

Re-thinking Europe: what development can offer

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There's a conversation we often have in development circles about what 'Europe' can contribute to our objectives. We debate [comparative advantage and cost-effectiveness, cooperation and consolidation, complementarity and coherence](#). Sometimes the case is easy to make - how many donor missions does Malawi really need? Sometimes - 'shall we send troops to Libya?' - the arguments are harder, and harder-edged.

Suddenly, however, the conversation can be turned on its head. With Europe in financial and perhaps political crisis, a more useful question might be what development can contribute to our European objectives - or perhaps better, so as not to prejudge outcomes, our European perspectives? There are three answers.

The first answer is that we recognise the structural adjustment crisis faced by the European periphery, and have some options to offer from development experience. Reading about Greece or Italy or Spain or Ireland today reminds me strongly of reading about and working in African countries in the mid-1980s - similarly crippled by debt crises, and similarly subject to external monitoring and interference. Rigorous monetarist discipline not only stopped growth in its tracks, but also undermined human welfare and, in many cases, destroyed the social contract. Progressive economists in the 1980s coalesced around the idea of [Adjustment with a Human Face](#) - accepting the need for macro-economic stabilisation and structural reform, but also insisting on the need to protect the welfare of the poorest and the provision of basic social services. Pioneering analysis by people like Richard Jolly, Frances Stewart and Andrea Cornia led eventually to initiatives like an emphasis on the social dimensions of adjustment, and to new financing options by the likes of the World Bank. Arguably, the re-evaluation of structural

adjustment underpinned both UNDP's work on human development, launched in the [Human Development Report of 1990](#), and the World Bank's re-discovery of poverty, in the [World Development Report of 1990](#). In turn, these contributed to poverty-focused debt relief initiatives in the 1990s, and to the introduction of Poverty Reduction Strategy Papers. And is it fanciful to draw a line between the experience of structural adjustment and the adoption of the Millennium Development Goals?

I don't work on domestic European policy, but it does seem to me that there are some lessons here, at least some general principles. Structural adjustment is a necessary process but has a high human cost. Poor people need to be supported as consumers, but also as producers. A high level of participation is required, to underpin ownership and legitimacy. The international community has to cohere around high-level human development goals. And financing is key, including if appropriate in the form of debt relief. There is, it goes without saying, a great deal of international analysis of how to manage the fall-out from the 2008 financial crisis, making similar points. I've written about this elsewhere, originally for the [Commonwealth Secretariat](#).

On financing, I can't resist making a point which is not exactly taken from development studies, but which draws on my very limited reading in the area of currency unions and fiscal transfers - namely that they don't often work unless there are substantial transfers between regions or jurisdictions, to manage asymmetric shocks, but also to redistribute between rich and poor regions. The German constitution, for example, guarantees equal standards of service provision between the various Lander - and allocates tax revenue accordingly. The euro-zone has no such ambition, or rule.

The European
Development
Cooperation
Strengthening
Programme
(EDCSP) is an ODI
initiative funded
by DFID



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The paper on the [US as a monetary union](#), prepared for Gordon Brown's review of the case for joining (or, better, not joining) the euro illustrates the argument. It emphasises the importance of federal transfers, as well as flexible labour markets. Experience in 2008 reinforces the point, with President Obama having agreed a number of high value fiscal stimulus packages, initially for as much as \$US 787 bn under the [American Recovery and Reinvestment Act](#).

The OECD also has an interesting paper on [fiscal equalisation](#), reviewing the experience of countries as varied as Australia, Canada and Germany. On average, these countries assign 2% of GNP to transfers, to manage asymmetric shocks and redistribute from rich to poor.

The [GDP of the euro area](#) is currently about 9 trn euros, so 2% would amount to about 180 bn euros. By contrast, current [structural funds](#) amount to about 30bn euros, some of which goes to the poorest regions in the poorest countries, but some of which goes to poor regions in richer countries. Further, structural funds support production, not consumption. Thus, the gap between what is needed and available is at least 150 bn euros per year.

Does it not follow that attempts to save the euro need to focus not just on the need for fiscal discipline and structural reform (= structural adjustment), but also on the essential role of large-scale transfers? An extra 150bn euros a year is not trivial in the context of an EU budget of some 140 bn euro, but that is only because the EU budget is so small in relation to EU GDP (capped at 1%) and to Government spending. Taxpayers in richer euro countries, please take note.

A second contribution to current re-thinking is the lesson that incremental change is less risky, more sustainable and more effective than high-blown grand projects carried out without popular support. Such is the case with the EU's development effort, which has been and is on a trajectory of gradual improvement. It is now - how amazing is that? - well-rated even by former critics like DFID.

There was a time when Clare Short thought EU aid so poor that she threatened to withdraw. But no longer - apparently - is the quality of the programme poor, the rate of disbursement slow and the bureaucracy desperately slow and over-

centralised. [DFID's Multilateral Aid Review](#) has told us that.

We should not exaggerate. The journey has been too slow, and there is still work to do. Too much oda, for example, is still spent in middle income countries. Still, Andris Piebalgs, the Development Commissioner, has made steady progress over the past two years in re-shaping policy and re-organising the administration. I have [commented elsewhere](#), with colleagues, on the new policy, [Agenda for Change](#), and on the various reforms. Most recently, the Commission has issued detailed proposals for the regulations governing spending when the new Multi-Annual Financial Framework comes into place in 2014. Our [verdict](#) - not bad.

Kristalina Georgieva is another who is at the cutting edge of her field of humanitarian aid. And didn't Connie Hedegaard do well at the climate talks in Copenhagen, promoting the [EU road-map](#) towards a new climate regime?

Is this just about leadership, and the politics of cooperation? It is about those things, but also about having a common interest in effective development cooperation. The single market is a driver of cooperation in trade and, up to a point, in the field of climate. In aid, there are shared interests in reducing transactions costs and in managing geographical dispersion. It is an advantage for DFID, for example, that ECHO can be active on the ground when emergencies take place in countries where DFID has no bilateral programme and no programme infrastructure. Similarly, there are areas of work - energy might be one - where DEVCO has expertise or brings a level of resources which DFID might find it hard to mobilise. The EU also has the capacity to mobilise a variety of resources which other multilateral actors do not - for example, it has greater credibility on human rights and civil liberties than the World Bank, more money to disburse in post-conflict situations than the UN.

As a re-thinking of European partnerships is underway, it is interesting to ask whether Europe's comparative advantage in development cooperation is likely to grow or shrink. In other words, will we find Europe more or less useful in the years ahead? We examined this question at a [session I moderated](#) at the [European Development Days in Warsaw](#) on 16 December. On the panel were Andris Piebalgs,

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the development Commissioner, and five others: Baroness Lindsay Northover, Government spokesperson from the UK parliament; Alain Henri, Chef de Cabinet to the French development minister; Tertius Zongo, a former Prime Minister of Burkina Faso; Paul Engel, Director of ECDPM in the Netherlands (and a member of our European Think-Tanks Group); and Patrick Guillaumont, President of FERDI, the leading French research centre on economic development.

The main take-away for me was that the development agenda is undergoing a radical shift, to embrace not only traditional concerns like the MDGs, but also the big global challenges. I asked all the members of the audience to list their top six problems and/or opportunities in development, and then asked the panel to share theirs. Food security, featured, of course, and water and sanitation, and energy, and health. Poverty was mentioned, and, eventually, the MDGs. These are all the traditional core of development work. But it was striking that the panel members focused on different problems: managing the roller-coaster of globalisation; climate change; political liberalisation; and the opportunities presented by the transition to a green economy. Several of them talked about inequality and social inclusion, locally and nationally, but also internationally. How could we claim success when so many were excluded from global progress, and so many vulnerable to shocks? New thinking was required, a new kind of global engagement, including with new powers and emerging economies. I agreed. This is an argument I have been making [myself](#), for example in [Kapuscinski lectures](#) in Hungary, Malta, Bulgaria and Lithuania. I do hope I did not ventriloquise the answer I wanted. I don't think so.

The next question we discussed was about the role of Europe in these new global issues. It was not axiomatic, after all, that the answer to every problem should be European. Here, I have to say the answers we received, including from the audience, were less clear-cut. People talked about the need for the EU to regulate its own affairs, including the payment of tax by its own companies. There was a lot of talk about the value of increased cooperation in aid management (with a good airing for the Commission's enthusiasm for joint programming). 'Differentiation' featured, in the sense of managing new partnerships with

middle income countries and the big, new powers. There was also quite a discussion about how the Commission could support democratisation, in its various manifestations - particularly in countries where human rights were at risk or civil society was suppressed. Not easy, and sometimes not appropriate either, as external actors have found in countries like Libya, Zimbabwe, Iraq or Afghanistan.

Panellist and participants offered rather less on managing the global economy, or on brokering a deal to tackle climate change. These ought to be on the agenda, not just in the EU, but also at international gatherings like the G20. I've [argued before](#) that it is counter-productive to ghettoise issues affecting developing countries in a so-called development agenda, while the grown-ups, so to speak, discuss the regulation of banks or the coordination of fiscal stimulus. Climate change definitely ought to be visibly on the agenda of the G20 - and of the development team in the EU. Why, I wonder, has there not been more generous funding of the [Global Climate Change Alliance](#), the EU's vehicle for [climate compatible development](#)?

We might have developed these arguments if we had had more time, but we did not. Instead, I gave a closing summary which sort of pretended we had. Roughly speaking, and it was neither as coherent or as complete as this:

- First, the world is undergoing deep transformations, which will accelerate as climate change takes hold. There are huge risks, but also extraordinary opportunities to build a global society which is more equal, sustainable and secure.
- Second, a better world can only be achieved through collective action, by nations and their peoples working together. No single country has the reach or authority to manage global change in a multi-polar world. Multilateralism is the necessary instrument of our time.
- Third, the European Union offers many advantages in multilateral space. It is not the only actor, nor always the most appropriate - but when mobilised can offer political, financial and human resources that others cannot.
- Fourth, the struggle for poverty reduction and human development

cannot be abandoned. In this connection, the Development Commissioner's Agenda for Change provides the roadmap, and his institutional reforms provide a platform for continued improvement in the quality of aid - and delineate areas of comparative advantage which will play well in the negotiations now underway over the Multi-Annual Financial Framework.

- Finally, the time is coming when it will be necessary to tune up for the next campaign, on wider development issues and global challenges. These will in due course dominate the development agenda, probably sooner than we think.

If these conclusions make sense, they suggest a third contribution that development can make to current thinking: demonstrating that there are some things the EU can actually do quite well. Indeed, there are some objectives dear to Member State ministers that can only be achieved through the EU. That may be a perspective worth hanging on to.

The views presented in this paper are those of the authors and do not necessarily represent the views of ODI.

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