

Development: Why the Formality? by Lindy Davies

For the last two decades the indebted, developing nations of Sub-Saharan Africa (and many other parts of the world) have been compelled by their Western creditors to undergo “structural reforms” and “modernization programs” in order to meet their debt service obligations and maintain their good standing in the club of well-behaved world traders. This implies that such nations, having squandered the billions they borrowed in the name of development, can only be saved by “tough love” — compelled to learn good old-fashioned fiscal discipline. Government budgets must be scrutinized; with GDPs growing more slowly than populations, they cannot afford the luxuries of public education, health or infrastructure. They wanted to dance, we are told, and dance they did, buying airports, monuments, gigantic dams, lots and lots of weapons — now the Western piper has got to be paid. And the piper can only be paid in Western currency, so all resources must immediately be channeled into production of export goods.

It is suggested that those folks should follow the Bankers’ advice for their own good, and learn to love exports. Ah, exports! Isn’t that, after all, what production is all about — savoring the, subtle joys of shipping our stuff away? Production for our own consumption, why, that’s downright passé. Let’s de-emphasize that; let’s send it all off, and get nothing in return! Now that’s market reform! Under the tutelage of the Bretton Woods Institutions, the Heavily Indebted Poor Countries (HIPC)s have become hyper-disciplined — they have developed economic bulimia.

Seeing this, compassionate folks around the world have begun to ask searching questions about just how good “the free market” and “international trade” could be, if they lead to such calamities. Many are led to conclude that it would be best if we stay home, chop our own firewood, grow our own chickens and prepare our own poultices as best we can, for trading is dangerous — just look what it’s done to poor Africa.

What such folks seem to have missed, however — but the World Bank and the Ghanaian peasants know only too well — is that “exporting” is not the same thing as “trading”. Trade is something that two parties do voluntarily, for their mutual benefit. Each trader ends up with something she values more than the thing given up. This is nothing like what has happened when Sub-Saharan Africa has engaged in “international trade”. In return for their oil, their eight-hundred-year-old trees, their wildlife, their gold and gems, their crops, the African workers who produced such wealth have gotten nothing, nothing at all. That’s not trading: that’s giving.

But, of course, somebody does get something in return for those exports: those who own the resources, or the lands on which the export crops are produced. They are a very, very small part of the (*continued on page 32*)

amount to a revolutionary denial of the neoliberal paradigm.

And it is actually the neoliberal system that we are fighting. Liberty in the philosophy of Henry George means justice and justice is the natural law, a natural right. Environmental justice is a questioning of the current order that favors the few. We think that the ideology of political ecology is... a revolution based on intelligence, where we have the mind that is taking the place of arms. I think that our friends have brought us the tools to come to this environmental justice revolution. This would be an opportunity for us to stop squabbling and to get together and unite because we have on the continent problems that we need to solve. If we do not do what we have to do then we give the opportunity for those who are leading us to keep on exploiting the poor.

The Seminar continued into the evening with further comments and discussion by conference participants and questions and answers to the speakers. The following day Hartzok gave a summary of the seminar and Abiama described plans for a conference in Nigeria in February, 2003, which will focus on the proposal for a Niger Delta Fund for the distribution of oil royalties and a sustainable development plan for the region. Akuopha will be launching a Henry George Center in Mali. Afterward, several university students reported their intentions to form a study group and establish a geoclassical economics training center in Senegal. (5)

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population in each nation, but they wield influence in bureaucracies, write fancy reports detailing structural adjustment plans, and manage to achieve a tolerable degree of "modernization" in their personal lifestyles. The only problem is that they are so very few. The rest of the people are, alas, left pretty much to fend for themselves.

Under "structural reforms", the informal economy — the peasants, peddlers, unregistered craftspeople and service-providers, the masses of people scraping together a living however they can — was supposed to have been subsumed into the overall national economy, in a Western-type model. There was no way this could ever have happened, however, because of the demand for debt service, and the consequent pathological over-emphasis of export industries. National production in any realistic sense was simply not a priority for the people making economic decisions — and in fact, their policies created dis-incentives to produce goods for domestic consumption.

Meanwhile: there are no jobs, but many people who need to make a living. There are lots of underutilized natural resources, but the regulatory environment is lax, erratic, corrupt, overextended, nonexistent, etc. People need to eat; they need to live somewhere. They will either produce these things for themselves, or die — and overall populations have been increasing, so nothing else but the informal economy could have delivered

the goods and services that enabled such widespread survival. That's not to say that those goods were delivered in a ways that were healthy, sustainable or just — just that they were delivered somehow.

However, it ought to be pointed out that the distinction between the formal and the informal economy is political, not economic. There are risks and costs associated with any manner of producing things. When a lot of people, rationally assessing their options, decide that informal production costs less and rewards them better, then that is the situation; the masses haven't made a mistake. In economic terms there is nothing illegitimate or unreal about the informal economy; it is simply part of the range of options that present themselves to people trying to make a living. This fact has been shown repeatedly in various places with respect to monetary systems: if a crisis of confidence in a nation's currency develops, people will stop using it, substituting some other currency (or commodity). In such a situation, the "formal" money is legal, but it isn't legitimate.

I suspect that part of the reason that we refer to "the informal economy" with such a sterile and un-descriptive term is that such survival-oriented activities are not useful to international financiers or to the third-world elites who are in bed with them. They would prefer that such people quietly die off — or, better, not be born at all: hence the continual outcry over population growth, in nations whose people consume a pathetically small per-capita share of resources, and cause a tiny fraction of the per-capita pollution, dumped out by the ZPG'ers of the West.

But: once we understand two vital facts, we can easily see that the "informal economy" is indeed the key to development and prosperity. These facts are:

1) ***The foreign debt burden of HIPC's is unjust, undemocratic, cannot be repaid, and should be eliminated categorically.*** The fact that this is politically hard to swallow doesn't make it any less true. The people being compelled to pay off these loans had no say in contracting them and received no benefit from them. And as to the "rights" of the Western lending institutions, they must recognize that in market economies, people take risks. If governments want to subsidize their bankers' incompetent lending decisions, that is their affair, but it is not Africa's job.

2) ***Prosperity does not trickle down.*** It never has, and it never will. Economies prosper and grow upward from the lowest sector of the labor market. When all workers, regardless of their level of skill, have an opportunity to make a living for themselves, then employers must pay them decent wages, and must invest in their productivity. In the HIPC's, of course, the great masses of workers have no viable employment opportunities at all — we can see this by the prevalence of the underground economy. Development simply cannot occur under such conditions.

HIPCs do not continue to honor their foreign debts out of an overdeveloped sense of politeness or honor. They do so because that is the only way they can continue to sell their exports. They are locked in a vicious cycle that benefits only two players: the Western banks who do not have to write off their (nevertheless) bad loans, and the local elites who profit from exports while impoverishing their people, and raping their natural habitats.

None of these things are difficult to see if one looks soberly at the facts. Yet they are hard to recognize in another sense, for their clear implication is unthinkable. But let's think of it, anyway. To achieve just, sustainable development, an HIPC must:

1) Refuse to pay its foreign debt.

2) Collect the rent of land and natural resources for public revenue, and abolish taxes on production and commerce.

It is always a wise for a nation to collect its land rent for public revenue — for reasons of both justice and efficiency. It is egregiously wrong for great part of a nation's resources to be held by foreign corporations, or by a ridiculously small elite. These injustices can be redressed, and these inefficiencies eliminated, but the public collection of land rent. This point is well-known, at least, among advocates of this reform. But what is not widely understood is that these two steps in a nation's path to liberation are interdependent. It is only by unleashing this engine of equitable, sustainable economic growth that an HIPC can hope to survive its weaning from foreign capital.

How would that happen? What would happen to a nation that did these unthinkable things? Well, to begin with, it would immediately lose its export markets. Tariffs would be slapped; ships full of timber and cocoa would lie in port.

Conventional wisdom would, of course, call that a disaster. But for who? Would it be a disaster for people in the informal economy, who do not produce export goods and get no benefit from a nation's exports? (In fact they are most often hurt by those exports, for when a nation devalues its currency, making exports more attractive and debts easier, it simultaneously makes imports — including medicines and other needed items — more costly!)

The fact is that in a very poor nation such as any number in Sub-Saharan Africa, production is so low, and the economy is so dysfunctional, that tremendous improvements in living standards could be made before such processes even showed up on the radar screens of those equipped to monitor the "formal" economy.

Refusing to pay the debt would be a disaster for the landowners whose lands are used to produce exports. But no matter: our hypothetical, enlightened state, affirming fundamental principles of human rights, would have appropriated the rent of land for public revenue. Those plantationers would be slapped with a large holding cost for land, the produce of which

is longer in demand! Will they not abandon those lands? (They will, if the government that took this step has any chance of longterm survival.)

Suddenly there would be a drastic increase in the amount of good land available — even to those small, “informal” producers. Furthermore, with the disastrous tariff on imports removed, the incentive to acquire improved tools and equipment for small-scale production will have been greatly enhanced. You can do the math: the lives of the millions engaged in “informal production”, whether rural or urban, will be improved — and the government, now provided with a stable, non-inflationary, growing public revenue fund, will be in a position to contribute to growth by supplying long-needed infrastructure improvements. Slowly, “informal” will become “formal” because entrepreneurs will perceive a benefit in doing so — just (as Hernando deSoto points out in *The Mystery of Capital*) as has happened in developed economies.

Of course, such a program would be very, very risky. It would be truly revolutionary — a revolution with a realistic chance of actually delivering on its promises. As such it would be very threatening to the status quo, and would be strongly repressed. If it succeeded in one nation, there would certainly be a “domino effect”! However, by identifying, so clearly, the root causes of suffering and deprivation in HIPC’s, this reform could defend itself on unassailable grounds of justice and human rights. And by presenting a clear path to a workable remedy, it can, when courageously (and incessantly) presented, gain popular support. G

Dr. Mason Gaffney offers you the following food for thought:

A) Who FIRST wrote, “More is given to us... and, therefore, more is required of us.”? President John F. Kennedy? Nope, too obvious. It was (of course) Henry George, *Social Problems*, Chap. XXII, p. 241. (You also get full credit if you chose Jesus, for although he was not a writer, he is quoted “to whomsoever much is given, of him much shall be required.” Luke 12:48.)

B) Henry George also anticipated the Turner thesis (*The Frontier in American History*), by 11 years.

C) H.G. also anticipated “Spaceship Earth,” by nearly 90 years. (Buckminster Fuller wrote about it in 1963, and Kenneth Boulding in 1969 or so.)

D) H.G. also anticipated the “Lorenz Curve” for measuring concentration of wealth and income, in his debates with Francis Walker. Academics just had to name it for one of their own, instead. George’s attack on Walker did move the U.S. Census to revise its reporting methods, from 1900 on. The model for the new census format may be found in the 1894 Report of the Illinois Bureau of Labor Statistics, headed by single-taxer George Schilling, appointee of George’s friend, Illinois Governor John Peter Altgeld. Schilling applied it to landholdings in the Loop of Chicago — still makes a fascinating study, and it’s better done than the U.S. Census, even though Schilling had no formal training.

CONCLUSION: The man Henry George worked at the “cutting edge”; go thou all and do likewise, and we may wield the kind of influence he did. “Steer then with steady hand, O helmsman, thou carriest great companions.” (from *The Georgist News*)