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Public Policy and Economic Development in Africa

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Introductory Remarks

Distinguished Guests,
Colleagues,
Ladies and Gentlemen:

1. I feel deeply honored for the opportunity to address this plenary meeting of the 65th Congress of the International Institute of Public Finance here in Cape Town. I believe that there is no better location to reflect on the issue of public policy and economic development than in South Africa, for various reasons.

2. South Africa is a valued shareholder and partner of the Bank Group in its efforts to promote economic development and poverty reduction in Africa. As the continent's largest economy, South Africa's influence in the rest of the continent is considerable. Researchers' estimate that an additional percentage point of South Africa's growth is associated with 0.5% to 0.75% GDP growth increases in the rest of Africa. South Africa also has the potential to promote good governance in Africa. However, because South Africa still faces formidable challenges of transformation, especially with respect to the sometimes called 'second economy', the country shares some of the development challenges confronting the rest of the African continent. Taken together, these issues place this country in a good position to serve as a platform for commenting on the nexus between public policies and economic development.

3. This topic—which is far from new—is ambitious and compelling, with wide ranging theoretical and practical implications. For this reason, it deserves a longer time for discussion than the time we have today, as it appeals not only to specialized economists like you, but also to anyone interested in the sources of national economic well-being and in the public policies that should arise in consequence.

4. In my remarks today, I would like to share with you some salient features of the role of public policy in economic development, with particular regards to the role

of the state. However, because the term 'public policy' is a highly flexible one with imprecise definitions, I will generously use it today to refer to whatever governments choose to do *or* not to do. Such a definition covers government action, inaction, decisions and non-decisions as it implies a very deliberate choice between alternatives, in this case economic ones.

5. At its core, the topic of public policy is the story of a century-long battle as to the best ideas around which to organize economic activity—states or markets; the story of an intellectual contest over which economic system generates more and deeper wellbeing; and indeed, the story of epic political struggles to establish those ideas on nations of the world. I need not tell you how this battle of ideas—even among development economists—still generates pointed divisions.

6. My general beliefs on this topic—which I think I share with many others—can be summarized as follows: Although a neoclassical economist at heart, I also strongly believe in the strategic, albeit limited role of the state in fostering economic development, particularly in developing settings like much of Africa. Indeed, I dare say that when the state just stands aside waiting for individual action and non-state forces such as entrepreneurship, comparative advantage, and cross-border capital inflows to bring development or transition, the result can be inadequate responses or boom and bust episodes, which, in turn, can produce the sort of stagnation capable of locking countries into a low-growth trap. However, an active state role in the economy does not in itself guarantee economic success, in development or in transition. The wrong active state policies as we know from numerous cases in history, can fail to achieve either goal. In fact, a state can be an obstacle to development as its policies obstruct economic progress.

7. Before I expound on that thesis, I will touch upon several things. First, I will begin by briefly exploring what I believe to be some key implications of the current economic crisis on our thinking about public policies and economic development. Specifically, I argue that the current financial crisis has exposed a deeper, long-term development problem for developing countries, particularly here on the African

continent. Second, I try and make the case that the crisis has created both the necessity and the opportunity for a change of direction in public policies that support economic development. However, before delving into the latter, I will need to take an abbreviated historical detour about market-led versus state-led public policies and economic development to contextualize both the evolution of my own beliefs as well as some of the evidence to support them. And although the topic is not geographically constrained, I will try and anchor my remarks in the African context.

The Current Economic Crisis and Some Medium-Term and Long-Term Implications

8. The current financial crisis is the result of flaws in the predominant economic model that has shaped global economic policies for the last 30 years, weaknesses that have been magnified by policy failures and permissive regulation in the developed world. The sheer cost in terms of the bailouts and recapitalization of banks has already reached unprecedented levels. Yet, the adverse impact on the real economy and the cost in terms of lost output and employment are now an even bigger concern. Most developed economies are in recession and emerging markets are undergoing significant slowdowns. Moreover, many developing counties are still suffering the adverse impact of recent energy and food crises, and they have the least capacity to cope with yet another major economic crisis. The combination of high exposure to shocks as well as weak resilience to those shocks is likely to mean that much of Africa, which already faces chronic development challenges, will be harder hit than most other developing countries.

9. The crisis is already undermining those factors that enabled robust growth performance in Africa for almost an entire decade leading up to 2008. Their vulnerability is not just a reflection of traditional commodity dependence and related sensitivity to price fluctuations; it is due to the combined threat from falling commodity prices, the slowdown in global demand and the contraction in financial flows. As a result, commodity-dependent economies are being hit extremely hard.

Most African counties will be severely affected by the crisis without considerable additional assistance from their development partners in the short run as well as support for alternative public policies to support new economic development strategies in the longer run. Changes in both areas will be necessary to stimulate a steadier and more resilient development trajectory.

10. Several African countries have already experienced widening deficits in their fiscal and current accounts, with the latter likely to deteriorate even further with decreasing global demand. The vulnerability of most African economies is related to the highly concentrated production and export structures of many commodity-dependent countries. The global recession is constraining international trade and impeding long-term investment. Countries have suffered a substantial reduction of their exports (both in volumes and prices) associated with a slowdown in global demand. The external payments imbalances on the current account are likely to be exacerbated by trends in capital flows. Private capital flows, including both FDI and remittances are already showing signs of steep declines, and if the experience of previous economic crises is repeated, official development assistance will also decline at a time when international reserves accumulated during the years of export boom are insufficient protection from the significant current account shocks associated with the drying up of external sources of finance.

11. Furthermore, excessive commodity dependence exposes most African countries to large terms of trade shocks. Indeed, many countries on the continent have recently gone through years of record growth performance driven primarily by commodity sectors and propelled by the boom in international prices stemming from a combination of speculation in commodity derivatives and strong global demand. The onset of the current global crisis in mid-2008 put a sudden end to this boom and there have since been sharp price reversals. Such boom-and-bust cycles have contributed to output volatility and uncertainty, thereby discouraging investment in long-term development of productive capacities. A sharp contraction in commodity markets is particularly damaging to African economies for an additional reason; contractions in demand, prices and output imply a reduction in government

revenues, thereby reducing the capacity of the state to utilize fiscal policy to mitigate output volatility.

12. Besides, external vulnerability of the African region is further aggravated by most countries' high level of indebtedness. And because the debt distress is a relatively higher burden compared to other developing regions, there is the potential for a new debt crisis to emerge in the continent's poorest countries. For many African countries, the current crisis can very easily endanger their hard-won debt sustainability.

13. And although there may be differences from country to country, the general expectation is that foreign direct investment (FDI) to Africa will decline over the next few years, owing to a combination of lower expectations of profitability; reduced access to credit to finance new investments; and balance sheet consolidation by transnational corporations in the face of financial pressures. This is particularly true of FDI to Africa which has been predominantly natural resource-seeking and focused on the extractive sectors, and which has already shown signs of decline in 2009 because of sharply falling mineral prices and the transnational corporations' cautious approach to exploration and expansion during this volatile period.

14. Lastly, remittances are also set to decline. African workers' remittances have become an important supplement to basic incomes on the continent. According to our Bank's estimates, remittances to the continent as a whole are expected to decline significantly in 2009, with a possible slight recovery in 2010.

15. It is against this background, that I argue that the current financial and economic crisis has exposed the myth of self-regulating markets. Indeed, in response to the crisis, most large developed market economies have shifted away from free market-based forms of economic governance and are exploring alternatives that include a much bigger role for the state in economic management. These countries recognize that the alternative has to involve giving the state a greater role, not only

through regulation but—more importantly—through fiscal stimulus packages, of the kind being currently pursued in most developed nations.

State versus Markets: A Historical Battle of Ideas

16. As you know, one of the biggest battles of the last century among economists was the central debate as to whether it was best to have economies based largely on free market systems or on state planning. That debate was personalized in the West by two important economists, the Englishman, John Maynard Keynes, and the Austrian exile, Friedrich von Hayek.

17. After World War II, politicians and policymakers in the then newly independent countries in the developing world had to grapple with what side of the state-market debate they should anchor their plans for economic development. For example, when India—which had been the jewel in the crown of the British Empire—celebrated its freedom in 1947, its first Prime Minister Pandhit Nehru, wanted to industrialize and combine British parliamentary democracy with Soviet-style central planning. Indeed, in the 1950s India was the Mecca of many economists, a good number of them advising the Indian government to adopt a state-led model of industrial growth, with the public sector occupying the so-called commanding heights of the economy (i.e., steel, coal, machine tools, capital goods, and all other areas of heavy industry). Across the developing world, socialism, planning, government control, regulation, and ownership became the gospel. Here in Africa, many governments, including Egypt, Ghana, Tanzania, Zambia and others, looked to socialism to lead them out of poverty. Likewise, governments across Latin America chose state control as the way to modernize. The apparent success of communist countries like the Soviet Union and China seemed to show the way.

18. By this time meanwhile, an intellectual insurrection among economists against Keynesian orthodoxy was underway in the West, starting at the University of Chicago. There, the young Milton Friedman had become the most articulate spokesman for the so-called Chicago School of economics with its strong belief in

minimal government intervention and an emphasis on the free market, individualism and freedom (but not necessarily fairness) as a way to control the economy. For those countries still pursuing economic development, this meant finding ways of ordering societies in such a way that these forces could be harnessed for those societies' benefit.

19. However, among the power brokers in Washington, Keynesian ideas still ruled all the way through the 1960s. The Keynesians consensus saw the economy not as a force of nature but a sophisticated machine to be fine-tuned by economists and technocrats. And much of the Western world was very much a socialist world with Hayek's and Milton's ideas still on the fringes of economic thinking.

20. However, by the time of the collapse of the Marxist experiment in the early 1990s, the question concerning the causes of economic well-being took on a new twist as one major universalist answer had been seen off the stage of history. All of a sudden, the contest seemed to be between a new universalism of proponents of free market capitalism and a variety of dissidents who believed this question could not be considered in the abstract, outside of particular institutional, historical and perhaps cultural frames. Deregulation, liberalization, and privatization became the leading buzzwords.

The Story in the Developing World: Banishing the State & Bringing it Back In

21. The backlash against state-led development had started long before the fall of the Berlin Wall. Led by the Bretton Woods institutions, the 'development' community embraced a set of neo-liberal economic policies that converged in what came to be known as the 'Washington Consensus'. At the core of this thinking was an insistence that aid-recipient countries had to adopt structural adjustment programs designed to reduce the size and reach of the state. The state which had been in control across most of Africa during the post independence period up to the early 1980s had little to show in terms of improved well being of the people. Rather, Africa suffered one of its worst prolonged periods of contraction. In response to the economic crisis, the

Bretton Woods institutions recommended measures that included eliminating government controls, promoting trade liberalization and fostering a greater role for the private sector in the economy.

22. This turn 'against the state' had several unexpected consequences, however. For example, one of the key prescriptions advocated by the international community was to bring public wage bills under control by seeking to reduce the number of civil servants, many of whom had not been hired on any kind of meritocratic basis. However, one way this was done was not by 'meritocratic weeding' of the civil service, but rather by letting salaries erode through inflation; governments were thus able to evade possible domestic conflict while fulfilling international demands. The net result of such retrenchment was an even less professional and more poorly performing public sector, with increasingly underpaid and unmotivated staff that was incapable of formulating, let alone, implementing sound public policies.

23. As more and more developing countries followed economic reform programs that severely reduced government involvement in promoting development, it became clear that these programs were unable to address the key structural constraints which these countries faced, including (a) bottlenecks in production, related to the structure of their balance-of-payment deficits; (b) inadequate infrastructure; (c) chronic deficits; (d) serious skills and knowledge shortages; and (e) vulnerability to external shocks. Furthermore, these policies based on minimal government action didn't necessarily lead to structural change and economic diversification. Rather, many countries even further deepened their unfavorable production patterns and specialization in exports of commodities, with many of them undergoing deindustrialization and stagnation in their manufacturing sectors—phenomena that actually increased their exposure and vulnerability to external market shocks.

24. Since the mid-1990s, another shift in understanding the role of the state became perceptible. There was a growing awareness among development practitioners as well as academics that the orientation and effectiveness of the state were the critical variables explaining why some countries succeed whereas others

failed in meeting development goals. The new thinking was based on a combination of three factors. *First*, the developmental success of East Asia (and more recently that of the East European transition countries, as well as Brazil, India and even Mauritius) had served to highlight the fact that even market-based economies require functioning, capable states in order to operate well and to grow. *Secondly*, the international community became increasingly concerned about deeply malfunctioning and fragile states in the 1990s – from Sierra Leone to D.R. Congo to Somalia. *Thirdly*, the international community had come (once again) to expect states to institute public policies that meet the basic needs of their populations and deliver essential social services. These 'minimalist state functions' include such things as public health and anti-poverty programs. Recently for example, the *Commission for Africa* (2005) highlighted this thinking, identifying weak state capacity and effectiveness as a key bottleneck in Africa's ability to meet the Millennium Development Goals (MDGs).

25. I would argue that the emergence of the Poverty Reduction Strategy Papers (PRSPs) and even the MDGs since 2000 has strengthened the expectation that the state will ensure universal basic health and education services, even if it is not regarded as the sole provider or stakeholder in drafting a national development strategy. Moreover, PRSPs have effectively reintroduced state-coordinated planning processes. However, while the thinking about states has clearly evolved, no firm new consensus has yet emerged. States have come to be expected to perform more functions, including leading on aid co-ordination, but more focused reflection on how to promote development-oriented, capable states able to fulfill these functions is only just (re)emerging as a top priority within the development community.

Insights from Asia's 'Developmental' States

26. Thus, even before the current global crisis, discussions among development economists and the wider development community had shifted away from determining the 'right' role for the state—a vital question in the 1990s—to questions about commitment and capacity within state organs and the public policies they

develop in supporting development and human security. The immediate sources of this shift are clear enough.

27. I believe that these observations provide practical incentives to revisit what is known about state-building and the development of state capacity—variables traditionally seen as 'messy', and ones to be avoided by most mainstream economists. Underlying the new interest, however, is a growing sense that the tools currently available to researchers and policy-makers interested in public policies for economic development and social transformation are not good enough. There is a need to return to some fundamentals.

28. And the fundamentals are not inconsequential. I will not go into the rich academic literatures on the role of the state in the development of the countries of East and South-East Asia that many of you are already familiar with. Likewise, I will spare you the details of the equally rich research that some of you might be familiar with on the neo-patrimonial or patronage-based states that prevail in much of the rest of the developing world, especially here in Africa; as well as that on failed and fragile states. However, these bodies of literature are excellent building blocks for reflection on how they might better inform current policies for developing countries. In particular, developmental states require public policies with the vision, leadership and capacity to bring about a positive transformation of society within a condensed period of time.

29. The transformation can also take various forms. In the classic East Asian examples, it was aimed at speeding up growth, while at the same time enhancing opportunities to participate in the modern economy—most commonly through the expansion of public services such as education, health care and agricultural extension. The developmental state was associated with rapid processes of industrialization and/or the adoption of new technologies—that is, moving into higher value-added activities relative to a well-defined starting point. Typically, there was a shift from subsistence agriculture to more commercial, export-oriented farming, or to textile processing, or to tourism, or a mixture of these.

30. Now, a caveat here: not all socioeconomic transformations are actively promoted by developmental states. Indeed, there are many instances of private-sector-led growth in which the state's role has been quite limited. In addition, not all attempts at state-led transformations succeed.

31. With hindsight, we can thus quite easily identify developmental states and their public policies; that is, once the transformative outcomes have become visible. However, it is less easy to specify *ex ante* the key characteristics. Developmental states are marked by a combination of capacities, visions, norms and/or ideologies. They are not associated with specific public policies; at different times and in different places, very different policies have ushered in socioeconomic transformations. At most as some have argued, developmental states are neither socialist nor free-market, but rather, something different: plan-rational capitalist states which link interventionism with rapid economic growth.

32. Without going into all the common attributes among developmental states, it is worth pointing to committed leadership that is strongly committed to developmental goals, and which places national development ahead of personal enrichment and/or short-term political gains. Likewise, the states tend to be characterized by a degree of political stability that is usually a precondition for such public policy capacities to be sustained and to flourish. Aspects of the domestic context are important as well: demands arising from society, and in particular from wider elite groups, as well as international factors, may help or hinder the efforts of a national leadership in pursuing developmental goals.

33. The importance of the structure of domestic demands is reflected in a fundamental characteristic of the developmental state: the developmental state requires, at its core, a rationalized bureaucracy characterized by meritocracy and long-term career prospects, traits that make civil servants more professional and detached from powerful rent-seeking groups. However, the state cannot be too

insulated from society otherwise, it runs the risk of becoming excessively detached, unable to appreciate and act upon societal needs.

34. State capacities generally cannot increase if a developmental commitment among the state elite is missing or insufficiently resolute. However, commitment at the elite level is insufficient on its own. It is usually necessary for the elite to expound a vision that connects the state and society in a mutually binding way, through some form of shared 'national project' by a nation-wide public. The important issue is that all citizens see themselves as Zimbabweans, Tanzanians or Nigerians as much as or more than as Shona, Chagga or Igbo—a challenge that several post-independence leaders in sub-Saharan Africa understood.

35. I should mention here that whereas many of Africa's original leaders in post-colonial Africa had developmental visions, (Julius Nyerere of Tanzania and Kwame Nkrumah of Ghana are perhaps the best-known) wider conditions were disadvantageous. Indeed, many African countries experienced some sort of big push for development during the early independence years. However, subsequently governance deteriorated too sharply for this to be followed through. The deterioration was due to a combination of domestic and external factors. Domestically, there were strong clientelist demands for spoils, and tribal rivalries that needed to be managed. The international context of the Cold War was particularly unfavorable, providing the backdrop to the elimination of potentially good leaders (for example, Lumumba), as well as the imposition or tolerance of outrageously bad ones.

Policies to Tackle Africa's Macroeconomic Challenges

36. I believe that inasmuch as the current economic crisis exposes a deeper, long-term development problem, it creates in turn, both the necessity and the opportunity for a change of direction. My beliefs are based on the view that the crisis should be grasped as a turning point in the development path of developing countries, particularly here in Africa. In order to overcome the continent's structural constraints and reduce its external dependence, it is necessary to reconsider the role of the state. The market only works through incremental changes and small steps.

However, developing countries need to stimulate investments by socializing risk, in order to achieve long-term structural transformation. The market has not been and will not be able to carry out these changes alone. The critical question now is not simply how developing countries can cope with the short-term immediate impact of the crisis. More important, the question is how can they emerge from the crisis in a stronger position? What policies should they be crafting now for the post-crisis era?

37. As pointed out earlier, macroeconomic policies across the developing world during the last several decades have been strongly influenced by the recommendations of the international finance institutions and bilateral aid donors who, in turn, were heavily influenced by the neoclassical school. Typically, the main recommendations have been that monetary policy focuses on containing inflation and creating an environment for private investment, and fiscal policy should ensure that fiscal deficits remain below a small percentage of GDP. Public investment has generally not been seen as having an important role in promoting economic development and structural change. Behind this policy stance were fears of inflation. This was significant in the 1980s and 1990s. However, inflation has not been a major problem in most African economies during the current decade. Worries that the excessive government spending could 'crowd out' private investment and fuel inflation are an unlikely outcome in countries where there is widespread under-utilization of all resources , a good track record in choosing public intervention programs and capacity to manage excessive liquidity in the economy . The contention of the market based policies was that liberalization of trade and finance, privatization and minimization of government intervention in the economy would provide the spur to private sector development and hence sustained growth. As argued by several scholars, the reforms based on this approach have largely failed to develop the private sector as the driving force for development.

38. I thus want to table for your consideration the need for a marked change in the approach to macroeconomic policies across the developing world and for one that recognizes that government has a vital role to play in restructuring the economy and in creating the conditions for a 'takeoff' into sustained growth. Since economic

development is about societal transformation, and not simply a technical economic problem to be left to economists, then governments must also act to ensure that the costs and benefits of adjustment are distributed in an equitable and socially acceptable manner. Failure to do this is very often correlated with social unrest and a general backlash against necessary reforms. For that reason, good public policies should necessarily be seen and used as tools for improving people's wellbeing. In particular, effective public policies should seek to promote growth that is not only sustainable and equitable, but also, growth that is primarily driven by two key elements: employment creation and the promotion of private enterprise.

39. Public investment—especially but not exclusively in traditional infrastructure such as transport, irrigation and energy networks—has a key role to play in driving the development process. This has tended to deteriorate in recent years as foreign assistance has been more directed toward social issues. Social concerns are important, but if progress on these is made at the expense of needed public investment in production sectors and economic infrastructure, the basis for sustained growth will be undermined. Given the severity of the current economic crisis, African governments are already being confronted with rising fiscal deficits as they try to maintain domestic demand and also attempt to boost infrastructure investments. These deficits will need to be accommodated over the short-to-medium term in order to mitigate increased hardship for the population and to keep development programs on track. Given the limited alternative sources of finance, foreign assistance will be critical in enabling these objectives to be met. African governments will still have to explore innovative ways of raising revenue, but they need to do so in ways that avoid regressiveness, and which take account of the still-limited administrative capabilities of the state.

40. Most African economies are small, undiversified and face physical, political, and policy-induced constraints to deeper economic integration with their neighbors and the global economy. Effective public policies at both national and regional levels should give emphasis to greater economic cooperation and regional integration that is in line with national development plans as an essential part of Africa's

development agenda. This is particularly the case if the continent is to overcome trade and other barriers and take its rightful place in the global market.

41. Excessive reliance on monetary policy as a source of macroeconomic stability limits the effectiveness of such policy beyond price stabilization, owing to the underdeveloped state of financial institutions and the absence of viable bond markets. African countries are generally faced with structurally high real rates of interest that are simply not conducive to an investment-driven growth path. For most countries in Africa, the credit crunch is more of a chronic condition than a consequence of the global banking crisis. The dramatic effects of a credit shortage have become apparent in rich countries in the current financial crisis. But this is actually a picture of everyday business life in Africa.

42. As a former central banker with the proverbial 20-20 knowledge from hindsight, I also believe that monetary policy across Africa should also support investment-focused fiscal policy, and one way to ensure this would be to have the central banks cooperate more closely with other departments of state in developing and promoting the overall economic development program of their countries. Addressing the weaknesses of domestic financial institutions should be a priority in a strategy to develop productive capacities.

43. Another key support for an investment-driven strategy is the management of the exchange rate and, as a corollary, the capital account of the balance of payments. The current orthodoxy of freely floating rates, usually combined with monetary policy focused on inflation targets, is very often correlated with exchange rate volatility of the kind that undermines domestic macroeconomic stabilization efforts. Managing the exchange rate—through a managed float or an adjustable peg, for example—requires resources and policy capabilities. However, it allows greater macroeconomic policy options. There is no single model of exchange rate management applicable to African countries, but there is increasing consensus that the extreme solution of purely floating or totally fixed pegs do not work. Managing the exchange rate—through a managed float or an adjustable peg, for example—

would (i) support fiscal policy by helping to avoid a depreciation because of exaggerated fears of inflation; and (ii) aim to check the volatility of the rate following external shocks.

44. The effectiveness of capital controls in reducing highly speculative flows and exchange rate instability in the short run has been shown by previous crisis experiences in emerging market economies. Destabilizing surges of inflows and outflows of speculative capital occur suddenly and have been a regular feature of the financial system over the last three decades, so it is important for countries to be able to deploy such controls whenever they consider it necessary. For most African countries, the most common problem at present may be dealing with outflows of capital (including capital flight on the part of elite groups), but commodity producing countries also experienced speculative capital inflows during the recent boom in world prices, and short-term measures may be necessary now to slow down the outflow of speculative portfolio investment.

45. Lastly, in addition to the effects of the global economic crisis on their exports, many developing countries suffered a severe shock in the first half of 2008 from the sharp rise in food and energy prices. Although prices have since fallen sharply, they are still higher than in 2005. More importantly however, the 2008 food crisis was in reality a sharp reminder of the precarious state of food supply in many parts of the world, certainly in Africa, a situation that has been worsening for many years, the result of low or falling levels of agricultural investment and fundamental failures of policy that have left productivity in decline or stagnant. In addition, there are growing population pressures on the available stock of productive land. And also, there are also increasing pressures on the supply of land for food production from climate change and from incentives to switch to the production of non-food agricultural export. Reversing this trend will require, first, a firm commitment on the part of governments to re-prioritize agriculture in their development programs and especially to increase the share of public investment in GDP. In this area, financial sector policy should seek to promote carefully targeted public investments aimed at key structural constraints, which consist mostly of poor or missing infrastructure,

poor education and training, lack of small credit facilities, and so on. The essential point is that well-prepared public investments, including a careful assessment of likely linkage or multiplier effects, will *crowd in* private initiative and investment. Moreover, it is important for policymakers not to discriminate against people residing in rural and upcountry areas. Indeed, in designing economic policy, and the accompanying institutional reforms, the focus should be on generating improved incomes and living conditions for the whole population.

46. To be sure, all these policy recommendations, though seemingly straightforward, will be daunting in resource-poor countries and/or those with historically weak institutions. And like most strong development policies, they are also inherently political—something that adds layers of complications. However, I am afraid that there are no short-cuts.

Conclusion

47. Perhaps I should end by returning to my own beliefs which I shared earlier in my introduction: better and more effective states are needed to formulate and implement public policies if development is to succeed in the world's poorest countries. And I will repeat myself here: I believe that here in Africa, when the state just stands aside waiting for individual action and non-state forces such as entrepreneurship, comparative advantage, and cross-border capital inflows to bring development or transition, the result can be very negative, and in turn produce the sort of stagnation that can lock countries into their unfavorable positions in the world economy.

48. I believe that the sort of high profile public policy interventions once championed by East Asian governments can still be sustainable in developing regions such as sub-Saharan Africa as long as they are accompanied by a commitment to a 'national development project' by both the political leadership as well as by powerful elite groups and society at large. This is particularly the case given an international environment in which, even as despite the current global

crisis, the neoclassical ideas are still highly influential; an environment in which direct state involvement in the economy is generally discouraged; and an environment in which private sector agencies have increasingly assumed responsibility for creating the rules and regulations that govern critical areas of the international economy.

49. In his recent speech in Accra Ghana, U.S. President Barack Obama noted the need for the strategic engagement of the state. So said Obama: “In Ghana, for instance, oil brings great opportunities, and you have been responsible in preparing for new revenue. But as so many Ghanaians know, oil cannot simply become the new cocoa. From South Korea to Singapore, history shows that countries thrive when they invest in their people and infrastructure; when they promote multiple export industries, develop a skilled work force and create space for small and medium-sized businesses that create jobs.”

50. The current global economic crisis provides us an opportunity for a turning point in our thinking about public policies in support of economic development. In this regard, I fully agree with President Obama that governments across the developing world need to redouble their efforts in investing in their people and infrastructure more than has been the case in recent years. Governments have a vital role to play in the restructuring of their economies, and in creating conditions for catch-up growth.

51. Thank you for your attention.