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## *Efficiency, Expertise, NICs and the Accelerated Development Report*

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### **Basic Arguments and Prescriptions**

*Accelerated Development in sub-Saharan Africa: an Agenda for Action* [World Bank 1981] is too important a document to be reviewed or analysed simply in terms of its internal weaknesses and contradictions — though there are a substantial number. To appreciate the full implications of the document, it is essential to consider its general arguments in the context of the current international economic situation. Agreement or disagreement with the Report's general arguments and prescriptions under current circumstances, constitutes the essential backdrop for any sensible discussion of the specifics of the Report. For this reason one may agree with many of the Report's detailed and specific propositions, while nevertheless regarding the document as a whole as fundamentally wrong in its analysis; self-serving in its implicit allocation of responsibility for current problems; misleading in its broad policy prescriptions; and totally unrealistic both with respect to the social and political implications of its 'solutions' and with respect to its assumptions about real aid flows, price and market prospects for African exports and the robustness of Africa's struggling institutional structures.

One central theme of the Report is the now very familiar call for governments to reduce the level of their economic involvement, and to make that which remains more 'technically competent'. This proposition is so central to the Report that in the Executive Summary it is argued:

to achieve their growth and equity objective, governments need to select a limited number of activities in which public sector involvement is essential and then undertake them efficiently. Other activities can be managed by appropriate market signals . . . This basic approach to domestic policy is the unifying theme of the study.

[World Bank 1981:4]

We shall examine this further below, after a brief discussion of the reasons why it is possible to arrive at such a broadly negative view of this particular Report about Africa at this particular time.

The Report's argument runs broadly as follows: Africa's economic performance over the past two decades has been extremely disappointing, and prospects for the next decade are even more gloomy. International economic difficulties bear a share of responsibility for the worsening situation, but the relatively poor record of this region, when compared to other areas of the developing world, suggests that Africa has special problems particular to itself. These are attributed largely to African government policies, although, by the same token, the fact that virtually the whole of sub-Saharan Africa (SSA) has fared relatively badly over the past decade, suggests that whatever it is that is particular to the region is also relatively common within it.

Finally the Report argues that, in any event, whatever may be the degree of blame to be attached to the international economy, the African economies must broadly accept the external environment as given and do the best they can under adverse circumstances. This places the greatest premium on improving the efficiency with which resources are used within the African economies themselves. Africans simply must help themselves, and to this end they must cut out the myriad examples of wasteful and inappropriate resource allocation cited in the Report.

This much of the argument is well documented and convincingly argued. Indeed the Report's ultimate value may lie primarily in its having presented this widely accepted picture in a systematic and careful manner, and in having comprehensively marshalled the available evidence to support it. Certainly the argument thus far should be considered common ground. Unfortunately such 'common ground' does not take one anywhere near to agreement about just what problems are particular to SSA, or what might constitute effective policies to increase the efficiency of resource use.

### **Distortions, Exports, Competition and Efficiency**

In addressing these issues the Report relies less on the African evidence it has marshalled, and more on the

world view now so militantly expounded by the post McNamara World Bank. In its bare essentials this exhorts the developing countries to avoid 'market distortions' at all costs. Most particularly, they must avoid discrimination as between goods for export and those for domestic consumption. In general they should expose themselves to competition in order to attain the efficiency increases which such exposure will bring, and also in order to develop economic structures appropriate to the country's comparative advantage. Both generally, and in this Report, this old argument is asserted with renewed vigour on the basis of a campaign whose strident tone is ironically reminiscent of earlier Maoist campaigns. It might be called the 'learn from the four little tigers' campaign.<sup>1</sup> Its message is clear: let the market work and even under the difficult conditions of the 1980s you can grow rapidly *and* diffuse material benefits throughout the population.

Thus when the Report asserts that the specificity of SSA lies centrally in its excessive and technically incompetent government involvement in economic affairs, it makes little use of, or even disregards, the evidence it has itself accumulated. The critical argument on exports and efficiency is ultimately asserted as derived from the 'NIC debate' (newly industrialising country debate). It is argued even though the Report's own evidence provides no support at all for the idea that in Africa those governments with less state intervention (however defined) have been more successful economically, socially or politically. Indeed the evidence prescribed in the Statistical Appendix and the text tables on government spending is not easily reconcilable with any general proposition relating proportion or growth of public expenditure with growth of GDP.<sup>2</sup>

The Report does, very briefly, confront the awkward 'fact' that in Africa state revenue generated by taxation is not generally high by developing country standards, but sustains its basic assertion simply by pointing out that in some cases the state collects substantial additional revenues from various marketing boards. This cavalier and superficial treatment of the only African empirical evidence presented for this central assertion does nothing to allay one's scepticism.<sup>3</sup>

<sup>1</sup> The 'four little tigers' being Hong Kong, Taiwan, Singapore and South Korea. The 'campaign' is strangely reminiscent of the old Maoist campaigns — viz 'learn from Ta Chai'.

<sup>2</sup> Table 4.2, p 41 shows a weak *positive* correlation between rate of growth of public administration and defence spending and growth of GDP over 1970-79. However, the most likely causal linkage is high GDP growth to high revenue growth to high administrative/military expenditure growth, not the reverse.

<sup>3</sup> All the more so since elsewhere in the Report marketing board *losses* are — accurately for at least some countries — presented as a major fiscal drain!

When it comes to the nature, rather than the extent, of government intervention, the Report simply avoids any discussion of African empirical evidence, apart from citing a number of examples of 'bad' economic policies pursued by certain governments. No classification by degree of market orientation is attempted. It is therefore impossible to tell how the authors of the Report would classify a country like Zaire; how they would regard the francophone countries with their CFA francs tied to the French franc; or whether they would see the Liberia of the 1970s as having been relatively market-oriented. Unfortunately, however, in the absence of any attempt by the Report to classify government intervention in any systematic way, the argument remains a simple assertion derived from 'other circumstances', namely those of the NICs in the late 1960s and the 1970s.

### NICs and sub-Saharan Africa

There are two problems with this procedure. The first concerns the nature of the conclusions legitimately to be drawn from the NICs; the second concerns the applicability of such conclusions to SSA in the 1980s.

First of all, the 'lessons of the NICs' are in fact by no means as clear-cut as the Report implies. Indeed the burgeoning analytical literature on the economies of South Korea, Taiwan and Singapore (though not that on Hong Kong) is remarkably unanimous in contradicting many of the characteristics of the NICs most widely asserted by those who wish to present the latter as the 'embodiment of the neo-classical parable'. State intervention in these economies is generally found to be very extensive as well as highly direct and centralised. It includes (as also in Japan, the original NIC) extensive state control over financial institutions; specific controls on capital flows and on direct investment; the widespread use of quotas and other forms of trade management; and the frequent pursuit of dynamic objectives requiring investment decisions in research or production which run counter to the implications of prevailing market price signals.

What emerges therefore, is a picture of the NICs (apart from Hong Kong) as societies with a very high level of state involvement in both social and economic affairs, who are able to use the control thus established to respond relatively rapidly and effectively to changing conditions in the international economy. Furthermore their ability to do this successfully appears to be closely linked to a number of important conditioning factors in addition to the standard low wage/output ratio, namely: access to virtually unlimited (and for most of the 1970s *very cheap*) credit; relatively little access to developed country markets for industrial goods; ability to maintain domestic political stability;

and possession of a substantial domestic technological base. The latter was invariably established in the course of a more or less lengthy phase of discriminatory' import substitution.

This alternative view of the NICs naturally implies rather different conclusions in so far as their experience can be used to derive lessons for African countries. First, national economic efficiency appears to benefit from extensive state intervention on some corporatist state model; ie, market management is a condition for, not an obstacle to, taking advantage of market forces. Furthermore both the actual experience of the NICs, and the very different circumstances of the African countries in the 1980s, require a sharp qualification of claims for the virtue of 'neutrality' between production for export and production for domestic consumption. The real lesson of the NICs in this respect is that neutrality in this sense can be more effectively established in economies which are relatively strong both technically and institutionally. Even then it exists alongside a wide range of specific quantitative restrictions on imports and of a panoply of 'non-tariff barriers', as well as of different specific export incentives, all of which are particularly easily used in the corporate state models in question.

Finally, even most of the strong neo-classical exponents of the NIC experience do acknowledge that the competitive strength which enabled the NICs to seize the opportunities of the 1970s, required as a necessary (though not a sufficient) condition, the prior build-up of a significant manufacturing capacity through a (discriminatory) import substitution policy. Because the African economies have by and large not yet acquired such manufacturing capabilities, not even a straight neo-classical interpretation of the NICs can logically be used to imply a strong case for 'neutrality' as between exports and domestically consumed goods at the present time, nor indeed until manufacturing capacities have been further developed through judicious import substitution.

In short the Report's heavy reliance on, and frequent reference to, the NIC experience to back up the central assertion that African governments should reduce the extent and change (in a specific manner) the nature of their economic involvement is neither logically nor historically convincing. Indeed, in so far as such an analogy is at all legitimate, its implications are totally different from and, indeed, almost the exact reverse of those suggested.

### **Government Weaknesses: What Is To Be Done?**

While the NIC analogy is central to the Report's 'case' against government economic involvement in Africa,

there are many other arguments to this effect occurring eclectically throughout this Report. These appeal to the now very general disillusionment with governments, shared more and more across ideological divides. Who would deny that: there is corruption in government circles; many government policies have paid insufficient attention to market signals; more technical expertise would be desirable; black markets are manifestations of underlying tensions and disequilibria; or that all of these factors together contribute to a wasteful use of resources? If all this is true — as it is — what conclusions follow? The Report repeatedly suggests and implies that surely its views on government involvement are amply confirmed. But this is simply not the case. While the problems listed are real enough, they do not logically imply or even necessarily support, the 'solutions' proposed. Furthermore the so-called solutions frequently have little substantive content in the form in which they are proposed. What does it mean, after all, to assert the need for greater economic expertise at a time when the very foundations of 'orthodox economic analysis' have been widely discredited in business and government circles in the industrial countries? Or to advocate more and more uncritical African acceptance of external technical advice when a number of SSAs' most palpable economic disaster stories have been firmly grounded upon it?

Before proceeding to discuss the main deficiencies of the argument it is necessary to stress that disagreement with the Report's handling of the issue of the state, does not imply acceptance or support of the general way in which existing African states have intervened in social and economic affairs. What is being argued here is that the Report is both unconvincing and wrong in arguing that a reduction in state involvement and a shift towards more narrowly technocratic state intervention are centrally important and (together with increased aid) adequate means of effecting a major improvement in Africa's economic performance. Neither the vaguely argued NIC analogy, nor the loosely applied African evidence supports this claim. The repeated recounting of alleged 'bad' government interventions, simply does not constitute an argument, especially when certain critical issues are wholly excluded from consideration.<sup>4</sup>

This paper will conclude by considering four such issues which, quite apart from the problems previously discussed, would require systematic consideration if this Report were to make any significant and

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This contention is not inherently ideological in the capitalist/socialist sense. The success — in their governing class coalitions' own terms — of Brazil, Taiwan, South Korea and Singapore rests on extensive and detailed state social and economic intervention, even though all are clearly capitalist, indeed conservative capitalist, states.

constructive contribution to the analysis of problems of state intervention in African economies.

## Political Forces and Institutional Structures

The first issue concerns the nature of the political forces in control of the states in question. The Report's failure to grapple with that issue, understandable as that might be from a political point of view (ie the politics of international agency report writing), unfortunately means that its pronouncements on this question can scarcely be taken seriously.

The most desirable level and form of government involvement in economic affairs simply cannot be specified without reference to the objectives being pursued by particular governments. These objectives and the political forces which they reflect will play a decisive role in determining whether certain kinds of advice are likely to prove acceptable in practice, and, if accepted, how they would affect social and economic performance as well as political stability.

The Report ignores this question, apart from one passage in which it seeks to suggest that the changes in government involvement are in effect so minor that they do not call into question the political orientation of any particular government. Unfortunately, given the central place accorded to this issue in the argument, this disclaimer appears more than a little disingenuous.

The second issue to be raised concerns the nature of the 'non-state' institutional structures, within which market is supposed to be given much greater scope. This issue is implicitly raised by the Report's rather awkward attempts to deny the logic, or existence, of its own politics. Its hesitation in pushing its 'night-watchman state' arguments to their logical conclusions, is presumably partially derived from a recognition that alternatives to state services and enterprises are structures which are extremely weak and potentially manipulable and rather different from those posited in a competitive, free market model. This certainly would be one way to reconcile the Report's central theme on the excesses and failures of government intervention, with rather extraordinary statements such as:

the vocation of planning ministries, is to become true priority setting agencies for development expenditures, respected contributors to policy discussions, and the training ministry for government economists.

It should be underscored that the question is not one of radical shifts in the social division of labour,

but rather of marginal changes. By shifting some activities to private hands, significant gains in output may be possible with relatively little sacrifice of sociopolitical objectives.

[World Bank 1981:33,37]

These statements might be combined with the previously suggested 'interpretations' of the NICs to recast the Report's arguments in a manner which would be more internally consistent and potentially plausible. This would argue for very extensive state involvement in the economy, but a state involvement characterised by high levels of technical expertise, employed to speed up and facilitate the particular economy's integration into the international market. Unfortunately the Report does not make that argument in any coherent manner.<sup>5</sup> Furthermore, it does not deal explicitly with the weakness of current non-state institutional structures, nor with the devastating effect which the current crisis has on them. It is a sobering thought that even with a strong institutional base markets are known to function very badly under extreme disequilibrium conditions.

If the Report were to develop and reconcile its arguments in some such way it would, however, have to confront the third and fourth issue to be considered, namely the nature of the 'technical expertise' required and the appropriate definition of 'efficiency'. These are not the self-evident and universally applicable concepts which the Report seems to imply.

## What 'Technical Expertise'? 'Efficiency' for What?

It is ironic that just when the 'orthodoxies' of technical economic expertise are more and more discredited in the industrial countries, they should be increasingly fervently preached to developing countries on the basis of a highly questionable interpretation of the NIC experience.

It is, furthermore, rather galling to see the World Bank's 'experts' point the finger at the inadequate technical expertise of African governments when in fact these same governments have relied so heavily on the 'expertise' of the Bank, and other external consultants. This is not to argue the *ex ante* plausibility of much of that advice. Given existing knowledge

<sup>5</sup> Some fragments may exist but not necessarily very efficient ones. Increases in relative prices and real purchasing power of export crops are advocated as generally desirable. Since the global price changes for these commodities have been in precisely the opposite direction, at least since 1977 (and, on current Bank projections issued just after *Agenda*, will remain so in the 1980s), this is hardly a simple appeal to unimpeded comparative advantage and free play of market forces. Whether it is a desirable form of managed market specialisation is a rather different question.

some was good, some questionable and some pretty clearly wrong. In retrospect most now looks much worse. The simple fact is that in the 1970s the world's economy changed to such an extent that a vast range of investment decisions made by 'accredited experts' have simply turned out to be unviable. Major corporations are spending much of their time and effort closing down, scrapping and rationalising facilities built quite recently. Some at least (eg Shell, Imperial Chemical Industries) have had the sense to call into question the nature of the models (the 'expertise'!), on the basis of which they made those decisions. It is about time the World Bank also reflected on the possibility that their 'expertise' has limits, which become more severe as the global economy suffers from greater and greater instability and uncertainty.

The Report's treatment of 'expertise' and of 'efficiency' is deeply problematic. It is ultimately and fundamentally derived from an equilibrium model of economics which implicitly assumes an essentially non-conflictive (Say's Law) world in which the market diffuses benefits even to the weakest link in the chain. In fact the Report is really nothing more than a relatively crude assertion of that view put forward as a remedy for Africa's present situation. While the Report does little to document or to articulate the claims of that perspective in respect to specific SSA contexts and countries, it will appear convincing to those who already have an over-riding faith in the market and/or in the incompetence of African states. For others it will appear as an eclectic and ideological argument full of internal contradictions and failing to face its own political implications in any coherent way.

### Faulty Solutions and Real Alternatives

The sad fact is that the 'solutions' to Africa's problems proposed by the Report are not essentially different from the advice the Bank has been imposing on Africa all through the period during which the current crisis took shape.<sup>6</sup> Their past impact on Africa has been more than a little ambiguous. Its future impact could well be nothing short of disastrous.

The inescapable fact is that the African economies enter the 1980s with structures which are simply not viable in the existing international context. This means that in order to function with any degree of

effectiveness, they require a level of imports which simply cannot be paid for. Borrowing to fill the gap represents a 'solution' so long as export markets, net foreign exchange earnings, productivity levels, growth rates, credit availability and real interest rates stand in a certain relationship to each other. Presently these relationships are hopelessly out of line and the result has been to increase dramatically absolute shortages, black markets, corruption, and breakdowns in utilities, transport and other services. It is both arrogant and meaningless for the Bank to assert in that context that, given the other parameters and irrespective of political considerations and problems, the way forward lies through a greater concern with technical expertise and a greater reliance on the market.

Such advice cannot be followed for any length of time under current circumstances because the social and political consequences of following it would be so dramatic that the policies would be devastated by the political whirlwinds which would be unleashed. As in the past these domestic political responses could then be blamed for the disasters which follow, rather than being seen as more or less direct consequences of the acceptance of the externally designed policy prescriptions.

Today the international market is in such disequilibrium that to work with equilibrium models is simply absurd. There is not full employment, and without full employment 'international trade' determines not only the pattern of specialisation, but also the relative distribution of unemployment, economic redundancy and starvation. Africa, with its heavy reliance on a limited range of primary exports and its rudimentary manufacturing capabilities, is a prime candidate for more than its share of the latter.

African economies can respond to the current impasse, by securing for a smaller proportion of their populations their now 'traditional' international life styles, at the cost of ever greater social and political polarisation and repression (eg Kenya in 1982); increasing tendencies to general economic disintegration (eg Zaire since 1975); and more violently anti-*status quo* coups (eg Liberia in 1980, Ghana in 1981). Alternatively some states — under present or new management — may abandon the hopelessly optimistic assumptions of the past, cut back on and change consumption patterns for elites drastically, and place primary emphasis on securing the population's basic necessities on the basis of a less volatile and more controllable domestic productive structure which operates with a lower import to output ratio. That would certainly require extensive state intervention, but different types of intervention, usually by governments which are differently constituted politically than those presently in power.

<sup>6</sup> The two clearest shifts are reduced emphasis on human investment and social service development and the almost total disappearance of absolute poverty elimination and distribution issues from the *Agenda*. However, the latter arguably never was embodied to a significant extent in actual Bank projects, while the former was either justified in somewhat forced external contribution to growth terms or treated as outside central production oriented economic policy frames.

These are not clearly defined, mutually exclusive options, but they involve significantly different emphases and their relative merits vary for different times and places. Technically one could distinguish them by the different ways in which each deals with the potential risks involved in a greater and greater reliance on international trade. In practice the second, more cautious option involves short-term sacrifices in periods of boom and expansion which make it very difficult to sustain at such times. If the international situation then deteriorates, the strengths of the more cautious approach may become apparent, but by then that option will usually have been pre-empted by the political consequences of earlier decisions.

For a very few it may be possible to borrow and export their way out of the current situation, but even that must be doubted. For the vast majority there is no such possibility. Meanwhile financial institutions are scouring the world to find borrowers to whom they can lend their plentiful funds with some hope of being

repaid. Even Africa would be considered for this role, if those repayments could be exacted irrespective of the social and political consequences. From their perspective this Bank Report theoretically makes very good sense, though the majority of bankers seem to understand that the possibility of such an option being sustained politically for any extended period of time is remote.

It is to be hoped that some international donors can be found to help some African states to pursue a less foolhardy, more sustainable and more equitable strategy for the 1980s, presumably on the basis of a radically different agenda. However, in the absence of appropriate political forces within recipient African countries such efforts too will fail.

Unfortunately this Report not only draws unconvincing conclusions, but fails to identify the real choices confronting Africa. In so doing, it has done the search for ameliorative action a substantial disservice.