

**Global Financial Crisis: *An Opportunity to Revisit the Neo-Liberal Model of Socio-Economic Development***

By

**Humphrey P.B. Moshi**  
Associate Research Professor  
University of Dar es Salaam, Tanzania  
[hpmoshi@udsm.ac.tz](mailto:hpmoshi@udsm.ac.tz)  
[hpmoshi@hotmail.com](mailto:hpmoshi@hotmail.com)

---

**A paper presented at the Conference on “Rethinking African Economic Policy in the Light of the Global Economic and Financial Crisis”, AERC, 6-8 December, 2009, Nairobi**

## **Abstract**

The current global economic and financial crisis, just like the history of change of development paradigm informs us, provides for yet another opportunity to revisit the neo-liberalism paradigm, which has been operational in Sub-Saharan Africa for almost three decades. The performance of this development framework, with its attendant policies and strategies, leaves much to be desired. The adopted policies and strategies are not only informed by a set of wrong assumptions, but are also coupled with loss of policy space and ownership of the development agenda. The ultimate effects being those of : modest economic growth rates, persistent poverty in SSA and low resilience to crises. These negative outcomes logically activate the “search engine” for alternative development pathways.

### **1.0 Introduction**

The on-going global financial crisis has negatively affected most of the countries across the globe. However, empirical evidence shows that the severity of the impact has varied across continents, regions and countries. Indeed, developing countries are experiencing drop in private financial flows, declining trade, reduced remittances, reduced growth, increased unemployment and increased poverty levels. These transmission belts of the crisis are reversing the strong growth and the development success stories which the developing countries, including those of Sub-Saharan Africa, have experienced prior to the crisis. It is for this very reason of reversal of past achievements that most of the discussion on the impact of the crisis has focused on the challenges (concerns) while downplaying the opportunities associated with the crisis. Indeed, the skewed focus might be due to the perception that the challenges outweigh the opportunities. Nonetheless, in order to respond more adequately to the crisis, as a wake-up-call for reflection, it is critical also to re-assess the credibility of the development paradigm being pursued by the developing countries, especially those of the Sub-Saharan Africa.

It needs to be recalled that most of the Sub-Saharan African countries have, since 1980s, embraced the Structural Adjustment Programmes (SAPs) and subsequently the Poverty Reduction Strategies (PRS) advocated by the World Bank (WB) and International Monetary Fund (IMF). The policies underpinned by these programmes and strategies are in turn informed by the Washington Consensus Model (WCM), which is basically a neo –

liberal model of socio-economic development. To the extent that, this very model is responsible for triggering the crisis by putting, emphasis on “less regulation and less state intervention”, it is high time that the academic and policy makers were to question the efficacy of the model, not only in terms of sustaining development, but also in terms of its resilience to crises. The relative resilience of the High Performing Asian Economies (HPAEs) to the current global financial crisis provides a high powered motivation for revisiting the neo-liberal with a view to rekindle the debate on “inappropriateness or appropriateness” of the model to Africa’s socio-economic development, while drawing experiences and lessons from the High Performing Asian Economies (HPAEs). It is in the context of the foregoing that the paper aims at contributing to the debate on whether neoliberalism, as a development paradigm, is still a relevant development pathway for the Sub-Saharan African countries.

## **1.0 Development Paradigms and Crises**

The history of evolution of global development paradigms shows clearly that changes in paradigms have always been a product of crisis. Thus, forging strong linkages between them. A few examples will be adopted to illustrate this point.

The great depression and the effects of the First World War (WWI), which amplified the concerns with poverty, particularly in “backward” agrarian economies, combined to strongly underpin the emergence of a development paradigm which was driven by the ideas of “developmentalism” and “state intervention”. The two concepts were seen as inseparable hence policies and planning were seen as offering boundless possibilities for growth and development (Ndulu, 2008).

Three features were deemed fundamental to economic development of the poor countries. One, latecomers could learn from the development experience of pioneers. In this regard, Gerschenkron (1962) emphasized the advantages of backwardness and the need for the state to play an active role in utilizing the stock of knowledge garnered by the pioneering group to spur growth and development. Two, industrialization was an important strategy

for accelerating growth and effecting structural change in an economy (Kuznet, 1966; Chenery and Syrquin; (1975). The implementation of this strategy saw the establishment of import substitution industries (ISI) in most of the Sub-Saharan Africa countries (SSA), notwithstanding the constraints of lack of an abundant labour supply and scarcity of foreign exchange. Three, the workings of the market were deemed inadequate for the realization of growth and development goals. To that effect, adoption of the Keynesian economics, underpinned by state intervention and planning, became a necessity in responding to market failure phenomenon.

The above paradigm, which had been predominant since the 1950's, began to lose its credibility and popularity in the 1980s because of the fiscal and debt stock crises which were facing governments in developed and developing world. Consequently a new paradigm emerged which was based on questioning of the notion of "government failure" Whereas the state had been previously viewed as having a substantial role in repairing market failures, it was equally becoming clear that government failure was an equally pervasive and serious problem (Wade, 1990).

The main drivers of this paradigm change were basically two. Firstly, conceptual developments that advocated for minimal role of the state. Secondly, the emergence of political leadership in countries like USA and UK (President Reagan and Prime Minister Thatcher) who championed the adoption of the idea of minimal state intervention in the economy.

The minimalist state paradigm lost steam again in the aftermath of the debt crisis of the 1980's and the realization that the adjustment processes in the SSAs were performing astonishingly slow in achieving the expected outcomes. The emerging paradigm, the so called "one-world consensus" (Ndulu, op.cit) advocated for the need to exploit the complementarities between the state and the market. It needs to be emphasized that the search for balance led to abandoning or revisiting the neo-liberalism stance of the previous development paradigm. However, it only shifted emphasis to certain areas of priority, reflecting changes in societal values, both globally and within Africa.

Evolution of global development paradigms and ideas have been influential in shaping the kind of policy “choices” and ideas leaders make, with consequences on growth environment and ultimately growth outcomes. However, the important transmission belt, especially to the SSA, continues to remain that of development aid which translates into the “dependence syndrome”.

We content that in most cases, the transmission belts have been under attack for failure to trigger accelerated growth and meaningful poverty reduction in Africa for a number of reasons: First, the continued emphasis on “West is best” leads to translation of ideas and practices without due consideration to differences in context. (Schmitz, 2007). Second, they fail to relate adequately to the internal dynamics of the developing countries and the historical contexts that shape them, rendering such paradigms ahistorical and carried out by analogy and ultimately reduce the practice of development in much of the South to an exercise of mimicry (Olukoshi, 2007).

The above identified deficiencies clearly show that development cannot lead to progressive social and economic change unless the paradigm in question informs policy and practice which is rooted in the realities of those whose names are invoked as the beneficiaries of development, i.e. poor, marginalized and disenfranchised people (Guttal, 2007).

Powerful actors in the transmission chain are the World Bank (WB) and the International Monetary Fund (IMF). These actors, through their financial and institutional resources, have been able to establish dominance in knowledge production and dissemination, and thereby attempt to establish hegemony in global and regional policy-making. The actors, coupled with many research organizations, think tanks and academic institutions, tend to operate as a giant “knowledge monopoly; edging out competition from alternative perspectives, analysis or ideas (ibid. cit.). This “monopoly” notwithstanding, there is an influential body of literature, currently emerging, which implicitly or explicitly dismisses development as a progress towards idealized Western Models. Indeed, China’s growth

record over the last 30 years and that of other East Asian countries are manifestations of existence of alternative development models, different to those championed by the seemingly monopolizers of knowledge.

It is emphasized that contrary to development by analogy China's development strategy and that of other East Asian countries is characterized by not following models from elsewhere, but by long process of transition, that was highly experimental, and by diversity of policies, institutions and innovativeness (Haggard, 2004; Hobday, 2003). Another critical aspect of these countries' development was the conspicuous absence of the dependence syndrome. This aspect seems to have been overlooked in the literature.

Are we then advocating for the need to emulate the East Asian Model? Definitely not! What we are stressing in this context is the need to find one's own way forward without necessarily seeking to replicate elsewhere what seems to have worked in the West or in East Asia.

Indeed, each country needs to find its own way forward, based on understanding of its own strengths and weaknesses and based on understanding the new external context which has been influenced in such a major way by the Asian Tigers and China (Schmitz, op.cit).

However, the quest for "one's own way" in the SSA context is constrained by high levels of dependence. This in turn leads to loss of policy space, on the part of the dependent, induced by unequal power relations between donors and recipients. The former being driven by a common ideological agenda of neo-liberalism.

### **3.0 Dependence and Loss of Policy Space**

#### **3.1 Assumptions**

The content of this section is guided by a number of assumptions. One, a broad-based pattern of rapid economic growth is vital to reducing poverty in SSA. To that effect,

many African countries have undertaken structural adjustment programs (SAPs) to reverse the economic decline of the 1980s and accelerate growth. Two, adjustment programs are necessary but not enough to raise economic growth. These have to be flanked by efforts to: enhance investments in human capital and infrastructure; build the economic institutions necessary for a well-functioning market economy; and boost country's technical capacity. Three, in order for the above two assumptions to bear fruits, which are sustainable and broad-based, it is critical for the adopted development paradigm and its attendant policies to reflect the realities on the ground, a precondition for local ownership of the development agenda. Four, development is a multi-dimensional process which requires pluralism and diversity, not only in analysis but also in practice. Therefore, the idea that one-size-fits all-model of development thinking negates the multi-dimensional aspect. Fifth, the neo-liberal model tends to ignore critical issues of pluralism, diversity and ownership to extent that wrong assumptions are made about socio-economic environment of African countries, not only in terms of private and public sector capacities, but also in terms of policy coherence.

### **3.2 Policy Space**

This aspect is defined as “room for manoeuvre” in policy making and therefore the range of different types of policies and policy options effectively available to governments (Oya, 2006). The issue of “policy space” has been brought to the fore especially in the light of the effects of international agreements and rules (notably through WTO) on national policy making (Gallagher, 2005). In fact, aid flows to SSA since roughly 1980 have been closely linked to policy reforms geared towards liberalization, deregulation, state disengagement and privatization of assets productive units and utilities. This aid agenda was influenced by the obsession with inflation control, international financial stability and the debt crisis, which provided the platform for the revival of neoliberalism as a global and economic project in the 1980s (Kiely, 2005). In the implementation of the adjustment agenda the policy recommendations of WB and IMF became dominant; it is not surprising the great capacity the two organizations have had in shaping SSA policy making compared to other developing countries (Sender, 2002).

After more than two decades of neoliberal experiment in most SSA countries, especially in those more closely dependent on WB funding, policy space has been lost through two main channels. First, the lack of feasible alternatives (including sources of finance) that have led many governments to accept a “forced consensus”, especially on macroeconomic policies. Second, the gradual conversion of many African technocrats and leaders to the ideology of the Washington Consensus (WC) and Augmented Washington Consensus (AWC) both in rhetoric and action (Shafaeddin, 2006).

#### **4.0 Lessons from the Current Crisis**

The current global economic and financial crisis provide for opportunities and challenges. One of the opportunities is inherent in crises themselves. After all, crises are, by definition, phases of profound uncertainty, that is to say, periods of decision or change in which – in medical terms – the patient either recovers or dies, or more abstractly: “the old dies (while)... the new ... is still unable to come into The World” (Gramsci, 1991). For intellectuals, of every stripe, crises offer not only the chance that their criticisms of existing circumstances and (hegemonic) ideal models will meet the public approval, but also an opportunity to supersede the old ideal models convictions and societal practices and replace them with new ones.

Intellectual diagnoses of crisis and criticisms of existing structures and paradigms often lead directly to alternative development models. Whether or not these will gain widespread support is by no means certain. However, their prospects for acceptance improve to the extent that alternative models can be presented or seen as necessary, appropriate and, if possible, even universally beneficial, necessary for providing solutions to acute crises and other social-economic problems (Bieling, 2009).

In the face of the current global crisis significant changes are observable, both in the theoretical and practical spheres. The mood of the general public has been transformed, such that state intervention in financial institutions, infrastructure companies, and even

large industrial groups is considered necessary by many people and, by some, as extremely desirable. In addition governments in particular in the OECD countries – have exhibited an increased readiness to intervene more strongly in the functioning of the neoliberal economy.

Generally the intervention mechanisms have one common attribute, that is, they bring back into debate the Keynesian ideas and concepts. These interventions have been in form of:

First, comprehensive rescue packages, some of them based on international agreements, were adopted in order to stabilize the credit system and containing such elements as direct state participation, sureties, and specific conditions for bank management.

Secondly, complementary to the foregoing, an international process for discussion and negotiation has been initiated with the aim of re-regulating the financial markets to some extent, urging for the creation of a Bretton Wood II.

Thirdly, in order to avert the danger of a profound economic crisis, almost without exception, countries have introduced stimulus packages. Nonetheless, their medium and long-term impact on recovery and sustenance remains uncertain.

The IMF and WB continue to become active actors in the provision of rescue and recovery packages not only in terms of financial resources but also in terms of policy advise. However, the packages are wrapped in the same ideological stance of neo-liberalism. The fact that these institutions continue to re-cycle the same ideas and polices is a clear manifestation that they did not neither learn from earlier crisis (Mexican and Asian financial crises), nor able to prevent the current crisis. Indeed, the inability of these institutions to check or even manage the crisis led the Asian countries to believe that massive foreign currency reserves could have protected them from the crisis (Spair, 2009). Further, they have failed to accept the reality that there are other development models superior to neoliberalism. The relative resilience of East Asia and China from the

current crisis, coupled with the relatively quick recovery is a clear testimony to the robustness of their development model.

This denial needs to be resisted by the SSA countries because the continued implementation of WC, AWC and other unfolding versions of WC, would turn the continent into a laboratory for testing development models and theories, that are removed from people's day-to-day realities. Indeed, for meaningful socio-economic development to take place, widened policy space is imperative, informed by diversity, flexibility and enhanced ownership. Nonetheless, acquiring such a space demands reduced dependence, tapping opportunities arising from emerging economies, and addressing governance issues, including corruption. This has to be complemented by efforts to pragmatically redress the apparent imbalance between the role of private and of the public sector in a national economy which was propelled by the ideology of neoliberalism.

These processes have been common in a majority of SSA countries, where policy space has been lost and policies proscribed in several domains:

*Fiscal policies*, which became dictated by the obsession of stabilization and low inflation targets. In reality, a minority of SSA countries, in contrast with Latin America, had suffered from hyperinflation episodes but all IMF programmes in Africa included tight demand-restraint policies to keep inflation very low. Stiglitz (2005) and many others stress that fiscal stringency and wage bill ceilings do not ensure growth and not even macroeconomic stability, while countercyclical fiscal policies (widely used in developed countries) have been proscribed in most of SSA and remain a hindrance on investment and employment growth in African economies.

*Exchange rate policies*. Balance of payment crises were blamed on excessive foreign exchange controls and overvaluation. Rather than allowing for some space in competitively managing exchange rates to gradually build up on competitiveness,

massive devaluations (notably in Nigeria, Ghana, and Uganda) were recommended and applied and floating exchange rates followed suit.

*Monetary policies.* Stringent monetary policies, sterilization and pressures for the independence of central banks were essential features in most IMF agreements and often became a sine-qua non condition for the release of more funds, including those of other bilateral donors. Implementation of cash budgets weakened governments' capacity to finance the provision of public services and consequently enhanced poverty.

*Trade and industrial policies.* This is the area where most policy space has been lost (Change 2006). Trade liberalization, based on the fallacy of a 'level playing field' in international trade, became an all-encompassing mantra in most SSA reforming countries whereas industrial policies, especially of the kind, more selective, 'smart', bold and demanding implemented in East Asia (trade subsidies, licenses, management of credit and capital allocation, public investment, 'getting prices wrong', 'reciprocal control mechanisms', etc) were deemed inapplicable to the SSA context. Already trade liberalization has failed to diversify the export basket of most SSA countries and has promoted de-industrialization. In the wake of the global economic and financial crisis it is becoming evident that many bilateral and multilateral trade agreements contain commitments that may have exposed them to the contagion from the failures elsewhere in the global economic system. This shows that "unguided" trade liberalization makes it difficult to effectively respond to the crisis and makes future crises more likely.

*Capital account liberalization.* Excessive aid dependence and the supposed pull factor that SAP should constitute for foreign capital flows were the excuses. Moreover, capital account liberalization became part of the 'mark-friendly' policy mantra. The current financial and economic crisis shows vividly that those who complied with the liberalization have been hard hit than the rest. According to the IMF (2009) emerging markets with well-developed financial systems were initially mostly affected by the cross-border financial linkages through capital flows, stock market investors, and exchange rates. Unlike in developed economies there has been no systemic banking

crisis in sub-Saharan Africa. However, as the crisis continues, risks could grow because parent banks could withdraw funds from subsidiaries and local banks. The risks associated with allowing binding market access for foreign banks in Africa (FTA/EPA or WTO) and the problems which can arise from liberalizing capital flows are significant. This indicates that in the absence of better systems of risk mitigation it is especially important for developing countries to be wary of the measures that expose them to greater risk and volatility, such as capital market liberalization.

*Privatisation of SOE.* Whereas many of these enterprises are at the core of developmental processes in countries like china, the idea that SOE are inherently inefficient and vulnerable to political corruption was internalized in much of SSA, despite initial opposition from governments and interest groups. Much of recent surges in FDI are related to privatization processes in SSA, where the possibility of reforming and upgrading SOE without privatizing was simply ignored in most cases. In a number of cases privatization has been marred with corruption, enhanced income inequalities, triggered hatred against foreigners because of skewed access to opportunities.

*Agricultural policies.* Production and input subsidies, substantial public investments, managed competition or regulation in marketing systems were usually proscribed in most reforming countries and, despite several instances of resistance in some countries, most agricultural reforms were partially or fully implemented with mixed or negative results (Kherallah et al. 2002). Agriculture, the main source of livelihood for most of the African population, was starved of donor support for 25 years to the extent that both food security and poverty reduction were not realized. The quest for industrialization was suppressed under the pretext that “industrial policy” was not necessary. Indeed, without industrial policy the East Asia countries would not have been what they are today!!.

*Institutional change and development.* The Anglo-saxon model is being imported to many SSA countries engaged in ‘good governance’ programs. Substantial funding is being given to develop a justice sector, commercial codes, public financial management, fiscal management, business regulations, etc. that mimic the reality of Anglo-saxon style

capitalism, without due consideration to the realities of the political economy and historical processes of SSA recipients of such aid (Chang 2006).

*Public sector's role.* There is a tendency to promote the notion that “public sector intervention is not the solution”. We have seen situations (Tanzania) where the private sector investments were not forthcoming in certain sectors (despite reforms) but the government was discouraged from intervening. Such areas include financing of agriculture, provision of long-term investment finance, investments in power generation, etc. The realities on the ground show that the private sectors' capacity is weak, and where it exists it is extremely selective in its interventions. Furthermore, in some cases private sector operations are oligopolistic (financial sector) and the capacity of the public sector to negotiate credible contracts with the private sector is inadequate (mining sector, utilities) and in most cases such contracts have fuelled corruption.

## **5.0 Concluding Remarks**

The on-going global economic and financial crisis provides for an appropriate opportunity and time to revisit the neoliberalism paradigm which has been operation for almost three decades in SSA since the crises of the 1980's. The history of changes in development paradigms have always being informed by crises. This then provides the basis for reflection on the performance of development policies and strategies, based on the guiding ideology of neoliberalism. The performance of the SSA economies during the period under consideration is basically of slow growth relative to the East Asian countries, including China, which have experienced unprecedented economic growth rates, coupled with economic diversification, human capital development and reduced inequalities. These set of countries, when compared with those of SSA, display low rates of aid dependence and enhanced policy space, thus raising concerns on the efficacy of the ideological philosophy (framework) informing both the flow of resources to and the policies pursued to spur growth in the continent.

The dependence syndrome has not only led to loss of policy space, but also to adoption of policies which were, to greater extent, abstracted from the realities on the ground by placing undue emphasis on the private sector, without a thorough assessment of the sector's capacity, scope and nature. To that effect, the public sector was discouraged from performing its noble role of complementing the private sector in the national economy. Even in the cases where the private sector investments were not forthcoming, public intervention was vehemently opposed to comply with the "minimal state philosophy". The emerging imbalance and lack of complementarity between the public and the private sectors do significantly account for the modest growth observable in the sectors concerned. This being the case, there is every reason to revisit the debate on the "role of state" in national socio-economic development, as well as reflecting on the contemporary policy regime with a view to not only identify the wrong assumptions and doings, but also charting-out a future development pathway which is anchored on local ownership, resilience to crises and sustenance in poverty reduction and alleviation. Indeed, the time is ripe to undertake such an exercise.

## References

**Bieling, Hans. Juergen (2009)**, “Private before State? On the Development of Political Ideal Models of the Role of State”, *International Politics and Society*, Vol 3/2009, pp 100-114, Bonn.

**Chang, H. I (2006)**, “Policy Space in Historical Perspective with Special Reference to Trade and Industrial Policies”, *Economic and Political Weekly*, February 18, 2006, pp 627-633.

**Chenery, H. and M. Syrquin (19750)**, *Patterns of Development 1950-1970*, New York.

**Edwards, Michael (2007)**, “Looking Back from 2046: Thoughts on the Eughtieth Anniversary of an Institute for Revolutionary Social Societies”, *IDS Development Bulletin, Vol. 28, No. 2*, pp 40-50, London.

**Evans, P. (2005)**, “Neoliberalism as a Political Opportunity: Constraint and Innovation in Contemporary Development Strategy”, London.

**Gallagher, K.P. (2005)**, “Globalization and the Nation-State: Reasserting Policy Autonomy of Development”, in Gallagher, K.P (ed.) *Putting Development First: The Importance of Policy Space in the WTO and International Financial Institutions*, London.

**Gershenkron, A. (1962)**, *Economic Backwardness in Historical Perspective*, London.

**Gramsci, A. (1991)**, *Gefaengnishefte*, Hamburg.

**Guttal, Shalmali (2007)**, “Development, Research and Change”, *IDS Development Bulletin Vol. 28, No. 2*, pp. 31-35 London.

**Haggard, Stephen (2004)**, *In Institutions and Economic Growth*, New York.

**Hobday, Mike (2003)**, “Review of Asian Industrial Development”, London.

**Humphrey John (2007)**, “Forty Years of Development Research: Transformation and Reformation, *IDS Development Bulletin*, Vol. 28 No. 2, pp 14-19, London.

**International Monetary Fund (2009)**, “Impact of the Global Financial Crisis on Sub-Saharan Africa”, Washington, D.C.

**Kuznets, S. (1966)**, *Modern Economic Growth: Rate, Structure, and Spread*, New Haven.

**Ndulu, Benno (2008)**, “The Evolution of Global Development Paradigms and their Influence on African Economic Growth”, Benno Ndulu, et.al (ed). *The Political Economy of Economic Growth 1960-2000*, pp. 315-347, Cambridge.

**Olukoshi, Adebayo (2007)**, “From Colonialism to the New Millennium and Beyond”, *IDS Development Bulletin*, Vol. 28 No. 2, pp. 20-25, London.

**Oya, Carlos (2006)**, “The Political Economy of Development Aid as Main Source of Foreign Finance for Poor African Countries: Loss of Policy Space and Possible Alternatives from East Asia”, London.

**Wade, R. (1990)**, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton.

**Schmitz, Hubert (2007)**, “The Rise of the East: what Does it Mean to Development Studies”, *IDS Development Bulletin*, Vol. 28 No. 2, pp 51-58, London.

**Sender, J. (2002)**, “Re-Assessing the Role of World Bank in Sub-Saharan Africa”, in J. Pincus and J. Winters (eds.) *Reinventing the World Bank*, pp. 185-202, London.

**Shafaeddin, S.M. (2006)**, “The Policy Space Question: An alternative Approach to Trade and Industrial Policies: Implications for the World Trade system”, Chennai.

**Stiglitz, Joseph (2005)** “Development Policies in a World of Globalization”, London.

**Sapir, Jacques (2009)**, “From Financial Crisis to Turning Point: How the US Subprime Crisis Turned into World-Wide One”, in *International Politics and Society*, Vol. 1/2009, pp. 27-43, Bonn.