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Development Theory in the Wake of Structural Adjustment

In the 1990s the World Bank began to show its concern over the negative effects of structural adjustment. In so doing, it typified the way in which neoclassical theorists were trying to digest the lessons of structural adjustment. However, while neoclassical theorists were squaring uncomfortable facts with their theories, the left began advancing again—though not quite the same left as before. The radical left, though reinvigorated, was still engaged in academic debates, and much of the earlier statist development theory remained discredited. But a new version of statist thought emerged to fill the breach, drawing ideas from such sources as the new institutional economics and historical research on the twentieth century's development success stories in the Far East. From this emerged a new school of thought, developmental-state theory, that in fact revived a very old idea: the infant-industry model.

For a time in the 1990s, this model was trumpeted as an alternative to the neoclassical approach to development. Even though its origins lay outside the academic left, it became popular among leftists in the 1990s not only for its alternative stance to the neoclassical model, but also because it redeemed the much maligned state, in which the political left had come to place much of its confidence in the twentieth century. So, in places like South Africa after apartheid, the political left called for some version of the developmental state to be implemented. However, by decade's end, the model was already running into difficulties in its "heartland," in East Asia. And while it survived the initial onslaught of the 1997–1998 Asian financial crisis, its relevance as an alternative to the neoclassical model was already starting to come into question.

Change at the World Bank

Even the World Bank, into which neoclassical theory made deep inroads in the 1980s, came in the 1990s to accept the need for an increasing state role in economic development.[1] Many neoclassical theorists shared this changing attitude,[2] recognizing not only that the market required state management to realize its potential, but also that there might be some things that cannot be left to the free market, such as environmental protection.[3] Fundamentally, however, the neoclassical confidence in the market would remain unshaken. Although they accept that a greater state role may be needed in the economy, neoclassical theorists differ from their colleagues on the left when it comes to specifying this role. Whereas leftist theorists tend to conceive a long-term vision of the state's role in the economy, neoclassical theorists are still anxious to minimize the scope and duration of state intervention, and above all to ensure that any intervention does not interfere with market forces.

Their proposed solution to the harmful social effects of structural adjustment illustrates this. Although they still believe that, in the long run, structural adjustment will produce a growth rate that will bring benefits to the entire population, they recognize that there is a bridging period during which many suffer. To sustain support for reforms during these difficult times, neoclassical theorists propose measures to target aid to affected groups. They prefer targeted aid over broader interventions such as price controls or subsidies on food, because the latter would reintroduce the problems of drains on government budgets and distortions in the market.

Take, for example, the problems caused by rising food prices, which are believed to have worsened malnutrition. Reimposing price controls would lower price incentives to farmers and drive down production, thereby forcing the government to import food, which would in turn bring back the balance-of-payments problems that structural adjustment set out to correct. The neoclassical solution is to maintain the market mechanism—no government intervention in price setting—while tackling those parts of the market that are failing consumers. According to this logic, most urban consumers might not like price rises, but they can live with them. They will stop eating rice and start eating cassava, or stop buying bread made from higher-quality imported wheat. Grumbling as they eat, they will eat nonetheless, and in the meantime local producers will get the benefit of an increased demand for their goods. However, the poorest urban consumers, who simply cannot absorb the price increase and so will reduce their consumption, need to be relieved. The trick is to identify them and to target food aid at them alone.

Such targeting, which the World Bank favors,[4] has been used to direct to the poorest of society not only food, but also jobs, healthcare, and even help with school fees. Experiments in targeting have produced mixed results. In Jamaica, Chile, and India, food targeting allegedly reached the most needy without distorting the operation of the market at large,[5] but targeting in Zimbabwe and Ethiopia appears to have been less effective.[6] One survey of programs found that while there were positive results, in some cases they reached only a tiny proportion of the affected population. Significantly, such programs have tended to benefit men more than women,[7] an obvious cause for concern.

Critics of targeting contend that it alleviates the misery of the poorest, but does little to reduce poverty itself; it keeps people alive, but does not improve their condition, which has already been worsened by structural adjustment.[8] For this improvement, neoclassical theorists still place their faith in the long-term workings of the market. However, the World Bank's motives for supporting targeted aid reveal an innovation on its part: it is concerned less with market imperfection than with political stability. The hard truth is that, provided the urban working class remains well fed, no matter how unhappy, the market can tolerate the miseries of the poor. Those who are marginalized operate largely outside the market, and are a surplus labor force, so their worsening plight is not necessarily an economic problem. However, the problem, as Bob Marley once put it, is that a hungry mob is an angry mob. Anger at the policies drafted by bureaucrats in luxury hotels has often given way to violent protest, which can undermine structural adjustment. The World Bank, often criticized for being too economistic, now recognizes that there is also a political dimension to economic reform,[9] which depends on regime stability, and this in turn relies on sheltering society's poorest from reform's harshest effects.[10] Come 2006, the World Bank's *World Development Report* would be devoted to the topic of equity and development.[11]

The Return of the State

Whereas neoclassical theory still trusts in the long-term potential of the market, Chapter 5 showed that research on structural adjustment calls into question this potential in the absence of significant state intervention. Furthermore, there now exists a body of historical and political-economic research, discussed in this chapter, that presents a serious challenge to neoclassical theory. For these reasons the left seemed to return to prominence in the 1990s after a journey through the academic

wilderness. But it was not the old left of structuralism or dependency theory, but a new generation of leftist development thought formed in the wake of structural adjustment. Nevertheless, as with structuralism, this academic current called for a revitalized role for the state in development. Neoclassical ideas still dominated in development practice, as they do today. Yet as the "governing party," neoclassical theory had to defend itself against uncomfortable questions being posed by the opposition; its defenses were not always persuasive.[12] The fallback position that strategies have failed only because they were not properly implemented sounded at times like the old radical-leftist disclaimer that one could not judge socialism for its failures because true socialism had never been practiced.

The Contribution of the New Institutionalism

Those who maintain the continued importance of the role of the state have arguably been vindicated in their suspicion of unfettered markets by the research of the new institutional economics. The neoinstitutionalists stress the regulatory role the state must play in a capitalist economy.[13] Markets do not exist in a vacuum, but require a detailed institutional framework. In the absence of this framework, economic agents will resort to improvisation, which may damage the economy. In Russia, for example, the absence of contract law in the wake of communism's collapse quickly forced businesspeople to turn to criminal gangs to enforce their agreements.[14] This not only created new costs for businesspeople, but also spurred harmful phenomena such as protection rackets and extortion, which discouraged potential investors from entering the market. Equally, structural adjustment seems to have done poorly in Central America because the state did not foster essential preconditions to the effective operation of markets, such as access to information, formal equality of economic agents, and free entry to and exit from market contracts.[15]

Neoinstitutionalists also draw our attention to an economy's cultural milieu, highlighting the way this affects both the economy and the state's ability to regulate it. Individualist cultures tolerate innovation and give rise to generalized morality and formal contract enforcement; collectivist cultures, suspicious of difference, rein in innovation and foster in-group moralities that develop trust within communities but mistrust between them. In such cases the state must intervene to correct the "trust failure"[16] and replace enforcement of contracts by traditional in-groups with impartial enforcement by state agencies. Otherwise, a freely

flowing economy will have difficulty emerging, as agents restrict their business contacts to other members of their in-group.

To the neoinstitutionalists, markets arise from human design. They do not emerge spontaneously, as such neoclassical theorists as Friedrich von Hayek argued. The state is seen as the best, if not the only, agent for managing the creation of a market order in a third-world country. Yet in spite of the insights of the new institutional economics, most leftist development theorists have reentered the development debate from the reference point not of lands of capitalism gone mad, such as Russia, but of lands in which capitalism has blossomed, such as East Asia.

The Lessons of East Asia

One of the global economy's most significant postwar developments has been the rise of East Asia. For a long time Japan held everyone's fascination, but in the 1990s it came to be eclipsed by China; by the four "little tigers" or "dragons": Hong Kong, Singapore, Taiwan, and South Korea; and eventually by the Southeast Asian economies, including Indonesia and Malaysia. These economies have filled the top ranks of the world's economies in terms not only of their overall growth rates, but also of their industrial and export growth rates. Today, if they have not already done so, these economies are leaving the third world and entering the industrial age—a remarkable accomplishment when one considers that in 1960 South Korea was on a par with Ghana in terms of its gross domestic product per capita.

This development provokes two questions: Why? How? In accounting for success in East Asia, neoclassical theorists have argued that these governments employed market-based development strategies coupled with outward orientation, or essentially a noninterventionist trade strategy.[17] However, the experiences of East Asia seem to have dealt critics of neoclassical theory a stronger hand. This is because an inescapable ingredient in the East Asian development recipe has been an interventionist state, typically one that plays a more active role in the economy than that ordinarily advocated by neoclassical theory. With the possible exception of Hong Kong, intrusive states guided the development of these economies. In South Korea, for instance, the state protected selected industries through tariffs and quotas and nurtured them through export subsidies and subsidized credit, steered firms toward new forms of production, set export targets and rewarded those firms that met or surpassed them, owned and controlled all commercial banks and used them to direct funds toward favored industries, limited the number of

firms allowed to enter an industry, set controls on prices and capital outflows, and distorted prices to favor certain industries. Moreover, when hit by external shocks, the South Korean government did not use International Monetary Fund–style adjustment policies, but borrowed its way out of crises, thereby keeping its development strategy on track.[18] Even the World Bank has admitted that state intervention was crucial to East Asian development.[19]

Added to this are the lessons of successful structural adjustment discussed in Chapter 5. Successful adjustment appears to have followed long periods of sheltered industrialization. This has led many theorists to conclude that an initial state-led phase should precede the opening onto the market.

Such lessons came together to give rise to a new theory of the state, known as the developmental state. Originated by Chalmers Johnson, the concept of the developmental state came to be closely, though by no means exclusively, associated with a group of theorists at the Institute of Development Studies of the University of Sussex. Influential figures in the developmental-state school included Gordon White, Robert Wade, Manfred Bienefeld, and Alice Amsden.[20]

The developmental state includes the following features. First, the state makes development its top priority, encourages the people to forgo the benefits of growth so as to maximize investment, and uses repression if need be to achieve this goal. Second, the state commits itself to private property and markets, even if only in the long run, as in China or Vietnam. Third, the state redistributes land, if necessary, to expand the national market and sweep aside the potential opposition of landed oligarchies to industrialization, and represses labor to keep wages low and thereby attract investment. Fourth, the state insulates itself against society, giving a highly skilled, technocratic bureaucracy the autonomy it needs from societal interest groups to impose discipline, at times harsh, on the private sector. Fifth, and most important, the state guides the market extensively, exercising strict control over investment flows (developmental states can be ardently nationalistic in restricting foreign investment in preferred sectors), using multifaceted import restrictions, regulating the terms of interaction between industry and agriculture, altering the incentive structure of the economy (getting some prices wrong if this is seen to benefit an emerging sector), promoting technological change, and protecting selected infant industries. At the same time, having chosen which industries it will protect and nurture, the developmental state opens the rest of the economy to foreign competition and penetration, even allowing poorly performing firms within the

favored industries to wither on the vine. Finally, developmental states invest heavily in human-capital formation, in particular targeting the development of the technical and engineering corps necessary to modern industry.

The Infant-Industry Model

In focusing on selected industries and intervening extensively to build them up for the purpose not of supplying the local market but of export, the developmental-state school drew upon the infant-industry model. IIM has a long history. One of its earliest proponents, Friedrich List, developed his ideas in the mid–nineteenth century. List separated political economy from what he called the "cosmopolitical" economy of Adam Smith and his followers, arguing that Smith was wrong to generalize his conception of the entrepreneur operating with maximum freedom under a minimalist state to the outer world. Although it would have been appropriate in a world of economic equals, List argued, in the world economy of his time the conception would have led to British domination. He maintained that other states needed to protect and nurture their economies until they caught up with Britain. Only then could the world open up to unregulated competition.[21] List was not an economist by training, and some of his ideas seem simple to contemporary economists, but the tradition he started has proved popular ever since and has been added to many times, the developmental-state model being the latest innovation.

In its focus on statism and protection, IIM shares characteristics of the import substitution model. Both are founded on the principle that conditions in the third world differ so markedly from those in the first world that the neoclassical model cannot be used to develop an economy whose conditions call for state intervention. To raise industry from the ground requires sums of capital beyond the reach of the private financial sector, but the state can gather these through borrowing, taxation, and the sale of primary exports. To build up its human capital—its engineers, technicians, managers, and skilled workers—the state must invest heavily in educating not just the children of an elite who might otherwise be able to afford education, but also the population at large. To acquire, adapt, and alter production technologies imported from the first world, firms must be given a learning period during which the state protects them from foreign competition. To make it possible for firms to move onto a market in which penetration and brand loyalty favor established producers, the state may need to reserve its domestic market to

local producers for a set period of time. By these and other means, proponents of IIM suggest, the state can level the playing field between the third and first worlds.[22]

Varieties of IIM have proved popular in practice. Indeed, List's theory was influential in Germany in the late nineteenth century, when that country embarked on an industrialization strategy that leaned heavily on state intervention. Several European countries used similar models, but in recent years the countries that have elicited the most interest in IIM have been Japan, South Korea, Taiwan, and Singapore.[23] Yet the list of countries that one could argue used IIM in one form or another is extensive and could even include a few African countries, such as Botswana[24] or Côte d'Ivoire. Even Chile, touted by neoclassical theorists as a great success story of the liberal, free-market model, would not likely have benefited as it has from structural adjustment had it not first passed through a phase of sheltered development: some of the industries that performed the best under liberalization were those nurtured by the state during its interventionist years.[25]

The variety of the infant-industry model epitomized by the developmental state differs from import substitution industrialization in two important regards. First, rather than build an industrial base to satisfy local demand, it focuses on building an economy's export industries. Second, rather than provide local industry with relatively indiscriminate protection, as in ISI, governments enacting IIM "choose winners," selecting a few industries to nurture and relying on imports to satisfy the remainder of local demand. Within these favored industries, state bureaucrats decide which firms they will raise to maturity, and which will be left to die. It is a model that plans to alter the structure not only of the economy, but also of its exports; the government intervenes not only to expand exports, but also to expand the share of manufactured goods in exports. In short, this model seeks to foster new comparative advantages, and so concerns itself with dynamic rather than static comparative advantage.

Those who favor such infant-industry protection are not advocating a state economy. Nor do they usually want the pervasive role adopted by the state in the initial phases of industrial development to persist over the long term. Contrasting the favorable experiences of protection in East Asia with the less favorable cases in South Asia, particularly India, and in Latin America, recent proponents of IIM seem to have coalesced around a general approach. Accepting the principle of outward orientation, they agree there should be a time limit on protection. This enables plant managers to know how long they have to build up their capabili-

ties before their companies will be thrown onto the world market. In addition, advocates of IIM maintain that government interventions should be in support of the market, or market-enhancing, rather than against the market, or market-repressing.[26] For example, although it is acceptable to assist the growth of a competitive firm, an inefficient one should be left to die. In countries that practiced ISI, this was seldom done. Officials implementing an IIM model must be willing and able to impose discipline on private entrepreneurs—hence the need for the state to be somewhat insulated from societal pressures, to be "strong" or "hard."

The East Asian experiences offer one other interesting lesson to development theorists. Neoclassical theory, in particular new political economy, criticized ISI for its urban bias—the way it transferred resources from the rural sector to urban industry, when in fact third-world economies' comparative advantages often lay in the rural economy. However, East Asian states also followed this practice.[27] By the same token, Côte d'Ivoire, until the end of the 1970s, successfully fostered the growth of agriculture, using the surpluses from this sector to fuel a very rapid expansion in urban industry.[28] Therefore, it may be wrong to think of rural-urban transfer as a zero-sum game. In many countries the drift of people and income from countryside to city did slow economic growth, but both South Korea and Côte d'Ivoire nurtured agriculture *and* industry, even if on balance more resources went to the urban economy.[29] In principle, third-world governments can exploit agriculture, or the primary sector in general, in order to fuel industrial development. However, the strategy will fail if they do not develop the primary sector as well—a shortcoming of which ISI strategies were often guilty.

Furthermore, it appears that the gains of such development must be distributed broadly. If a small share of the population controls most of the property and income, a small but rich class of consumers develops a taste for a wide range of products, which will be either imported or produced locally in such small numbers that their prices will be high (given economies of scale). This results in inefficient firms that cannot compete on foreign markets, which hinders the country's move into export industry. On the other hand, a large class of consumers with moderate incomes will create demand for large numbers of a narrower range of products. The narrow range of products allows firms to specialize, and the large demand allows them to take advantage of economies of scale and become internationally competitive.[30] One of the problems of ISI strategies was that they tended to concentrate the gains of development

in the urban sector, a result exacerbated in many countries by an uneven distribution of land and income. This explains why developmental-state theorists advocate land redistribution as a key ingredient in development; it is a policy that requires a very hard state because it makes enemies of a privileged population.

The Asian Crisis: The Eclipse of the Developmental State?

Just as the developmental state was in the ascendant in development studies, and was gaining in popularity outside of its heartland—for example, with the end of apartheid, many South Africans were calling on their country to adopt the model[31]—it fell suddenly from grace. The Asian financial crisis both shook its legitimacy and forced an abandonment of some of its precepts. The irony is that there is a strong case to be made that neoclassical reforms helped cause the crisis in the first place. It should thus not surprise us if some critics portray this as a situation in which a villain orchestrates an emergency so that he can ride to the rescue. Of course, the reality was not so simple.

Financial liberalization in the 1980s suddenly opened the world's markets to foreign investment. Today, there is arguably no sector as globalized as the financial one, with over a trillion dollars moving across international boundaries each day, roughly the gross domestic product of France.[32] But while most foreign investment still moves among rich countries, the third world was not left out of this new current. So-called emerging markets—third-world countries that provided attractive investment opportunities to foreign capital—drew in influxes of capital that greatly surpassed previous inflows. However, there was a new pattern to the investment. Instead of direct investment by foreign companies seeking either to establish branch plants or to globalize parts of their domestic operations, much of the new money was in the form of portfolio investment, seeking opportunities for rapid turnovers on the property, bond, and stock markets of the third world. With capital controls gone, investors no longer feared being locked into investments in countries in which they had lost confidence, and the flow of funds helped spur a boom on the markets of several third-world countries, particularly those in East and Southeast Asia.

For a time, this seemed to speak to the virtues of neoclassical reform. But a storm was gathering. The investments created speculative bubbles in several countries, producing such excesses as that of the

Bangkok property market. Due to the relatively large inflow of funds, they also led to a rise in the value of the currencies of the recipient countries. In the short term, this boosted the prosperity of the recipient countries, and so helped feed the rapid growth of the early 1990s in East Asia. But over the longer term, it weakened the competitiveness of exports from these countries. Eventually, when investors feared that the future growth of these countries would be threatened as a result, they began to withdraw their investments.

Matters were compounded by the fact that many of the managers of emerging market funds were not necessarily specialized in the politics and economics of the regions in which they were investing. They tended instead to treat the third world as an entity. So when the withdrawal of funds from a small number of East Asian countries began, the panic was not long to spread. It started in Thailand in the summer of 1997, where the bursting of the property bubble caused the value of the Thai currency, the bhat, to decline sharply. Investors eager to lock in their gains thus sought to pull out before the currency fell further, thereby eroding the value of their investments. In the process they created a self-fulfilling prophecy: fearing the decline in the currency's value, they withdrew their funds, which led to further declines in currency value and so to further liquidations. The virtuous cycle that had accelerated the last few years of the East Asian boom thus turned into the vicious cycle underlying the bust.[33] Before long, other East Asian countries were affected by the contagion. By the summer of 1998, it had spread throughout the world, leading to plunges in the value of the Brazilian market and sharp rises in Russian bond yields. Faced with such pressure, several governments had to announce moratoriums on debt payments, and the world was staring at a fresh financial crisis.

Old Keynesians might have smiled wryly and said, "What did you expect?" Precisely because he saw capitalism as given to such boom-and-bust cycles, Keynes had called for state management to smooth their effects. But the time for Keynesian remedies was past. Those governments that were most likely to advocate such responses were in Europe and Japan. In either case, their economies were themselves only just emerging from recession, as in Europe's case, or mired in it, as in Japan's. Their countries thus enjoyed neither the resources nor the confidence to impose themselves on the situation. The situation was compounded by the fact that even were an alternative response available, the Europeans would have been unlikely to articulate it, since they were still working through the quasi-federal arrangements of the emergent European Union, and had yet to find a way to speak with one voice on any matter.

It thus fell to the US government, whose booming economy gave its model unprecedented legitimacy, to lead the charge. And unlike the East Asian and European governments, it was squarely committed to the principles of neoclassical economics (despite its left-leaning rhetorical flourishes, the policy of the Bill Clinton administration was as governed by neoclassical thinking as that of its Republican predecessors). Once the Asian crisis began dragging down US equity markets in the autumn of 1998, President Clinton persuaded congressional Republicans who were otherwise reluctant to bail out foreign governments to inject fresh credit into the coffers of the International Monetary Fund. This credit was then made available to governments suffering capital outflows in order to restore confidence to their markets. At the same time, faced with the global slump in demand resulting from East Asia's recession, the central banks of the Western countries began cutting interest rates, thereby encouraging investors to invest and consumers to spend.

In the event, the massive intervention served to restore stability to global financial markets, at least for a time. The significant thing, though, is that it also imposed neoclassical reforms on those countries that had held out against them in pursuit of the Asian model. The price for IMF assistance was policies that rolled back the powers of the state. Although East Asian politicians and intellectuals maintained that the solutions were inappropriate to their contexts, they were hardly in a position to hold out for better. Even though liberalization helped cause the crisis and many critics maintained that the IMF exacerbated it—for example, its insistence that capital controls would worsen the crisis was essentially proved false by those countries that employed them[34]—the US government blamed it instead on the "crony capitalism" of the Asian model. It did so in spite of the fact that earlier in the decade, liberalization in different settings, such as Mexico and Turkey, yielded substantially similar outcomes.[35] The end result is that at just the time the neoclassical model was coming in for increasing criticism in intellectual circles, circumstances made it all but global in its reach in policy circles. The East Asian model, on which many third-world scholars had pinned their hopes, was put on the defensive on its own home turf. The question is: Is the East Asian model dead, or merely sleeping? For that matter, has the spread of the neoclassical model to the far reaches of the globe really heralded the end of history, as some of its most ardent proponents claimed?

The triumph of the neoclassical model could not prove anything more than temporary, though, for the simple reason that the problems associated with it, identified in Chapter 5, persist. It is thus worth noting

that the period after the imposition of the new neoclassical reforms, in the wake of the crisis, compounded by the recession that followed the crisis and the consequent resource scarcities that saddled third-world governments, produced a wave of political instability across the third world. It is perhaps not coincidental that the years after 1998 saw a dramatic upsurge in street protests at international gatherings associated with the major economic powers or the forces identified with neoclassical reform. This "antiglobalization" movement stands, paradoxically, in the vanguard of globalization, having exploited the Internet to foster effective transnational links. Opposed, thus, more to the neoclassical model of the world favored by the US Treasury Department—an archvillain in the minds of activists—than to globalization as such, the antiglobalizers appear above all to be issuing a cultural critique of the homogenizing, economizing thrust of neoclassical reforms and their alleged goal of assigning prices to all things. This may explain why conventional economists and policymakers have been so mystified by these protesters, who often approach the world with a different template, more akin to that found in the new currents of radical thought to be examined in Chapter 8. In any event, while the Asian financial crisis did put a virtual end to the developmental state in some countries, notably South Korea,[36] in others, governing elites managed to restore their models fairly quickly.[37] All the while, China has continued to thumb its nose at much of the neoclassical model, picking and choosing those elements that suit it, while sticking to a strong state in others (such as the management of its currency).

The new challenges facing poor countries continue to multiply. Meanwhile, the sharp ending of the US boom at the turn of the century drew its free-market–based approach back into question. The search for alternative development models, with particular attention to an expanded state role, thus goes on.

Conclusion

Just as the first generation of statist development models were not created by leftist theorists, but were soon taken up by them, so the developmental state originated outside the left, but soon became popular among many within it. Among other things, it vindicated their long-held suspicion of laissez-faire capitalism. A few have even been tempted to dust off socialist central planning and maintain that it is, after all, the most effective way to create a capital-goods base.[38] Although the argument

has merits, most who favor infant-industry protection stop well short of state socialism.

Yet even if one shies away from the developmental-state model or infant-industry protection, it seems clear that successful development demands a greater state role in the economy than neoclassical theory has foreseen. If the market is to function effectively, it requires elaborate state guidance. Furthermore, if and when any kind of state retreat is made, it appears it should be done gradually. Hard and fast cuts in the state may do more harm than good in the long run. State retrenchment in some domains should be accompanied by advances in others. One or two steps forward may make a step backward more effective. For example, governments can enhance measures to liberalize domestic commodity markets by building roads to agricultural areas, providing credit and inputs to farmers, and so forth.

Proponents of shock therapy contend that in the former Eastern bloc, those countries that implemented deep reform most quickly, especially Poland, emerged in the best position. However, critics of shock therapy maintain that China's more gradual move away from socialist central planning has yielded even greater success.[39] Even those not so wedded to the idea of a strong state agree that gradual reform of state socialist systems is preferable to the Russian approach,[40] even if gradual reform may not have been an option in Russia itself (a state that appeared beyond reform at the time of communism's collapse).[41] More telling, perhaps, is the Chilean experience, in which the initial phase of shock liberalization, from 1974 to 1981, yielded poor results. When Chile altered its strategy in 1982, maintaining liberalization within a context of greater regulation and state intervention, the real successes began.[42]

Today an active and effective state role seems critical in the least-developed countries, found mostly in Africa, in which poor infrastructure and market structure are causing producers to slide backward. For example, high transportation costs, due to poor infrastructure and monopolies that extract high profits, ate into many of the price gains that devaluation was meant to bring to coffee producers. As a result, West African producers lost market share to Indonesian and Vietnamese producers.[43] Only a greater state role will tackle such problems.

Whether or not such an expanded state role can emerge in these countries, let alone whether developmental states can emerge in many third-world countries, is a different matter altogether. As Chapter 7 will show, the developmental state may simply not be an option for many of the countries most in need of it. If it ever offered a viable alternative to

the neoclassical model, its time has arguably now passed in most countries, its usage having retreated to a few countries in its East Asian "heartland."

Notes

1. See, for example, the World Bank's *World Development Report 1991* (Washington, DC: World Bank, 1991), p. 9, which recognized the necessary roles for the state in the economy, and Paul Krugman, "Urban Concentration: The Role of Increasing Returns and Transport Costs," paper presented at the World Bank annual conference on development economics, March 1995.

2. See, for example, Dwight H. Perkins and Michael Roemer, eds., *Reforming Economic Systems in Developing Countries* (Cambridge: Harvard Institute for International Development, 1991). Associated for some time with the neoclassical school, the authors of this volume call for a strengthened state role, including even a role in price setting.

3. See, for example, Fengkun Zhao, Fred Hitzhusen, and Wen S. Chern, "Impact and Implications of Price Policy and Land Degradation on Agricultural Growth in Developing Countries," *Agricultural Economics* 5 (1991): 311–324.

4. Marcelo Selowsky, "Protecting Nutrition Status in Adjustment Programmes: Recent World Bank Activities and Projects in Latin America," *Food and Nutrition Bulletin* 13 (1991): 295.

5. Margaret E. Grosh, "The Jamaican Food Stamps Programme: A Case Study in Targeting," *Food Policy* 17 (1992): 23–40; Stephanie Barrientos, "Economic Growth Versus Poverty and Inequality in Chile: A Dualist Analysis," Development Studies Association conference, Brighton, England, 8 September 1993; G. Chellaraj, B. Brorsen, and Paul L. Farris, "Effects of Subsidized Wheat Consumption by the State in India," *Agricultural Economics* 7 (1992): 1–12.

6. Guy C. Z. Mhone, "The Social Dimensions of Adjustment (SDA) Programme in Zimbabwe: A Critical Review and Assessment," *European Journal of Development Research* 7,1 (1995): 101–123; Daniel C. Clay et al., "Food Aid Targeting in Ethiopia: A Study of Who Needs It and Who Gets It," *Food Policy* 24 (1999): 391–409.

7. Jessica Vivian, "How Safe Are 'Social Safety Nets'? Adjustment and Social Sector Restructuring in Developing Countries," *European Journal of Development Research* 7,1 (1995): 1–25.

8. Barrientos, "Economic Growth Versus Poverty."

9. With the appointment of James Wolfensohn to the presidency in 1995, the World Bank moved further away from the steadfast commitment to neoclassical theory it had made in the 1980s. Shortly after his appointment, the Bank's annual development report came out in support of trade unions, a move that would have made a neoclassical purist such as Friedrich Hayek shudder.

10. Rob Davies and David Sanders, "Economic Strategies, Adjustment and Health Policy: Issues in Sub-Saharan Africa for the 1990s," *Transformation* 21 (1993): 81.

11. Elsewhere, the World Bank has argued that trade liberalization must henceforth take place in a context in which "complementary pro-poor policies" are in place. See World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda* (Washington, DC: International Bank for Reconstruction and Development, 2003), p. xviii.

12. In his 1994 review of the World Bank's recent assessment of structural adjustment in Africa, Peter Lewis suggests that the Bank makes a good case for structural adjustment. However, he then adds that "as the 'strong case' for the bank's commitment to structural adjustment, this study provides lukewarm evidence of the efficacy or sustainability of orthodox reform." See Peter Lewis, "The Politics of Economics," *Africa Report* (May–June 1994): 49.

13. For a good presentation of the neoinstitutionalist position, see Kiren Aziz Chaudhury, "Economic Liberalization and the Lineages of the Rentier State," *Comparative Politics* 27,1 (October 1994): 1–25.

14. Michael McFaul, "Why Russia's Politics Matter," *Foreign Affairs* 74,1 (February 1995): 87–99.

15. Wim Pelupessy and John Weeks, "Adjustment in Central America," in *Economic Maladjustment in Central America,* edited by Wim Pelupessy and John Weeks (New York: St. Martin's, 1993).

16. On these points, see Jean-Philippe Platteau, "Behind the Market Stage Where Real Societies Exist," pts. 1–2, *Journal of Development Studies* 30 (1994): 533–577, 753–817, and the comment by Mick Moore; Avner Greif, "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies," *Journal of Political Economy* 102 (1994): 912–950.

17. This remains, essentially, the position of the World Bank in *The East Asian Economic Miracle: Economic Growth and Public Policy* (London: Oxford University Press, 1993). For a critique of this report, see Albert Fishlow et al., *Miracle or Design? Lessons from the East Asian Experience* (Washington, DC: Overseas Development Council, 1994).

18. Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989).

19. World Bank, *The East Asian Economic Miracle.*

20. See, in particular, Amsden, *Asia's Next Giant;* Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); Gordon White, ed., *Developmental States in East Asia* (London: Macmillan, 1988). A good synthesis of the developmental-state school can be found in Adrian Leftwich, "Bringing Politics Back In: Towards a Model of the Developmental State," *Journal of Development Studies* 31,3 (1995): 400–427.

21. Friedrich List, *The National System of Political Economy* (New York: Augustus M. Kelly, 1966).

22. A classic discussion of the way in which the backwardness of "late-coming" countries propels them into development policies that differ from those used by the early developers, and which often rely on a heavy dose of state intervention, is found in Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard Belknap, 1962). For a summary of his thought, see the postscript.

23. Hong Kong, the other of the "little tigers," presents an interesting case, in that its successful development has arisen under the eye of a minimalist state. However, Hong Kong's unique position as an entrepôt for the immense Chinese economy makes it an exception to this rule.

24. Francis Owusu and Ismail Samatar, "Industrial Strategy and the African State: The Botswana Experience," *Canadian Journal of African Studies* 31,2 (1997): 268–299.

25. See Eva A. Paus, "Economic Growth Through Neoliberal Restructuring? Insights from the Chilean Experience," *Journal of Developing Areas* 28 (1994): 31–56.

26. See Sanjaya Lall, *Building Industrial Competitiveness in Developing Countries* (Paris: OECD Development Centre, 1990), p. 60; Sanjaya Lall, "Promoting Technology Development: The Role of Technology Transfer and Indigenous Effort," *Third World Quarterly* 14,1 (1993): 95–108; Seiji Naya and Pearl Imada, "Development Strategies and Economic Performance of the Dynamic Asian Economies: Some Comparisons with Latin America," *Pacific Review* 3 (1990): 303; Louis Putterman and Dietrich Rueschemeyer, eds., *State and Market in Development: Synergy or Rivalry?* (Boulder: Lynne Rienner, 1992); Ross Garnaut, "The Market and the State in Economic Development: Applications to the International Trading System," *Singapore Economic Review* 36,2 (1991): 15; Tony Killick, "What Can We Learn About Long-Term Development from Experiences with Restructuring?" European Association of Development Research and Training Institutes conference, Berlin, 1993.

27. See Rhys Jenkins, "The Political Economy of Industrialization: A Comparison of Latin American and East Asian Newly Industrializing Countries," *Development and Change* 22 (1991): 214–215.

28. John Rapley, *Ivoirien Capitalism* (Boulder: Lynne Rienner, 1993), chap. 4.

29. On Côte d'Ivoire, see Rapley, *Ivoirien Capitalism.* On South Korea, see John Lie, "The State, Industrialization, and Agricultural Sufficiency: The Case of South Korea," *Development Policy Review* 9 (1991): 37–51; Larry L. Burmeister, "State, Industrialization, and Agricultural Policy in Korea," *Development and Change* 2 (1990): 197–223.

30. See Richard Grabowski, "The Failure of Import Substitution: Reality and Myth," *Journal of Contemporary Asia* 24 (1994): 297–309; "Import Substitution, Export Promotion, and the State in Economic Development," *Journal of Developing Areas* 28 (1994): 535–554. In a lecture given at Queen Elizabeth House, University of Oxford (11 November 1993), Robert Wade reached a similar conclusion when he contrasted South Korea with India.

31. See the debate on the subject in the articles by Nicoli Nattrass, Raphael Kaplinsky, and John Sender in *Journal of Southern African Studies* 20 (1994). See also Guy Mhone, "Dependency and Underdevelopment: The Limits of Structural Adjustment Programmes and Towards a Pro-Active State-Led Development Strategy," *African Development Review* 7,2 (December 1995): 51–85.

32. Richard Bernal, "Globalisation and Small Developing Countries: The Imperative for Repositioning," in *Globalisation: A Calculus of Inequality,* edited by Denis Benn and Kenneth Hall (Kingston, Jamaica: Ian Randle, 2000).

33. For more on the Asian crisis, see Peter G. Warr, *Macroeconomic Origins of the Korean Crisis,* Working Paper in Trade and Development no. 00/04 (Canberra: Australian National University, 2000); Hal Hill, *Indonesia: The Strange and Sudden Death of a Tiger Economy,* Working Paper in Trade and Development no. 99/5 (Canberra: Australian National University, 1999); Peter G. Warr, *Is Growth Good for the Poor? Thailand's Boom and Bust,* Working Paper in Trade and Development no. 98/11 (Canberra: Australian National University, 1998); Peter G. Warr, *What Happened to Thailand?* Working Paper in Trade and Development no. 99/3 (Canberra: Australian National University, 1998); Rajiv Kumar and Bibek Debroy, *The Asian Crisis: An Alternate View,* Economic Staff Paper no. 59 (Manila: Asian Development Bank, 1999); Giancarlo Corsetti, "Interpreting the Asian Financial Crisis: Open Issues in Theory and Policy," *Asian Development Review* 16,2 (1998): 18–63; Daekeun Park and Changyong Rhee, "Currency Crisis in Korea: How Was It Aggravated?" *Asian Development Review* 16,1 (1998): 149–180; Yung Chul Park and Chi-Young Song, "The East Asian Financial Crisis: A Year Later," *IDS Bulletin* 30,1 (January 1999); Laurids S. Lauridsen, "The Financial Crisis in Thailand: Causes, Conduct, and Consequences," *World Development* 26,8 (1998): 1575–1591.

34. See Joseph Stiglitz, "Capital Market Liberalization, Economic Growth, and Instability," *World Development* 28,6 (2000): 1075–1086; Corsetti, "Interpreting the Asian Financial Crisis."

35. Stephany Griffith-Jones, *Causes and Lessons of the Mexican Peso Crisis,* Working Paper no. 132 (Helsinki: United Nations University World Institute for Development Economics, 1997); Nurhan Yenturk, "Short-Term Capital Inflows and Their Impact on Macroeconomic Structure: Turkey in the 1990s," *The Developing Economies* 37,1 (March 1999): 89–113.

36. See David Hundt, "A Legitimate Paradox: Neo-Liberal Reform and the Return of the State in Korea," *Journal of Development Studies* 41,4 (2005): 513–541.

37. See, for example, Vedi R. Hadiz and Richard Robison, "Neo-Liberal Reforms and Illiberal Consolidations: The Indonesian Paradox," *Journal of Development Studies* 41,2 (2005): 220–241; Kevin Hewison, "Neo-Liberalism and Domestic Capital: The Political Outcomes of the Economic Crisis in Thailand," *Journal of Development Studies* 41,2 (2005): 310–330.

38. See, for instance, Pranab Bardhan, "Economics of Market Socialism and the Issue of Public Enterprise Reform in Developing Countries," *Pakistan Development Review* 30 (1992): 565–579.

39. Peter Nolan, "Economic Reform: China's Success, Russia's Failure," Economic Development Seminar Series, University of Oxford, 13 May 1993.

40. See, for example, Ronald I. McKinnon, *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy* (Baltimore: Johns Hopkins University Press, 1991).

41. Some specialists on Russia argue that the communist bureaucracy was so entrenched that it could not possibly have been relied on to implement a gradual reform strategy that undermined its own power. See Juliet Johnson, "Should Russia Adopt the Chinese Model of Economic Reform?" *Communist and Post-Communist Studies* 27 (1994): 59–75; Leonid Gordon, "Russia at the

Crossroads," *Government and Opposition* 30,1 (1995): 3–26. See also Cynthia Roberts and Thomas Sherlock, "Bringing the Russian State Back In: Explanations of the Derailed Transition to Market Democracy," *Comparative Politics* 31,4 (1999): 477–498.

42. See Paus, "Economic Growth Through Neoliberal Restructuring?"

43. Claude Freud and Ellen Hanak Freud, "Les cafés robusta africains peuvent-ils encore être compétitifs?" *Cahiers d'Études Africaines* 136 (1994): 597–611.