

CAN SUSTAINABLE DEVELOPMENT SURVIVE NEOLIBERALISM?

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The basic question that I would like to address in my presentation is **Can Sustainable Development Survive Neoliberalism?** It is a question that I ask in all seriousness because the current economic regime is restructuring international demand, altering the mechanisms of global supply, changing the dynamics of national and global labor markets and altering the functions of the state. In many ways, those structural changes run counter to the requisites of sustainable development, contrary to the requirements of building sustainable economies, ensuring social equity and guaranteeing the environmental integrity of nations.

A basic theme will run throughout my presentation. The message is that addressing environmental problems in rural areas and responding to the needs of the world's 700 million rural poor lies at the heart of moving beyond the neoliberal economic regime.

Given that there are numerous approaches for examining how macroeconomic policy can and should be used to promote sustainable development, it is fair to ask from the outset, why have I decided to focus on the rural environment, the rural poor and their intersection with macroeconomic policy? After all, if one were to gauge the contribution of the rural poor to global aggregate output, they probably couldn't account for more than 2 or 3% of global production. Or, consider how changing global energy policy would profoundly affect virtually every country's macroeconomic performance. The same certainly holds true for the agricultural sector that continues to be the primary source of conflict between developing and developed countries. Aren't these more important focal points regarding the intersection between environmental sustainability and macroeconomic policy?

Aside from the fact that both WWF and Oxfam have considerable investments and experience in addressing poverty-environment dynamics in rural areas, there are other more fundamental reasons why I have chosen this emphasis. First, let us remember that it is impossible to address rural environmental issues, be they matters of deforestation, soil degradation, loss of mangroves, loss of species and biodiversity, unless the needs and behaviors of the rural poor are taken care of. The relation between the livelihoods of the rural poor and environmental assets is immediate and inseparable.

Second, don't forget that it was the rising global inequalities between rich and poor, particularly the 700 million rural poor, that precipitated what I have called the "crisis of legitimacy" besetting the World Bank, IMF and other international development agencies in the mid-1990s. In efforts to regain public confidence, those publicly-funded institutions placed poverty alleviation back at the center of their institutional policies and they embarked on other changes, some meaningful, others superficial, to affirm their place as leaders of the international development community.

¹Macroeconomics Program Office, May 23, 2002.

Finally, the rural environment and the rural poor are the most vulnerable, the most exposed and the most irreversibly affected by the neoliberal regime. And, if we want to fundamentally alter the current regime, we must bring about change in the way the rural environment is treated in market dynamics and the place that the rural poor occupy in its relations of production and consumption. Altering the dynamics of rural environmental degradation and altering the social dynamics that reproduce rural poverty go to the very heart of power of elites in developing countries. Likewise, this focus directly challenges the terms of access to the mineral and biomass wealth of the more than 120 marginalized countries with extractive and agricultural economies.

My presentation is divided into three distinct sections.

First, I will briefly review the operative environmental assumptions on which neoliberalism is constructed. Then, in contrast to these assumptions, I will propose three principles on which a sustainable economic regime should be constructed.

The second part of my presentation will focus on three policy foundations that are required to change the current status and treatment of the rural environment and rural poor in developing countries.

In the third section, to conclude, I will open a discussion on the Forces of Change to examine the shortcomings of civil society in addressing the many challenges neoliberalism poses in promoting a sustainable future.

Basic Assumptions

To embark on this first section of my presentation, then, I will briefly highlight four environmental operating assumptions that undergird classical economics and that the neoliberal regime has embraced with renewed vigor. I will also highlight three environmental principles which, among others, should constitute the foundations of a sustainable development strategy.

The most fundamental predicate of the current economic regime is that there are no limits to the scale of the economic enterprise, that we can continue to expand the size of the economic sphere indefinitely. Growth knows no bounds despite the fact that growth requires higher volume of inputs and generates higher volumes of by-products. From this basic assumption flows the predicate of today's development model, that through the trickle down process, everyone on the planet can aspire to and actually reach fairly high standards of living based on possession of material wealth.

The second major assumption regards distribution, distribution of wealth and distribution of access to environmental goods and services. Since policy makers are convinced that everyone in the world can aspire to and will eventually attain a reasonably high level of

material welfare, there is no need to redistribute the world's resources and wealth. Nor is there any need to alter the way that environmental costs, such as polluted air, contaminated water and vulnerability to natural disasters, are distributed. Let those costs fall where they may, meaning primarily to the poor and vulnerable.

The third major assumption regards substitution. Today, the belief prevails that if a resource is exhausted in one locality, the mobility of capital will allow investors to quickly shift resources to another site until scarcity is reflected in rising prices. If one resource is depleted, and costs rise, then less expensive substitutes can be found either from our bountiful planet or, better yet, through technological advances that will offer new complements to that degraded resource.

The fourth environmental assumption of neoliberalism regards the proposition, frequently referring to as the inverted Kuznets curve, that environmental issues can be addressed only when a country has reached an adequately high level of consumption. Having reached such a level of income, adequate resources, it is assumed, will be available to society to correct environmental costs that may have accumulated during the earlier stages of economic development.

These environmental assumptions are rooted in classical economics. During the past two decades, neoliberalism has actively embraced those environmental assumptions and added to them a new set of economic and institutional tenets that restrict the development options of scores of developing countries.

Basic principles of sustainability

With that mosaic of neoliberalism's environmental assumptions as a backdrop, let me offer three principles that should guide development of an alternative. Foremost of these principles regards the equitable distribution of environmental goods and services and distribution of environmental costs. Today, access to environmental goods and services is grossly skewed in favor of the rich. Through their control and ability to interact with markets, the wealthy control basic environmental assets of land, water, forests, mangroves and fishing grounds as the poor are pushed, as we will explore in a few minutes, away from these assets.

Today, moreover, environmental costs are unequally distributed as the burdens of air and water pollution, degraded soils, and defoliated lands rest disproportionately on the poor. A basic principle of a sustainable development paradigm is to ensure provision of basic free water, protection against natural disasters, access to basic energy requirements, and clean air, and to ensure that these assets all figure prominently into economic planning and national growth strategies.

Second, the costs of environmental irreversibilities must be central to all economic and social planning, thereby repudiating the assumption of substitution and the environmental Kuznets curve. Environmental planning and mitigation cannot wait until some ordained level of national income has been reached. The damage incurred at any and all levels of

economic growth can generate irreversibilities from which no society or economy can recover.

The third is the precautionary principle. The European Union has respected this principle with relative consistency over the past few years; in contrast, the main architect of neoliberalism, the United States, has repudiated this operating assumption in dealing with issues of genetically modified organisms, inputs used in food production, climate change problems and a host of other basic environmental questions.

A basic assumption of a sustainable approach to macroeconomic policy is that neither sectoral investments nor societal priorities can be constructed around economic and technical behavior that may harm public health or the ecological integrity of any nation.

Elements of Macroeconomic Policies to Promoting Sustainability in Rural Areas

Having sketched out these basic environmental principles to guide economic behavior, let me turn now, in the second part of my presentation, to discussing three policy foundations that are required to promote sustainable development in rural areas of developing countries. In summary form those three points are:

- Promoting multi-faceted investment in rural areas to strengthen productivity and improve management of environmental resources;
- Reorienting neoliberal institutional reforms so as to increase control and access of the rural poor to environmental assets;
- Promoting domestic demand-driven growth that encourages diversification in rural areas

Macroeconomics deals fundamentally with economic policies at the national level. In that sphere it is impossible to escape the need to maintain basic macroeconomic equilibria: of maintaining a balance between revenues and expenditures, imports and exports, savings and investment, a stable exchange rate policy. Clearly, countries will pursue a multiplicity of approaches to addressing that complex balancing act, yet promoting sustainable development rests squarely on maintaining these basic economic balances over the long term.

However, what should remain at the center of our attention in promoting sustainable macroeconomics are the economic sectors that will be the targets of national investment policy and the growth path those investment priorities will promote. Specifically, what role will environmental assets and services play in generation of that wealth? Will that growth draw down a country's mineral, energy, and biomass wealth without stimulating backward and forward linkages into the economy and promoting diversification?

Moreover, the essential question is who will be the beneficiaries of the growth process, the rural poor, the urban poor, the urban elites or transnational corporations? And how

will the costs, environmental and other, be distributed, with gross inequities or across all sectors of society? These questions are particularly acute for the more than 120 extractive and agricultural-based economies that rely on natural resource wealth and in which the rural poor represent a significant portion of the population.

The first policy foundation for promoting sustainable development in rural areas in developing countries regards implementing sustained investment programs designed to increase the productivity of the rural poor and to improve management of natural resources.

Neoliberalism has unleashed an intensified competition for environmental goods and services in rural areas around the world. Encouraged by economic incentives drawing foreign and urban-based investors into rural areas in pursuit of biomass wealth, agribusiness has expanded in rural areas around the world. National priority is given uniformly to expanding the size of the export-oriented sector that is based on high-input, capital intensive agribusiness. These producers are woven ever more tightly into international supply chains whose outputs are determined to an increasing degree by transnational merchants and processors.

Make no mistake; these powerful, well-connected, large-scale producers can play a vital role in strengthening rural economies. But they alone, cannot address the breadth and depth of poverty in rural areas. Moreover, they tend to employ production regimes that work against strengthening sound environmental management.

The foremost macroeconomic priority for improving rural environment requires investment programs in rural areas that will increase the productivity of the poor. When I talk of the 700 million rural poor, I refer to small farmers and the landless who are often concentrated on the least productive, environmentally vulnerable lands, often far from markets, infrastructure and information. People living in these areas suffer from food insecurity and chronic undernourishment.

These spatial poverty traps are seldom viewed by national policy makers as more than targets of welfare transfers and the source of cheap labor for urban centers. Moreover, these areas have been hit particularly hard by economic reforms as they have experienced disadvantageous change in input and output prices, loss of extension and marketing services, and loss of a package of more general social services. These areas lie far down the list of investment priorities of national policy makers who seek immediate returns on investments of scarce resources, usually from export-oriented, high-input agriculture.

It is this target group that should become a major investment priority for a sustainable economic regime. These areas must be viewed, not as a drain on the national budget but as active contributors to national aggregate productivity. For this to be accomplished, a multi-dimensional investment program must bring infrastructure, credit, education, and extension services that are required to increase farm productivity. Only by intensifying production and raising productivity, can off-farm employment and diversification in rural areas take place.

This carefully tailored and sustained package of investments must be accompanied by enabling measures and technical support to encourage diverse productive and resource management systems. Co-management arrangements between rural communities and private enterprises and with parastatals can significantly increase productivity of the rural poor. They can improve use of scarce, degraded and overused soils and forests. In addition, this intervention approach should bring technology improvements that can be combined with time-proven indigenous resource management systems.

Rural economies are very complex and characterized by many different kinds of producers, landholders, and laborers. Invariably these various social groups benefit differentially from investment in rural areas. With a proper environmental management regime, such differentiation can become a dynamic, driving force in rural growth. It can also provide the springboard for creating off-farm employment through which modest, but widely spread economic diversification can take place in rural areas.

A second critical ingredient in revitalizing the rural economy is the implementation of policies to compensate providers of environmental services that are used by other beneficiaries. By and large, such beneficiaries tend to be residents of urban areas in the national territory or people, such as you and me, who live in northern countries. For example, provision of water, stability of soils, provision of timber and forest products to urban areas often depends on the unpaid resource management of rural dwellers.

No clearer example exists in our hemisphere than El Salvador where one million plus inhabitants of the capital San Salvador rely directly on watershed management and services provided by rural communities in the highlands of Chalatenango or neighboring Honduras. As New York City learned years ago, paying farmers in the upstream Hudson River valley for ecologically sound land management, has provided a steady supply of clean water at significantly reduced costs to the city and users.

You may ask, aren't the Poverty Reduction Strategy Papers (PRSPs) required by the World Bank addressing this very issue, ensuring that public resources are being used to alleviate rural poverty? Let me refer you to one of the current darlings of the World Bank/IMF at this time, Uganda's PRSP, for which we have just completed a review. The proposed financing of the Bretton Woods Institution (BWI) fails to address environmental issues as requested by the Ugandan government; BWI financing is channeled directly into promoting export-led growth of two commodities, coffee and cotton. Prices for those two commodities have suffered downward trend for many years and recent price declines have directly threatened the development plans of the country.

Moreover, that program has not responded to two other pillars of the Ugandan government's poverty reduction strategy and has not responded to concerns that the program will do little, if anything, to reduce chronic and pervasive food insecurity in rural areas. No, the BWI Poverty reduction strategies have not escaped the logic of the neoliberal regime and, in fact, remain predicated on its tenets and policy prescriptions.

In Summary, I have called for a multifaceted investment program in rural areas to increase rural productivity, to stabilize rural environments, to reduce mutually reinforcing downward pressures of environmental degradation and income erosion.

I have also called for implementation of a compensation system for rural communities that provide specific environmental services that are enjoyed by the urban dwellers in the nation and by populations in the northern societies.

The second policy foundation for developing sustainable macroeconomic policy, one that addresses the needs of the rural poor and rural environment, regards neoliberal institutional reforms. **The neoliberal institutional reforms must be refocused to increase access and control of the rural poor over environmental assets.**

Neoliberalism differentiates itself from prior periods and efforts to liberalize the international economy not just because of the renewed emphasis on export-driven growth, privatization, and liberalization of domestic markets. A second defining feature of this economic regime is the fundamental reform that has taken place in the role of the state as an economic agent and as a mediator of broader social interests.

Following the thoroughly anti-statist ideology of the Thatcher/Reagan period, a less virulent anti-statist policy has been promoted in recent years. That state is appropriately understood today as the subordinate state, a state that is subordinate to the market and defines itself in terms of facilitating the expansion of the market. Gone is the welfare state of yesteryear that maintained a dynamic reciprocity between the market and broader societal interests.

Today, the subordinate state operates on the assumption that the broader public interest is served by the market. Hence, its responsibility is to expand the market and thereby better serve the public interest. The subordinate state is totally consistent with the call emanating from international development institutions for “good governance”. The subordinate state is consistent with the calls for greater accountability, transparency, efficiency associated with “good governance” Yet let’s be clear that the scope of state functions is sharply reduced to serving the market, not by responding to and developing policies that reflect the interests of non-market actors.

There are many reasons for supporting the diminution of the state as an economic agent. Among them we can count pervasive state rent seeking, mismanagement, corruption and inefficiencies that characterized scores of statist economies since the decolonization period. Moreover, there are many ways that creating new institutional relations in the countryside could be very beneficial, for instance, through increasing stability and transferability of land and resources.

However, neoliberal or market based institutions being created in many developing countries are often designed in such ways that the rural poor find themselves increasingly on the margin of those institutions. They are not only witnessing the erosion of traditional forms of governance and resource management; they are also losing control

over and access to natural resource wealth on which their survival depends. As we have documented in numerous countries, these institutional reforms include market-based land reforms, creation of resource authorities, institutionalization of new water access regimes and decentralization programs of many different kinds.

In Zambia, for example, rural communities have discovered that tens of thousands of hectares of land once belonging to the community have been transferred to urban owners and private economic agents. Fences have gone up excluding them from access to the forests, and productive soils, they cannot even use the water they regularly drew to irrigate crops and use for domestic purposes. Not only do they lack means of reversing the decisions; they simply cannot untangle the process by which they should appeal the decisions. I should mention that the land reform laws supported by the World Bank disregarded numerous key recommendations offered by a national commission that sought to balance traditional and modern land tenure systems.

Zambia also provides an example of a second major problem arising from the implementation of neoliberal institutional changes. As economic reforms have taken hold, new economic agents, largely transnational and urban-based nationals, have responded to the economic opportunities through a variety of investment programs.

Pursuit of those investment opportunities, however, have often been accomplished by forging new collusive arrangements with the entrenched political elite by which they have reallocated access to the country's considerable natural resource wealth. This includes the mineral wealth, forests, game reserves, soils and fishing areas. As a consequence of these new institutional arrangements, the rural poor have been pushed off of their land, have lost revenues previously derived from game management areas, been deprived of opportunities associated with local tourism and become spectators in local decision making bodies.

These experiences, multiplied many times over in other developing countries, underscore the need to reorient the institutional reform process. Institutional reforms must serve more than the dynamic, powerful economic agents in urban areas or transnational corporations. Those institutional arrangements must be based on two basic points:

1. They must increase access/control of the rural poor to productive assets and they must increase the capacity of the rural poor to manage those assets;
2. Second, they must establish new mechanisms of public oversight and accountability as regards natural resource rents.

This second point is extremely complex and explosive because capture of resource rents remains the source of power and privilege for elite groups and government officials in scores of countries around the world, be it Tanzania, Indonesia or Peru. Establishing oversight, accountability and transparency over these resources will require the combined efforts of civil society and international agencies alike. Yet this institutional reform is

vital if extractive and agricultural based economies are ultimately to serve the national interest, to manage natural resource wealth sustainably and strengthen the opportunities for the poor.

Using trade and investment policy to further macroeconomic objectives

The third policy foundation regards formulating trade and investment policies that serve national economic and social interests, notably by stimulating domestic demand. Under neoliberalism, national economic policy is largely determined to serve the trade and investment goals of other, more powerful countries. As we know, there is a radical difference between the two. The former approach encourages domestic growth through export and trade opportunities; the latter encourages creation of enclave and plantation economies to support export-led growth.

Trade and foreign investment policy can be powerful tools in providing resources for national development. However even the most ardent free-traders recognize that in the presence of significant economic distortions, free trade may not be the best national policy...and, in fact, need not necessarily lead to a higher growth path. Oxfam's recent study, *Rigged Rules and Double Standards*, provides ample evidence of how pervasive distortions characterize the global trade regime and work to the prejudice of the weaker economies of the developing world.

The more enlightened proponents of free trade also recognize that free trade can generate widespread environmental costs unless proper environmental policy and regulatory frameworks are in place. I would like to provide an example of how expansion of Peru's extractive industries led to conflicts with the peasant communities while the IMF encouraged weakening of the country's environmental standards so as to attract foreign investment.

During the better part of the 1990s Peru embarked on a fast-paced Concessions and Privatization program designed to increase foreign investment in Peru's considerable mineral wealth. It also sought to develop cheaper domestic energy sources through natural gas development. Over the ten-year period, the IMF supported weakening of governmental regulatory process and standards that were to oversee development of the mining and hydrocarbon sectors. During that ten-year period the negative environmental impacts of the mining operations seriously contaminated local waters and lands, threatening the livelihoods of tens of thousands of Andean peasants. Curiously, this privatization and investment program also led to environmental damage that threatened investments of the World Bank in various protected areas. Moreover, the original justification of the project – increasing domestic production through lower energy prices and also reducing air pollution – was eroded by the final investment program to export natural gas to California's energy market.

A sustainable macroeconomic policy would change the current approach through the following measures:

- It would use export and investment policies to support domestic demand-driven growth, as was originally proposed in the Peru example, but abandoned under external pressure
- It would ensure that stable environmental policies and management systems are in place before trade and investment program are initiated
- It would require that international institutions and trade regimes would actively support the equity and environmental goals of nations they claim to serve.

To summarize this section of my presentation, I have suggested three specific sets of policies for promoting sustainable development through macroeconomic and associated institutional reform.

First, embark on a focused, multifaceted investment program designed to increase the productivity of rural poor and to stabilize the ecological systems in which the rural poor live. I have also proposed establishing mechanisms for compensating the rural poor for the provision of environmental services that are rendered to urban populations of their countries and northern societies.

Second, I have called for a halt to market-based, neoliberal institutional reforms that have deprived the rural poor of their control over and access to environmental assets on which their livelihoods depend. Institutional changes must help the poor deepen their control over these life-giving assets while also helping develop mechanisms for improving their productivity and managerial capabilities. Moreover, I have called for development of public oversight and accountability mechanisms by which resource rents are conditioned to serve the nation as a whole, not just the elite or transnationals.

Third, I have highlighted the need to ensure that trade and investment policies support domestic demand-led growth rather than allowing national economies to serve the trade and investment interests of powerful northern societies. Addressing the needs of the rural poor and the rural environment must be central to those national interests. Moreover, I have called for environmental regulatory and management systems to be in place if trade and investment programs are to serve sustainable development paths.

Forces for Change

To close, we now return to the question posed at the outset of my presentation, **Can Sustainable Development Survive Neoliberalism?**

This economic regime has taken hold of the international development agenda at a period of epochal change, a period in which environmental abundance is giving way to a period of environmental scarcity. We have erected an economic system and social relations predicated on the inexhaustibility of our natural resource wealth, seldom if ever questioning their unlimited availability. This epoch is unceremoniously coming to a halting and somewhat confusing end.

Let me decline to offer a definitive answer to this question. But what is certain is that the present path to economic growth is significantly reducing, not expanding, the policy options for the 120 developing countries that rely on extractive and agricultural economies. It is clearly moving these countries away from promoting dynamic, diversifying economies, away from opening employment opportunities to millions of poor and near poor, and away from strengthening the environmental performance in urban and rural areas.

I believe that offering a more definitive response to the question must ultimately come back to a question of power, back to the fact that those of us seeking to promote sustainable development paths are greatly eclipsed in the realm of power politics. International capital has established its primacy over all matters economic and has been able to mobilize political support in both centers of the North and South.

But let us remember, that the social base of neoliberalism is grounded primarily in the professional and capital owning social groups in northern societies and in fairly narrow, urban-based, and privileged sectors of developing countries. Indeed, these groups have derived considerable short-term economic benefit from the wealth creation of the current regime. But that social base is also a fairly limited one and one that is increasingly susceptible to the rapidly changing fortunes of the world economy, with its many fluctuations and contractions. It is also vulnerable to social protest particularly emanating from rural areas as experiences in China, Ecuador, Mexico, Brazil and other countries have amply demonstrated over recent years.

Those of us in civil society seeking to promote equity, justice and sustainability must come to grips with the fact that we have failed rather miserably to address the multi-faceted development model of neoliberalism. First, we have relied heavily on rhetoric and ideological posturing in trying to stake out our differences with neoliberalism, resulting in gross simplifications and distortions that do little to further our cause. Second, we have failed to provide sound analytical evidence that substantiate our concerns, leading many of us to rely heavily on anecdote and hyperbole rather than on convincing cross-country analysis and empirical evidence.

Third, we have failed to articulate an integrated response to the all-encompassing changes being driven by neoliberalism. We remain, for the most part, secluded in our separate thematic domains, seldom able to establish analytical and prescriptive interconnections that unify our concerns into a common vision. Finally, we must come to grips with our shortcomings in reaching beyond the rather strict confines of our separate arenas, leaving social, labor, environmental, human rights groups each organizing and generating pressures from segregated, fractionalized platforms.

Through our past efforts in movement building, we have learned that groups from the North and South must play quite different functions in developing and advocating an integrated response to neoliberalism. We do have different perspectives, different priorities, and different ways of working; yet we have also learned that we have common

interests that oblige us to work together, that oblige us to develop integrated policy and programmatic responses to the challenges posed by neoliberalism.

In this context of differentiated responsibilities, I would like to give one very modest example of how two northern, conservative non-governmental organizations, in this case CARE and WWF, have been trying over the past 8 months to move beyond our traditional approaches to address some of the most harmful costs of neoliberalism in the developing world.

We have agreed on a policy framework called Social and Environmental Justice that sets forth an agenda for action that links our respective concerns for alleviating poverty and promoting environmental sustainability. It seeks to highlight the ways that we, again as northern social and conservation organizations can strengthen the reciprocity of our organizations by linking poverty alleviation and conservation through our local programs and our policy initiatives. We obviously will extend this nascent partnership to many other groups and organizations and we will renew our earlier efforts to work with Oxfam in promoting this global alliance.

But let us be clear, that at this time we are not yet a match for the power and interests arrayed behind the promoters of neoliberalism. My view differs significantly from those who, on occasions of the protests in Seattle or Quebec City, claim that we have halted the forces of globalization. First, our disagreement is not necessarily with integration of the world economy, but primarily with the terms of integration, terms that today reflect the interests of the North and the transnational capital, not the needs of the environment, the poor, and working people. Moreover, we are a very long way from having articulated a positive economic, social and environmental platform on which we can all unite and actively compete with the neoliberal perspective.

Efforts to build a more united movement are still in early stages as we seek to articulate the elements of that integrated program. It is for that reason that Oxfam and the Mott and Boll foundations must be congratulated for their vision in organizing this conference. It is an important platform for encouraging us to work together in articulating the elements of an integrated response to the neoliberal regime. I hope that it will serve as a springboard for future collaboration in policy development and advocacy as well.

So it is I close by thanking the organizers of this conference for pushing us beyond the neoliberal horizon, for drawing on our diverse experiences to articulate that which is not yet realizable, for understanding that we will enter that horizon only if we travel that path together.