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**THE ROLE OF GOVERNMENT IN TIMES OF ECONOMIC TURMOIL: OLD
RECIPES OR A NEW APPROACH?**

Address by Karel van Kesteren, ambassador of the Netherlands in Tanzania

Ladies and Gentlemen,

Introduction

I feel greatly honoured to have been invited – again, for the second year in a row - to address this prestigious workshop. Let me emphasize at the outset that I am NOT an expert: I am not an economist, nor a scientific researcher. I am just what is sometimes called a “development practitioner”, someone with three decades of experience in developing countries, trying to contribute to some progress there. A second remark to begin with is that I speak in my personal capacity, the opinions I will present to you are mine and do not necessarily reflect the official position of the Dutch government.

The title of my address is: “The role of government in times of economic turmoil: old recipes or a new approach?” Times of economic turmoil, there is no doubt that that is what we see around us. I will not dwell on a description of the global economic woes of this moment or on the consequences for poor countries. That has been done extensively elsewhere, including in recent meetings here in Dar es Salaam. Although assessments for countries like Tanzania differ, it is clear that no country can escape the negative effects of the worldwide economic slump. Lower prices for raw materials, less tourists, less remittances from relatives abroad, less foreign investment and perhaps –something I hope will not occur – less donor money. We know all that.

Socialism is not the solution

The troubles started with the financial sector in the US and spread rapidly to the banks and financial institutions elsewhere in the developed world, including in my own country. Governments there have responded by massive rescue operations, extending credit life-lines or buying up shares. As a result, government involvement in economic life has extended to such a degree that some speak about the downfall of capitalism and a change-over to socialism, or even communism. That in my view is a wrong interpretation. I hardly have heard any voices arguing that the solution for our common economic problems is large-scale nationalisations of banks and businesses and government control over all aspects of economic life. Quite the contrary. For example in my own country, the idea is that the government withdraws as soon as possible from its current position as large-scale shareholder in several big financial institutions, selling again the shares it acquired. Moreover, the government has clearly spelled out that it will not be involved in the management of those institutions. So the role of government will certainly not be that of governments in a socialist system. I think that

we will stick to what has been the consensus about the role of government during recent years, that is (I quote Prof. Joseph Semboja, The Guardian March 28): “promoting a market-led economy through the creation of an enabling environment and putting in place appropriate regulatory systems for the private sector to operate”. I agree. But the demands on the state in this role has gone up, now that we have seen that in the USA the regulatory system was clearly insufficient. Governments will have to put better systems in place.

Regulation and supervision must be *global and universal*

But requirements go beyond national systems. What the current crisis has taught us is that we need a *global* regulatory and supervisory system. I quote Prof. Benno Ndulu, Sunday Citizen March 29: “It is essential that world leaders seize this moment of crisis to reform the global financial architecture to set out a regime of effective surveillance and enforceable sanctions that would cushion the international financial system against similar failures of regulatory policy”. Prof. Ndulu argues in his article that we need to reform existing international institutions, among them the IMF, in such a way that they apply oversight not only on least developed countries and emerging economies, but also on developed countries, including the big ones. On the basis of what president Obama has said, I have the impression that we can be optimistic about achieving that goal.

I would like to stress that this reform of international institutions is about making them more effective, about, as it is said in the parlance of international politics, to strengthen global governance. This is not the same thing as shifting the balance of power *within* those institutions. Many people argue that in view of present day realities in the world it is high time to give developing countries, including Africa, a bigger say in organizations such as the World Bank and the IMF. I believe that is right, but that type of reform is not the same as reforms that make global institutions more effective, that is to say, more powerful. Both reforms are needed; the one is not the substitute for the other.

Stronger global governance requires stronger defence of common interests

As a European, I cannot resist the temptation to make a comparison between global governance and governance in Europe. Elsewhere in the world, most people are not aware of the far-reaching powers of the central EU authorities in Brussels (and, to include the European Parliament, in Strasbourg). More than 60% of Dutch legislation originates in Brussels and in many respects setting rules and maintaining them is an EU matter. In upholding the rules the European Commission plays the central role, in e.g. the area of competition it can slap heavy fines on companies and member states. That is characteristic for the EU organizational set-up: besides the representation of the interests of the member states, embodied in the Council of Ministers, where each minister represents his own state, the European Commission is the embodiment of the interest of the *Union*. That is something to emulate at the global level. There, institutions, for example the United Nations, are first of all *intergovernmental* institutions, that is institutions where national, sovereign states meet. In those global institutions the common interest has hardly any representation. I think that, just as in Europe, at the global level we also need something along the lines of the European Commission, a body with the task to defend the common, global interests, the interests of the world and of humankind as a whole, as opposed to the interests of individual states.

“Greening” of the world economy

The basic common interest of all of us is survival. As humankind we are under serious threat now by climate change. If the process of warming up of the earth atmosphere goes on unchecked, disaster becomes unavoidable. Melting ice caps, rising sea levels, rivers drying up, hundreds of millions of people displaced from low-lying land (among them the Netherlands, where already now one third of the country is below sea level), more severe hurricanes, food shortages, and so on. We must curb CO2 emissions rapidly, now, which requires drastic changes in lifestyles and consumption patterns, first of all in developed countries. I seriously doubt that weak international institutions, based on voluntary cooperation by states and every one of them free to invoke “sovereignty” and to reject at any moment any decision taken, will be able to ensure the absolutely necessary changes. So that is where I clearly see an intensified role for governments: to work arduously to contribute to the reform of existing international institutions, so as to equip them with the authority to take the decisions that are needed to guarantee our common survival. I know this sounds dramatic, but time is really running out and we must act fast!

At the national level: old recipes still valid

Back to the economic crisis and the role of the state. I already stated that there is scant support for socialism, or communism, as solution for the current problems. I also argued that there is an urgent need for stronger global governance and that is where there is a clear role for governments to intensify their efforts. On the national level, I believe that the answer to the crisis is not to be found in fundamentally new measures or innovations. I am strongly convinced that governments – and for that matter countries as a whole – should do what they should do anyway, with or without economic crisis. The economic slump is even the best reason to intensify those policies. That is also true for all of us, for Tanzania, for other developing countries and for us in the industrialized world as well. I mention:

- Maintain stable macro-economic policies and sound macro-economic management.
- Formulate and implement a clear-cut growth strategy, focussing public resources at resolving bottlenecks for economic growth.
- Pursue fundamental reforms with regard to public finances, civil service, the judiciary, etc, so as to make the state machinery more efficient, less costly and friendlier to the public and the private sector.
- Create the best possible business and investment environment, so as to stimulate foreign and national businesses and individuals to flourish, creating jobs, income, tax revenues and foreign currency.
- To that end: make sure that mechanisms and rules are clear, simple, reliable, efficient and honest. Including for land property, taxes and business registration.
- Give people space to do things. That is: doing away with vested interests, monopolies, all types of restrictions and traditions and practices dating back from the old days that hamper innovation, efficiency and sound business practices.
- Spend the little public money there is wisely
- Don't be afraid of foreign investment. In the absence of local capital and skills, foreign investment can greatly contribute to national development. And don't be afraid

of foreigners. Skilled foreigners coming to the country do not take away jobs from locals; they create jobs.

- Enhance accountability, also in the private sector.
- Invest in infrastructure. Without properly functioning ports, railways, internet connections and electricity supply the economy gets nowhere.
- Invest in infrastructure but not only in the hardware (building it), but also in managing it.
- Increase government resources by increasing tax revenue, while maintaining a fair and equal treatment of those taxed. Close the loopholes.
- Work on improvement of management skills and work ethics.
- Combat crime.
- Combat corruption.
- Maintain political stability, by sticking to the rules of the democratic political game.
- Pursue regional economic integration, so as to create bigger markets with more potential and more opportunities for specialisation and diversification.

Perhaps I could go on, but I think I made my point. What is needed first of all in times of economic turmoil is the same good policies, but even intensified! Old recipes! Nothing wrong with old recipes if they work. And in this case they do.

International solidarity

Tackling global challenges requires improved global governance, but also financial resources at a global scale. I prefer to see the problems of underdevelopment and poverty as one of those global challenges. Challenges we have to confront jointly as world community. Making available the necessary financial resources can no longer be seen as charity, or a luxury the rich countries can no longer afford in times of economic downturn. Financing the responses to global challenges, including funds for development cooperation, should be seen as a strategic, international response to ensure that the process of globalization is inclusive, brings benefits for all sides – in particular the poor, most of whom are women and children – and leads to a more stable, prosperous and peaceful world. A world also that is managed sustainably rather than plundered and exploited till the physical limits impose themselves in the form of mass starvation and misery. I very much hope that developed countries and middle income countries will understand their responsibilities and will maintain and increase their development assistance levels.

But financing development is not just a question of volume of financing; it is also a question of using the funds in the most effective way. Speaking after almost four years in Tanzania, I must say that in that regard we as donor countries still have a long way to go, implementing the agreements we have reached in Paris (the Paris Declaration of 2005) and Accra (the Accra Agenda for Action of 2008). Progress in that direction has been far too slow, so that assistance to developing countries is still characterized by overlaps, fragmentation, too heavy administrative burdens on the recipient government's administration, lack of focus on national priorities of the recipient countries, and so on, and so on. I see a clear responsibility for governments of donor countries to speed up their efforts in this regard. We can no longer afford the luxury of sub-optimal spending of such vast sums of money.

Conclusion

Ladies and gentlemen, if the current global economic downturn has taught us one thing, it is, I believe, that we are all in the same boat, old or young, rich or poor, in urban centres or far out. Or rather not in the same boat, but in the same ship, the same space ship, mother earth. We have to manage world affairs, including the world economy, together. We have to make sure that we survive, together. We have to secure a future for the generations that come after us, together. We have to combat mass poverty and deprivation, together. By old recipes or a new approach? As I have tried to explain: by both. At the international level: by new approaches, less national and much more global and inclusive. More and better global governance and more and more effectively used financial resources. At the national level: by applying old, proven recipes, in order to put our own economies in order and to make the best out of whatever external circumstances.

I hope that I have given you some food for thought for the rest of the seminar.

I wish all of you fruitful days and results that will be of help to Tanzania to continue on its path of growth and swiftly reduce the poverty of the many Tanzanians that deserve better.

Thank you.