

# In Conversation: John Loxley

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Globalization has had a profound effect on North-South relations generally, but has affected different regions and countries to different degrees. The alleged benefits of globalization have also been exaggerated. Only a few countries, largely in Southeast Asia, have enjoyed rapid growth based on the export of manufactured goods. International flows of private capital have likewise been concentrated in a handful of countries. Poorer countries have had to rely heavily on official borrowing and foreign aid. Debt problems have led to the widespread imposition of structural adjustment programs, with ambiguous results.

In his recently published book, *Interdependence, Disequilibrium and Growth: Reflections on the Political Economy of North-South Relations at the Turn of the Century*, John Loxley examines four contemporary developments that have potentially important implications for North-South relations:

- Attempts to deal with the U.S. fiscal and external deficits
- The emergence of three regional trading blocs
- The implementation of the Uruguay Round of GATT
- The collapse of the Soviet Union and its satellites

Finally — and perhaps most important — the book examines a number of approaches to development that do not rely on growth — many of which originate in the South — and assesses their likely impact on North-South relations.

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## **What was your aim in writing the book, and who do you see as its audience?**

The aim was to provide an economics component in a series of a half-dozen books looking at North-South relations. The book is intended for upper-level undergraduate and graduate students as well as economists and development professionals.

## **Over the past couple of years, there have been major debt crises in Mexico, South Korea, Indonesia, and Brazil, to mention just a few countries. Would you have predicted these crises and do you expect to see other, similar crises in other countries in the near future?**

In general, yes. I wasn't surprised to see such crises. But I don't think anyone could have foreseen what would happen in East Asia. Once this happened, though, Brazil's collapse, given its high debt load, seemed fairly predictable. Whenever there are high debts and then there's capital mobility, this kind of thing is likely to occur.

## **Why have there been so many debt crises in such a short time?**

The banks don't seem to learn from history. There's a sort of herd instinct at work here. If profits are to be made from lending, there are no constraints. The world banking system and financial markets seem to be very imperfect. They don't get the signals that risk is increasing, such as higher

interest rates. Something endemic in international capital markets seems to be prone to over-optimism. By moving toward financial liberalization, we've made this worse than it used to be. In fact, we've gone so far that there's nothing left to prevent capital flowing out, unless we bring in some kind of mechanism, like the "Tobin Tax," to at least slow things down a bit.

**Can you explain how the "Tobin Tax" works?**

Basically this is a very small tax (say, 0.25 percent) on international movements of capital. But the tax is levied each time money moves into or out of the country. This means that in order to make the investment worthwhile, the money has to stay in the country for a certain length of time.

**How likely is it that the "Tobin Tax" or some mechanism like it will be adopted?**

If you mean how likely is it that the whole OECD (Organization for Economic Co-operation and Development) will implement it, the answer is, not very. But the Canadian government seems quite open to it at this point. At least it hasn't ruled it out.

**Would there be other ways to slow the movement of capital out of Canada?**

Definitely. One of them would be changing the tax system to end the current tax breaks for those holding RRSPs abroad. But with the Finance Minister under pressure from Bay Street to increase tax breaks for the holders of overseas RRSPs, he's got a bit of a balancing act to do on this one.

**What are the implications of these various debt crises for us here in Canada?**

Let's consider the Asian crisis as an example. Once capital started leaving Asian countries, they responded with a dramatic drop in their imports of consumer goods and raw materials. Not only did this undermine their economic growth, it reduced the demand for goods from overseas, including Canadian commodities, which in turn caused the prices of those commodities to fall quite sharply. When a similar crisis hit Russia later on, Canadian commodity prices fell even further. Naturally, the effect has been particularly severe in British Columbia, whose economy heavily depends on trade with Asia.

**The demands that these crises have placed on the International Monetary Fund's (IMF) resources have been so severe that the Fund itself had to apply to the U.S. for an infusion of extra cash. Do you foresee the day when the Fund itself will go belly-up?**

I don't think the Fund will go belly-up, although it has been under severe strain lately and has been attacked in the U.S. from both the left and the right. Recently it has managed to achieve a substantial increase in contributions from member countries and has also managed to get money in other ways. I believe the political will does exist to keep it going.

**Your book is severely critical of the "structural adjustment" approach to the debt crisis taken by the IMF, World Bank, and other global institutions. Do the ongoing Asian debt crisis and virtual exhaustion of the IMF's resources lend weight to your criticisms?**

The book was trying to provide a "balance sheet" on structural adjustment because it has become the development paradigm. One of its major aims was to measure the impacts that the structural adjustment approach has had on developing countries. And my answer would clearly be that these and other recent events do lend weight to my criticisms, some of which are now being echoed even by fairly mainstream economists.

**Despite your criticism of the "structural adjustment" approach, you concede that Southern nations need to make some significant adjustments to their economic and political systems. If structural adjustment of the IMF variety isn't the answer, how can the nations of the South break out of the "vicious cycles" of debt they have long been in? And what sorts of adjustments should these countries be making?**

If a country is running a balance-of-payments deficit and inflation is rampant, any adjustment program will be painful. Still, there's a lot that can be done to generate economic policies of a more variegated nature. I would argue for an adjustment policy created locally by the people who have to live with it. Such a policy would likely be significantly different from those used by the IMF. It would feature a different approach to the payment of debt and would do more to protect the living standards of poor people. Ideally, you'd also want the IMF to change the mix of finance and adjustment, with an eye to giving Southern nations more time to get their houses in order.

**What (if anything) can we in the North do to help countries in the South break out of the debt crisis?**

Actually there's quite a bit we can do. Firstly, we can put in more money in up-front aid. Secondly, there's nothing that says you can't adopt a scheme that allows more time for smaller countries to get their balance-of-payments under control. Thirdly, for the smallest, poorest countries, you could consider writing off the debt altogether. This is something that a number of Canadian development organizations have already been advocating. It would probably cost just a little over \$2 billion and could be done over a period of, say, six to ten years.

**Your book is also critical of the way aid is distributed from Northern to Southern countries. For example, you note that most aid is targetted at neither the poorest countries nor at the poorest people within those countries. You also point out that a far larger proportion of aid goes to countries spending relatively more on the military than to those spending less. Why have such aid patterns developed?**

Aid has been used as a geopolitical and commercial tool, as well as a humanitarian one. In fact, geopolitical and commercial considerations have often overshadowed humanitarian ones, even in Canada, which is not a major world power. We've had a number of foreign aid projects whose only rationale was to promote Canadian exports, such as the wheat farms we established in Tanzania, which were almost an exact replica of Manitoba wheat farms.

**Do you see any hope for change in those patterns?**

There may be. Recently a coalition of Canadian development educators, including the Canadian Council for International Cooperation, and various church groups met with government officials to argue for major changes in Canada's foreign aid program. Firstly, there needs to be much more aid overall. Secondly, a greater share of aid needs to go to social, educational, and humanitarian programs. Thirdly, the aid should be directed to a smaller number of really poor countries and, within those countries, targetted much more explicitly at key problem areas. There also needs to be much more emphasis on human rights. While it's too early to say what the result of these meetings will be, the government did seem to be listening.

**Still on the subject of foreign aid, what's the significance of the recent, drastic cuts made by the present government? How do you think these cuts will affect developing nations and Canada's relationships with those nations?**

I think the government detected a lessening of interest in the Third World and, therefore, thought they could get away with the cuts politically. They were looking at the line of least resistance. But really the cuts were very shortsighted. Definitely they've reduced our influence in the Third World, where in the past we were admired for our aid programs.

**You also have quite a bit to say about North-South trade. What sorts of trading patterns would be in the best interest of Southern nations?**

If we could find ways to allow the Third World to increase its demand for imports, that would help. In fact, we would all benefit — Northern as well as Southern nations. In the long term, I foresee a substantial increase in South-South trade.

**Still on the subject of trade, it appears that the move to implement a multilateral agreement on investment (MAI) has lost steam, at least for now. Why did this happen? Do you foresee a revival of the MAI?**

Plans for the MAI were shelved for two reasons. Firstly, there was a massive public outcry against the deal all around the world. Secondly, France strongly opposed the deal, because the French thought it posed a threat to their culture. But the MAI hasn't gone away; it's just in abeyance for the time being. I think the World Trade Organization will come back and push very strongly for it. It's definitely not off the agenda.

**Near the end of your book, you discuss a number of alternative economic paradigms for both the North and the South. Which of these seem to offer the greatest hope of solving the South's debt crisis and bringing about greater global economic equality?**

No one of them will do the job by itself. I see more promise in a hybrid or a combination of approaches that will allow us to stitch together a more enlightened international policy. Here in the North, one could draw on the "steady state" (no growth) approach as a resource for wealthier countries to use in changing their economic policies. We need to challenge the use of the GNP and GDP as the leading measures of economic health. Fortunately, there's an increasing awareness that, here in the North at least, growth isn't the way to go — that in a number of countries, such as the U.S., where the GNP has continued to increase, the quality of life for the average citizen has actually been declining. But I wouldn't push "steady state" on the South. I don't think you can have a uniform prescription for countries at all stages of development. In most Southern nations, economic growth will be needed for some time to come if people are to obtain the basic necessities of life and the country as a whole is to be adequately developed.

**How would the Alternate Federal Budget (AFB) be helpful in dealing with the sorts of global economic inequalities that you have identified in your book?**

The AFB is a partial document, in a sense, in that it deals only with fiscal and related matters. But in the background papers there were fairly extensive sections on Canada's international policy and foreign aid. This year, there was a plea for debt write-offs for the poorest countries and a strong statement arguing for replacing the GNP and GDP by some sort of genuine progress indicator, which would include the value of unpaid domestic labour and the informal economy and provide a much more accurate picture of the overall quality of life enjoyed by Canadians.

## **How much chance is there, do you think, that the AFB or at least some of its proposals will be adopted by the federal government?**

The present government will never adopt the AFB in its entirety. But they've clearly been listening to what we've been saying. The increases in health care spending contained in the last budget are a good example of this. More generally, there are signs that a growing number of Canadians support the general principles contained in the AFB. This is something the government will obviously have to take notice of.

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### **About the Author**

John Loxley is Professor and former head of the Department of Economics at the University of Manitoba in Winnipeg. His distinguished career includes stints at Makerere University and the University of Dar es Salaam in Tanzania, as well as service to the governments of Tanzania, Uganda, Madagascar, Mozambique, and Manitoba as economic advisor. Professor Loxley is the author of *Debt and Disorder: External Financing for Development* and the coordinator of the Alternative Federal Budget exercise in Canada.

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### **The Book**

- [Interdependence, Disequilibrium and Growth: Reflections on the Political Economy of North-South Relations at the Turn of the Century](#)

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