

IAFF 6101

International Affairs Cornerstone

Lecture 7:
Development and International Policy
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Development and IR

- Development has always had an internal logic.
 - Why do some countries grow quickly and others not?
 - What can we do to help countries grow?
- But also an international relations aspect.
 - Countries rarely help others develop for purely altruistic reasons.
- This class – to study the relationship between the two.

Themes of Class

- Development and security – initial arguments.
 - Rostow and dependency theory.
- Why development wasn't working – new debates.
 - Emergence of Washington Consensus.
 - Alternatives – focused on governance and corruption.
- Current arguments.
 - Should we be engaged in aid at all?
 - Should we be pushing for more room within globalized system?
 - Should we look to new tools (experimentalism etc)?

Origins of Modern Aid

- Modern US debates about international aid date back to post World War II period.
 - Earlier Western arguments mixed up with missionary activity, *mission civilisatrice* etc.
- Focused initially on practical question of how/whether to help Europe recover from war.

Liberal and Realist Perspectives

- Liberal justification for aid.
 - We are all better off in a world where everyone is growing.
 - Security benefits (peace) and economic benefits (trade).
- Realist justification for aid.
 - Under *limited circumstances*, aid to those with shared interests can be justified.
 - May help build up allies (but problems of relative gains).

Marshall Aid Program

- Intended to help economies of war-ravaged Europe.
- Went together with creation of 'Bretton Woods' institutions.
- Marshall Plan pumped US\$13 billion into Europe between 1947-1951.
- Some humanitarian motives – but clear, underlying political rationale (strengthening weak European states v. Communism)

1950s and 1960s Debates

- Fundamental question of development – why do some economies grow more quickly than others?
- Simplifying dramatically – 1950s and 1960s saw two competing paradigms trying to answer this question.
 - *Modernization Theory* – stressed need for internal reforms.
 - *Dependency Theory* – stressed need to remake world economy on more equitable terms.

Modernization Theory

- Exemplified by Rostow's influential article.
- Saw the problem of growth as one involving internal changes to the market.
 - Different stages of growth.
 - Move from agriculture.
 - Stress on few sectors amenable to industrialization.
 - Internal victories for modernizers.

Domestic vs. International

- Rostow's argument not really an international one – focused on *domestic conditions* for growth.
- International factors only relevant as external spur.
 - Shock of foreign conquest.
 - Tutelary positive examples.
 - Stirrings of rivalry.
- But implied role for aid in helping develop industrial sectors.

Dependency Theory

- Borrowed from Marxist (Lenin) and pre-Marxist (Hobson) theories of imperialism.
- Saw problem of development as bound up with world-wide system of capitalism.
 - Core countries (industrialists who reaped most benefits).
 - Peripheral countries – condemned to marginal existence producing basic inputs.
 - Semi-peripheral – stranded between two.

Domestic v. International

- Implication – that real development only possible through transformation of system.
- For individual states – best option was *protectionism* and *import substitution* for industrial goods.
 - Weaken domestic regressive forces.
 - Allowed them to start to escape logic of international dependency.
 - Perhaps, over time, start to remake logic of international system.

Political resonances of debate

- In Cold War context – not a politically neutral debate.
- Modernization theory explicitly intended as an alternative to Marxism.
 - Rostow had second career as Vietnam hawk.
- Dependency theory – intended to remake American hegemony from beneath.
 - Had strong influence in Latin America.

Creation of USAID

- USAID act – in 1961.
- USAID's rationale in providing aid heavily influenced by Rostow.
- Also had a security rationale.
- John F. Kennedy :Economic collapse of developing countries “would be disastrous to our national security, harmful to our comparative prosperity, and offensive to our conscience”
- Later bilateral aid agreements often linked to military cooperation.

Early Western approach to aid

- Both bilateral and multilateral (via e.g. World Bank) aid built on Rostow's theories.
- Focused on spurring industrialization – agricultural sector ignored.
- Strong collaboration with local state.
- Emphasis on big infrastructural projects – roads, dams etc.

Problems of early theories

- Neither modernization nor dependency theory seemed to spur development.
 - Modernization theory – produced mediocre growth in Latin American countries that tried to implement it.
 - Dependency theory – import substitution a failure, and examples of India and China an embarrassment.

Development and end of Cold War

- 1990s saw collapse of Communism.
- Four-fold consequences.
 - Increased pressure on overall aid budgets.
 - Efforts to rethink development and aid in former Soviet bloc.
 - Partial release of aid from geostrategic considerations.
 - Enhanced power of conditionality – e.g. on democratic institutions.

Two New Schools of Thought

- Collapse of communism had consequences for both politics and ideology.
 - Increased stress on globalization
 - Narrowing of spectrum of 'legitimate' debate.
- Cleared the way for two new approaches.
 - Development through 'Washington Consensus.'
 - Emphasis on institutions and governance.

The 'Washington Consensus'

Washington Consensus Policies: Williamson's 10 principles

- 1) Fiscal discipline
- 2) Reordering public expenditure priorities
- 3) Tax reform
- 4) Liberalization of interest rates
- 5) A competitive exchange rate
- 6) Trade liberalization.
- 7) Liberalization of inward foreign direct investment.
- 8) Privatization
- 9) Deregulation
- 10) Property Rights

Reordered consensus (Inder Sud)

Macroeconomic Stability

- Fiscal discipline
- Reordering public expenditure priorities
- Tax reform

II. Encourage Private Investment

- Liberalization of inward foreign direct investment.
- Privatization
- Deregulation
- Property Rights

III. Promote Exports

- A competitive exchange rate
- Trade liberalization.

IV. Deepen Financial Sector

- Liberalization of interest rates

Institutions and development

- Second approach emphasized domestic *institutions* as key to growth.
 - More purely academic – initial impact in IOs was limited (unlike Washington Consensus (Babb) no big states sponsoring it.
- North – neoclassical economics doesn't cover dynamics and transaction costs.
- Institutions – 'rules of the game' determine relative rewards and transaction costs.
- Countries with appropriate institutions will have much higher growth.

Key institutions for North etc

- *Sound property rights* (lowers transaction costs and allows securitized loans).
- *Rule of law* – Limited state and effective legal system lowers risks of contract.
- *Stamping out of corruption* – lowers transaction costs and improves state decision making.

Role in 'Structural Adjustment'

- Washington Consensus played key role in IMF decision making.
- Many countries (esp. in Latin America) had difficulties borrowing on international markets in wake of earlier problems.
- IMF demanded 'structural adjustment' in return for bailout loans.
- Fundamentally reshaped politics in affected countries.

Problems with structural adjustment

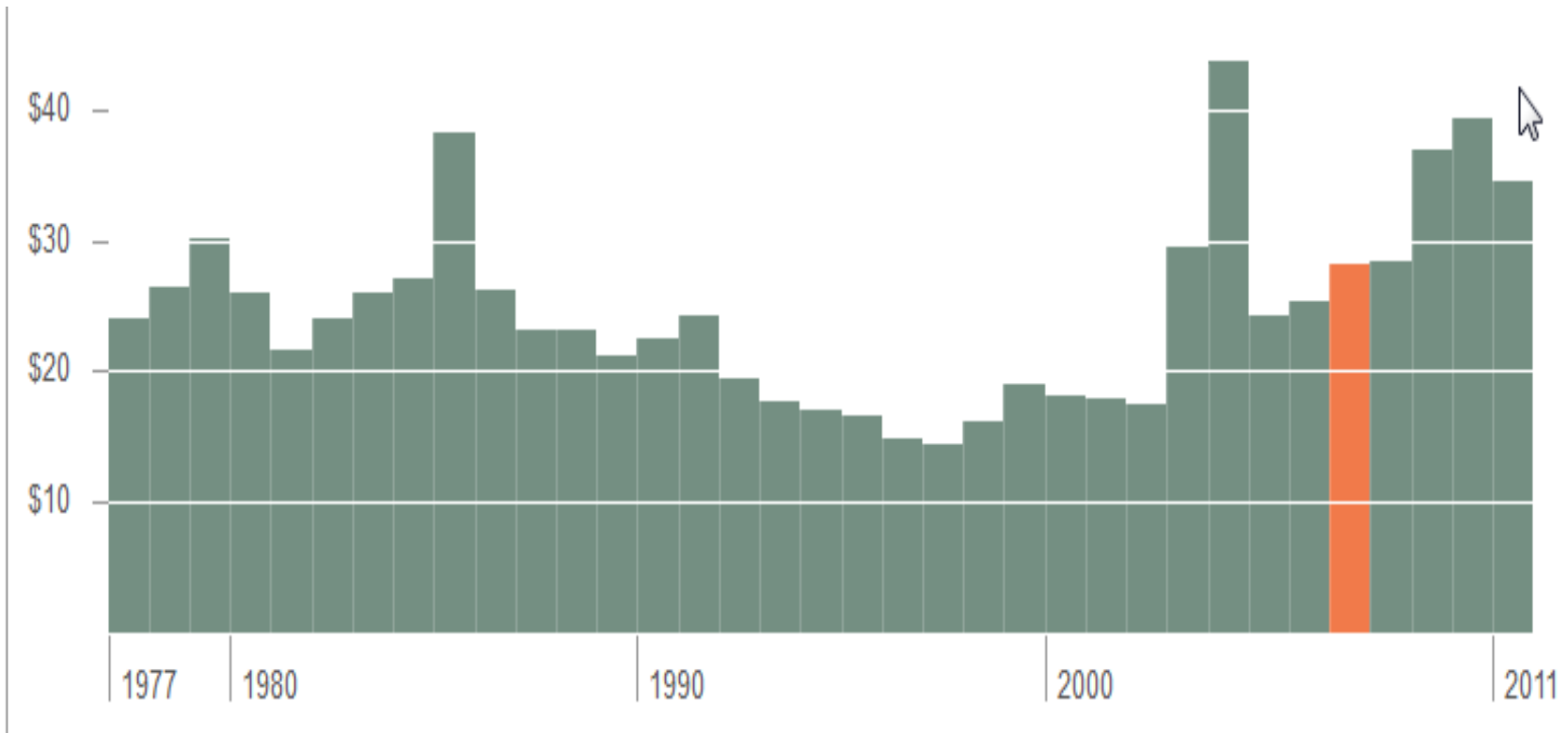
- Politically controversial – seems neutral but can have sharp distributional consequences.
- Difficult to sustain over time without deep political intervention.
- Perhaps didn't work as well as hoped in putting countries on more sustainable economic path (Easterly).
- Washington Consensus didn't appear correlated with economic success (Rodrik).

The Governance Turn

- More recently, World Bank and IMF have turned more and more towards 'governance' issues (code word for quality of government).
 - Seek to address (gingerly) problems of corruption.
 - Emphasis on engagement with NGO sector.
 - Emphasis on micro-level projects, consultation, better control of where the money goes.

Current Debates over Development and Aid

- Something happened to US aid levels after 2001 ...



New Security Rationale for Aid

- Problems of failed states.
 - NSC 2002 - “America is now threatened less by conquering states than we are by failing ones”
- Fallout from Iraq.
- Need to secure support from strategically important states for ‘war on terror.’
 - Reduction in leverage for non-security goals (Afghanistan).

But Security Consequences Uncertain

- Aid may sometimes weaken states rather than helping them.
 - Can prop up corrupt and unpopular regimes in absence of domestic support.
 - Can possibly prolong civil wars.

New debates about aid and development

- (Partial) eclipse of Washington Consensus.
- Politicized aid likely to continue.
- But broader questioning of rationale for relationship between aid and development.
 - Libertarian critique – should we have aid at all?
 - Leftwing critique – should we be pushing back on globalization instead?
 - Social scientific critique – bold and persistent experimentation!

Easterly – Was Aid a Waste of Time?

- Basic claims
 - We don't know why some countries grow, while other countries don't, despite decades of speculation.
 - Economists as experts – not so much.
 - Aid may worsen democracy, bureaucratic quality, rule of law and corruption.
 - No accountability or feedback from the poor.

Rodrik – Experimentalist Development

- Rodrik – presents social democratic argument for development through loosening of globalization.
 - Like Easterly, points to problems of World Bank, IMF etc in picking winners
- But argues instead for a *loosening* of bonds of globalization, esp. in trade.
 - Increased policy space, not market access.
 - Would limit the ethical fallout of globalization.
 - Allow for greater experimentation to see what works.

Current Questions

- Development a key policy problem.
 - But one where there is little agreement on how to solve it.
- New approaches point to different kinds of experimentalism.
 - Easterly – libertarian/free choice.
 - Rodrik – National level experimentation.
- But unlikely to unseat Washington Consensus.

But Also Unresolved IR Problem

- Why should we be engaged in development aid in the first place?
- For constructivist reasons?
 - Have norms changed since missionary era?
- For liberal reasons?
 - Need to know more about how aid promotes economic growth.
- For realist reasons?
 - When does it promote security?
 - Should we care about long term consequences?