were some countries able to make macroeconomic adjustments more effectively than others? Countries with deep social cleavages - whether along class or ethnic lines - and poor institutions of conflict management find it difficult to implement timely and effective measures of stabilisation. The economic cost of external financial or trade shocks is magnified by distributional conflict. The quality of government institutions, civil liberties and political rights, social insurance and access of 'non-elites' to political institutions are factors which enhance and improve responses to shocks. Emphasis on social conflicts and institutions - at the expense of trade strategy and industrial policy - suggest that the main difference between Latin America and East Asia was not that the former remained closed and isolated while the latter was integrated into the world economy, but that the gross inequalities and deep social cleavages in Latin America are the ultimate reasons for endemic macroeconomic instability and stop-and-go growth in the region.

This conclusion is supported by the authors of a recent ECLAC study of 15 years of transformation toward more market oriented and open economies in Latin America and the Caribbean. They found that these far-reaching reforms had a "surprisingly small impact". At best they restored rates of investment and labour productivity to levels prevailing 20 years ago at the end of the import substitution period. "Growth has been modest, employment has grown slowly with problems of job quality, and inequality has not improved and may even have gotten worse. *The increased growth of exports (in volume as well as value) has not led to comparable growth of output.* Imports have grown even faster, leading to widening trade deficits, financed by recourse to foreign capital. A key feature of capital flows to Latin America has been their volatility and the cycles of surges and steep declines became even more frequent in the 1990's. Crises were also more frequent (Stallings and Peres, p6). Poverty has increased. And a majority of Latin Americans surveyed in a World Bank study believe their children will not have as good a life as theirs.

The identification of unresolved social conflicts as underlying factors in macroeconomic instability and economic stagnation accords with a view I have expressed on several occasions: The basic reasons for the economic impasse in Jamaica are to be found in gross inequalities, deep cleavages of class and race and a malfunctioning political system which has enabled the government and the commercial elites to postpone policy measures required to reduce interest rates and rescue the productive economy from further collapse. Jamaica is living on borrowed money and borrowed time.

The contrast with the ability of Trinidad society to negotiate adjustment to the severe shock of the collapse of oil prices in the mid 1980's is striking. Barbados, with few natural resources other than an excellent tourist environment has achieved the highest GDP per capita in the Caricom region, and the other countries of the Eastern Caribbean have maintained macroeconomic stability and sustained economic growth, assisted by the excellent performance of the Eastern Carribean Central Bank. In none of these countries do we find income disparities of the level of Jamaica. The Human Development Report 2000 singled out Jamaica, together with Brazil and Guatemala as countries of extreme inequality where the top fifth's share in national income is more than 25 times the bottom fifth's (p. 34).

Equity and social justice are not only self-evident objectives of development, but an essential condition for macroeconomic stability and economic growth. Policies which increase inequality, poverty and injustice, even when successful in generating growth - which more often they are not - result in a cycle of repression and societal disintegration as crime, drugs, violence and general lawlessness drain the energies and extinguish the hopes of individuals and societies.

Reclaiming the Right To Development

For the past twenty years, the developing world has been adjusting to the agendas of the IMF and the World Bank. It is time to reclaim the right of nations to policy autonomy, the right to make the best use of one's own resources, and the right to engage in the international economy on one's own terms. The right to development is a citizen right and its realisation is a priority obligation of national governments. States - not the IMF or the World Bank - have the right and the duty to formulate appropriate national development policies. This requires an international rule-based order which permits space for developing countries to follow different and divergent paths to development according to their own philosophies, institutions, cultures and societal priorities.

Finance must be subordinate to the productive economy, globally and nationally. The productive economy must provide the basic needs of the entire population in an integrated society where there is not one economy for the privileged and another for the poor. *Poverty alleviation is no substitute for development as a social project of all citizens*. Economic growth must be subordinate to long term sustainable development. Private profitability criteria are inappropriate for the provision of universally available educational, health and other essential public services. All modern economies are mixed economies, combining the private sector, state enterprise, self employment and diverse forms of cooperative and associational community economic organisation. Democracy and pluralism imply diversity of social and economic organisation of societies.

For peoples and nations, as for individuals, the right to development is ultimately the right to be autonomous, the right to be free, the right to the fruits of individual and collective work and the right to live in harmony in a society of peace and mutual support and respect. The revolution in communication and information has diminished distance and speeded time. We know more about what is happening to other people in other countries, although the Caribbean has always been connected with the four corners of the world by the diasporas of the past which created these unique societies and the diasporas of our times which have enriched many countries and societies by the presence of Caribbean people and their descendants. In that sense globalisation is neither new, nor menacing.

What is menacing is the tide of global finance which is sloshing in and out of currency and securities markets in search of short term gains, with no responsibility for the fate of the majority of people, people who gain no benefits but pay the costs of this 'casino capitalism'. There is no limit to the damage that international finance can inflict on an economy. Even the most successful countries have been brought to their knees by changes in market sentiment. The first requirement to restoring the right to development is the establishment, within the United Nations System, of a multilateral World Financial Authority to track, oversee and regulate global financial markets on principles which restore market risk to creditors and limit the 'socialisation' of private (unguaranteed) debt.

The International Monetary Fund should return to its original mandate to provide medium term finance for countries with temporary balance of payments problems. This would enable them to undertake adjustment without deepening a crisis by restrictive monetary and fiscal measures which have long term effects in eroding social infrastructure. The right to impose capital controls should be re-affirmed and initiatives to bind countries to capital account liberalisation suspended.

All official debt to poor countries should be cancelled, and financial restitution made to Sub-Sahara Africa for slavery, colonialism and the imposition of inappropriate programmes and policies by the IMF and World Bank in the past two decades. Development assistance should not be conditional on trade and investment liberalisation, and should be extended to borrowing countries as grants or soft loans to finance free universal elementary education and primary health care. The World Bank should be brought under the direction of the Social and Economic Council of the United Nations which must be strengthened and reformed to accord with the demographic realities of the 21st century, with no permanent seats on an elected Security Council. Nothing less can assure peace, which is the ultimate prerequisite of development.

Developing countries must have an effective voice in the making and the implementation of the rules of the WTO, which should be restricted to trade in its conventional sense, with no extension into trade-related matters. Trade enforceable regulations concerning intellectual property right to pharmaceuticals must be amended to permit and encourage the production of generic drugs in and for developing countries. The right to health is a sacred right to life.

Because it is obvious that small countries can only implement self reliance policies in the context of larger regional entities, all barriers to regional economic integration of developing countries should be eliminated from the rules of the WTO, and provision for special differential treatment substantially lengthened to enable developing countries to transform their economies to be less reliant on exports which impoverish people and the environment, or on destabilising private financial in flows as a substitute for a high rate of domestic savings and progressive and equitable taxation. Regional monetary arrangements for mutual assistance should be encouraged.

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