

# DEVELOPMENT IS BACK!

An interview with **Adebayo Olukoshi**

Professor Olukoshi is head of the United Nations' African Institute for Economic Development and Planning (IDEP). Ben Turok spoke with him at the Coalition for Dialogue in Africa on 29 November 2009

## THE LOGIC OF FINANCIALISATION

**Ben Turok:** We are here in Tunis for a multi-stakeholder dialogue on Africa and the Global Financial Crisis, supported by the African Development Bank, the African Union Commission and the UN Economic Commission on Africa.. You made a very powerful presentation, and I would like to run through some of the points you made.

First, you said that there should be a bias toward productive capacities and away from financialisation. What did you mean by that?

**Adebayo Olukoshi:** Well, if we look at the trend in global capitalism over the last few decades, we will see a global movement towards financialisation. Essentially, the financial sector has come to play an excessively dominant role in determining the direction of national economies and the broad development agenda.

**BT:** How does that financialisation actually work?

**AO:** One just needs to look at the way banking power, in particular, has been concentrated in the new wave of globalisation. It dates back to the late '80s and early '90s, when all of us suddenly were confronted with a new range of slogans constructed around "the need to globalise".

First came the wave of mergers and acquisitions in the banking sector itself. Second were measures introduced by the World Trade Organisation that involved the liberalisation of capital flows, forcing governments to not simply liberalise trade, but also to liberalise their capital accounts. Also, we were all compelled to introduce stock markets: what some refer to as "stock market capitalism". Not just for the advanced capitalist economies, no, but also for the so-called

emerging markets and even least-developed countries in Africa. Undergoing "structural adjustment", we privatise public enterprises – which are listed – and basically we are now available on a global scale for this new financial trade oligarchy.

**BT:** How is this situation qualitatively different from the way we used to talk about "finance capital"?

**AO:** In a sense, it's finance capital gone overboard. In the '50s, '60s and '70s, finance capital featured centrally in our debates because of the emergence of multinational banking capacity within the capitalist system. The rise of the multinational production enterprises was accompanied by a certain globalisation of financial capital.

What we have seen now it is the displacement of manufacturing and productive capital in favour of a financial oligarchy that trades in pieces of paper, and makes some fantastic profits.

As we know, the root of the current financial crisis is a very mindless kind of speculation, which was brought on by the very logic of financialisation. It really didn't take too much to see that this was going to burst. Early signs in Latin America and the East Asian crisis were dismissed as evidence of the "corruption of third-world regimes". The explanation given was of course completely different when the crisis hit Wall Street and the very epicentre of global capitalism. Nevertheless, we see that if we are basically trading paper, if we buy debt on paper and repackage it and sell it off to somebody else, it just becomes a cycle that reproduces itself, creating bubbles that don't stand on anything.

**BT:** This is what hedge funds and derivatives do.

**AO:** Some statistics indicate that the managers of these funds control even more resources today than the traditional banking institutions. And many traditional banks also needed to play the game, in order to stay in business. There was no longer any great interest in lending to manufacturing capacity, especially as industry also began to migrate out of the old Western economies.



**BT:** In South Africa, the banks are well regulated, but we find there are also hedge funds and derivatives investments.

**AO:** South African banks have been globalising in many ways. But even more than that, South Africa's broader macro-economic policy framework, by which trade liberalisation and a certain amount of capital account liberalisation has taken place, has exposed the economy more fully to these kinds of shocks. Severe pressure on the rand was the consequence of this exposure to global forces and its integration into the global trade system without adequate controls in place. The driving force of South African policy – to open only where you are strong enough to enter into this system – was essentially sacrificed in the context of the shadow adjustment programmes.

**BT:** “Shadow” adjustment programmes? Like structural adjustment?

**AO:** Exactly. Structural adjustment, not because a loan was collected from the IMF or the World Bank, but because the international financial system was needed to give South Africa a clean bill of health and so exacted certain macro-economic policies. People like Trevor Manuel became very instrumental in negotiating this shadow adjustment programme.

## “FRAGILE STATES” AND THE MYTH OF NEO-LIBERALISM

**BT:** Your contribution was directed to policy makers across Africa. What point were you making about reasserting continental sovereignty and domestic policy space?

**AO:** From the early 1980s, we witnessed a process, sometimes open and blatant, by which the policy prerogatives and the economic sovereignty of most African countries were simply confiscated and handed over to the IMF and the World Bank, who then began to set policy. At the height of this exercise of power, the international financial institutions were in a position even to dictate who would be the finance minister and the governor of the central bank of African countries.

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Effectively, therefore, domestic policy-making processes and institutions became irrelevant, and atrophied over time.

That situation has not changed radically, in spite of the fact that “structural adjustment” – and at least this is widely, officially, formally acknowledged – has shaped 25 years in the history of Africa. For most countries, that means that more than half of the period since they became independent was wasted on the regime of structural adjustment. We have never had anybody express remorse for all of this, but that is beside the point.

Now we are confronted with various proposals that are making the rounds. One is put forward by Paul Collier, who has become something of a guru in establishment circles both within Africa and outside the continent. He is calling for the establishment of a trans-national authority to “manage” the so-called “fragile states” of Africa – as if the fragility of these states was not directly connected to the erosion of the very basis of politics and policy-making.

If citizens begin to realise that there's really no point in engaging their governments, because policy is going to be decided in Washington after all, and the government only exists to repress and to stay in the good books of the Bretton Woods institutions and the G-7 countries – then of course you have *all* the recipe for conflict and you have *all* the recipe for alienation, you have *all* the recipe for *all* of the things that make governance an essentially impossible situation for most countries. I think that this crisis has exploded whatever is left of the myth of neo-liberal macro-economic policy-making and management.

Development is back. In the late '80s, the neo-liberals were so arrogant and so self-assured that they actually declared development dead. “No more planning,” they said. “No envisioning, no forecasting, no ambitions: just let the market fix everything. A few things might be corrected here and there, but the market is the best allocator of values and resources.”

That myth has been exploded, and there is no clearer evidence than the interventions – unprecedented in the history of capitalism – which we have seen governments undertaking from the United States through to Japan and even the United Kingdom. Sometimes secretly, sometimes openly...

**BT:** You are speaking of the stimulus packages.

**AO:** All those packages that have pumped money into the system to save capitalism from implosion. Keynes and Keynesianism were discredited by the neo-liberal economists. Now suddenly people are reading Keynes again and looking at Keynesian solutions to create jobs and to ensure that consumption is sustained and domestic market parameters are not unduly affected. All in the bid to stave off a recession.



**BT:** But not in Africa? Anybody who reads the *International Herald Tribune* or the *Financial Times* or the *Economist* sees the agonising reappraisal of economists and even decision makers in the West, but not in Africa.

**AO:** This is my point. I call it “a tale of two adjustments”. Africa was “adjusted” in the ’80s, in the same or even lesser circumstances. And the thrust of the adjustment policy – once the policy structures in Africa had been hijacked by the Bretton Woods institutions – was to implement massive deflationary measures on economies that were already in crisis.

Now we see deflation threatening the G-7 countries, and what do they do? They *stimulate* the economy. When this happens in the developing countries, oh, they say it’s all “corruption”, it’s “neo-patrimonial”, “bad governance” – all in order to justify deflationary measures that are imposed on the countries, which then drive them deeper into crisis and weaken the institutions of governance. This creates the fragility that is then used to justify the creation of an international authority that will “deliver services” in the “fragile states” of Africa!

**BT:** Penetrating our economies.

**AO:** Absolutely. This is what our policy makers need to be very aware of. And now they have all the arguments they’ll ever need – from the examples of the United States, of the UK, of Germany, of the leading countries – to say to them...

**BT:** Intervention.

**AO:** Absolutely. And we *will* exercise that right. To intervene, to regulate, to manage, according to a defined national plan and vision. And that plan and vision has to also include a strong component of social policy. What is the essence of being a citizen of our countries if there is no prospect for an improvement in livelihood or for young people to get jobs?

## NEW VISION, NEW PLAN

**BT:** In your presentation, you listed a number of policy initiatives that you would like to see African governments take up. Can you run through them?

**AO:** I would argue that, for most governments, the starting point is to begin to correct the consequences of 25 years of structural adjustment. It failed to achieve its goals, but we cannot forget that these measures were pursued and they did have consequences. Not the desired outcomes or the promised outcomes, but they did have consequences. Economic actors did respond to them, even if perversely.

So the situation in most African countries today is that the market measures or incentives that you might put in place to try to elicit particular kinds of responses – for example, using

interest rates to try to shift investment in a certain direction – do not get the desired or predicted outcomes, precisely because of this maladjustment. We need to *readjust* our *maladjusted* economies.

I’m saying that the time has come for many of the countries of Africa to understand – the politicians need to understand – that without a vision of national development and continental development, we can just forget any prospect that this continent will be transformed. We need to rediscover our capacity to envision and to train...

**BT:** Have you produced the vision yourself?

**AO:** I have a vision of a continent that would be united, and I have an idea of some of the bills we need in order to ensure that we get to that continental unity.

**BT:** Let me push you a little. You have been accused in the past of being good at criticising but not as good at offering alternatives. Imagine you were given the authority to outline a plan for Africa. Can you do it?

**AO:** I have never accepted that accusation. It is often made to avoid responding to criticism. I have been prepared to rise to the challenge of suggesting alternative ways of doing this thing.

**BT:** Give us a few.

**AO:** In the current context in Africa, including South Africa, we need macro-economic policies that will ensure, first of all, that national territorial administration exists and functions. This means that the public service and the public sector *must* be rehabilitated as part of the measures we need to reinvent the state in Africa.

The second element is that the macro-economic underpinnings of policy cannot be pursued as though they were completely superior to every other consideration in society. Larry Summers, as chief economist of the World Bank, once asked whether democracy was not an impediment to efficient markets. This is what gives rise to dictatorship in the name of market fundamentalism.

If the citizens in the revamped Africa say that they want democracy and they want welfare states, then economic policy should be constructed to produce those things. Not the other way, in which you squeeze social policy and create a “democratic recession” in order to accommodate so-called “correct” market policies. There is no such thing as correct market policies. Every market mechanism should be adapted to the circumstances of the country that wants to pursue market approaches to its economic problems.

And I’m not for one moment suggesting that the state in Africa is going to do everything. I don’t even think Africans want a “nanny state”. People want a state that is at least able



to create an environment in which their civic rights, their welfare interests, plus their right to engage in economic transactions in a stable environment, are assured. I think these are the kind of things that we often do not address.

Questions of redistribution can never be undertaken by the market. The market may be very good at producing and creating, but at the end of the day, there are winners and losers in any market transaction. How do you create a continent in which all of us can be proud to call ourselves Africans if you do not have a policy for redistribution, either through taxation or other means that may be available to a state manager?

So I want to see macro-economic policy that is not placed above everything else, but serves other values, other aspirations and ideals in society.

## PRODUCTION FOR DEVELOPMENT

**AO:** If that is agreed upon, then we need to begin to get Africa back to producing. Our productive capacity has been lost – on a continent that needs that capacity more than any other region in the world.

**BT:** Are you talking about agriculture in particular, but also industry?

**AO:** And the linkages between agriculture and industry. The classic things that we used to worry about, which will then translate into employment, into savings, and create an interconnectedness in social and economic processes.

**BT:** What would set that in motion?

**AO:** Again, the circumstances are different from country to country. I would say that in some parts of the continent it would be a question of engaging in serious land reform. In many countries, smallholder agriculture might be the engine – which the current policy environment does not support in any way. The massive agricultural exports that Africa achieved in the '60s and '70s were driven in large part by smallholder agriculture. People tend to forget that now.

**BT:** Would you say that this productive activity would be directed at exports or the domestic market?

For most governments, the starting point is to begin to correct the consequences of 25 years of structural adjustment.

**AO:** I would argue very strongly for a combination. We need to develop the home market in most of our countries. This is one of the things we have not done effectively.

Perhaps it is also connected to the absence of a vision for the continent. I don't see how you can develop as a people if you don't have a vision of where you want to go. Let us not argue whether it is realistic or not; we often pursue measures without being absolutely clear how it will play out in the long term. Imagine that a country like Nigeria, with a population close to 200 million, is not able to produce! Even if you capture just 50 million of that population with disposable income, that's a huge market. And then just think of an integrated economic space in West Africa or southern Africa!

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**BT:** But why have local capitalists not done this? After all, markets are what they look for.

**AO:** The incentives have to be right. Say for instance I want to produce paper in Nigeria, and I'm looking at the market potential for paper in West Africa. ECOWAS is there; there are a few tariff and non-tariff aids...

**BT:** No transport costs worth talking about...

**AO:** All the so-called comparative advantages are on my side for this kind of thing. And yet, in spite of all of this, I go to the bank – which is, after all, what finance capital was supposed to do in the circuit of production – and I find that the terms of the loan will ruin me even before I start.

**BT:** Why is that?

**AO:** Well, the interest rates have been deregulated.

**BT:** So the banks don't want to make money out of productive effort?

**AO:** No. It's not quick money. It comes back to what we were saying about financialisation. The incentive structure doesn't encourage anybody to do anything long-term. That is why, in cities across our continent today, apartments that are comparable to any you might find in New York or Melbourne or London are being built, and the price tag is in foreign currencies.



**BT:** And so the turnover of capital is really not linked to production or social development.

**AO:** That is the crisis.

**BT:** Marx should rewrite his book.

**AO:** Absolutely. That is the crisis on the global scale *and* within many of our countries, and this is precisely the problem which we need to correct. Don't forget that one of the first targets that the World Bank and the IMF attacked in most of our countries was the development banking institutions. National industrial and development banks were ubiquitous, alongside the marketing boards and other institutions in the development process. They were all attacked and disbanded, right?

**BT:** Including South Africa. We closed down all our marketing boards – but what the farmers in South Africa did was to secretly go and create their own private ones!

**AO:** *Voilà*, they organised themselves!

These are the kinds of issues we need to confront. None of the so-called “mitigating measures” that the World Bank and IMF put forward to cushion the costs of adjustment ever had any significant impact. We need to bring development thinking back into the policy process. We need to address issues of social policy much more centrally, and not treat them as a residual category. And we are challenged to understand that integrating social policy within the macro-economic strategy actually helps growth and development, and not vice versa.

## USELESS RESERVES

**BT:** Overall, Africa has a huge pool of capital reserves, bigger than India's. Why is it that this resource is not mobilised by anybody?

**AO:** It is mobilised, but wrongly.

Most of our countries – again as part of the adjustment legacy – have been encouraged to accumulate reserves, enough to

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provide for a six months' cushion. So you look at the totality of your import needs, or at least the most essential things for keeping the economic engine running, and you accumulate a six-months' equivalent.

**BT:** It's something like 300 billion dollars across Africa.

**AO:** External reserves, coming from export receipts and the like. The way things are in our continent now, it does not matter if the schools are all collapsing, the roofs are blown off by a rain storm, the roads are all in a state of disrepair. Just accumulate the reserves

**BT:** Then your credit rating will be okay.

**AO:** Yes, because what is the purpose of the reserves? It is to guarantee that you can pay the debt. It's to guarantee that when foreign investors need to take their money out – they come and invest in quick things: stock markets, for example – you've already opened up your capital account.

For example, say the people who are running some equity funds sit in London and say, “Hmm, there's something interesting about Ashanti. Let's speculate.” Then they all come in; it's a herd mentality. They shoot up the price of AngloGold Ashanti on the Johannesburg Stock Exchange. It goes through the roof, and then they say, “Time to take profits!” And, again like a herd, they all go and take profits at the same time. Suddenly the Reserve Bank is confronted with a huge demand for foreign exchange that needs to be transferred to London, to New York, and the rest. That can cause a shock if you don't have the reserves.

So these reserves are not used in a way that feeds into a productive logic. Infrastructure is decaying before our eyes. Our hospitals are in a state of shambles; you go there to die. And yet the central bank governor beats his chest and says, “We have 60 billion dollars in reserves. We have never done better in our history.”

**BT:** And it's front page news that we are doing so well.

**AO:** And the conditions of living, the structures of production...

Electricity cannot even be supplied in some of these countries. We are sitting on 60 billion dollars of reserves when an industrial estate goes without electricity for two or three weeks, and start-up capital has to include your own generating sets. How can you be competitive?

**BT:** In Nigeria, the rich people have their own transport and water supply.

**AO:** Everything. The essential role of the state has been completely subordinated to this logic of serving finance capital and its speculative interest, and ensuring that things work for *it*.



A certain middle class is connected to this kind of economy whose logic is a consumption logic. They just consume. And they are footloose; they cross borders. They say they are looking for “value” and they don’t care where the product comes from, if it is China or wherever. In the meantime, you import cashew nuts when your own cashew nut plantations are not supported.

**BT:** Are there other kinds of capital flight?

**AO:** The most important and the most worrisome one for me is the fact that the investing classes in Africa do not themselves have incentives to invest in Africa. They are taking their money abroad. Increasingly, from what I know on the Nigerian side, they are investing in Dubai, in the Emirates, they are buying shares...

**BT:** So there’s no patriotic bourgeoisie.

**AO:** It’s gone. This speculative bourgeoisie? (laughs) This financial bourgeoisie can never be patriotic!

## POLICIES MAKE POVERTY

**BT:** You are also critical of the Millennium Development Goals’ emphasis on poverty. Could you explain that?

**AO:** In the context of all of the things we have discussed – the erosion of the productive capacities of African economies, the decimation of institutions of public policy-making and planning, the hobbling of the states, *all deliberate policy strategies that were pursued by the neo-liberals* – we have a situation in which the only game in town is “poverty alleviation”. Every day, these policies are generating poverty. And then all these high-minded international people are saying, “We have to *help* Africa”? Maybe the solution is to tell them: “Do you mind? Just leave us.” Let’s sort ourselves out.

**BT:** But if you say “leave us”, what happens in a country like Malawi or Mozambique, where at least half their budget is aid?

**AO:** True. But Malawi was not always aid-dependent. What led Malawi into this situation? We need to go back to the reform – so-called – of the agricultural sector of Malawi. The collapse of the Banda regime and the efforts to dismantle his dictatorship were used as an opportunity to dismantle everything that would have given rise to a proper agrarian middle class in that country.

**BT:** Would you suggest a steady reduction of aid dependence?

**AO:** It has to happen. I think for countries like Malawi, the best bet would be a regional agreement. Quite clearly, in its situation of dependence, there is no way the central bank

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can defend the Malawian kwacha. Even if the president of the World Bank himself was elected the governor of the Bank of Malawi, the structure in place is simply not going to be in favour of the country. As things stand today, Malawi is more or less governed by DFID [the UK’s department for international development]. The power and influence of DFID officials – some of them straight out of school – is so massive and so unacceptable that maybe Malawi would even have a lot to gain within the broader SADC context.

You know, the current president of Malawi did something that actually saved the country from a severe food situation when he defied the World Bank and the donors. He said, “No, we are going to import fertilizer and we are going to sell it to our peasants at a subsidised price.” All the experts rounded on him, but that’s why he won the election. The rural farming community recognised that, for the first time in a long time, this was something in their favour. He subsidised seeds and fertilizer.

**BT:** Which was totally against structural adjustment.

**AO:** And they *really* criticised him for it. Then two years later, the World Bank said it was just as well he didn’t take their advice because now, in the southern African food crisis, Malawi is at least one country that is doing relatively well.

## FINANCING DEVELOPMENT

**BT:** What kind of policy do you advocate for development banking? What sort of development banks do you want to see?

**AO:** It’s absolutely important for us late industrialisers. We only need to look at the experiences of a country like Japan, which was the first to play “catch up”, to see how the financing of long-term projects will unleash the economic and social potentialities. Even the political opportunities to extend democracy require long-term financing.

**BT:** “Long-term financing” is how you define development banking?

**AO:** That is an integral element – and it’s not simply short-term loans that are refinanced on a six-monthly basis.



**BT:** And are these banks recovering costs, or not?

**AO:** In most cases they are.

**BT:** How are they capitalised?

**AO:** The role of the state in their capitalisation is absolutely important. No developmental state is worth its name if it does not put development banking institutions in place to ensure financing for enterprises, particularly in the productive sector. I'll give you the example of the *chaebols* of Korea, which had access to subsidised loans<sup>1</sup>. The commercial rate then was around 15 percent. If you had a worthy industrial project, such as Hyundai or Samsung, you approached a development bank and the government was prepared to stand guarantee for you and allow you to get that loan at 7 percent. Half the rate.

**BT:** And over a long period?

**AO:** Yes. And the repayment terms were such that it enabled them to reinvest in order to develop innovations, all those things.

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**BT:** So the "cost recovery" catchphrase is a bad one?

**AO:** The World Bank used the notion of "cost recovery" to camouflage an increase in prices and the removal of cost subsidies. Subsidies are, in fact, integral to any process of industrialisation. They can be direct or indirect. Tariff policy is another way of subsidising. Say, for the next five years, we are not going to allow cotton and textile imports, except at the duty of maybe 25 percent.

You also give your local textile producers a timeframe, because there has to be discipline. It's not as if development banking means you have the right and the freedom to just mess around. No, no, no, no. Corporate governance has to be serious. The investors are not to just help themselves to the resources and buy yachts and private jets and all of those things. The waBenzi mentality! No, it's serious business, and the same thing goes for the agricultural sector.

## THE FIRE IN US

**BT:** What you say makes so much sense. Why is this not popular across the continent, even among progressive intellectuals?

**AO:** I think in many ways we've lost something on the continent.

**BT:** Lost the battle?

**AO:** We've lost something. Maybe not the battle, but I think we've lost the fire in us.

I see many circumstances that could have produced a pessimism of will and intellect and a certain *laissez-faire*. Part of it is bad leadership. Many of us, including progressives, have been the victims of bad leadership, whether directly or indirectly. You begin to ask yourself what the point is. In some cases, when we are trying to get away from bad regimes, we also start to embrace bad economics or look for shortcuts. We build alliances with external institutions that have their own separate agenda and are actually more powerful than all of us combined. And we lose the plot in the process.

**BT:** Is it coming back?

**AO:** I hope so. This may be the significance of the crisis that began in the US in 2008 and spread through the more advanced economies. The end of the Cold War was marked with such triumphalism in the West. That was when five things were declared dead, by Fukuyama and others. They said it was the end of history, the end of ideology, the death of geography, the death of development and the death of inflation. Market capitalism was the only way. All of that has been shattered now.

**BT:** Do you think the revival of China and India and Brazil is going to help?

**AO:** Well, those countries have certainly revived themselves by breaking all of the rules of neo-liberalism. That is good news, and it connects back to what we said about policy space.

**BT:** Will it give Africa some impetus and hope?

**AO:** It should, it should. Clever policy makers will look at the ways China and India employed selective opening to good effect, to prepare them for entry into the global system. That's what we need to do in Africa.

### NOTE

1. In Korea, a *chaebol* is a conglomerate of businesses clustered around a parent company, often owned by one family. 財閥

