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NOTES ON ECONOMIC DEVELOPMENT POLICY IN AFRICA IMPLICATIONS FOR LIBERIA

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ABSTRACT: *This paper embraces structured pluralism and a heterodox model of economic analysis. The paper suggests that robust policy outcomes will be contingent on heterodox approaches that factor historical traditions, human intuition, institutional variables, conflict, social structure and the distribution of economic power in the theoretical matrix. The paper defines this approach as an open system's and behaviorist approach to the analysis of relatively underdeveloped and static economies in Africa. Hence, the conceptual model provided in this paper adopts an open system's and behaviorist methodological approach that calls for critical departures from some of the core axiomatic assumptions of neo-classical economics. The paper concludes by positing that a rehabilitated and enlightened state in the Liberian context is at least a first order condition for constructing accountability and normative principles that should govern the conduct of the state's fiduciary responsibilities to citizens.*

KEYWORDS: Open System's Approach, Post-Keynesian, Structured Pluralism, Neo-Classical Economics, Neo-Liberalism.

INTRODUCTION

Background

The philosophers have only interpreted the world, in various ways; the point is to change it. Marx (1845)

The theory of economic development is concerned with how nations ought to address fundamental questions concerning the alleviation of poverty, moral virtue, institutions and the distribution of economic power (Osman: 2011). In effect, economic growth theory and development is one of appreciating the complex and interconnected factors that impinge upon contextual economic, social and institutional processes (Acemoglu and Robison: 2010). It thus involves partial and general analyses of equilibrium as well as disequilibrium processes in the nature of economic systems in African societies. In this paper, one would argue that a robust approach to political economy of development in African societies must embrace structured pluralism (Dow: 2015). This paper attempted to address some of these considerations.

Thus, while in graduate school in England in the mid-1990s, this researcher was introduced to the theory of economic development. Similarly, this researcher also learned that the organic social forces at work in any African country or group of African countries impacted economic life and structures in ways that demanded the articulation of nuanced and much more robust perspectives. These were fascinating times in the British academy and the world of international politics as well. The winds of change were blowing across the East of Europe

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creating a new sense of political and diplomatic purpose in the international development community.

These winds of change across a continent resulted in decimation of the social system of communism and put the system itself in dire retreat in the former Soviet Union and its various satellite countries in Eastern and Central Europe. The political scientist Francis Fukuyama, in describing causes of the breakdown of the Soviet system, proclaimed a form of universalism that posited that capitalism and liberal democracy was the end of history in terms of the evolution of social systems; thereby confirming the universalism of some of the core theoretical claims of neo-classical economics. In his book *The End of History and the last Man* Fukuyama (cited in Kimball: 2017) articulated his essential thesis as follows:

> What we are witnessing is not just the end of the Cold War, or a passing of a particular period of postwar history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government (p.5).

It is interesting to note that Fukuyama himself has now revised some of these grandiose and teleological claims. One should note here that Fukuyama's claims (which he has since tempered in light of recent global and domestic events in the United States) were by no means an innovation in social theory. The learned political scientist was simply restating the claims that many were already familiar with; the claims that market fundamentalism and liberal democracy were superior to all other social and economic systems, including communism and socialism.

Of course one heard and read about these claims before (Freeman, 1970) from learned intellectual apostles of capitalism and others who subscribe to the neo-liberal creed. Thus, these claims were also exemplified in conventional economic theory (Julius 1997, p. 453), which viewed globalization as an "end-state of a fully integrated world market." The next section will examine some of the basic assumptions of mainstream neoclassical economics and alternative heterodox approaches. The aim is to demonstrate how and why this paper embraces structured pluralism and a heterodox model of economic analysis (Dow, 2001).

Method in Political Economy and Development

Methodology determines one's choice of methods of analysis and the means of choosing between competing theories (Dow, 2001; 2013). Mainstream neo-classical economists posit that a theory should be judged on the basis of its predictive accuracy. The libertarian and neo-classical economist, Milton Friedman postulated that the structure of a theory and the realism of its assumptions do not really matter. Instead, what matters most in choosing a theory was predictive success (Dow, 2001, p.2). This methodological approach was somewhat inconsistent with Popper's notion of empirical testing through falsification (p.2). Thus, Popper held that a theory must be contradicted by facts to prove that it is false (p.2).

Meanwhile, Post-Keynesian economists attached great importance to historical time. The notion of historical time suggests that economic analysis can do without equilibrium in the mainstream neo-classical sense of the word. One of the heterodox critiques of the neo-classical system is that several of its categories do not correspond to real world conditions (Dow, 2001, p.2). Mathematical formalism is one of the distinguishing features of neo-classical economics, which is usually an exercise in constraint optimization. An adjunct to the

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construct of constraint optimization is the valorization of human rationality. The Post-Keynesians for example, posit that the starting point of theory construction is the nature of the real world (p.3). Keynes himself focused on a monetary production economy, which led him to focus on time, uncertainty, and money (p.4).

This also led him to the notion of equilibrium as a state of rest, where no one had the power to effect change even if they wanted to do so (p.4). In effect, Keynes dismissed the certainty of classical logic, and by so doing arrived at the conclusion that the wrong axioms could lead to problematic propositions. Commenting on the nature of uncertainty in relationship to the study of probability in various scientific fields and in human conduct, (Keynes: 2014) noted

> In metaphysics, in science, and in conduct, most of the arguments, upon which we habitually based our beliefs, are admitted to be inconclusive in a greater or less degree. Thus for a philosophical treatment of these branches of knowledge, the study of probability is required (p.15).

According to Keynes, arguments in most branches of academic logic aimed at demonstrative certainty without pretending to be certain (p.15). Keynes also referred to the notion of human logic, which involved structured pluralism drawing on possibilities for multiple arguments, theories, viewpoints and conclusions from diverse strands. In essence, this suggests a rejection of methodological monism and an integration of structured pluralism in the model of analysis adopted in this paper.

Similarly, this author also adopted Keynes's view of equilibrium in economic and institutional systems in Africa. At the core of this approach is the notion of market failure and its consequences for economic and behavioral agents. Furthermore, one would argue that this approach allows for the consideration of institutional, cultural and normative aspects of development, which is often missing in the mathematical formalism of mainstream neo-classical economics and perspectives.

Before Fukuyama's grand declaration about the teleological status of capitalism, there was a whole galaxy of neo-classical economic theories (from the 1840s onwards) that extolled the allegedly efficient properties of markets, timeless automatic equilibrium, individual rationality and the price system. One would concede that these theories largely succeeded in changing the focus and units of analyses of political economy from production and value theory to consumption, exchange and other hedonistic concerns.

Thus, this paper contends that neo-classical economic models do not adequately explain how individuals and households behave and experience their economic lives and make choices under conditions of uncertainty. The paper also argues that economic agents do not always make rational choices, especially when operating in open systems not necessarily subject to the supposed universal laws of a closed system.

Indeed, part of the methodological pitfalls of neo-classism as a mode of thought is that economists in this tradition tend to view economics as a technical discipline that operates within a closed system in the search for universal laws and regularities. Thus, why a closed system's approach fits the criteria of uniformed orthodoxy in economics, an open system's approach gives rise to alternative and heterodox approaches in the explanation of economic phenomena. The current study adopted an open system's framework as a methodological approach.

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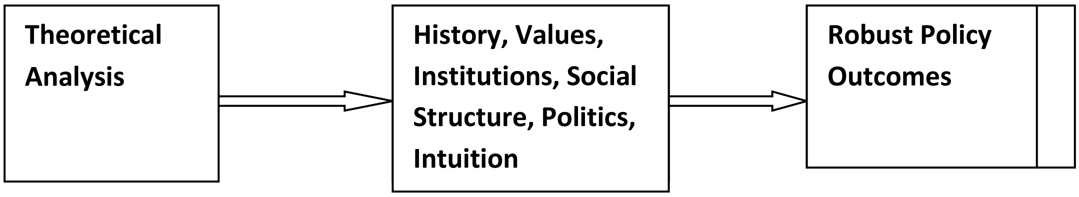
Figure 1. Conceptual model of an open system



The model in figure 1 shows that heterodox approaches are needed in the theoretical analysis of underdevelopment. This suggests that robust policy outcomes will be contingent on heterodox approaches that factor historical traditions, human intuition, institutional variables, social structure, conflict and the distribution of political power as essential characteristics of their core assumptions. In effect, this is what is meant by an open system's approach to the analysis of underdeveloped and static economies in Africa.

The conceptual model presented here calls for critical departures from some of the basic assumptions of neo-classical economics. These assumptions are embedded in a slew of neo-classical theories such as the theory of marginal factor productivity. Like many others, this theory excludes normative considerations such as notions of social justice in explaining skewed patterns of income distribution and questions concerning which institutional forces and policy variables to employ to address these patterns. Thus, as (Giorgis 2017, p.22) has noted in a much recent study, recent institutional development in Africa has aided the performance of African countries.

The author (p. 22) also concluded, using dynamic panel data and a sample of 21 countries in sub-Saharan Africa, that institutional development such as government effectiveness and control of corruption had a positive effect on economic growth. Haslam (cited in Johnson: 2016) for his part has called for an enhancement of the bargaining power of the state at the micro level of firms in Africa and other developing countries. Elaborating on the nature and evolution of states' bargaining power in developing countries, Haslam noted that

> Through bargaining the state attempted to channel private investment to serve its own developmental objectives. It was also argued that the bargain 'obsolesced' over time to the benefit of the state, which was able to make increasing demands on the investor once the investment was in pl-ace. Thus, in state-firm bargaining, the state was generally viewed as the stronger party over time (p.28).

Keynesian constructs of human logic and intuition (Dow, 2013; 2015) lead one to correctly assume that it is highly likely that the economic laws at work in underdeveloped and pre-capitalist societies are quite distinct from those in operation in capitalist economies. This conclusion presents serious policy implications for the affairs of nations as well as a proper apprehension of cultural, institutional and normative behavioral variables that impinge upon economic development processes in Africa. The next section argues that there is need for a developmental and rehabilitated African state to direct developmental processes.

Developmental and rehabilitated state

One would suggest that as a matter of recent historical fact, dating back to the era of modernization and the attenuation of this approach starting with the first Washington

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consensus of the 1980s, the idea of neo-liberal and market supremacy has long dominated development policies prescribed for Liberia and other African countries. The institutions behind fostering these economic and development policies are bilateral and multilateral development partners based in the west. Chiefly among these partners are the World Bank and International Monetary Fund. The problem here is that the empirical evidence abounds that the neo-liberal and market supremacist rhetoric of the Bank and Fund is weak and fundamentally inconsistent with long-term development aspirations of Liberia and other countries in its position. Thus, neo-liberalism and its accompanying mainstream neo-classical economic orthodoxy can be said to have several pitfalls as previously discussed.

Neo-liberal policies for example, call for dismantling the state or at least reducing it to what (Zalanga, 2016, p.81) calls "its most tolerable minimum." But examining lessons from implementing structural adjustment programs in Africa in the 1980s and 1990s showed that the success of market reforms in Africa depends on a strong and developmental state with rational capacity (p. 81). It is fair to admit that the essential flaws in this development paradigm has been acknowledged by more than few, including international bodies, such as the United Nations Development Program (UNDP).

The point here to stress is that what this author calls a rehabilitated African state is needed to play a central role is societies undergoing market reforms. Institutional and normative considerations are also important in moving away from a deductive and aprioristic approach to pure economic theory. The examples of the Southeast Asian countries such as Japan, China and postwar economic reforms in countries in the west are paradigm cases of strong state intervention in economic development processes. Furthermore, recent examples of countries in Africa in their various attempts to diversify their economies through state-directed investment in transportation, communications and other vital sectors are noteworthy. Among these countries are Rwanda, Botswana, Uganda, Nigeria, Ghana etc. The next section examines these questions in much detail.

The Paradox of Neo-liberal Thesis

This researcher will now elaborate on the more classic example of Great Britain to expose the hypocrisy of global actors who advance the neoliberal thesis of non-state interventionism and economic laisse faire. This hypocrisy is what one would call a paradox of the neo-liberal thesis. It is hypocrisy, and above all, a paradox. Indeed, it is a sort of argument that belies the supposed policy efficacy of state provision of public goods and free rider construction often found in standard macro textbooks. This paper argues that mainstream policy prescriptions that deemphasized the role of state in underdeveloped countries are built on hypocrisy in some sense.

Hence, it cannot be strongly defended in light of empirical evidence in some cases. Let us examine a paradigm example of Great Britain, the home of the industrial revolution. The politician and vice admiral of the Elizabethan era, Sir Francis Drake (C1540-1596) led the defeat of the Spanish Armada during the English-Spanish war of 1588. The Spanish fleet comprised of over 100 naval ships deployed by Spain's King Phillip II (Nelson, 1996). The great economist John Maynard Keynes described this episode as the beginnings of British foreign investment to the treasure.

According to the story, Drake returned to England from his military expedition that year with the spoils of the ship the English referred to as the *Golden Hind*. It is interesting to note that

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Queen Elizabeth (1533-1603) had a considerable share in the syndicate, which had finance the expedition. Out of the share she received, the Queen in turn paid off the whole of England's foreign debt, balanced her budget, and still had about over $40,000 dollars left in her personal coffers.

The English Queen invested this money in founding of the Levant Company, which laid the foundation for the British East India Company. For readers who are not familiar with the British East India Company, this company ruled large areas of India, exercising military power and administrative duties over that vast territory. The British East India Company is also alleged to have participated in West African slavery. In fact, (Huw, 2012) has argued that the company made slaving voyages to West Africa as well as Angola and several parts of Africa.

How did profits from this enterprise form the foundation of England's subsequent foreign investment? Keynes (1930), a towering mathematician as well, explained this process in terms of the power of compound interest. Compound interest is a mathematical concept that originated in the 17th century. It is simply interest on interest ($I= [p\ (1+i)^n]-P$). Using this approach, Keynes declared that the over $40,000 Britain stole from Spain in 1580 (accumulating at 3f percent compound interest) amounted to about over $4 billion in 1930 at the time he wrote the essay titled *Economic possibilities for our grandchildren* (1930) in which the Drake story is narrated.

Now, here is the point. When Queen Elizabeth sanctioned this action on the part of her admiral, she was doing so partly on behalf of an activist British state. She was not doing this in the name of free markets or some abstract classical notions of automatic equilibrium of supply and demand for gold on the world market. If England can build up her treasury using state military power as an instrument, why would she be supporting economic doctrines and policy aimed at dissuading other nations from at least using their rehabilitated state mechanisms not to wage war and pillage their neighbors per se, but to guide the development of their own economies?

Other European nations also used state-furnished military power to carry out imperial expeditions that led to pillages of the wealth of Africa and other nations and peoples. In fact, it is a perfect irony that Spain itself gained a large treasure of gold and silver she stole from the Incas in the 1500s (Marr, 2012). Thus, like Britain, the Spanish monarchy used some of this treasure to pay off its debts and also to fund some of its religious wars (Marr, 2012).

Liberia and Economic Development

As Liberia goes through its current electioneering process, one would urge citizens to dig deep in examining the various candidates. Thus, what Liberia needs most are leaders that would exert determined efforts to change the country's course from its current state to one of self-reliant development. Policy leaders in Liberia at least if they are being honest, will concede that the country must flip the development paradigm from one of excessive dependence on foreign aid to one of a healthy self-reliance and sustainability. This paper contends that an open system's approach is critical in terms of providing correct diagnoses and solutions to aid structural change.

In 2011, foreign aid accounted for over 73 percent of Liberia's gross national income. By 2015, that figure hadn't changed much with foreign aid accounting for over two-thirds of

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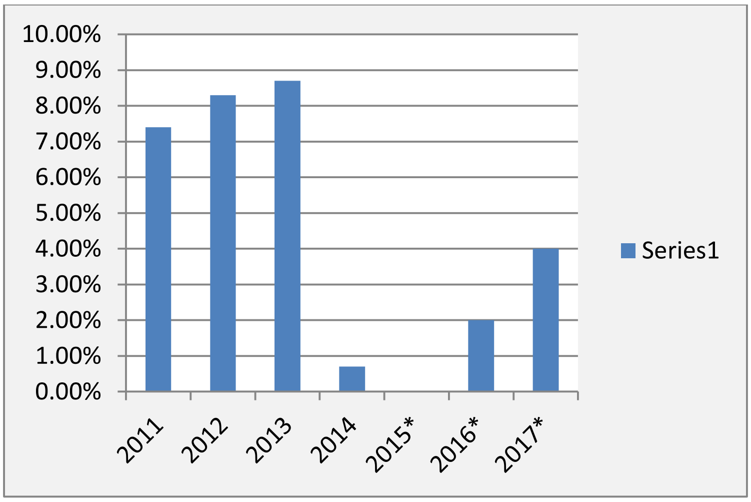
gross national income. Similarly, the country also faces problems on other fronts, including low productivity in the agricultural sector as well as low capital accumulation across other economic sectors. Government spending is now 36.5 percent of total output (Heritage Foundation: 2017). The value of exports and imports are estimated to amount to about 112 percent of GDP (p.1). Because private investment has been crippled by bureaucratic inefficiency, waste and corruption, large portion of the workforce is engaged in the informal sector (p. 1).

One factor that severely impacted private concession investment was the outbreak of the Ebola virus disease in the region. The outbreak of the Ebola virus disease resulted in severe macroeconomic impacts such as job loses, low revenue and low productive (UNDP, p.10). Also, a Bloomberg report projected that the combined loses in GDP of Liberia, Sierra Leone and Guinea at around US$13billion (p.10). The largest fiscal impact of the virus was felt in Liberia $93million (4.7 percent of GDP), followed by US$79million in Sierra Leone (1.8 percent of GDP) and US$120million for Guinea (1.8 percent of GDP) (UNDP, p. 10).

President Ellen Johnson Sirleaf (Harris, 2017) recently announced that Liberia spends nearly US$250 million on annual food importation; a figure which amounts to about a third of annual GDP. Figure 1 below shows the dynamics of GDP growth between 2011 and 2017. As shown below, figures for 2015, 2016 and 2017 were mere estimates. However the case may be what is presented in this data series testifies to a recent pattern of slow and anemic economic growth in Liberia. Thanks to some of the structural and exogenous variables discussed above.

Figure 2. **Real GDP growth of Liberia 2011-2017**



Estimated*

(Source: Heritage Foundation, 2017, p. 1)

On the issue of recent debates concerning aid and development in Liberia, One would concur with the current Liberian Vice President Joseph Boakai that the country cannot continue to be a liability on donor nations; that it must do more to help itself. And, that the country should also exercise responsibility and prudence in how it manages its scarce resources. These competencies in statecraft are yet to be demonstrated even after almost 14 years of uninterrupted peace.

One would submit that the point the learned Vice President was trying to make through these pronouncements was that a country that claims to be independent cannot be a perpetual lability on others and expect to be respected as equals among nations. Such a proposition itself would manifestly constitute a contradiction in terms. That is why one should note here that these comments should be highly received coming from the Vice President as much as they could be deemed insufficient.

Thus, what is needed to complete this line of analyses is well-thought out policy programs that could lead us from here to corrective measures to sustain growth and development. Such endeavor might go a long way in meeting the sufficiency test. One would also suggest that there should be systems of accountability created to ensure that there would be as minimum gaps as possible between these policy ideas---that provide the locomotive for creating an improved equilibrium in terms of social system stability----and genuine political and economic independence----and the likelihood for implementation success (Brikland, 2005).

CONCLUDING REMARKS

This paper has provided rational justifications for the role of a rehabilitated state in economic and social development processes in Liberia. It is also suggested that such as state must seek to develop necessary rational capacity and accountability principles in the conduct of its fiduciary responsibilities. In the specific context of Liberia, only the formation of a rehabilitated and enlightened state that is just, rational and that adheres to normative principles in the allocation of scare resources can live up to the historic ideal of the country's founders (Azikiwe, 1970). The conceptual model presented in this paper demonstrates why an open system's and behaviorist approach to pure economic theory and its contingent policy implications is necessary to appreciate the manifold dimensions of economic and structural underdevelopment.

One of the normative principles at stake in the field of contemporary development economics is one that might change the world for the better---a world which has been interpreted variously by orthodox and heterodox economists----in order to critically challenge the anomalies of endemic political corruption, mediocrity, and institutional atrophy. One hopes that analyses contained in the current paper have provided some conceptual foundations for framing broader economic, institutional and political issues and perspectives that would inform the accentuation of agency and collective social action in the fields of economic and historical change.

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