Development dilemmas: The methods and political ethics of growth policy

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Reviewed by Paul Alagidede
Wits Business School, University of the Witwatersrand

Improving human welfare has long been considered a goal worth pursuing. Consequently, policy makers and practitioners have devoted an enormous amount of time and resources to promoting high standards of living. Over the past century or so, economics has established itself as the dominant paradigm of inquiry into the quantitative and qualitative changes in the areas of health and educational attainments, human capital development, resource distribution and environmental sustainability, among other societal objectives. Like many other actions in life, however, economic choices do not take place in a vacuum, and these choices entail costs. The sciences of morality, individual responsibility and character, institutions and culture, are important in shaping development policy by balancing the various choices with their costs. The philosophical and ethical foundations that underpin development policy are, thus, as important as the process of economic development itself. Balancing these is, however, challenging, and often leads to more problems than solutions. Such dilemmas continue to characterise debates in development studies and practice, and provide a strong case for a holistic approach to development policy that transcends mainstream economics to incorporate insights and values from fields as diverse as psychology, evolutionary biology, geography and political science, to mention a few. These dilemmas are at the heart of the book under review: *Development dilemmas: The methods and political ethics of growth policy.*

The editors, Melvin Ayogu and Don Ross, two leading brains in this field, have put together an interesting mix of chapters on various aspects of development policy dilemmas. The book, which emerged out of a development policy dialogue, offers the latest thinking on the topics covered and the diverse background of the contributors is an additional strength. A subject of this nature naturally lends itself to myriad controversies, since there is, as yet, no one-size-fits-all formula in the vibrant field of economic development. To this end, the chapters in this edited volume present contrasting views on the various themes, giving readers different perspectives on ongoing debates, while seemingly hinting at the importance of taking the middle road, as there is no optimal solution in going either left or right, east or west.

The book has three themes: part one covers the general perspectives of philosophy, economics and ethics; part two delves into special problems and applications; and part three provides new critical perspectives.

The first two contributions that open the book address various aspects of globalisation: Does globalisation lead to a ‘race to the bottom’ or a ‘rise to the top’? To what extent has globalisation changed the crucial economic imperatives facing developing countries today, in terms of growth, inequality, poverty, health, international trade and payments? Can countries participate in the globalised economy in an ethical manner, without necessarily sacrificing domestic goals? These rather loaded questions are addressed by Joseph Stiglitz and Robert Bates. Stiglitz's work takes a highly critical look at what one may call 'the ten commandments of neoliberal economic reform' imposed on crisis-wracked developing countries under the auspices of the International Monetary Fund, the World Bank and the US Treasury Department. The ten main points (*inter alia*, fiscal prudence, tax reform, market administered prices, liberalisation and deregulation of various aspects of economic prices) are meant to restructure the economies of developing countries, to enable them to arrest the decline in growth which characterised economic performance during the 'lost decade' of the 1980–1990s and to possibly bridge the gap between the developing and developed world (the famous 'catch hypothesis'). However, after more than two decades of reform the evidence is mixed. While this reviewer cannot point out all the nuances in Stiglitz's and Bates' contributions, readers who obtain a copy of the book would get a good sense of the debate in the first two chapters, especially regarding the pros and cons. Very briefly, Stiglitz points out some fundamental flaws in the arguments for economic liberalisation, which has been the mantra of the Washington Consensus. First is the proposition that foreign capital flows tend to gravitate toward more open and liberalised environments. Given the importance of capital inflows in bridging domestic resource gaps, openness therefore should matter for economic growth in developing countries. Second (and following from the first argument), countries that fail to liberalise will not attract capital. The flaws in the two points of view are apparent, and Stiglitz shows that evidence from China, among other developing regions, makes this argument untenable. China never liberalised by the standards of the Washington Consensus, yet it is the largest recipient of foreign capital flows. For most developing countries, liberalisation has thus imposed more significant costs on growth than the benefits advocated. The volatility of exchange rates with the attendant vulnerabilities of the export sectors; the significant dumping of goods from Western markets with implications for domestic manufacturers and job creation; foreign banks' entry and domination of domestic financial sectors with ramifications for small and medium-scale financing, among others, typically lead to a 'race to the bottom', according to Stiglitz. The chapter cautions developing countries against unbridled liberalisation and offers ideas for reform. Reform, should not, however, be looked at only from the point of view of the Bretton Woods institutions. Prudent and determined political decision making, Stiglitz argues, is *sine qua non* for entry into the globalised economy. This is the emphasis placed by Lawrence Hamilton, a contributor on the chapter on 'the political philosophy of needy and weak states'.

If Stiglitz points out what could be wrong with globalisation, Bates dramatises what could be right with the increasing integration of national economies. Globalisation makes the world a better place by enabling all of us to consume I-pads, Toyotas and telenovelas, which would otherwise not occur without it. The competitive pressures exerted by globalised commerce drive prices down, resulting in rising consumption levels and improved standards of living. The free movement of factors of production has improved global total factor productivity, and there is a better understanding, culturally, between East and West, North and South, as a result of globalisation. In contrast to the position that reduced expenditure may lead to reduced social service provision for those most in need of these services, and liberalisation being inconsistent with sound political governance, Bates advances reasons (from experience and historical trends) to indicate that liberalised trade regimes can indeed co-habit with big governments, and globalisation can, and does, lead to a 'rise to the top'. While agreeing that globalisation necessarily involves some costs, Bates believes that the benefits conferred far outweigh the costs, and that countries ought to position themselves properly to maximise the upside, while minimising the downside risks of globalisation.

After these two exciting and contrasting views on globalisation, the book continues with other contributions, focusing either on a particular aspect of globalised commerce (such as the role of international bodies and big firms) or on a specific country application where the arguments can be localised. Thus, while Don Ross focuses on the merits and demerits of the World Trade Organisation from a philosophical standpoint, and in the light of Peter Singer's book, *One world*, Nicoli Nattrass and Jeremy Seekings synthesise the arguments presented by Stiglitz and Bates, and focus more specifically on South Africa. The contribution by Alex Rosenberg raises the ethical issues of intellectual property rights held by big pharmaceutical firms and access to cheap generic drugs by developing countries. Readers would benefit from the three latter chapters, which address different dimensions of globalisation, be it at the country level by looking at inequality, growth, employment creation, markets and institutions or the effects of patents on knowledge creation, or at the wider level, by investigating the impact global trade pacts have on developing countries.

The theme on special problems and applications takes the reader into some of the weaknesses of mainstream economics, the philosophical and ethical underpinnings of the subject, and questions of methodology and policy. Should we take economists seriously in respect of what they prescribe? The consensus seems to be an emphatic 'no'. The opening chapter under this theme is written by Harold Kincaid, who looks at development economics and the philosophy of science. The chapter takes a tough fight to the doorstep of economists by pointing first to the inadequacies of neoclassical growth theory and its various extensions in explaining economic growth, and second, pointing to the role of non-economic factors such as institutions in explaining (under)development. The chapter not only points out the weaknesses of mainstream economics, but also posits an alternative philosophical paradigm for pursuing questions regarding economic growth and (under)development. Philosophically, Kincaid argues, one can approach a typical scientific endeavour by examining universal patterns and confirming these by means of universal inference, to arrive at a conclusion. This, according to Kincaid, is the approach taken by mainstream economists and the consequences have almost always been disastrous for society, the economy and the environment. For example, if long-run growth is determined outside the neoclassical model's assumptions, with a given constant savings rate, the economy will converge to a steady state rate of growth. And this would be driven largely by technological progress and the rate of labour force growth. In the steady state a country with a high savings rate and one with a low savings rate will experience the same rate of growth in output per worker. In practice, one hardly finds convergence locally and/or globally, yet neoclassical and new growth theories continue to dominate economic thinking. The other approach to the philosophy of science entails beginning with causes and then confirming by means of domain-specific knowledge and relevant arguments to arrive at conclusions. This, the author argues, should form the basis of a true philosophy of science, and economics would be a better discipline for toeing this line, rather than taking the former route. By focusing on the social, the legal and the rules that underlie economic transactions, one is likely to arrive at more inclusive, broad-ranging solutions to the problem of (under)development. Kincaid highlights the widespread use of cross-country growth regressions, which neglects parameter and country heterogeneity as a key drawback of mainstream economic analysis. This also fits in with the chapter by Jean-Jacques Laffont, who sees corruption – a typical institutional variable – as having a multiple equilibria effect on growth. If the philosophical underpinnings of development are critical, then the methods and data used in measuring development should be impeccable. This line of argument is echoed strongly by Hashem Dezhbakh's chapter which addresses a related phenomenon, namely the adequacy of the data employed in measuring development. Dezhbakh's chapter shows that the issues of measurement and extrapolation, missing observations and administrative intervention to reform data for political purposes, all detract from the reliability of economic data, and consequently the policy prescription that emanates from economic analysis. Although Dezhbakh focuses more on developing countries, the issues raised are relevant to all nations. Nobody could have judged properly the enormity of the Greek debt crisis, had the issue of 'doctoring' the numbers not come to the fore. And, more recently, a highly publicised error in estimation by two prominent economists, Kenneth Rogoff and Carmen Reinhart, raised questions about what can be trusted by way of empirical research and policy relevance. Reinhart and Rogoff examined the relationship between government debt and economic growth for a large number of countries over several decades, and concluded that GDP growth tends to slow down once government debt levels exceed a certain threshold. Their calculation put this at 90 per cent of GDP. This magical figure has been seized by many policy makers (without any serious thought) as a reference point for rolling out austerity measures. From the policy point of view, the results imply that restraining government expenditure could be good for growth once we are off the 90 per cent debt-GDP ratio. But what would be the effect of research that wrongly arrives at policy prescriptions for austerity? This is exactly what happened in this article, published in the *American Economic Review* (see Reinhart & Rogoff, 2010). A critical review of the article by a graduate student found data omissions, questionable methods of weighting, and elementary coding errors, among other problems (Herndon *et al*., 2014).

Thus, Dezhbakh's concerns are real. If the results reported by mainstream economics remain ordinary empirical exercises which are typically limited to academic interest, perhaps Kincaid and Dezhbakh would not have to worry too much, and the subject would be spared a great deal of criticism. However, mainstream economics has positioned itself as the main voice in matters of economic growth and development, and empirical results emanating from flawed foundations become templates for subsequent policy prescriptions. The issue does not stop with data problems. As Dezhbakh points out, there are several areas of statistical inference in the light of missing data and outliers, measurement errors and omitted variable bias that should be taken seriously when dealing with the peculiar situation of developing countries. The problems, highlighted by Kincaid and Dezhbakh, have been argued by Stilwell (2014), Obeng-Odoom (2013), Adu and Alagidede (2013) in this journal. Together, these contributions challenge mainstream economics and development theory, culminating in arguably the worst financial crisis in the global economy.

If Dezhbakh questions the methodology of economics, both Mike Berger and Daniel Hausman point to other inadequacies of economics as a subject. Mainstream economics makes a big case out of individual rationality. Hausman's key message is that the basic economic model of consumer choice is too simplistic, despite being elegant. Its emphasis on Pareto optimality and individual rationality ignores fundamental variables in decision making, and when overstretched, economics can unleash forces which are lethal to growth. He argues that, while the findings of economics should be taken as a starting point, most economists look at the predictions of their subject as an end in themselves. This is very worrying, particularly when dealing with a subject as significant as development. Writing with significant humour and wit, Hausman does a good job of pointing out philosophical questions that ought to receive attention in matters of development. While not dismissing the subject *per se*, he calls for a discerning look at all policies prescribed by economists. Berger contributes to this line of thought by bringing to the fore the inadequacies of economics alone as a subject that can explain the totality of human behaviour, stressing that economists can learn a great deal from disciplines such as psychology, evolutionary biology and sociology.

I find the book very interesting. The chapters in the volume reflect a wide range of opinions, and diverse views and approaches to development. The book is, thus, very suitable for disciplines as diverse as economics, political science, sociology and development studies, among others. The contributors highlight the importance of going beyond mainstream economics to consider the philosophical and ethical considerations underpinning development, welfare and redistribution. One criticism may be the over-concentration on globalisation, and rightly so given its importance, yet perhaps the title could have actually been 'Globalisation and its ethical dilemmas'.

A notable missing link is the institutional mechanisms that drive the processes of growth and development. Although mentioned briefly by some contributors, this important theme was given inadequate attention. A second edition of the book could take on the institutional aspect of development, and perhaps also invite contributions from other aspects of development dilemmas, particularly the behavioural school of economics that have already addressed a number of the criticisms levelled against mainstream economics.

All in all, this gives a balanced perspective, and in each chapter the authors toe a fine line between equilibrium-centric analysis and scholarship that emphasises contradictions and coarseness.

About the reviewer

Paul Alagidede is a Professor of Finance at the Graduate School of Business Administration, University of the Witwatersrand. He is the founding editor-in-chief of the *African Review of Economics and Finance* (AREF) and the *Ghanaian Journal of Economics* (GJE). Paul is the Executive Director of African Finance and Economics Consult (AFEC). He can be contacted at paul.alagidede@wits.ac.za

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