

LIBERALISATION IS FLAPDOODLE

Dutch development economist Louis Emmerij (born Christmas Day 1934) is a true cosmopolitan: "I studied in France, Italy and America. I worked in France, Spain, America, Yugoslavia, Argentina, Kenya, Sri Lanka and Switzerland." In between he lived in the Netherlands, where he was Rector of the Institute of Social Studies in The Hague from 1976 to 1986. Before that, he served six years as the Director of the World Employment Program of the ILO, and afterwards until 1992 he headed the Development Centre of the OESO in Paris. Until his retirement in 1999, Emmerij was Special Adviser to the President of the Inter-American Development Bank in Washington. Since then, he has been working on the United Nations Intellectual History Project.

What is your definition of globalisation?

There are two schools of thought. The first says that globalisation is an old phenomenon. Towards the end of the nineteenth century world trade became more widespread and globalised; international investment went into Latin America to for instance build railways, and to other parts of the world. So there is really nothing new under the sun. I do not believe that. I adhere to the second school, which says that there is most certainly a new issue, among others because of new technologies. Financial flows have become much faster and more globalised. Multinationals have given international trade a new face. There are large mutual cultural penetrations in many regions. A quantum leap has been made, which is new in its intensity.

You are a development economist. Can you explain this economic globalisation further?

It mainly involves a combination of multinational companies, liberalisation of international trade, and liberalisation of flows of finance and capital. This liberalisation is being imposed by western nations. The WTO, the IMF, the World Bank and the OESO-countries all say now that liberalisation (plus deregulation and privatisation) is the answer to the development problem of the South and the countries in transition in Eastern Europe. That is flapdoodle. There is not a single industrialised country that has developed itself without a temporary spell of protectionism. Not even England in the nineteenth century. That seems to have been forgotten. You can check that, empirical studies have been written about it. You should also, and maybe even especially, read Friedrich List. List was a German who emigrated to America, came back as the American consul to Leipzig in 1834, and then in 1841 wrote his famous book about liberalisation versus protectionism: "Das Nationale System der Politischen Ökonomie" (The national system of political economy). He copied that from Alexander Hamilton, the first American Minister for Finance under President George Washington. Hamilton had seen straight away that the United States would not be able to compete with English industry. So they would have to introduce trade barriers. Up until the Second World War America was one of the most protectionist nations. This has all been researched and demonstrated, but not a bit of historical awareness remains nowadays. Academics ought to know better. And politicians have their own agendas.

Many countries feel compelled by powerful institutions and powerful industrialised countries to liberalise, but that does mean that their own economic development is frustrated and obstructed badly. Countries that are already strong benefit most.

The idea of trade liberalisation is based on the assumption that liberalisation will force all countries to produce as efficiently as possible, and to produce those goods they can produce best, through their specific knowledge, climate or location.

That is the rationale behind it. And also that protectionism would cause stagnation in the economic and industrial structure. Which is correct, when it lasts too long. That was the case in Latin America. CEPAL, the economic commission of the UN for Latin America, advocated in the fifties and sixties the strategy of import substitution. Through protectionism the Latin American countries would start to produce what they imported until then. But CEPAL-economist Raul Prebisch always added: you have to move the goalposts on time. East Asia did that. Latin America did not.

What about a country like Chile, to stay in Latin America? There they started liberalising in 1973 already. It is now seen as one of the best performing countries in the continent.

That depends on how you look at it. Chile is doing well in terms of exports. But what does it export? Still primary products like wine, copper and fish. Hardly any high tech or modern industry. So how long can that last? It is an example of short term thinking: Chile has “developed” itself short-term through liberalisation, but not in a sustainable manner. South Korea is a totally different case. The Koreans found themselves a niche. The paradox of East Asia is that it is now touted as the success of liberalisation, while in fact the direct opposite has happened there. They are THE prime example of everything everyone opposes now: a successful planned economy, which only started liberalising at a later stage, when they were strong already. Until they joined OESO in the nineties the Koreans had capital controls, and just like the Japanese they planned and subsidised their industry. In 2002 Cambridge economist Ha-Joon Chang published a book in which that is described: “Kicking away the ladder” – a sentence from the book by Friedrich List. The title refers to the fact that the first industrialising countries “climb the ladder” through a protectionist period. Once they have reached the top they start liberalising. Next, other countries come up behind them, and then the top ones kick away the ladder and say: you have to liberalise straight away.

So why do so many people promote that?

As I said: academics seem to have very little historic awareness, and just go round in circles in the parrot circuit. From the side of the politicians it is a mixture of egoism, ignorance and acting in the ultra-short term, without vision. We just kick away the ladder. We don’t even practise ourselves what we preach, by maintaining agricultural subsidies in Europe and the US. If countries want to develop, they must be given affirmative treatment. That is not happening in the least. Globalisation is a totally asymmetrical event. It is old hat, but it can’t be repeated often enough. That is why I was really pleased with the reaction by the new coalition of developing countries led by Brazil and India, at last year’s world summit in Cancún. The promise from Doha, that the OESO countries would at last start to do something about those subsidies, has still not been fulfilled two years down the line, so those developing countries broke off the negotiations.

And if we indeed do what we preach, so if there really is completely free trade, is everything then solved?

Wait a minute. We have to set the example. After all, it is us who are at the top of the ladder. We have to help the poorer countries to climb up, by allowing temporary protection against the force of the high-tech industry and the service sectors of the rich countries. We are strong, and we have to leave the ladder in place.

How do we translate this into practical policy – say by the World Bank? It is said that the World Bank does no longer blindly disseminate the Washington Consensus (comprising a set of “basic rules” for “good” economic policy, consisting mostly of liberalisation, privatisation and good governance), but has now definitely shifted position and follows a more gradual policy.

World Bank, IMF and WTO are still in liberalisation mode. But there is finally a dawning realisation, also within these institutions and with people who sympathised with the Washington Consensus, that these policies ought to be adjusted. And, of course, that the Washington Consensus is more than liberalisation of trade. For the Inter-American Development Bank (IDB) I organised a big conference in 1996 on the Washington Consensus in Latin America. During that conference it was heavily criticised, among others by the Indian Cambridge-economist Ajit Singh. Ajit Singh asked the audience, among who was John Williamson, the inventor of the term “Washington Consensus”, and also the well-known Chilean economist Andres Bianchi: “How long do we still have to continue with policies based on the Washington Consensus? Until you say that they have failed?” The unanimous answer was: “We need another five years to show results.” And now we are eight years down the line! Meanwhile Fujimori is in Japan, Hugo Chavez in Caracas, Argentina went practically bust

Can the failure of Argentina then be blamed on the failure of neoliberal economic policies?

What else do you want to blame it on?

Corruption, for example?

Don’t we have corruption here too? France is corrupt, Italy is corrupt, and don’t even talk about America. And they are all still developing.

In the early nineties Domingo Cavallo was Minister of Finance in Argentina. Cavallo was a great believer in the Washington Consensus. He introduced a policy in which the Argentine peso was linked to the US dollar: one dollar to one peso. The semi-dollarisation of the Argentine economy therefore, in order to combat the extremely high inflation. I was at the time the only one in the IDB who said to my good friend Enrique Iglesias, the president of the IDB: “This is going to be a catastrophe! There is no country that can keep this up.” “Ah, Louis...,” they said. And the first couple of years it went like a bomb. But when the dollar rose, the peso rose along. So the Argentine export industry went to damnation. The longer you cling onto a fixed

exchange rate, the more difficult it becomes to disentangle yourself. Of course it was mainly meant to tame the mega-inflation. And the fanatics of the Washington Consensus – a finally shrinking majority – will say what they already said at my conference in 1996: that the policies in Argentina were not executed well enough and not long enough. Now that is a strange statement when you remember that in the vilified sixties the whole of Latin America, Argentina included, had an extremely high growth rate. Without liberalisation, without dollarisation, but with the same corruption!

You were the adviser of Enrique Iglesias, the boss of IDB, and a far from dumb man. Were Iglesias and the IDB – you could call that the (independent) Latin-American little sister of the World Bank – in the nineties not also supporters of the Washington Consensus?

There are always two banks. That goes for the IDB and also for the World Bank. On the one hand you have the World Bank of the speeches of president Wolfensohn, of the World Development Report, of the research department. There you often hear very interesting noises, which also go against orthodoxy. On the other you have the bank of the bankers, of the boys and girls who pass on the money. And that is a totally different bank. That is still the bank of the rock-hard conditionality, of the orthodoxy.

The counterargument of the World Bank is that this shift is a matter of time. Reforms are instigated from above, and it takes a while before that has filtered down completely to the lower echelons.

Bollocks! I have been around for a couple of years now. Robert McNamara was one of the strongest managers I have ever known. He led the World Bank for thirteen years, from 1968 to 1981. A very interesting period, during which he embraced the “basic needs” doctrine, and gave the famous Nairobi speech. He believed in fighting poverty. The poorest forty percent of the world population had to be carried along in the rising tide. McNamara wanted to merge those two “banks”. He went after those bankers! They dived under their desks and McNamara almost literally dragged them out from underneath: “This has got to be done!” Well, it did happen to an extent, because when you have an adversary like that... But he had barely left or it stopped again. I once wrote a paper about that phenomenon, and was able to show statistically that there was some movement in those thirteen years. There was more money lent to agriculture, more was done for the poor, more in the informal sector. But it was little, and the backlash after 1981 was overwhelming. That was of course also the start of the Washington Consensus.

But now you see signs of the end of the Washington Consensus? What will replace it?

One: we (the rich countries) have to liberalise completely. Two: we must allow temporary protectionism by the poorer countries.

Including help in the form of subsidies and technology?

Yes, but we should not be just a philanthropic institution.

Not in development aid either?

It is about financial, economic and social development. We are not talking about the Dutch or even the European development program. That is a mere bagatelle. That 0,3 percent of GNP – in our case a little more – for development aid brings hardly any grist to the mill. We are talking about complete national policies: industrial, population, educational. Of those countries. And our position relative to them.

Integrated policies.

I have been stressing for years that our development policies are diametrically opposed to policies in agriculture and other areas. Eveline Herfkens (Dutch ex-minister of Development Co-operation - HvdB) in her four years tried to run a consistent program. But what power does a minister for Development Co-operation have against for instance the European agricultural policies, or the minister of Finance, or Economic Affairs? So that remained words only. It is a relatively minor post. Even a man like Jan Pronk (Dutch ex-minister of Development Co-operation - HvdB), who knows his economics, who can come with sound counterarguments in meetings of the council of ministers, is outdone.

One of the new trends is (smart) partnerships: companies and governments of developing countries, whether or not in co-operation with NGOs, get something started that benefits both. What do you think of that idea (which is now one of the most important elements of (Dutch) minister van Ardenne's program)?

Then we are also talking of the Global Compact of Kofi Annan. I have a lot of respect for Kofi Annan, but that is a very non-committal initiative. It is a thought, an ideal: give the commercial world a social conscience. The essence of the Global Compact and other initiatives is: can we engage multinationals that are active in developing countries as partners with local companies, governments and organisations? And then especially in the social arena: job creation, education, health care.

Should companies be stimulated to participate, for instance through subsidising them with development aid money?

I am against that. With the odd exception. Why should I take the stuff in truckloads to companies that don't need it?

Because then they might go to countries where they would otherwise never invest. Countries where they could for instance provide employment, or technology transfer.

I am not a philanthropist. I also don't think that the commercial sector should start to work philanthropically. I do think that it should get more of a social conscience. That is in its own interest. It could just as well be achieved in countries where they are doing good business.

The other way around then. We want more commercial activity in the South. It is often said that there is not enough entrepreneurship there. But we want to stimulate them to set up their own companies. How could we manage that?

When I was working for the ILO in the seventies as director of the employment programme, we discovered the "informal sector": poor folk working in the margins of the economy. You could find real miracles of innovation and imagination there. After the fall of the Berlin Wall we also said about Eastern Europe: "Those people have lived for forty to seventy years under communism. There is no management tradition." Go have a look there now! It is nonsense! There is enough management quality and entrepreneurship in those countries. You just have to organise the incentives. But the current form of globalisation removes those incentives in many countries in the South and East through premature liberalisation, poor privatisation, *et cetera*.

That brings us back to globalisation. Do we need a WTO? Does there have to be a global body that regulates trade, or the world economy in a broader sense?

Then we are talking of "global governance". We have a rapidly globalising economic and financial structure, chiefly stimulated by the private sector, and there is no countervailing power to push it in a certain direction. Let's go back some 130 years in time, to Europe, to Germany for instance. There an enormous economic development was in progress, which was very unbalanced, with an extremely skewed income structure. It took a man like Otto von Bismarck, whom you could hardly call a liberal politician, to see that there was no future in that. Capitalism had to be more human, more balanced. Those industrial pioneers needed to make a bit less money and pay (more) taxes. So Bismarck stood at the cradle of social services, of the welfare state. It would seem that especially conservative politicians are better able to push through this kind of insights. Now we have the same situation on a global level. There are countries and companies that are doing extremely well, and are benefiting from globalisation. But we also have a rapidly deteriorating global income distribution. Companies found back on the international level the freedom that they had less and less of on a national level. They can more or less do as they please by carefully selecting their geographical niches. So now we need a global Von Bismarck – preferably a little less warlike. A strong personality who proposes a structure, not to counteract what is already happening, but to create a balance, to introduce the measures that are required: liberalisation on our side, a certain amount of protectionism on the other. Who can see the relationships between conflicts and terrorism on the one hand, and the worsening economic situation on the other. Something that is absolutely not being perceived at the moment. We need a world authority. There are proposals as to what form that should take. For instance an economic Security Council. Including the environment. A lot is already being said and written about that, within the UN, in academic circles, among certain enlightened international politicians, but nothing is being done about it yet. That will be the battle of the coming decennia.

You posit that an enlightened leader should come up with such a plan. But isn't it necessary to rather increase the pressure from below to such an extent that politicians will start taking decisions in that direction? How do you look at the alternative globalists in that connection?

I am always in favour of a counterweight. Ever since I was working in Paris in 1968 and was swallowed up in a wave of students I have been in favour of manifestations. I also thought the Provos were fantastic. They melted my heart. But it should not go to extremes. The World Social Forum in Porto Alegre and lately in Mumbai in India I found excellent. It is a massive market of ideas that catalyses a lot of things. A couple of years ago there were also some of these huge demonstrations in Washington. I went to see that. The heterogeneity of those manifestations is incredible. On the one hand you have the trade unions, who are in favour of more protectionism in America and Europe but not in the poor countries, and on the other side you have well-meaning students, lesbian groups, all sorts of NGOs, religious groups, and then you get people trying to draw attention by throwing stones through windows. From the one extreme to the other. During

such a forum that heterogeneity is a strength , but otherwise it is a weakness. Although that movement is now structuring itself. In France for instance Attac is working very hard. With Susan George for instance, an American “grande dame”, but with a very sharp tongue. I don’t know how all those ideas coming out of the World Social Forum can be channelled. But they have got to be picked up somewhere, by people with the authority to change things.

That pressure from below, no matter how heterogenic, contributes to change. Authorities realise that something must be done about that Washington Consensus. There is a whole constellation of very different factors that all point towards the same conclusion: that globalisation is good for certain countries, certain industries, certain people, but far less so for those who find themselves excluded. Add to that the situation in the Middle East, people blowing themselves up. In the United States they still are not making that connection. When I start up such a discussion in the US – for instance about the attacks by Al Qaeda and the relationship between terrorism and poverty – I invariably get the argument: “But those were not the poor in those airplanes!” No, of course not: Trotsky was not poor, Lenin was not poor, it is always the elite that leads a revolution. But the question is why it resonates so much with the masses. Why are people whooping and dancing when they see those planes fly into the WTC? Only because America is powerful? No, because they feel left out, left out of globalisation. Two years ago, just after 11 September, there was in the first instance a reaction: should we not get to grips with the global financial-economic structure? For an instant there was a moment of hesitation.

The reaction is now just the opposite: we’re going to work even harder on it, we going to enforce Western democracy.

Yes, that’s right. After that hesitation the mood swung. But perhaps in a while the wisdom will sink in

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