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Great Projects, Growth: 'Margins of Possibility'

Dr. Galloni is an economist from Rome. He spoke to the Schiller Institute conference on March 23. Subheads have been added.



The war is not a solution, nor a way to achieve dignity or freedom. But peace is not the goal; the goal is the promotion of human dignity and freedom. Peace is a means to achieve human dignity and freedom, but the world is facing a war because the international financial, economic, and political system does not work at all. Peace needs other friends to be truly useful: We have to think of a new economic and financial order. Not only a monetary proposal, but a great project which each people could contribute to build.

Water supply, necessary infrastructure, a new power policy, the solution of the agricultural relationship between rich and poor countries, the fight against poverty, are matters of some reconsideration.

In many parts of Africa, for example, which today are suffering from a very serious food and water crisis (there is apparently a deep link between the two), the possibility of survival was not lacking at times in the past—even only 50-100 years ago. There is no doubt that natural events, whether or not they were forced or caused by man's actions, are at the root of the most serious problems and emergencies on the continent. But three orders of factors—very human, or unhuman, it may be said—should be taken into consideration: wars; major decisions in economic and monetary policy (which have favored the limiting of development since at least the 1970s); the evolution of the link between always unfavorable terms of trade for the poor countries, and the productive choices made there.

In Africa, water has always been present and abundant (as has the harvest), but certainly not everywhere. The first intervention therefore, to fight mass poverty, would seem to be the gathering, transportation, and conservation of water, allowing for progress toward an adequate (natural or artificial) water network.

Origins of the Crisis

The second order of factors regards the major decisions

of economic and monetary policy beginning in the 1970s.

High interest rates made the planning of large infrastructure projects difficult, if not impossible. They favored the draining of resources to pay interest (now people are content with considering the cancellation of the debt—principal—as a great liberator of who knows what resources); they discouraged local productive and commercial initiatives.

The poor countries weakened themselves in order to buy weapons or support armies, or in any case, for many types of spending—including on unnecessary projects—for which any “project financing” was irrelevant or insignificant. Where project financing was necessary though, in many productive enterprises, this mechanism discouraged the beginning, maintenance, and growth of such enterprises.

The large international economic and financial institutions, as well as the most important states, transformed the original post-war design—the Bretton Woods agreements of 1944, which foresaw the financing of trade imbalances (caused, in developing countries, by the import of technologies for economic independence)—into a political mechanism in which access was no longer linked to reaching productive goals.

Consequently, the productive activities had to deal with the high interest rates demanded by ordinary banks. The necessary investments became anti-economic, and those anti-economic investments were financed without considering their cost.

At the same time, terms of trade got worse for those countries with the greatest development needs; thus, economic activism became a cause of the impoverishment of resources.

Unequal trade, in fact, corresponded to the export of materials and products containing a significant level of local resources involved in their production, against the import of goods coming from rich and industrialized countries in which a minimum level of human resources had been used, but which had an elevated monetary value.

The choices of the local governing classes then favored the interests of the principal international food producers, as they directed local demand toward the products with the lowest costs on the market. Prices later rose, due also to currency dynamics, but the local production by now had been eliminated, and thus the only source of provisions (imports) caused a selection based on income, and the formation of a number of new poor, corresponding to those with low income and scarce possibilities of re-starting cultivation or procuring cheaper local substitutes.

Urgent Infrastructure Projects

In this situation, instead of massively intervening—with humanitarian goals—in order to re-establish conditions which, if not the previous ones, at least allowed for the cultivation of the land and supply of seeds and the necessary tools, the road taken was that of sending part of the food surplus of the western producers to the privileged groups among the

consumers in the poor countries. This is the situation we need to keep in mind in order to reflect on both the concept of inevitability of mass poverty, and the concrete plans to defeat it.

The best method would seem to be that of increasing the investments aimed at increasing the productivity of the territory: The reintroduction of adequate cultivation techniques, and the concentration of interventions by specialized agencies regarding water reserves and aid to farmers, have allowed millions of hectares to be saved from desertification in the southern strip of the Sahara, from Mauritania to Burkina Faso, from Niger to Chad, from Sudan to Eritrea. The end of the drought certainly played a fundamental role, but without the concentrated intervention of man in a direction opposite to that of the past 30 years, we can suspect that not much would have changed.

It has been discovered, by various initiatives in the desert areas of the Arabian peninsula, that the terrain there—rich in precious minerals—can be quite fertile, as it does not consist mostly of silicates.

The problem of these investments is their cost, as it can easily be demonstrated that, from an economic point of view, it is easier to transport food resources than to launch projects for the treatment and transport of water; but this is not always true.

In addition, the cost of aqueducts, including their construction and management, or of desalination plants of the necessary dimensions, are significantly amortized over time if the number and importance of users increases.

In any case, the financial flow deriving from new productive activities made possible by the investments in water projects (including the salaries of workers), represents a strong factor of compensation for the resources necessary for the construction and maintenance of the project.

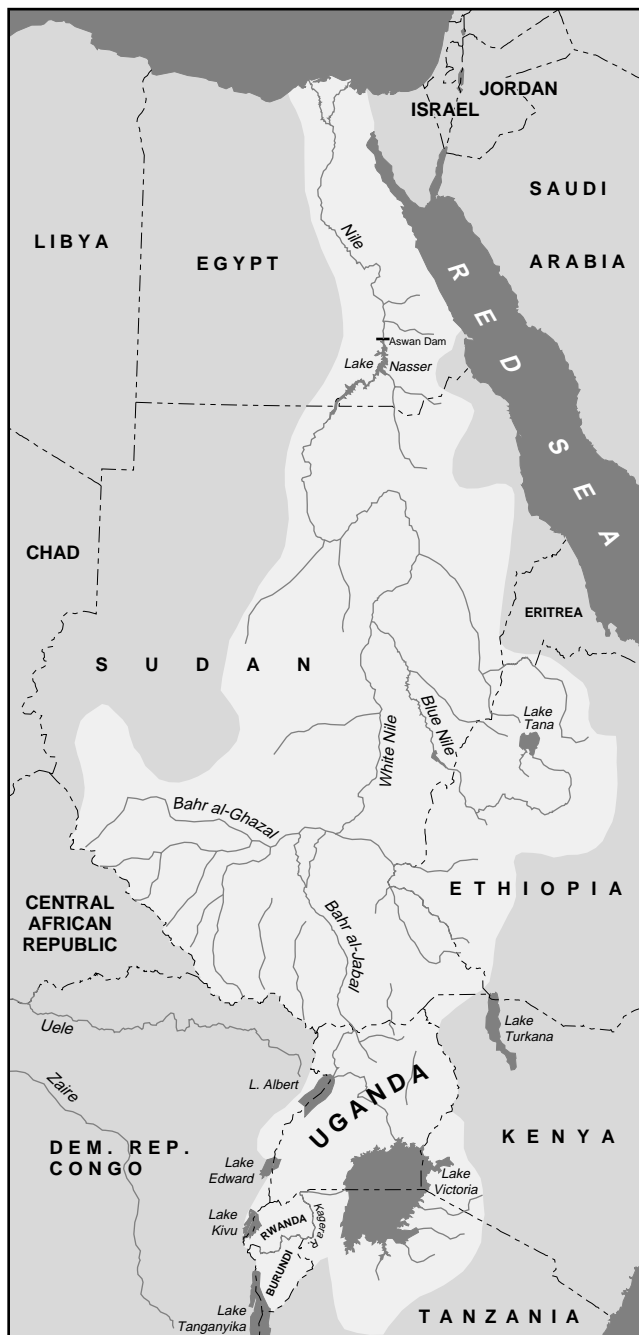
Large infrastructure projects, however costly they are—as long as they are used by a vast public of workers and consumers—always end up being profitable, since they enrich the territory and environment, and thus contribute to the movement and improvement of resources. Project financing should include a monetary estimate of all the positive effects of a project; but this would be relatively useless, both for the bank (or others), which is only interested in monetary return, and for the promoter (or users), who are more sensitive to the concrete results and effects on political image.

Thus, complete evaluation of costs and benefits is necessary, divided into a) a financial part (where the re-payment of loan capital is made); b) an economic part, where there is compensation—for those who pay the capital and interest to the bank—consisting of the income streams generated by the new investments (for example, through adequate taxation, tolls, the sale of resources); c) a socio-environmental part, linked to reaching general political objectives.

In this manner, given certain resources, we can evaluate the best use of them in terms of the investment's ability to

FIGURE 1

The Nile River System



The Nile River provides an abundant source for development of agriculture and hydroelectric power in many African nations. Harnessing Africa's water resources is a top priority, in the fight against mass poverty.

reach socio-environmental goals, without undervaluing the economic stimulus created by participation in productive activities. Even a modest participation in gross profits, for example, means that over time—especially over a sufficiently long

period of time—an adequate economic base for the project is assured, as long as that participation in the profit is not less, percentage-wise, than the rate of interest.

Regarding this issue, the question of interest rates close to zero—which seemed unthinkable and only a provocation until ten years ago—could again take on great importance if the disastrous Japanese experience of recent years were to contaminate the other important “strong” economy, Germany.

In Japan there was in fact a combination of negative growth of prices (deflation, the opposite of inflation) and of interest rates, which, despite being low and close to zero, were still notably positive. In such a situation, which the theorists define as the liquidity trap, the increase in value of the currency could even compensate for the apparent absence of interest on loans.

These apparent paradoxes, without considering their actual application, suggest that the subject of evaluating costs and benefits—even if only limited to its simplest part, the strictly financial one—presents uncertainties which, as always, increase along with the temporal horizon of the evaluation itself.

Therefore, the economic aspect, and above all the socio-environmental aspect, must prevail in the analysis of costs and benefits.

Large infrastructure projects—as well as small ones, in many cases—which can make the movement of human and material resources easier, and increase the supply of water and the productivity of the environment, thus represent the first direction to be taken in the battle against mass poverty.

Human Resources and Purchasing Power

A second consideration regards the formation of human resources. Despite the evidence of colossal unemployment on the global scale (which goes beyond the order of billions), there is a lack of agricultural technicians, teachers, doctors, nurses, and environmental workers; despite the opulence, the “saturation,” and the exuberance of production in the industrialized countries, goods and services are lacking on the planet as a whole.

The third, and possibly conclusive consideration regards purchasing power. Where this is zero (or virtually zero), because there is no income, it is difficult to launch economic activity: The need is there, but it is not resolvable, since everything remains in a state of potential. And it will continue in this state until humanity is able to make a powerful and decisive cultural jump: If there are resources available but not being utilized, and the only limit seems to be the lack of monetary means, then the creation and distribution of such means, if it contributes to creating productive processes which did not exist before, represents the principal road to the solution of the problem; the cultural shift consists in accepting such a heresy not only within single, already industrialized states, as has happened repeatedly in the past—during grave and long

crises—but on a global level, especially for the situations of greatest backwardness and poverty.

Obviously, certain incredible obstacles must be removed: a) Where can an available, adequate and trained workforce be found if there was previously an indistinct and ignorant mass of poor? b) When do the technologies and plants necessary to begin production arrive? c) Who must receive the money distributed to begin the economic process?

The answers though, could be less incredible and impractical than expected. School and training can represent the principal commitment of those who truly hope for productive growth and the end of mass poverty. Even previously used plants and tools can be supplied, to be used for training and the starting of production; the added money given to those involved in the initiatives, would end up having a value corresponding to that of the production provoked, and at that point, would become convertible into other pre-existing currencies.

There are many alternatives to such a project, including war, mass destruction and self-destruction, humanitarian aid, debt cancellation, and maybe a few other things. It is easy to think that not many constructive and positive things will be done, almost as if the situation which now exists in the world, due to the causes previously described, is the result of fate and no one is responsible for it; but it may be just as easy to think of disaster, for everyone, due to inactivity regarding the problem.

It is more difficult though, to understand if a new and deeper understanding has been sufficiently developed in the governing classes of the so-called poor countries (the large majority) and in the population of the rich ones (a minority, but not minimal). Yet, the attentiveness of the economic, scientific, social, and environmental literature; its qualitative and quantitative growth in both the industrialized and most down-trodden areas (the two generally share significant levels of various types of pollution) leave a lot of room for hope. Today it is rare, in fact, in any part of the world, not to find some concrete or literary event which recalls the basics of the question: environment, development, poverty (new and old).

Europe's Future

Let me say something about the perspectives for Europe.

A Europe which were to approve a plan of trade and investments with the Middle East and Africa would represent an alternative to any overwhelming power—real or presumed—of the Americans. This would be, to use the noble words of Jacques Delors, an exemplary model, one to be imitated; an alternative to the model of the superpower.

It is true that one of the fundamental roots of U.S. supremacy derives from European weakness, but this weakness is not in the incapacity of governments or the European Union to be sufficiently armed or to collaborate in this sense. Rather, it consists in the cultural and political limits of its common objectives, aimed principally at the consecration of financial

constraints, as if they represented actual objectives.

If they truly were objectives, then large budget surpluses should be hailed with joy and enthusiasm by those who have them; in reality, they only mean that the states have taken more from the economy through taxes than what they gave back in public spending. Given the “liberalist” premises of the restrictive budget programs, this seems—at the least—somewhat curious.

In what seems to be a farce, most economists, scholars, observers, and politicians not only have not recognized this apparent paradox (which in reality is a simple mistake which could be called banal, if it were not so tragic), but rather seem excited by such a perspective, or discouraged by its disappearance.

The imposition of greater checks on the current spending of the single states seems to have been a necessary measure, because the economy cannot support a systematic excess of spending if there is not a need to finance the use of unused resources. If [there is a need], this financing encourages production which, by being taxed, is able to re-establish balance in the (current) budget. Even the reduction of public productive investments in single states can be a reasonable choice, as long as the Union—which would thus take on more power, subtracted from the states—has the possibility to plan important infrastructure and environmental investments to implement a political, social, and economic project which leads to true involvement in the Euro-Asian-African area mentioned above.

Limiting itself in making important deficit investments would mean betting on the limitation and isolation of Europe, instead of on its growth and expansion.

The world we will see in 20 years will probably differ deeply from the environmental “day after” scenarios and the marvelous and perfect hyper-technological plans; and rather very much resemble the world we have today, but with some important differences.

This prediction is based on the following evidence. 1) After long and very long periods—20-30-60 years, that is, more than a generation—of deep and operative changes in culture, society, and economic relations, it is notable that entire peoples have neither forgotten nor abandoned traditions, habits, customs, and approaches in the daily life of singles and families, as well as in politics. 2) The identification between the common good and the market (which has hidden that even more exclusive identification, between the common good and profit goals) has been shown to be, in the eyes of most—including the governing classes of the main industrialized countries—no longer sustainable; which does not mean though, that the market and profit will soon be abandoned as economic and social reference points. 3) The conditions of current technologies—and of their possible and immediate future development—would allow for resolving many of the principal problems of the planet (adequate food production, defense of the environment, improvement of wa-

ter supply, and health and hygiene conditions of populations). 4) New cultural and artistic movements are developing in almost all the countries of Africa, the Far East, Oceania, and South America (and elsewhere) which seem to be linked by a revival of traditional activities, vocations, and materials, in the context of an adjustment to the conditions and specifics of advanced technology.

Taken as a whole, these four circumstances point to a path which, despite being full of obstacles—as always happens in reality—is nevertheless sufficiently clear: The future world, obviously a consequence of what is taking place now, will not see a process of acceleration or even constancy of the destruction of the biological and cultural diversity that has characterized the recent past, because we are living in a period in which an abyss is appearing between the great “pro-capitalistic” promises and certainties—think of 1996 or ’97—and their rapid destruction in the short period of two or three years.

Such a prediction, clearly, in order to come true, requires political work, civic commitment, and an effective change in economic strategies, which, at the moment, do not yet seem operative; yet they have already begun and are already producing notable effects. For example, George W. Bush has completely changed his line on the economy and his view of the international financial system since the beginning of the crisis (mid-2001, or before). People’s attention to environmental problems has grown; mass participation in protests against the economic decisions inspired by the failed strategies of the ’80s and ’90s has begun again; criticism of the behavior of the principal international financial institutions is no longer confined to a limited group of outcast experts, and now involves the governing establishments of the most important countries. Chancellor Schröder, in Germany, clearly opposed the war on Iraq—the way that Blair and Condoleezza Rice wanted it—and as a result obtained the consensus (lost on other fronts) necessary to not lose the October 2002 elections in his country. The European Union has posed the problem of modifying its agricultural policy, even though it is likely that in this case, real changes will not be made. And finally, the production of hydrogen-propelled automobiles has begun, despite the fact that the petroleum magnates do not seem ready to throw in the towel.

It is necessary to be able to distinguish, in a sufficiently clear manner, what (powerful) interests are at work to stop this spread of consciousness from favoring—fully, not partially—the adoption of measures necessary to deal effectively with the many questions on the agenda.

Agriculture and Energy

The examples of agriculture and energy may be the two issues which represent a decisive test for the future of the European Union (in a world role or not), and for the entity of the change which is currently underway.

The European Union—like the U.S.A.—intervenes on farm income with over 40 billion euros a year in direct subsid-

ies, and another circa 90 billion to defend prices. This obviously damages the non-European (and non-U.S.) producers, and represents a significant cost for taxpayers. In exchange for this distortion of the market and the principle of free circulation of goods—in other situations invoked as a principle (would it not be sufficient to explain, every once in a while, the reasons for which its application is not, and cannot be, generalized?)—the European (or U.S.) consumer not only receives an economic disadvantage, but also damages, in terms of health and product quality. We must suppose that the biological and bio-dynamic producers also receive (at least part of) the subsidies; in any case, it seems that the consumers of biological products are willing to pay a bit more even if that market oscillates between periods of growth in demand and periods of price increases.

Would growing pressure from public opinion toward products which are truly biological, genuine, traditional, healthy, without chemical agents harmful to health, and—why not?—also the result of fair trade with the farmers of developing countries, cause an income and employment crisis in the sector? [Would it cause] large movements from one activity to another, one type of productive technology to another; from strategies prevalently aimed at quantity and prices to goals of quality; from an exclusive commitment to food production to new formulas regarding tourism, the protection of the environment, the relations between producers and consumers, and above all the defense of health threatened by wrong agricultural methods which use too many additives and manipulations? Many diseases, and thus also many costs are due to these situations, which can apparently be solved without great difficulty. A banal (current and future) cost-benefit analysis would even be sufficient.

The same reasoning, as the process of change advances, can be applied to the other delicate aspect of change, the choice of energy sources and energy policy. Entrenched interests, as we know, are not open to changes if the changes do not bring immediate and significant benefits (at times not even this is enough). This is why it seems so easy to go toward and reach catastrophic situations.

Overcoming Entrenched Interests

Clearly, without a commitment and role of the authorities and institutions—governmental and non—the attitude of those who represent the continuation of entrenched interests confirms the conditions of being unable to foresee and face emergencies, and—do not consider this a paradox—to take advantage of the opportunities which appear on the horizon.

The case of hydrogen, for example, seems to have divided the entrenched interests, between those who have begun to work toward this alternative (at least in certain important fields such as going beyond the internal combustion engine) and those who have not.

The same can be said for intrinsically safe nuclear power, non-polluting coal (but which will certainly not help us reduce

CO₂ emissions as called for in the Kyoto Protocol), natural gas, and the use of renewable energy sources. There is, on the one hand, the problem of costs, which can either be counterposed or joined with the question of pollution (treatment of nuclear waste, toxic emissions, carbon dioxide). On the other hand, there is the problem of the will to get past the obstacles created by the entrenched interests, which cannot merely be identified with profit goals.

Therefore, two aspects of the problem can be identified: the capacity to distinguish, or not distinguish, regarding costs, between quantity of resources used per unit of energy (not referring, obviously, only to direct energy resources) and the value of environmental aspects (including principally questions regarding human health); and the difficulty in distinguishing between a logic of profit, and resistance to change which may even go against such logic.

Current technologies, differently from what could have been the case during, for example, the Middle Ages and the Modern Age, appear capable of supplying all the energy we need, even in the case of a substantial growth of participation in world product by the poor and developing countries. The energy technologies of the Middle Ages and the Modern Age were sufficient for the consumption levels in Europe before the stimulus provided by the arrival of gold and silver from the Americas, but they were then insufficient at the beginning of the 19th Century, when the problem was solved with the industrial use of steam, and then of electricity.

‘Development of the Environment’

If, for example, our descendants were to judge the difficulties of the past 30 years and the present, in terms of the connection between protection of the environment and energy production, would they say that the difficulty was due to lack of available technologies or problems of cost?

They would probably reach the conclusion that there was insufficient attention toward the environment, since the technologies available at the end of the 20th Century and beginning of the 21st were sufficient to supply the desired quantities of energy at sustainable costs.

If such a judgement is correct, then the current direction of our economic, energetic, and environmental policies is wrong. It should be changed. This does not mean that the goals of profit—while maintaining the distinction between maximizing profit rates and profit levels—must be detached from the choices of economic and industrial policy; but these goals cannot be primary, compared to the needs of defense of the environment, social growth, entire peoples’ right to exist, and the improvement and maintenance of the variety of living species and human behavior. We have seen, actually, that certain sorts of profit goals (such as the maximization of profit rate per unit of capital or the definition of a certain profit level at the beginning of a productive cycle) cause economic crises, financial turbulence, social tragedies, and the restricting of development perspectives.

The submission of man and the environment to profit does not allow this latter to play its important role in provoking economic growth; a role, as we said, which is not exclusive, since the economic effects of the great social and environmental objectives of humanity represent a direction which is certainly no less important and promising.

Not only the pyramids, churches, cities, and great monuments of the past, but also the roads, railways, and most industries would never have been built, if the only things considered were costs and returns.

Large infrastructure projects, however costly they are—as long as they are used by a vast public of workers and consumers—always end up being profitable, since they enrich the territory and environment, and thus contribute to the movement and improvement of resources.

On the other hand, the idea of managing an economy or reaching certain objectives, even if they are not economic, without an adequate evaluation of resources and costs—as well as potential returns—seems at the least to be foolishly ambitious. The attempt, therefore, to analyze the question of constraints and objectives, assigning to each its proper role, seems to be a useful and necessary exercise in order to transform the understanding of reality—possible through observation—into a program of functional changes and improvement in the situation which clearly can be improved in the interest of the large majority of the world population.

The reflections which we have attempted to put together here, were not so much about the identification of those interests of the large majority of the population, but rather the conditions and circumstances which could suggest the adoption of two substitutions: that of the objective of sustainable development with the valuing of the environment; and that of the environmental constraint with the needs of economic growth linked to the achievement of less imbalance and disparity. After the “limits to growth” and “sustainable development,” now a call for a sort of “development of the environment” could appear, capable of subjecting the constraints of the economy—which, although they can be forced, indicate the limits of the possible—to objectives whose maximization does not generate greater social and human imbalances, but conditions of reduction of the constraints themselves; that is, the achievement of growing “margins of possibility.”